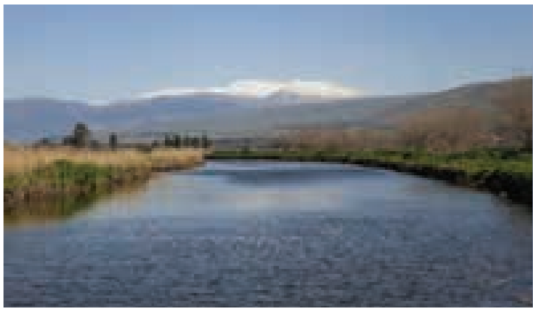
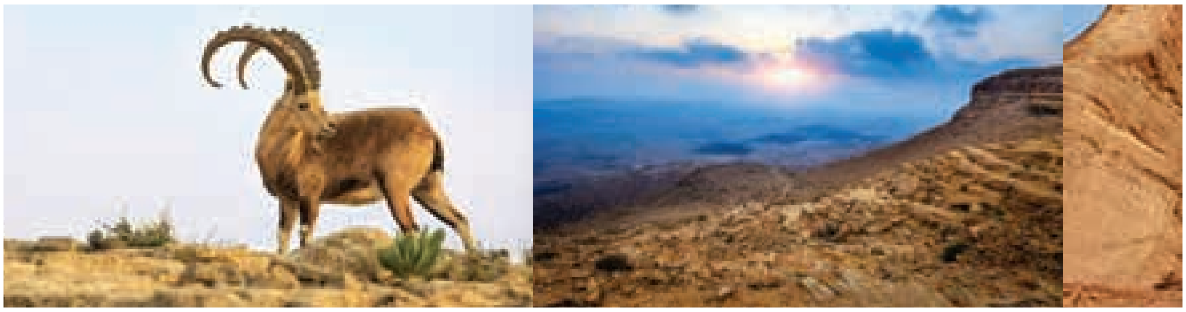



MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.
PERIODIC REPORT FOR 2014



MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

COMPANY NUMBER: 52-002998-4 **ADDRESS:** 4, EFAL STREET, KIRYAT ARYEH, PETACH TIKVA
TELEPHONE: 076-8868959, 076-8868962 **FACSIMILE:** 03-9238988
E-MAIL: migdalhold@migdal.co.il, **WEBSITE:** www.migdal.co.il

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Ovdat Stream

BOARD OF DIRECTORS

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


MIGDAL-SOCIAL RESPONSIBILITY

Migdal, as a leading company in the Israeli economy and in the insurance, pension and finances sector, is committed towards integrating its social and environmental plans in its business activity core. We are aware of our responsibility towards the community in which we live, and are proud of our continuous activity for the promotion of a healthier, more egalitarian and stronger society, for a better future for us and for the next generations.

Third age, health and quality of life

Yedid Lehinuch | In 2013, Migdal joined Yedid Education Association, which operates around 2000 pensioner volunteers who instruct and teach in elementary schools throughout Israel. In addition to the educational work, the association strives towards improving the pensioners' quality of life and enriching their leisure activities.

The Society for the Preservation of Israel Heritage Sites | In 2013, Migdal initiated a new state-wide venture that integrates pensioners as instructors in this Society's sites.

Latet | Migdal participates in a project for holistic help for Holocaust survivors in need, along with Latet Organization. Among these activities, once a year Migdal holds a Pesah gala dinner for the survivors and their families.

Financial education

Sapirim Lirvava | Since 2012, Migdal initiates and operates the Sapirim Lirvava program for financial education and wise consumption among high school pupils. About 40 Migdal managers and agents taught, free of charge, over 700 pupils in 11 schools in Jerusalem, Petach Tikva and other cities.

Scholarships | Since 2012, Migdal adopts students from Ethiopian origin who take the academic course in the College of Administration, and gives them scholarships as well as personal and professional accompaniment by mentors – senior managers from Migdal. In addition, Migdal gave scholarships to students in IDC Herzliya.

General activity

Rimon in Lod | Migdal, along with Rimon Music School of Jazz and Contemporary Music, promotes a project of young musical leadership in Lod. Pupils selected from all sectors in the city receive musical education from the best teachers in Rimon School.

Branco Weiss Association | Migdal supports the "learning supporting areas" project in Branco-Weiss for at-risk students in Beit Shemesh.

The Association for the Advancement of Education in Tel-Aviv-Jaffa | Migdal cooperates with this Association that helps children and youngsters from deprived backgrounds, and operates a center that distributes food to people in need and Holocaust survivors.

Muzot | Arts High School | Since 2007, Migdal has been involved in helping this Association. Muzot Arts High School deals with youth in risk situations through arts, and guides the pupils towards getting a matriculation certificate.

Atid Batuach | Migdal participates in the Association's program for the prevention of violence in high schools in Petach Tikva, along with leaders from among the youngsters.

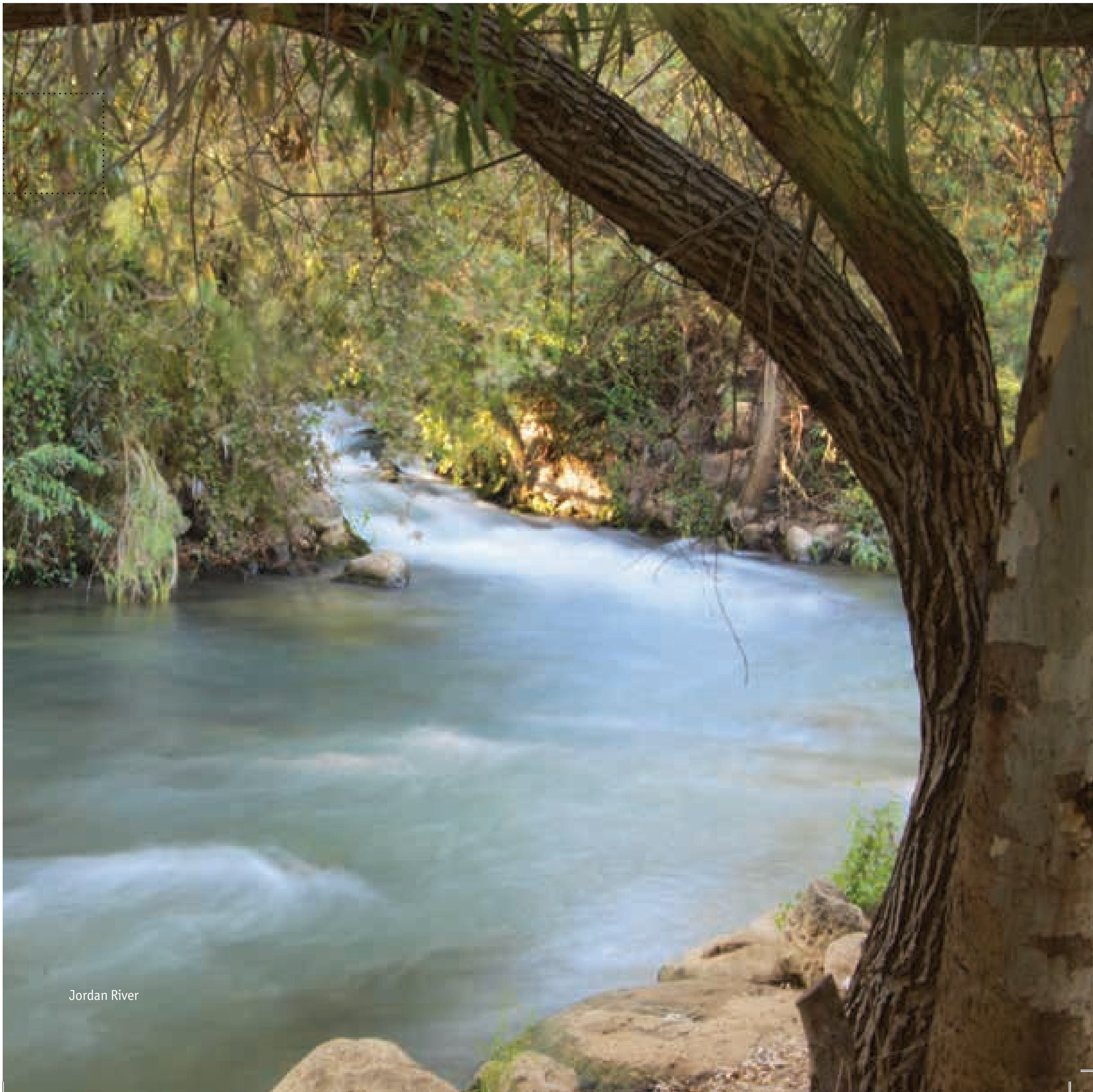
Otot Association | Since 2005, Migdal has supported this Association, which helps children and youngsters with no roof who left their homes for various reasons.

The Association for Kindergartens in Hakfar Hayarok | Migdal helps four kindergartens in Hakfar Hayarok, that give children who were taken out of their homes the chance to live in an expanded family unit.

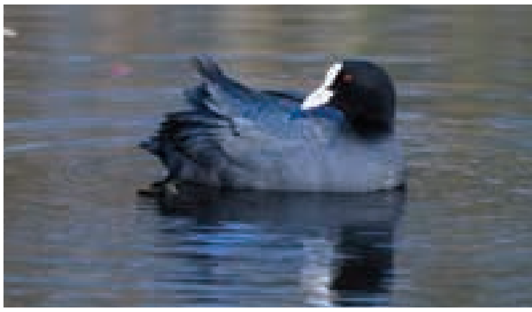
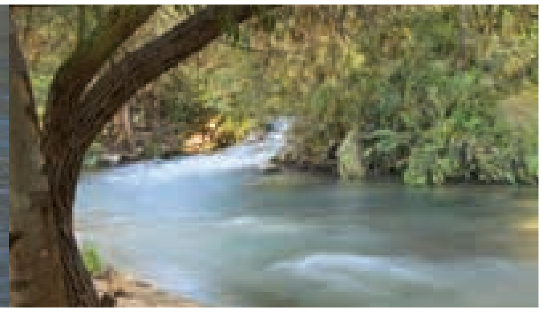
Jordan River Village | A healing and resort village for seriously ill children.

The Society of Help Centers for Sexual Violence Victims | Migdal contributes towards financing legal counsel for sexual violence victims, during crisis and afterwards.

CORPORATION BUSINESSES DESCRIPTION



Jordan River

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

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

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

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

Forward-looking information contained in this report

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

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

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

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

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

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

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

CHAPTER 1 - CORPORATION BUSINESSES DESCRIPTION

TABLE OF CONTENTS

Introduction to the Corporation Businesses Description chapter

1. Glossary - Definitions

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

Capital Markets Group and/or Migdal Capital Markets Group	Capital Markets Group and all the companies controlled by Migdal Capital Markets.
Capital Regulations	Supervision of Financial Services Regulations (Insurance) (Minimum Equity Required from an Insurer) – 1998.
Commissioner of Insurance	The Commissioner of Capital Market, Insurance and Savings.
The Company and/or the Corporation and/or Migdal Holdings	Migdal Insurance and Financial Holdings Ltd.
Companies Law	The Companies Law – 1999.
Contributions	The amounts deposited by members (or deposited for them) in a pension or provident fund.
Designated Bonds	CPI-linked government bonds which the State issues to insurance companies and pension funds, with a fixed interest rate and for a period set in advance. In life assurance – Hetz bonds and in pension – Meiron and Arad bonds are issued.
Earned Premium	Premium with respect to the reported year.
Eliahu Insurance and/or Eliahu	Eliahu Insurance Company Ltd.
Fees	Amounts included in the insurance fees designated to cover the insurers' expenses.
Free Investments	The share of the assets which is not invested in designated bonds.
General Fund	A pension fund that may not invest in designated bonds.
Generali	Assicurazioni Generali S.p.A.
The Group and/or Migdal Group	Migdal Holdings and the companies held by it.
Income Tax Regulations	Income Tax Regulations (Rules for the Approval and Management of Provident Funds) – 1964.
Institutional Entity	An insurer and a managing company, as defined in the Law of Supervision.
Insurance contracts	As defined in Note 1 to the Financial Statements, in the Definitions clause.
Insurance Fund	An insurance fund which was approved as per the Provident Funds Law.

Insureds and/or Beneficiaries	A life assurance insured person and a pension or provident funds beneficiary.
Investment contracts	As defined in Note 1 to the Financial Statements, in the Definitions clause.
Investment Regulations and/or Regulations regarding Ways of Investment	Supervision of Financial Services (Provident Funds) (Investments Regulations Applying to Institutional Entities) - 2012 and/or the Regulations of Supervision on Insurance Businesses (Ways of Investment of Capital and Reserves of an Insurer and Management of Its Liabilities) – 2001, as relevant.
Law of Supervision	The Law of Supervision of Financial Services (Insurance) – 1981.
Long Term Savings Assets	As defined in Clause 31 a to the Supervision Law.
Managing Company	A company that manages a pension fund or a provident fund.
Migdal Agencies	Migdal Holdings and Management of Insurance Agencies Ltd.
Capital Markets Group and/or Migdal Capital Markets Group	Migdal Capital Markets and all the companies controlled by it.
Migdal Health	Migdal Health and Quality of Life Ltd.
Migdal Insurance and/or Migdal	Migdal Insurance Company Ltd.
Migdal Makefet and/or Makefet	Migdal Makefet Pension and Provident Funds Ltd.
New Plans	Life assurance policies that are marketed as from 1.1.2004.
New Pension Fund	A pension fund established after 1.1.1995.
Old Pension Fund	A pension fund established prior to 1.1.1995.
Premium	The insurance premiums, including fees.
Provident Fund	As defined in the Law of Supervision of Provident Funds (provident funds include educational funds).
Provident Fund Law	The Law of Supervision of Financial Services (Provident) – 2005.
Securities Law	The Securities Law - 1968.
Yozma for Self-Employed	Yozma Pension Fund for Self-Employed Ltd.

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

2. Group activity and the description of its business development

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

2.1 Company description

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

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

The Group's insurance, pension and provident activity is carried out via Migdal Insurance Company Ltd. ("**Migdal Insurance**" or "**Migdal**") and its subsidiaries. The Group's pension and provident activity is carried out via Migdal Insurance's subsidiaries: Migdal Makefet Pension and Provident Funds Ltd. ("**Migdal Makefet**" or "**Makefet**"), which manages the Group's new pension funds ("**Makefet Ishit**" and "**Makefet Complementary**"), and also manages all the Group's provident funds, as well as via Yozma Pension Fund for Self-Employeds Ltd. ("**Yozma for Self-Employeds**" or "**Yozma**"), which manages an old pension fund, Yozma Pension Fund for Self-Employeds.

The Group also has holdings in insurance agencies. The main holdings are through Migdal Holdings and Management of Insurance Agencies Ltd. ("**Migdal Agencies**"), which is fully controlled by Migdal Insurance.

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

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

2.2 Description of the Company's control structure

Eliahu Insurance Company Ltd. ("**Eliahu Insurance**" or "**Eliahu**") holds, as of the date of this Report, approx. 69% of the Company's issued and paid-up share capital[1] [2].

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

Eliahu Insurance's shareholders are: Mr. Shlomo Eliahu, who holds 25.14% of the capital and 98% of the management shares, Ms. Haya Eliahu, who holds 0.02% of the capital and 2% of the management shares, Shlomo Eliahu Holdings Ltd., holds 61.7% of the capital, and Eliahu Brothers Trusteeship and Investments Company Ltd., holds 13.14% of the capital.

Shlomo Eliahu Holdings' shareholders are: Mr. Shlomo Eliahu, who holds 83.31% and Ms. Haya Eliahu, who holds 16.69%. The only shareholder of Eliahu Brothers Trusteeship and Investments Company Ltd. is Shlomo Eliahu Holdings Ltd., held by Mr. Shlomo Eliahu and Ms. Haya Eliahu, as detailed above.

2.3 The Group's holdings structure diagram

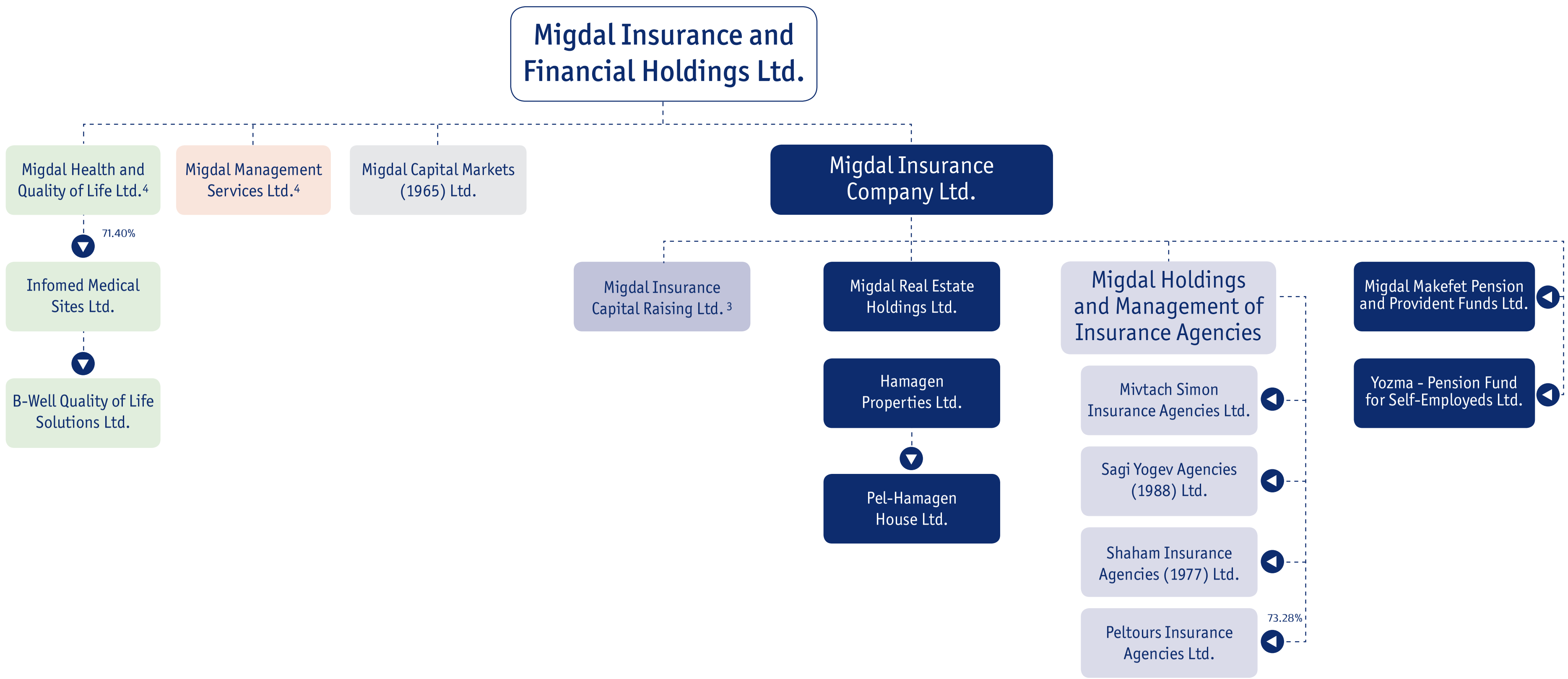
A schematic diagram of the Company's main holdings, just before the Report's publication[3] is presented below.

[1] Eliahu Insurance acquired from Generali Group all the shares that Generali Group held in the Company, directly and indirectly (approx. 69.135% of the Company's issued and paid-up capital). The transfer of control shares in the Company from Generali Group to Eliahu Insurance was completed on October 29th, 2012. For additional details regarding the transaction for the completion of transfer of control in the Company, see the Company's Immediate Report dated October 29th, 2012, Reference No. 2012-01-266412.

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

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

Group Holdings Structure
As of March 24th, 2015



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

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

2.4.1 The impact of the economic environment – the decrease in risk-free interest curve

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

In 2014 there was a significant decrease in the risk-free interest rate in the economy, which caused a substantial increase in life assurance reserves, including the need to examine the reserves' adequacy. As a result of these trends, the examination of the reserves' adequacy as well as the provisions for Supplementary Annuity Reserves (SAR) became components with high sensitivity to assessment, in the Company's Financial Statements. These calculations are mainly based on methodologies used by the Company also in assessing "the embedded value" in long term insurance policies.

The decrease in the risk-free interest rate also affects pension funds, in which the nominal interest rate embedded in the conversion coefficients in pension funds exceeds the risk-free interest rate, which contributed to the actuarial deficit created in pension funds. For additional details see Clause 3.3 to the BoD Report and Note 37b3b)(5) to the Financial Statements.

After the reporting date, there was another significant decrease in the risk-free interest curve, which is expected to significantly increase insurance liabilities. For the sensitivity of insurance liabilities to a cut in interest rate, see Note 37b1a) to the Financial Statements.

In addition, *inter alia*, due to the decrease in the interest rate curve as aforementioned, there was a significant increase in the value of the Company's financial investments, with a similar impact on the financial results. It is still too early to assess the entire impact of these events on the Company's financial results, especially due to the high sensitivity of results to the aforementioned changes. See also Note 40c to the Financial Statements.

2.4.2 The area of life assurance and LTS – the impact of regulatory changes

Following the regulation in annuity coefficients and the reform in management fees, there were material changes in the area of life assurance and LTS, resulting, *inter alia*, in a material change in the mix of products sold in the area, along with a substantial increase in the weight of new sales in pension funds, and a significant decrease in the weight of new sales in life assurance. Pension sales are increasing compared to managers' insurance, and at the same time, there was an additional acceleration in the competition over management fees on products in the area.

For additional details see Clause 6.2.3 below and Clause 4.2.1 to the BoD Report.

2.4.3 Changes related to the Senior Officers

In the reported period, and until the publication of the Report, there have been changes in the key Senior Officers in the Group, as detailed below:

(a) Company CEO

Ms. Anath Levin, who was appointed as the Company CEO and as the Chairman of the Board of Migdal Insurance in February 2014, resigned from all her positions on October 31st, 2014.

Beginning from November 1st, 2014, Mr. Eran Czerninski, the Company's CFO and Head of the Finances and Actuarial Division in Migdal Insurance, was appointed as substitute to the Company CEO. On 24th, 2015 he was appointed as the CEO.

Mr. Eran Czerninski will continue to serve, along with this position, in his other positions in the Group as the Company's CFO, Head of the Finances and Actuarial Division in Migdal Insurance Company Ltd., a subsidiary of the Company, and as CFO and Director in the Group's companies. See the Company's Immediate Reports dated March 24th, 2015, Ref. Nos. 2015-01-060151, 2015-01-060145 and 2015-01-060133.

For details regarding the terms of employment and resignation of Ms. Anath Levin, see the Company's Immediate Reports dated February 25th, 2014, Reference No. 2014-01-046174, April 13th, 2014, Reference No. 2014-01-046119, July 23rd, 2014, Reference No. 2014-01-120126, August 7th, 2014, Reference No. 2014-01-129327 and October 28th, 2014, Reference No. 2014-01-182949, as well as Note 38j4f to the Financial Statements, and the details in Regulation 21 to the Additional Data on the Corporation chapter.

(b) Changes in the Chairman of the Board of Directors of Migdal Holdings

On January 27th, 2015 the Company's BoD approved the appointment of Prof. Oded Sarig as a Director in the Company.

On February 18th, 2015 the Company's General Meeting approved the appointment of Mr. Oded Sarig as a Director in the Company, effective as of January 27th, 2015, as well as his appointment as the Company's Chairman of the Board of Directors, effective as of February 18th, 2015.

See the Company's Immediate Reports dated January 27th, 2015, Reference Nos. 2015-01-019972 and 2015-01-020128 (Report regarding an Invitation to an Extraordinary General Meeting), as well as the Amended Invitation dated February 2nd, 2015, Reference No. 2015-01-023161 ("the Amended Invitation"), as well as the Immediate Report dated February 18th, 2015, Reference No. 2015-01-033847.

It should be noted that pursuant to the BoD's resolution regarding the appointment of Mr. Oded Sarig as aforementioned, and pursuant to a restriction that Prof. Sarig took upon himself, for the sake of caution, until August 2016 Prof. Sarig will not be involved and will not handle issues related to the Group's institutional organs, including the subsidiaries Migdal Insurance and Migdal Makefet, except as required by his office in the Company pursuant to the Law. This restriction was set as a key principle, and it will be implemented individually after examining the circumstances in each case, as detailed in the Amended Invitation.

In the approval of Mr. Oded Sarig as a Director in the Company, it was noted that Prof. Oded Sarig is employed at Eliahu Insurance and his salary is paid by Eliahu Insurance. At this point, and as long as it is not decided otherwise, he will receive no salary from the Company, as detailed in the Amended Invitation.

Upon the approval of the Company's GM to the appointment of Prof. Oded Sarig as the Chairman of the Board of Directors of the Company, Mr. Shlomo Eliahu, who served as the Chairman of the Board of Directors of the Company, terminated his office. Mr. Shlomo Eliahu continues to serve as a Director in the Company and in Migdal Insurance.

See the Company's Immediate Report dated February 18th, 2015, reference No. 2015-01-034306.

(c) **The appointment of a Chairman of the Board of Directors in Migdal Insurance**

As of December 10th, 2014, Mr. Amos Sapir serves as the Chairman of the Board of Directors of Migdal Insurance, after the Company's BoD and Migdal Insurance's BoD approved his appointment on November 17th, 2014, and after the Commissioner of Insurance approved the appointment.

See the Company's Immediate Report dated December 9th, 2014, reference No. 2014-01-218403. For the terms of employment of Mr. Amos Sapir, see Note 38j4c to the Financial Statements.

(d) **Change in the CEO of Migdal Capital Markets**

On July 1st, 2014, Mr. Yossef Ben Baruch was appointed as the CEO of the subsidiary Migdal Capital Markets, instead of Mr. Ronen Torem, who resigned on that date.

2.4.4 **Change and update of the remuneration policy for Senior Officers in the Company for the years 2014-2016 and the approval of a remuneration policy in institutional organs**

For the change and update of the remuneration policy for Senior Officers in the Company for the years 2014-2016 and the approval of the remuneration policy in institutional organs, see Clause 31.4 below.

2.4.5 **Raising second tier capital in Migdal Insurance**

On March 24th, 2015 Migdal Insurance's BoD approved filing a request in order to receive the ISA's permission for publishing a prospectus regarding capital raising, in the scope of up to NIS 1 billion, by Migdal Capital Raising Ltd. ("**Migdal Capital Raising**"), a designated company owned by Migdal Insurance, of bonds complying with the definition "second tier capital", pursuant to the provisions of the Law and the Commissioner's instructions, whose consideration will be deposited at Migdal Insurance. For details regarding this issue, including actions carried out in the reported year, as well as for the agreement dated December 2011 between Migdal Insurance and Migdal Capital Raising regarding the execution of issuances for debt raising, see Notes 7c9 and 24e to the Financial Statements.

It should be noted that there is no certainty that Migdal Capital Raising shall publish a prospectus as aforementioned, or shall issue securities in its respect, if published, at all.

2.4.6 **Signing a collective agreement**

A collective agreement was signed on February 17th, 2015 between Migdal Insurance and Migdal Makefet and the New General Federation of Labor, which was recognized as Migdal Insurance and Migdal Makefet workers' representative organization. For details regarding the collective agreement's terms see Clause 31.3.2 below.

For details see Note 40.1 to the Financial Statements.

3. The Group's areas of activity

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

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

The area of life assurance and long term savings includes the Group's insurance activity in the lines of life assurance, as well as the Group's activity in the management of pension and provident funds. Activity in this area mainly focuses on savings for retirement (under various types of insurance policies, pension funds and provident funds including educational funds[4]) ("**savings**"), as well as on insurance coverages for various risks, such as: death, disability and PHI ("**risk**").

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

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

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

3.4 **The area of financial services (area d)**
An area that mainly includes financial asset management services (mutual funds management, portfolio management and hedge funds management) and investment marketing (marketing of structured products and hedge funds), execution services on the Stock Exchange and in regulated markets (brokerage) and custody, underwriting services and investment banking.

3.5 **Other**
It should be noted that in addition, there are other activities, included in the Company's consolidated Financial Statements under "other areas of activity" or "not attributed to areas of activity", which include mainly the holding of insurance agencies, investment activity performed not against various insurance reserves, but against equity required for insurance businesses and the capital surplus of companies in the Group, as well as related / interfacing activities to the Group's activity[5] (mainly in the area of quality of life and Third Age and providing services in the area of human resources, economic advising and the implementation of software systems). The activity of companies engaging in the above is non-material.

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

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

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

[4] Educational funds allow members to save monies for training purposes and are considered both a pensionary product and a financial product, and the amounts accrued may be withdrawn after a membership of six years.

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

4.2 **Raising of second tier capital**

In 2012, Migdal Insurance Capital Raising Ltd. ("**Migdal Capital Raising**"), a subsidiary of Migdal Insurance, performed two private bond issues to classified investors, in the total amount of approx. NIS 825 million par value. The capital amounts raised were deposited at Migdal Insurance and serve as hybrid second tier capital in Migdal Insurance. Migdal Insurance undertook to bear all the sums that will be required in order to redeem bonds to their holders.

For additional details regarding this issue, including the terms of the bonds and the trust deeds, see Note 24e to the Financial Statements.

Regarding the intention to raise more second tier capital in Migdal Insurance, see Notes 7c9 and 40b to the Financial Statements.

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

Details regarding significant transactions in the Company's shares by interested parties in 2013, 2014 and 2015 until the publication of this Report are presented below:

Date of change	Security	Amount	Transaction description	Transaction price	Reference to Immediate Report (Reference)	Share of capital and in voting rights, in %
1.1.2013	Shares	700,613	Share transfer to Harel Insurance Company Ltd.	(1)	2013-01-001815	-
3.1.2013	Shares	48,250,000	Share sale by Bank Leumi	5.72	2013-01-004302	4.6
8.1.2013	Shares	5,250,000	Share sale by Bank Leumi	5.72	2013-01-008235	0.5
30.9.2013	Shares	45,837,993	Share sale by Bank Leumi	5.9	2013-01-153039	4.35
22.1.2014	Shares	315,496,828 (2)	Share transfer from the trustee to Eliahu Insurance	-	2014-01-021985 2014-01-022003	30

(1) The Company was informed by Eliahu Insurance that Eliahu Insurance transferred 700,613 ordinary shares of NIS 0.01 par value of the Company. This share transfer took place as part of the completion of a transaction pursuant to which Eliahu Insurance sold all its activity in the area of life assurance and health insurance to Harel Insurance Company Ltd. ("**Harel**"), and within which the assets of the profit participating portfolio (that the Company shares were part thereof as described above) were also transferred from Eliahu Insurance to Harel.

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

5. Dividend distribution

For details regarding dividends paid / declared by the Company to its shareholders in the last two years, including dividends distributed by Migdal Insurance and Migdal Capital Markets to the Company, as well as legal restrictions that might affect dividend distribution in the Company and in the Group's institutional organs, see Note 7c to the Financial Statements.

For a dividend distribution after the date of the balance sheet, see Note 40e to the Financial Statements.

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

Area A – Life Assurance and Long Term Savings

6. Products and services

6.1 General

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

The Group engages in all lines of life assurance and Long Term Savings ("LTS") – life assurance, various types of pension and provident funds, including educational funds[6].

As of September 30th, 2014, and on the basis of insurance liabilities in life assurance and assets managed in new pension funds and provident funds, the Group is the leading Group in this area[7].

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

The Income Tax Ordinance and Income Tax Regulations also define the contribution rates of employees, employers and self-employed insureds to provident funds, including insurance plans recognized as provident funds, and the tax benefits granted to pension saving, as well as withdrawal conditions. Changes in the tax regime also affect the products of this area.

The area is characterized with vast regulatory arrangement and strict supervision. The main entity supervising the Group's activity is the Commissioner of Capital Markets and Insurance. The legislative arrangements in this area are characterized by large and frequent changes, which are not performed in one move, and affect the area. They include measures for making the market more competitive, increasing consumers' awareness and increasing competition in the area.

The regulation regarding the annuity coefficients which came into effect on January 2013, as described in Clause 6.2.3 (c) below, the management fees reform, as described in Clause 6.2.3 (d) below, as well as the main regulatory arrangements described in this chapter, brought about material changes in the area, causing, *inter alia*, a material change in the mix of products sold in the area, along with a significant increase in the weight of new sales of pension funds, with a significant decrease in the weight of new sales in life assurance. The pension product is strengthening compared with managers' insurance, and at the same time, there was more acceleration in the competition on management fees on products in this area. For details regarding the expected changes in markets/products mix, see Clause 6.2.4 below, as well as Clause 4.2.1 to the BoD Report.

In addition, the Group's activity in an economic environment which has been affected in recent years by a significant decrease in interest rate curve, including in the risk-free interest curve, which resulted in a significant increase in life assurance reserves in 2014, see Clause 6.2.5 below as well as Clauses 1.2.1 and 3.3 to the BoD report.

6.2 Key characteristics

6.2.1 In life assurance the products provide risk coverage or a combination of savings and risk depending on the insurance policies (contractual liability).

Pension plans combine coverage for risk and savings, and they are laid down in the Articles of Association. As from 2005 pension funds are yield pension

[6] Educational funds should be considered as medium-range savings before the age of retirement.

[7] Based on the processing of the Ministry of Finance's reports, as of September 30th, 2014, published in the MoF's website (Managerial Reports, pensyanet.mof.gov.il, gemelnet.mof.gov.il).

funds, i.e., pension funds in which the component of old age pension is accrued from the contributions deposited in the fund, from which management fees and the cost of risk (for disability and dependents' annuity) are deducted, while adjusting the balance of accrued eligibility to the yield achieved on the fund's investments (less expenses and management fees) and through an actuarial balance mechanism.

Provident funds[8] - offer a savings product, both for the long term and the short term (educational funds), are governed under Articles of Association, with no risk insurance coverage. As of January 2013, provident fund managing companies may offer insurance coverage, see Clause 6.2.3(h) below.

6.2.2 **Key differentiating characteristics** – enclosed are the key differentiating characteristics between the various products:

	Life assurance	**Pension funds**	**Provident funds**
Type of engagement	Contract (insurance policy)	Articles of Association	Articles of Association
	The ability to change the contract's conditions is limited.	May be changed from time to time.	May be changed from time to time.
	Usually, the insurance company takes upon itself to pay insurance benefits when the risk event occurs, even if there were exogenous changes, good or bad, that were not taken into account when the engagement was made, including risk of increased life expectancy, if this risk is included in the plan's conversion coefficient. For the restrictions regarding the marketing of life assurance policies with guaranteed conversion coefficient/annuity, beginning from 2013, see Clause 6.2.3 (c) (1) below.	A kind of mutual insurance between members. Actuarial assumptions, which are the basis for the members' rights, are examined from time to time as per the actual situation. If there was a change in them, good or bad, the members' rights are affected by these changes, and they bear, jointly, all the fund's actuarial surplus or deficit.	
	Flexibility in choosing the beneficiaries and their shares.	The identity of dependents is set forth in the Articles of Association.	

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

Issuing designated bonds	**As from 1992**, the offered insurance plans do not guarantee yield, the savings monies are invested in free investments and the balance of accrued savings depends on the results recorded by the insurer's investments **("profit participating plan" or "yield dependent plans" or "yield-dependent insurance")**. As of that date, no designated bonds are issued to insurance companies. **Up to 1990 –** government designated bonds (Hetz bonds), guaranteeing linkage to CPI plus interest, were issued to insurance companies. Accordingly, most life assurance plans sold until then were guaranteed-yield plans (CPI-linked plus interest), and insurance companies invested most of the reserves in Hetz bonds and the balance in free investments as per the restrictions set forth in the legislative arrangements. These plans shall be called "**guaranteed-yield**" or "**non-profit participating**"[9]. In these policies, management fees were not determined, and insurance companies benefit from the difference between the obligations towards the insureds as set forth in insurance policies and investment gains (both from free investments and in Hetz bonds) ("**the spread**" and/or "**financial spread**"). In 1992, after a gradual reduction in the previous two years, the issue of designated bonds for new insurance plans ceased completely[10].	**New pension fund** - A new pension fund that is not a general complementary pension fund is entitled to designated bonds. As of 2004, such funds are entitled to designated bonds of 30% of their assets. The effective interest rate guaranteed by these designated bonds is 4.86% (plus linkage differences). The deposit cap in new pension funds that are not complementary funds is limited to 20.5% of twice the average wage. **New general complementary pension funds –** not entitled to designated bonds. **Old pension fund (closed for new members)** Old pension funds are entitled to designated bonds. As of 2004, the eligibility rate for designated bonds is 30% of their assets. The effective interest rate is similar to non-complementary new pension funds. Balanced old pension funds are also entitled to a safety cushion, under certain conditions as per the legislative arrangements.	From the mid-eighties no designated bonds are issued for provident funds

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

[10] In respect of plans sold by then, the State continues to issue designated bonds also in respect of the monies, which, pursuant to the terms of the insurance plan, may be deposited in these policies after the change.

6.2.3 **Key trends and changes in the area**

In the last years, the area underwent comprehensive changes, *inter alia*, in light of the State policy of encouraging annuity savings for the age of retirement, including the desire to increase the consumers' awareness, as well as the desire to maintain a proper standard of living after retirement, and increase competition in the area.

This policy has been expressed in the following issues in recent years:

(a) **Assignment of accrued savings (lump-sum/annuity)**

In policies recognized as provident funds, the legislator implemented several reforms, mostly aimed at leaving the monies accrued in the pensionary savings for old age retirement annuity, thus increasing the amount of annuity after retirement. These reforms have not changed the rules regarding monies deposited to the policy before the reform came into effect, however, they changed the rules applying to money depositing in these plans from the moment the reform came into effect[11].

As from January 2008, pursuant to **Amendment No.3 to the Provident Funds Law**, the possibility of depositing monies in lump-sum savings was cancelled, and it was decided that all the monies that will be deposited to pensionary savings as from that date, are aimed for annuity only as of the age of retirement. Accordingly, there are also two types of provident funds, funds paying to annuity (which pay annuities directly to those entitled to them), and funds non-paying to annuity (which do not pay annuities directly to those entitled, and money may be withdrawn from them, except for a few exceptions, only to a fund paying annuity).

Policies not recognized as provident funds – these insurance plans include a savings component, but do not grant any benefits to insureds in respect of deposits, and on the other hand, they do not include restrictions as of the date of withdrawal (until the age of retirement), or the type of withdrawal (lump-sum or annuity). In these plans, annuity withdrawals are possible only in circumstances included in the insurance plan.

(b) **Mandatory pension insurance**

As from January 2008, by virtue of an expansion order for comprehensive pension insurance in the market as per the Collective Agreements Law – 1957, it became mandatory to provide comprehensive pension insurance to all employees in the economy subject to the terms set in the Expansion Order[12].

[11] For example – beginning from 2000, it was set forth that salarieds who deposit pensionary savings monies for annuity policies may receive the monies only as a monthly annuity after the age of retirement. Between the years 2000-2007 the legislative arrangements determined, from time to time, a salary/deposit cap in insurance policies, in which deposits for lump-sum savings are possible, and each deposit exceeding this cap is aimed for annuities.

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

(c) **Annuity coefficients reform**

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

In the insurance plans that allow the withdrawal of monies as a monthly annuity, insurance companies used to specify the conversion coefficient that would constitute the basis for calculating the insureds' monthly annuity ("**guaranteed conversion coefficient**" and/or "**guaranteed annuity coefficient**") in the policy terms. The conversion coefficient was determined upon joining the plan and it was anchored in the insurance policy as a contractual undertaking.

Pursuant to the increase in life expectancy, and the assigning of savings to annuity only, beginning from January 2013, insurance companies may market insurance plans that combine savings, which include guaranteed annuity coefficients, only to customers who completed 60 years of age upon the sale. Accordingly, insurance plans marketed by the Group as of that date do not include guaranteed conversion coefficients, and the conversion to annuity (except customers aged over 60) shall be determined upon retirement, just before receiving the first annuity, as per the terms set forth in the plan[13].

The Company is of the opinion that the scope of policies that include a guaranteed conversion coefficient, which may no longer be marketed, improve persistency rate, but it is impossible to forecast the extent of persistency, and it is also impossible to forecast whether the legislative arrangements regarding this issue will be amended.

Information in this paragraph with respect to the Company's estimations is forward-looking information as per its definition in the Securities Law – 1968, is based on the current legislative arrangements, and it is still unknown whether the Commissioner shall take additional or supplementary measures to the current arrangements. Furthermore, the aforesaid is based on assumptions and estimates regarding actions that will be taken by entities in the market, which might not be realized if the provisions are amended or updated or applied in a way that is different than that forecasted.

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

The findings of the research that constituted the basis for the coefficients reform regarding the increase in life expectancy also affected the calculation of reserves in insurance plans that combine guaranteed annuity coefficients. The insurance company was requested to calculate insurance reserves for annuity payments, according to the updated assumptions.

For the calculation of reserves for annuity and increasing the annuity reserves, see Note 37b3b)(5) to the Financial Statements.

[13] The regulation in this issue also determined interim provisions related to the marketing of insurance plans that include guaranteed conversion coefficient in 2003 only, pursuant to which the scope of insurance contracts that include guaranteed coefficients that may be sold in that year may not exceed NIS 75 million, and the number of these insurance contracts may not exceed 6,000.

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

(d) **Management fee reform/additional management fee arrangements**
In January 2013 a reform in management fees came into effect, and it was achieved, *inter alia*, within the Supervision of Financial Services (Provident Funds) (Management Fees) – 2012, see Clause 26.5.20 in Part D below.

Within the reform, there is a unified model for management fees collection in the pensionary savings products, management fees will be collected both from current contributions and from accruals. In addition, mainly in insurance plans recognized as provident funds, caps were set regarding management fees that may be collected in insurance plans marketed as of that date.

Presented below are the maximum annual management fees that may be collected from the pensionary products in the area[14] (from insureds not receiving annuities)

Type of product	Maximum management fees rate
Insurance plans recognized as provident funds marketed as of January 2014	Up to 1.05% from accrual per year + up to 4% of current deposits
New comprehensive pension funds	Up to 0.5% from accrual per year + up to 6% of current deposits
New complementary pension funds	Up to 1.05% from accrual per year + up to 4% of current deposits
Provident funds (excluding provident funds set forth in the following paragraph)	Up to 1.05% from accrual per year + up to 4% of current deposits
Educational funds, provident funds under personal management, central provident funds, sick leave provident funds, annual leave provident funds and provident funds for another goal	Up to 2% from accrual per year

The maximum rate of management fees that may be collected from persons receiving annuities in the insurance products described above shall not exceed 0.6% per year[15].

There are also provisions regarding the maximum management fees collected from accounts owned by members with whom contact was lost, and they should not exceed 0.3% per year from the accrued monies, pursuant to the terms set forth in the aforementioned Regulations.

In addition, the regulatory arrangements also handled issues aimed at increasing transparency regarding management fees, such as a prohibition on increasing management fees that were agreed upon with customers for at least two years, a ruling in principle regarding an increase of management fees without advance notice, providing tools that allow the comparison between pensionary savings products, a Circular regarding discounts to persons receiving annuities etc. For details regarding the regulatory arrangements published in the reported period regarding management fees, see Clause 26.6.1 in Part D below.

[14] The description does not refer to insurance plans marketed before 2014, including provisions set forth regarding 2013, and we also do not refer to management fees in balanced old pension funds.

[15] There are provisions regarding maximum management fees collected from persons who receive annuities that are lower than the minimum annuity, as well as other provisions regarding whoever began receiving annuities prior to the date of the change.

(e) **Restrictions regarding the collection of expenses due to conducting transactions**
On April 1st, 2014, the **Supervision of Financial Services (Provident Funds) (Direct Expenses due to Conducting Transactions) Regulations (Amendment No. 2) – 2014** came into effect – setting forth a quantitative restriction as to the rate of certain direct expenses that may be collected from managed assets beyond management fees. See details in Clause 26.6.2 in Part D below, including the Circulars issued regarding this issue by the Commissioner.

(f) **Pensionary products mobility and the establishment of a clearing house**

(1) **The Supervision of Financial Services Regulations (Provident Funds) (Money Transfers between Provident Funds) – 2008** regulate the rules regarding the mobility of pensionary savings monies in pensionary products, insurance, pension and provident funds, and between all institutional entities that manage pensionary savings, under the restrictions set forth in these Regulations and as per their conditions, all in order to increase competition in the area.

(2) **Pension clearing house and regulations for data transfer in a "unified structure"**
As part of the trend of improving the pensionary savings market, the Commissioner promoted the establishment of a central pension clearing house in the pensionary savings market, aimed at managing a clearing house for data and monies in the area of pensionary savings, for savers and employers, along with regulating work interfaces between all institutional organs, the pensionary consultants and the pensionary agents. In 2H13 the clearing house started operating for the first time, and the first stage in its operation is handling requests for receiving/transmitting data. The stage that allows money deposits and mobility through the clearing house has not yet been completed.

Along with promoting the establishment of the clearing house, from time to time, the Commissioner also issued instructions mandating institutional entities to use a "unified structure" for communications and transfers of data and information between the various entities in the market, and from time to time, he published updates to these instructions, as well as instructions aimed at regulating the way employers report to and pay institutional organs as described in paragraph (g) below, including via the clearing house. Furthermore, other Circulars were published, regulating the way the clearing house is used, including the structure of data that producing entities should use for communications and data transfers, see details in clause 26.6.7 in Part D below.

(g) **Arrangements vis-à-vis employers – improving the quality of data**
In August 2014 the **Supervision of Financial Services (Provident Funds) (Payment to Provident Funds) Regulations – 2014** were published. The Regulations set forth instructions regarding the way and timing upon which employers make deposits to their employees' pensionary products managed by institutional organs, and the information that employers should disclose to institutional organs when performing a deposit. On the other hand, institutional organs must give a feedback to employers on the dates and regarding details set forth in the Regulations. The Regulations will come into effect in a gradual manner from January 1st, 2016. For more details see Clause 26.6.4 (b) in Part D below.

(h) **Allowing managing companies to market insurance coverages that are ancillary to savings in provident funds**
In January 2013, the regulation regarding allowing the possibility of acquiring insurance coverages via provident fund managing companies came into effect. As per this regulation, managing companies may acquire for their members, in addition to the coverages defined in the fund's Articles of association, insurance coverages for longevity, death risks, disability risks, and release from payment. In addition, provident funds' managing companies may acquire a collective policy for insurance against death and disability for the members of provident funds under their management, as well as a collective insurance policy against death for the members of educational funds managed by them.

(i) **The prohibition on the stipulation of insurance coverages/savings**
In November 2014 the **Circular regarding Stipulations in Pensionary Arrangements that include Insurance Coverages** was published. Pursuant to this Circular, adding insureds to a collective or individual insurance coverage via their employers shall not be stipulated by managing a pensionary product at a certain institution. Giving discounts in management fees in pensionary products shall not be stipulated by the acquisition of an insurance coverage. Furthermore, the premium that will be presented to insureds is the actual cost of coverage, throughout the entire insurance period, after deducting the discount given to insureds. For details see Clause 26.6.6 in Part D below.

(j) **Investment tracks for the management of savings monies - SMART model – Adjusted Money Savings**
As part of the Commissioner's general policy for striving towards expanding the resources that will be at savers' disposal at the age of retirement, in February 2015 a **Circular regarding Investment Tracks in Provident Funds** was published. The Circular sets forth rules regarding the establishment of default investment tracks that are adjusted to the age of members in provident funds, including the duty to have a separate account in which the assets against liabilities towards annuitants will be managed. The Circular will come into effect on January 1st, 2016, and for insurance policies that are insurance funds, marketed before 2004, the application will be January 1st, 2017. For additional details see Clause 26.6.3 in Part D below.

(k) **Strengthening the relation between distributors and customers**

(1) **The Bill for the Supervision of Financial Services (Pension Consulting, Marketing and Clearing House) Law (Amendment No. 6) – 2014**, which was published in March 2014, sets forth, *inter alia*, that employees who want to conduct a transaction in pensionary products may conduct it via any license holder of their choice; employers may not stipulate the execution of such a transaction, by a certain license holder, and may not stipulate benefits by license holder to employees in the execution of a pensionary transaction.

(2) In August 2013 the **Circular about Agents and Consultants regarding Power of Attorney (POA) to License Holders** was published. The Circular mandates distributors to use uniform wording in POAs in order to receive information and/or execute transactions in pensionary products, and regarding existing engagements the Circular shall apply from July 2017, and until then distributors must ask their customers to sign them.

(l) **Arrangements regarding the relation between the producers and the marketing agents/license holders**

For the arrangements regarding the model for the remuneration of license holders, including changes regarding marketing and distribution in the area, see Clause 32.2.2 in Part D below.

6.2.4 **The impact of various arrangements – changes in the mix of products/markets**

The Company estimates that the regulatory arrangements introduced in the area in recent years, whose key points are brought above, affect the area, both the configuration of pensionary savings products and their profitability, as well as competition.

The guaranteed annuity coefficient, which is one of the characteristics differentiating between savings products, was cancelled, therefore one of the most important advantages for the insurance savings product, over other savings products in the area, was damaged. The pension product is strengthening compared with managers' insurance, along with an intensification of growth in pension funds. The Company is the largest company in the whole sector, and second in pension[16].

In addition, in a market in which due to the cut in interest rates, the possibilities of achieving excess yields in asset management have decreased, the issue of designated bonds to pension funds, which is one of the characteristics differentiating between savings products, has become even more important and may accelerate the continued growth in the pension line (with the restrictions on deposit caps as set forth above).

The strengthening of the pension product and the changes in management fees, including the acceleration of the competition in management fees, affect management fees in respect of plans sold in the past as well. In light of the competition in the pension product and the discontinuation of guaranteed coefficients in managers' insurance, the risk of higher cancellation rates and transfer of funds in the area's products increases. However, the guaranteed coefficients included in insurance products marketed until December 2012 may help in the persistency level, which may also involve a decrease in management fees in these policies, as long as legislative arrangements are not changed.

The strengthening of the pension product has also affected the marketing and distribution channels. The pension and provident fund lines are characterized

[16] Based on the processing of the Ministry of Finance's reports, as of September 30th, 2014, published in the MoF's website (Managerial Reports, pensyanet.mof.gov.il, gemelnet.mof.gov.il).

by direct engagements with employers and workers' committees/associations for directly joining pension/provident funds whereas in the life assurance line, the majority of marketing and distribution are carried out through insurance agents. See the breakdown of the various distribution channels in the area's different lines in Clause 32.2 in Part D below

At the same time, and in addition, the Company estimates that two secondary markets may develop in the area, the market of active savers, to whom the pensionary savings products will be offered until the age of retirement, and the retirement age market – the **Third Age** market.

The products that will be offered to the active savers' market will include savings and similar insurance coverage, and the competition between the various producers shall focus mainly on the parameters of price, yield, insurance coverage and service quality.

The increase in the weight of pension in the mix of long term savings products increases the need for risk sales by the existing distribution entities, and their expansion. As per the Company's estimation, investment houses would also like to increase their activity in the area of risks, since some investment houses asked and received a permission to have an insurer license. The entrance of additional entities that offer risk products as set forth above might increase and intensify the competition, for details see clause 7 below.

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

Regarding the Company's estimations as to other implications of these arrangements on the area, including the implications of the business environment, see Clause 4.2.1 to the BoD Report.

Information in this paragraph with respect to the Company's estimations is forward-looking information as per its definition in the Securities Law – 1968, is based on the current legislative arrangements, and it is still unknown whether the Commissioner shall take additional or supplementary measures to the current arrangements. Furthermore, the aforesaid is based on assumptions and estimates regarding actions that will be taken by entities in the market, which might not be realized if the provisions are amended or updated or applied in a way that is different than that forecasted.

6.2.5 **The decrease in risk-free interest curve**

Along with regulatory changes introduced to the area, in recent years it is also affected by the economic environment in which, *inter alia*, there is a significant decline in the interest curve, including the risk-free curve.

The low interest rates have a material impact both on the yield achieved for the Group's customers and on the Group's profits.

In 2014 there was a significant decrease in the risk-free interest rate in the economy, which caused a substantial increase in life assurance reserves, including the need to examine the reserves' adequacy. As a result of these trends, the examination of the reserves' adequacy as well as the provisions for Supplementary Annuity Reserves (SAR) became components with high sensitivity to assessment, in the Company's Financial Statements. These calculations are mainly based on methodologies used by the Company also in assessing "the embedded value" in long term insurance policies.

For details see Clause 3.3 to the BoD Report and Note 37b3(b)(5) to the Financial Statements.

After the reporting date, there was another significant decrease in the risk-free interest rate, which is expected to significantly increase insurance liabilities. For the sensitivity of insurance liabilities to a cut in interest rate, see Note 37b1a) to the Financial Statements.

In addition, *inter alia*, due to the decrease in the interest rate curve as aforementioned, there was a significant increase in the value of the Company's financial investments, with a similar impact on the financial results. It is still too early to assess the entire impact of these events on the Company's financial results, especially due to the high sensitivity of results to the aforementioned changes. See also Note 40c to the Financial Statements.

The decrease in the risk-free interest curve also affects the actuarial deficit in pension funds. In pension funds, the annuity conversion coefficients are calculated based on a yield assumption (nominal rate) as set forth in legislative arrangements. The nominal interest rate embedded in the conversion coefficients in pension funds is higher than the risk-free interest rate, which contributed to the actuarial deficit created in pension funds. In August 2013 the Commissioner of Insurance published a letter for receiving comments from institutional organs, in which institutional organs' managers were asked to refer to the change in the assumption of embedded yield in annuity conversion coefficients. A sectorial regulation referring to the change in nominal interest rate or asking to cope due to the cut in interest rates in order to prevent the difference that was created as described above, has not yet been set forth.

6.3 Description of key products/insurance coverages

6.3.1 **Life assurance**

(a) Life assurance policies are divided into two main types:

(1) Insurance policies with risk components only. These insurances do not include a savings component and do not accrue surrender value. These insurances are offered both as individual insurance and within agreements for collective insurance.

(2) Insurance policies that combine insurance coverage with a savings component, which are divided into two main types, those recognized as provident funds and are aimed for pensionary savings (usually designated for employees and self-employeds (insurance funds)), and policies not recognized as provident funds, and usually designated for individual saving (individual plans).

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

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

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

The policyholder: it may be the employer/corporation/service provider. Usually the insurance amounts are identical for all the group's insureds, or are set as per various parameters such as marital status, etc. Usually the tariffs are calculated as per the group's actuarial age, the term of the insurance agreement is for a short period agreed in advance between the policyholder and the insurance company. When the insureds leave the group, in most cases, there is a duty to offer the insureds the right to continue the insurance under an individual policy. Usually the premium collection is made in one payment for all group members.

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

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

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

Type of plan	Coverage description
Migdalor for Life, 2013 series	The Migdalor for Life 2013 insurance plans, marketed as from January 2013, continue the series of policies marketed as from 2004 (Migdalor series) (which were adjusted to legislative arrangements from time to time). These plans were also adjusted to the annuity coefficients reform and the management fees reform which came into effect on January 2013. The offered insurance plans are divided into insurance plans recognized as provident funds and insurance plans not recognized as provident plans, and into annuity paying insurance plans and non-paying annuity plans. In these insurance plans, there are also investment tracks as per the insureds' choice.
New Life policies series	Insurance plans for the payment of an immediate annuity, CPI-linked, starting from the age of 60, are marketed. Furthermore, the Company writes policies designated for employers who would like to pay their employees lump-sums during the early retirement period, before receiving annuities.
	Plans marketed in the past
Classic (traditional) policies (mainly endowment, annuity and pure savings)	Endowment insurances include two components, savings and risk, at a predetermined amount as per the insureds' age and underwriting terms set forth when writing the insurance. The cost of the savings and risk coverage is mixed. The insurance amount is paid at the end of the period set forth in the policy as accrued savings or when a death event occurs before the end of the insurance period. The endowment insurance sold until the mid-nineties was usually CPI-linked, both the insurance amount and premiums. In these policies, since premiums were CPI-linked, if there were salary raises exceeding CPI, it was not possible to deposit additional amounts that reflected the salary raise. Annuity insurances are insurances in traditional policies, in which most premiums are designated to annuity payment upon retirement.
Adif policies (in the Group, these policies' brand name is Yoter)	The policy was developed in 1983 and was marketed up to the end of 2003. This policy was the main policy in life assurance that was sold in the sector. Its purpose was also to provide a solution to employers who deposited the pensionary insurance payments linked to wages (unlike CPI-linkage). The main characteristics of this product are: The policy terms included the division of the policy into two components: a certain percentage accrued as savings (including coverage for annuity payment, which includes "life expectancy" risk), and the balance of the premium is designated for the acquisition of risk for the event of death (risk) and operational and marketing expenses. The division of the premium between the components is determined by insureds. The insurance coverage component is calculated again every month, as per the ceded premium and the insureds' age in that month, while savings are accrued separately. Beginning from October 2001, the Group allowed the choice between several investment tracks within this plan.

Type of plan	Coverage description
Migdalor series	Beginning from 2004, the Company started marketing Migdalor series policies. In 2004 these policies were adjusted to the requirements of the Commissioner of Insurance, *inter alia*, regarding a separation into savings, risk and management fees components. Furthermore, beginning from 2004 the insurance policies that combine savings are also divided into insurance plans recognized as provident funds and insurance plans not recognized as provident plans, and into annuity paying insurance plans and non-paying annuity plans. In these insurance plans, there are also investment tracks as per the insureds' choice. Some insurance plans that were marketed guaranteed, as per the conditions set forth in the relevant insurance plans, a guaranteed interest or a minimal yield.

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

6.3.2 **Pension products**

Pension funds managed by the Group:

Old pension fund
The Group has an old pension fund, Yozma Pension Fund for Self-Employeds, managed by Yozma Pension Fund for Self-Employeds Ltd. This is an old pension fund based on a personal actuarial balance mechanism. The fund was closed to new insureds pursuant to the reform in pension fund from 1995.

New pension fund	
Migdal Makefet Ishit is a pension fund designated for current deposits of employees and self-employed members up to the allowed cap for deposits. The fund offers a variety of pension tracks that include insurance coverage in case of disability and death, as well as various investment tracks. The savings part in the fund is paid as old age pension as of retirement age. This fund is entitled for designated bonds.	**Migdal Makefet Complementary** is a general pension fund designated for current deposits, including deposits in amounts exceeding the allowed cap for new pension funds, and it also allows making one-time deposits. Starting from January 2008, in addition to saving for old age pension starting from age 60, this fund offers a variety of pension tracks that include insurance coverage in case of disability and death, and as of that date it also operates as a comprehensive pension fund. This fund is not entitled to designated bonds .

6.3.3 Provident products

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

Type of fund	Description
Educational fund[(1)]	The fund is designated for salarieds and self-employeds. It allows members to accrue monies for educational purposes and enjoy tax benefits. The monies accrued in the fund may be withdrawn for educational purposes starting from three years' membership in the fund. After six years' membership in the fund, the monies may be withdrawn for any purpose.
Personal provident fund for provident benefits and severance pay[(2)]	The fund is designated for employees and self-employeds. Deposits to the fund are made on a monthly basis for employees. Self-employeds may deposit once in a while (this fund is considered as a non-paying fund to annuity).
Sick leave provident fund	It allows employers to accrue monies in the fund for the payment of sick leave.
Central provident fund for the participation in employer pension	The fund is designated for managing the sums deducted by employers, defined in The Economic Recovery Plan Act (Legislative Amendments for the Achievement of the 2003 and 2004 Economic Policy and Budgetary Objectives) - 2003, from the salary of employees employed by that employer, namely employers who pay annuities from their own funds. The deduction rate as of 2005 is 2% of the employee's salary.
Central Fund for Severance Pay	This fund is closed to new deposits since January 2011. The fund is designated for employers who would like to accrue monies in order to secure severance pay for their employees. Members are the employers and the money accrual is in the employers' name for their employees.

(1) As of January 1st, 2014, the merger of Migdal Kahal Educational Fund (Fund No. 386), including its tracks, to Migdal Educational Fund for Salarieds and Self-Employeds (Fund No. 579), came into effect, and following this merger, Migdal Educational Fund for Salarieds and Self-Employeds became a track fund.

(2) As of January 1st, 2014, the merger of the provident fund Migdal Platinum for Benefit Payments and Severance Pay (Fund No. 858), including its tracks, to the provident fund Migdal for Benefit Payments and Severance Pay (Fund No. 744), came into effect, and following this merger, Migdal for Benefit Payments and Severance Pay became a track fund.

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

Presented below are key data for 2012-2014 (NIS million)[17]:

Year	AuM	Contributions	Net accrual	Management fees rate to AuM (1)	Management fees rate from contributions
New pension funds					
Migdal Makefet Ishit					
2014	42,955	5,244	3,810	0.34%	3.75%
2013	37,298	4,650	3,421	0.34%	3.79%
2012	30,518	4,296	2,840	0.36%	3.97%
Migdal Makefet Comprehensive					
2014	536	93	76	0.79%	0.55%
2013	442	83	72	0.80%	0.32%
2012	339	65	54	1.11%	-
Old pension funds (Old Yozma)					
2014	1,658	22	(20)	0.60%	9.14%%
2013	1,557	24	(11)	0.60%	9.13%
2012	1,448	25	(10)	0.60%	9.22%
Provident and educational funds					
Provident funds – Educational funds					
2014	13,602	1,655	(115)	0.90%	-
2013	13,275	1,690	(279)	0.95%	-
2012	12,633	1,682	(130)	1.00%	-
Provident funds – Provident funds for provident benefits and severance pay					
2014	1,851	88	20	0.79%	-
2013	1,767	77	(16)	0.83%	-
2012	1,651	80	59	0.98%	-
Provident funds - Other(2)					
2014	283	4	(21)	0.80%	-
2013	294	4	(3)	0.86%	-
2012	275	3	2	0.82%	-

Total pension and provident funds

Year	AuM	Contributions	Net accrual
2014	60,885	7,106	3,750
2013	54,633	6,528	3,184
2012	46,864	6,151	2,815

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

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

In 2013 and 2014, the data regarding management fees as described in the table above are after the change in the provision for the reimbursement of management fees as per a ruling in principle by the Commissioner regarding the increase of management fees without advance notice, see Note 39 1f7) to the Financial Statements.

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

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

7. Competition

7.1 General

The area is characterized by harsh competition both between the various lines that are mainly insurance, pension and provident, as well as between the various producers within the lines, such that every institutional entity competes both against other institutional entities in the same sector and with institutional entities from other sectors, *inter alia*, due to the nature of pensionary products that are alterative products in the area. The products in the area are alternatives with certain emphases in each of them. The legislative arrangements in the area that existed in recent years are mainly aimed at removing barriers that prolong money transfers between institutional entities, increase transparency, and increase competition in the area.

The annuity coefficients reform that came into effect in 2013 and the management fees reform cancelled significant differentiating characteristics between the area's products, necessarily affecting the competition level, while diverting sales to pension products at the expense of declining life assurance products' sales.

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

The competition in the area accelerated the trend of stronger pension products at the expense of managers' insurance products. The continued harsh competition in pension also results in continued erosion in management fees in pension products, along with an impact on the level of management fees in other products in the area.

The higher competition in the area is also expressed in provident products, along with continued erosion in the rate of management fees and the continuation of the mobility of accruals between provident funds on the market, which, in 2014, resulted in the recording of goodwill amortization attributed to provident activity, in the amount of approx. NIS 14 million. For details see Note 4 to the Financial Statements.

As aforementioned in Clause 6.2.4 above, the increase in the weight of pension in the mix of LTS products intensifies the need for selling risk products by existing distribution entities, and their expansion. Several investment houses asked and received a permission to have an insurer license, which might increase and intensify the competition.

7.2 Market data[18]

As of September 30th, 2014, and on the basis of the size of insurance liabilities in life assurance and assets managed in new pension funds and provident funds, the Company is the largest entity operating in this area.

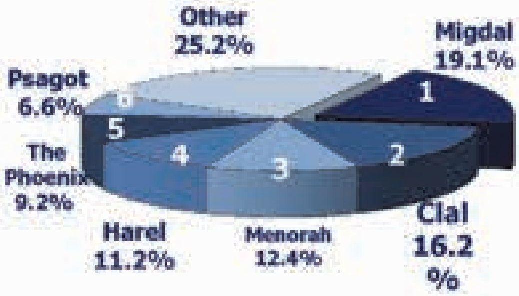
Due to the recent reforms in the area, the decrease in the weight of life assurance new sales to total new sales of pensionary savings products in the Group (except provident funds) continued, and on the other hand, there was an increase in new sales of pension funds. Total sales of pensionary savings products in the Group (except provident funds) remained stable, following a certain decrease recorded last year. In addition, the mobility of net monies due to the shift of pension and provident funds to other institutional organs, continued.

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

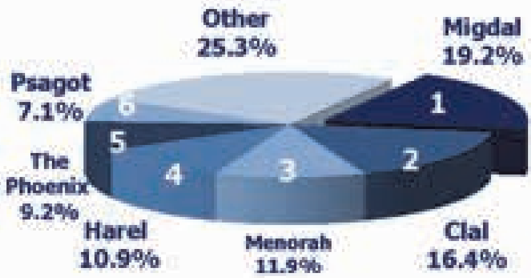
The entire area

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

As of September 30th, 2014



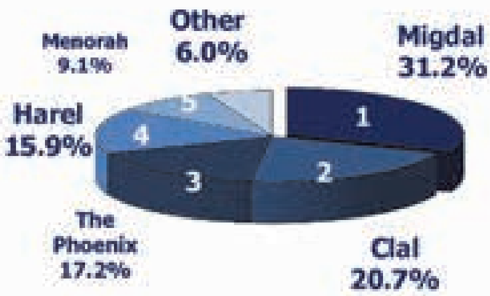
As of September 30th, 2013



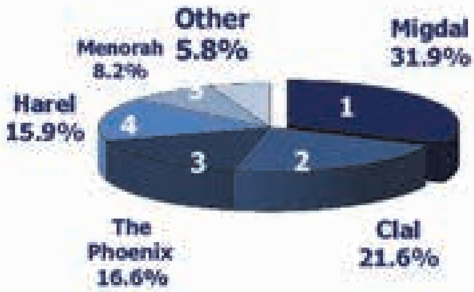
Life assurance

Premium breakdown

For 1-9/2014

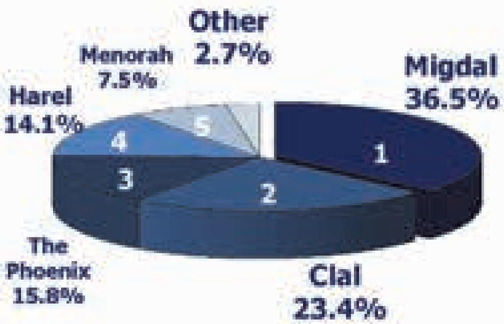


For 1-9/2013

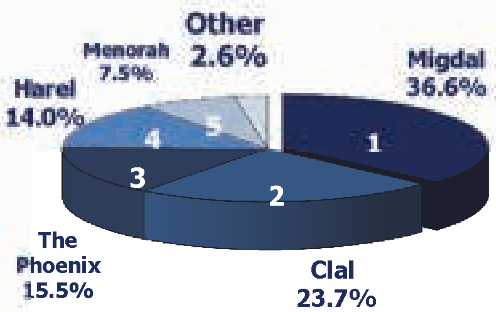


Insurance liabilities breakdown

As of September 30th, 2014



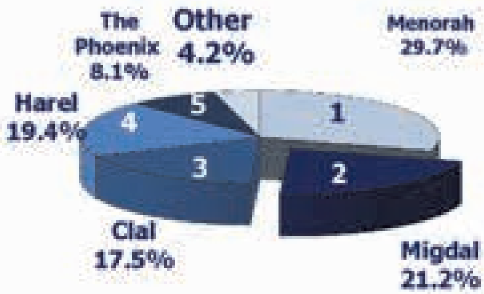
As of September 30th, 2013



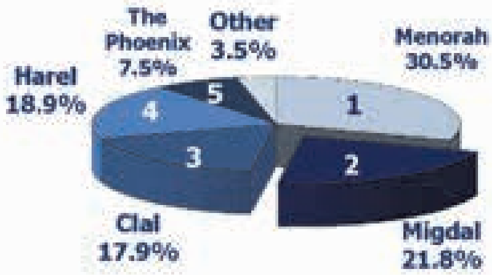
New pension funds

Contributions' breakdown

For 1-12/2014

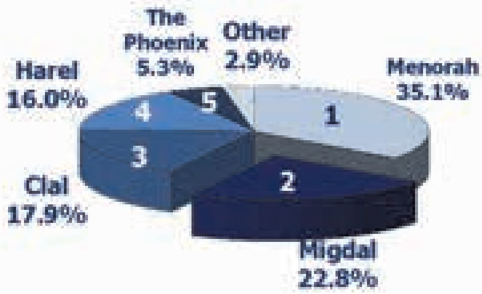


For 1-12/2013

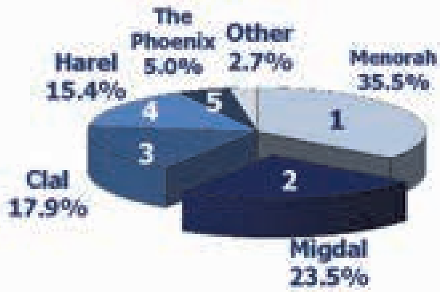


AuM breakdown

31.12.2014

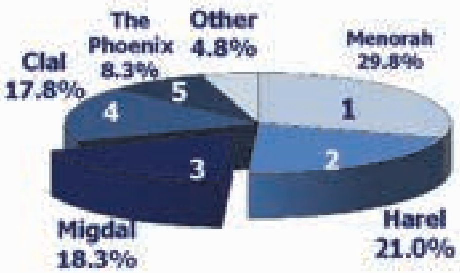


31.12.2013

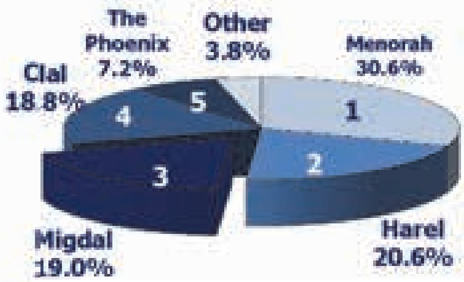


Net accrual breakdown

For 1-12/2014



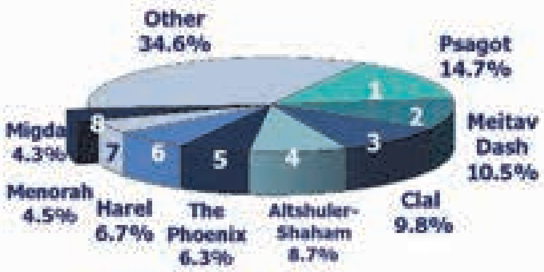
For 1-12/2013



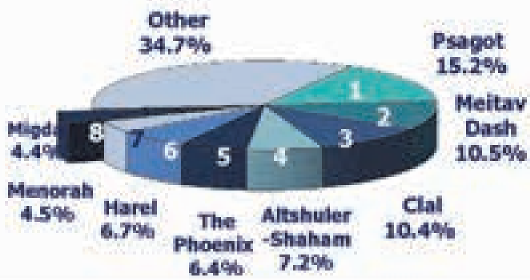
Provident funds and educational funds [19]

Provident funds' AuM breakdown

31.12.2014

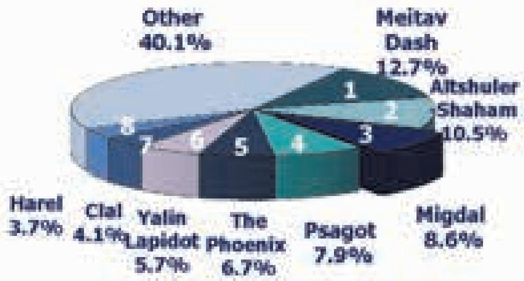


31.12.2013

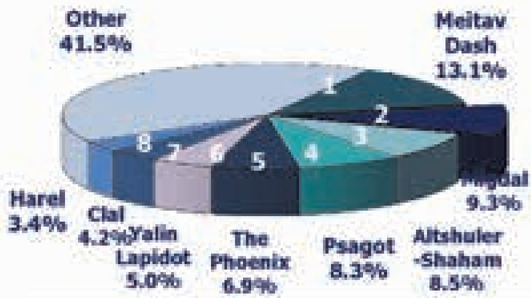


Educational funds' AuM breakdown

31.12.2014



31.12.2013



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

The Company has experience, knowledge and a long term reputation in the area of life assurance and LTS, and as said above, it is the leading company in this area[20] and the second one in pension.

The Group deals with all the area's products, and it has a platform through which it offers customers an array of products in the area, including the integration of insurance products which are synergetic with the LTS products.

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

Since the Group has been active in the area of life assurance for many years, it has built a life assurance portfolio with relative advantages over products that may be marketed today, and that should be taken into account when recommending the selection of a pensionary product, including its mobility. These relative advantages, as long as the legislative arrangements have not been changed, may contribute to the preservation of the current portfolio and its differentiation.

The Group strives towards a constant improvement in customers' loyalty and satisfaction, which, in its estimation, can be achieved via leadership in service and distribution channels and by increasing customer share, while creating a basis for long-term relations with the end customers. In order to increase customer share, the Group places an emphasis on simplifying the sale processes, developing appropriate products and services and taking advantage of the synergy between the Group's various activities and products. In 2014 the Group strived towards building an infrastructure, which will subsequently allow a change in the structure of

[19] The data of Excellence Investment House are presented under The Phoenix Group.

[20] As of September 30th, 2014, based on the data of insurance liabilities in life assurance and AuM in pension funds and provident funds.

the LTS operation array, aimed at improving the efficiency of operation and service to agents and customers.

This area, which is the main area of activity of the Company, is affected by frequent legislative arrangements in recent years, aimed at increasing competition, the last of which being the regulation regarding the annuity coefficients and management fees reform, and these recent changes resulted in a material change in the area. Some of the measures taken by the Group in order to cope with these changes is changing the sales mix while increasing sales of the pension product, which has become the leading product in the area, and focusing on the sale of risk and individual savings products.

At the same time and in addition, and in light of the increasing competition, the Group acts towards adjusting the marketing and distribution systems by adjusting the remuneration method and integrating sales tools.

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

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

8. Customers

8.1 Life assurance

Presented below are data regarding the gross premiums breakdown in life assurance in 2012-2014 (excluding receipts in respect of investment contracts):

	2014		2013		2012	
	NIS million	**Breakdown in %**	**NIS million**	**Breakdown in %**	**NIS million**	**Breakdown in %**
Salaried insureds	5,492	76	5,618	75	5,340	73
Individual and self-employed insureds	1,648	23	1,841	24	1,913	26
Collective insurance	84	1	86	1	105	1
Total	**7,224**	**100**	**7,545**	**100**	**7,358**	**100**

Presented below are data regarding the gross premiums, including receipts in respect of investment contracts, in 2012-2014:

	2014		2013		2012	
	NIS million	**Breakdown in %**	**NIS million**	**Breakdown in %**	**NIS million**	**Breakdown in %**
Salaried insureds	5,517	66	5,641	70	5,370	71
Individual insureds	2,813	33	2,343	29	2,155	28
Collective insurance	84	1	86	1	105	1
Total	**8,414**	**100**	**8,070**	**100**	**7,630**	**100**

8.2 **Pension funds**
Presented below are data as to the breakdown of contributions in pension funds (new and old) in 2012-2014:

	2014		2013		2011	
	NIS million	Breakdown in %	NIS million	Breakdown in %	NIS million	Breakdown in %
Salaried members [(1)]	4,986	93	4,527	95	4,151	95
Individual members	373	7	230	5	235	5
Total	**5,359**	**100**	**4,757**	**100**	**4,386**	**100**

(1) In 2012 the data include a group of members belonging to an organization the engagement with which was discontinued in July 2012. Contributions collected from this group in 1H12 totaled approx. NIS 106 million.

8.3 **Provident funds**
Presented below are data as to the breakdown of contributions in provident funds in 2012-2014:

	2014		2013		2012	
	NIS million	Breakdown in %	NIS million	Breakdown in %	NIS million	Breakdown in %
Salaried members	1,497	86	1,505	85	1,497	85
Individual and self-employed members	250	14	266	15	268	15
Total	**1,747**	**100**	**1,771**	**100**	**1,765**	**100**

8.4 **Surrender rates**[21]

In **life assurance**, surrenders to average reserves ratio was approx. 1.8% in 2014, vs. about 2.0% in 2013 and approx. 2.3% in 2012.

In **pension**, the surrender to average accrual ratio was approx. 4.1% in 2014, similar to 2013 and vs. about 5.8% in 2012. The high surrender rate in 2012 was affected, *inter alia*, by the discontinuation of the engagement with a group of members in one organization, mentioned in Clause 8.2 above.

In **provident**, the surrender to average accrual ratio was approx. 13.3% in 2014, vs. about 15.4% in 2013 and approx. 17.3% in 2012.

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

[21] Surrender rate, including outgoing mobility.

Area B – Health Insurance

9. Key products and services

9.1 General

The area of health insurance includes the Group's insurance activity in the main following sub-lines: medical expenses insurance (such as surgery, medications and transplants), dread diseases insurance, LTC insurance, dental insurance, travel insurance etc.

This area is also characterized by vast regulations and strict supervision.

The legislative arrangements in this area are characterized by remarkable changes, part of which is also affected by the Government's health policy, including an expansion or reduction of services included within the health basket.

9.2 Key characteristics

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

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

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

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

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

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

9.3 Key changes

Presented below are several key changes in health insurance:

9.3.1 **Advisory committee for the strengthening of the public health system** – in 2013 the Minister of Health announced the establishment of the "Germann Committee" – an advisory committee for the strengthening of the public health system. In June 2014 its recommendations were submitted, for details regarding recommendations as to insurance, see Clause 26.7.2 in Part D below.

9.3.2 **The intention to create a homogenous coverage and an individual health insurance plan** – even before the conclusions of the Germann Committee were implemented, the Commissioner asked to outline a reform in health insurances, pursuant to which, *inter alia*, surgery insurance plans will include homogenous conditions, there will be homogenous insurance fees for every age group, and stipulations will be prohibited, and there will be arrangements regarding the writing of individual health insurance plans, in which, *inter alia*, there will be arrangements regarding the insurance period and the way insurance is renewed, for additional details see Clause 26.7.3 in Part D below.

9.3.3 **Collective health insurance** – in August 2014 the **Draft Amendment to the Financial Services Supervision Regulations (Insurance) (Collective Health Insurance) – 2014** was published. Pursuant to it, *inter alia*, it is necessary to receive the insured's explicit and documented consent upon the policy's renewal, in the event of a cancellation of a basic coverage or an increase in premium by the rate set forth in the Draft. For details see Clause 26.7.5 in Part D below.

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

Type of plan	Coverage description
	Medical expenses insurance
Surgery insurance	It mainly provides coverage for expenses involved in private surgery in Israel and abroad. The coverages for surgeries in Israel are marketed in several layers, which include coverage for surgeries in Israel with deductible, supplementary plan to Shaban and coverage "from the first Shekel". In individual insurances this coverage is offered for life. Following the position paper regarding "Compensation in Coverage for Surgeries in Israel", as from January 1st, 2014 it is no longer possible to market insurance plans that cover private surgeries in Israel, that allow insureds to choose between the indemnification of surgery costs by the insurer and a compensation by the insurer in respect of a surgery that was performed within the Shaban or the public health system. Accordingly, as of that date, the Company markets a coverage for surgeries in Israel that indemnifies the insured in respect of surgery expenses, without the possibility of receiving compensation in respect of surgery carried out without the insurer's participation. This change brought about an increase in premium for coverage of surgeries from the first Shekel and surgery coverage supplementary to that provided under Shaban. For the change in surgery insurance plans, see above
Transplant insurance	It mainly provides coverage for expenses involved in organ transplants abroad and/or special treatments abroad. In individual insurances this coverage is offered for life.
Medications insurance	It mainly provides coverage in respect of medications that are not included in the National Health Basket. In individual insurances this coverage is offered for life.
Dental insurance	It mainly provides the insureds with coverage of expenses in respect of dental treatments based on several coverage layers: basic dental treatments, gums, restorative, dental implants and orthodontics. This coverage is marketed by the Group only as collective insurance and for limited durations.
Riders	Various coverages provided to insureds such as physiotherapy treatments, consultations with psychologists, alternative medicine treatments, house calls by physicians as well as ambulatory coverages such as consultations with physicians, diagnostic medical tests, managers' screening tests and preventive medicine checks. Usually riders are offered as appendices to the main coverage and sold as riders that are effective for the same period as the main coverage. The Company may cancel these riders as per the arrangements set forth in the relevant riders.
	Dread diseases insurance
Dread diseases	An insurance coverage which provides the insureds with insurance benefits (mainly compensation, as opposed to indemnification) in case of contracting one of the dread diseases or severe medical occurrences, on the basis of a predetermined list included in the insurance plan. Usually the insurance is offered for a limited period.

Type of plan	Coverage description
	LTC insurance
LTC insurance	An insurance which provides the insureds compensation in case they become LTC-dependent under the definition set in the policy, and after the preset waiting period in the policy. The payment of insurance benefits is for a predetermined period or for life, depending on the policy's conditions In insurance plans marketed up until 2012, the monthly compensation was linked to the investment portfolio, as per the conditions set forth in the plan. Effective from 2012, the marketed insurance plan links the monthly compensation amount in the event of LTC to the CPI, as per the conditions set forth in the plan. Under certain conditions, in case of discontinuing the premium payment before the end of the insurance period, the insured is entitled to partial insurance coverage, according to the policy terms. In individual insurances this coverage is offered for life.
	Personal accidents insurance
Personal accidents	A plan granting insureds with insurance benefits in respect of damages or expenses they incurred as a result of an accident. The coverage is multi-annual and is provided in the event of death, burns, fractures, LTC condition, hospitalization or disability, and medical expenses caused following an accident, and may also include coverage for temporary occupational disability. The insurance coverage is offered for a limited duration.
	Foreign travel insurance
Foreign travel insurance	The policy provides indemnification for expenses related to medical events that occurred abroad as well as indemnification in respect of third party damages and luggage.
Healthy investment	A plan combining medical insurance for surgery and compensation in case of dread disease. In addition, as per the plan terms, the insureds may be reimbursed with premiums if they have not claimed on the policy.

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

9.5 Key markets

9.5.1 General

As set forth above, health insurances are offered both as individual insurance and as collective insurance.

The key characteristics of collective insurance terms are: the terms of the collective insurance agreements are set in negotiations between the insurer and the entity representing the group. Usually, such agreements are signed for preset periods of time of several years, premiums are lower than premiums paid in similar individual policies, and sometimes the terms of the collective policy insurance coverage are wider than those of individual policies. When insureds leave the group, usually the insurer must offer them to continue in an individual policy as per the terms set forth in the legislative arrangements, and usually premiums are collected in one payment for the group's insureds.

10. Competition

10.1 General

The main competitors in the area are divided into two main groups: insurance companies, most of which operate in the area, and health funds that offer some of the insurance coverages within the health services offered by them.

In the area there is harsh competition stemming, *inter alia*, from the large number of competitors and the similarity in products. Competition is even harsher in collective insurance. The relative share of collective insurance in the area has been increasing constantly. In collective insurance, the large number of consultants in the area, in light of the harsh competition, has brought about a significant decrease in prices, low profitability, and sometimes even losses.

The area of health insurance in Israel is concentrated and held mainly by the five large insurance companies, Harel Group, Clal Group, The Phoenix Group, Migdal Group and Menorah Group.

Collective insurance's share constituted approx. 49% of total premiums in the area in 2013[22]. The collective LTC insurance constituted about 27% of total premiums in the area, and most of it is attributed to LTC insurance for members of health funds.

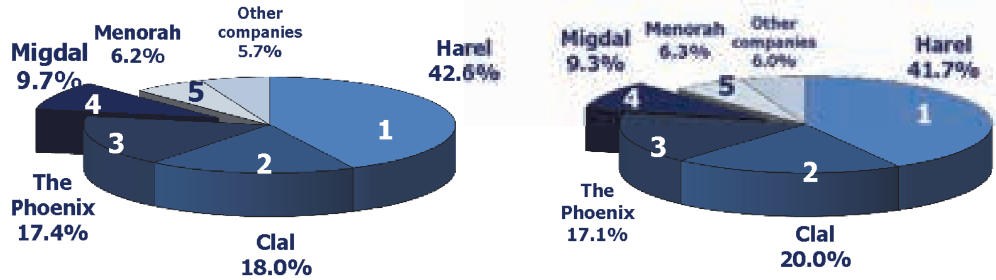
The Company's share in the collective health insurance market is small, and the Company does not have agreements regarding LTC insurance with health funds.

10.2 Market data

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

Total health insurance business[23]

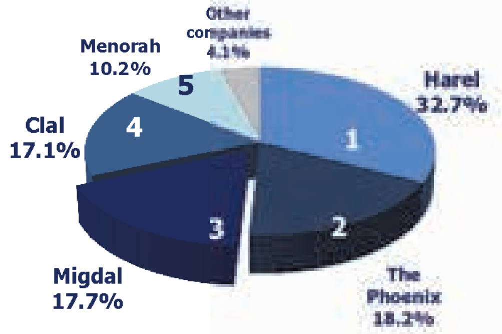
For the period 1-9/2014 **For the period 1-9/2013**



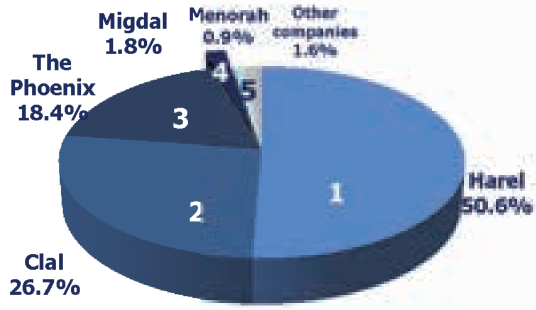
[22] Based on the 2013 Annual Report by the Capital Markets, Insurance & Savings Division. Excluding disability insurances, foreign workers' insurance, personal accidents and other.

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

Individual insurance for 2013[24]



Group insurance for 2013



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

Promote the Group's brand name also in the area of health insurance and ancillary services, in addition to its brand name in the area of insurance.

Expand the array of products and services offered by the Group to other target populations, including putting an emphasis on innovation in the area of products, while making adjustments to meet the regulatory changes in the area.

Utilize the business potential embedded in companies owned by the Group, in order to expand services offered by the Group and expand distribution channels.

Expand Group activity also in the area of collective insurance, in which it did not focus up until now, with an emphasis on the business acceptance policy, expand the actuarial information basis, along with an efficient management of claims.

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

11. Customers

Presented below is a table showing the breakdown of customers in the area of health insurance by gross premiums in 2012-2014:

	2014		2013		2012	
	NIS million	Breakdown in %	NIS million	Breakdown in %	NIS million	Breakdown in %
Individual insurance	810	92	706	92	634	92
Collective insurance	71	8	64	8	58	8
Total	881	100	770	100	692	100

In individual LTC policies, the cancellation rate, in terms of premiums, as a percentage of policies in effect at the beginning of the year, equaled approx. 4.6% in the reported year, vs. approx. 4.1% in 2013 and about 4.9% in 2012.

In individual policies in other health insurance (not including LTC insurance and including the other sub-lines in the policies for a period exceeding one year), the cancellation rate, in terms of premiums, as a percentage of policies in effect at the beginning of the year, equaled approx. 9.9% in the reported year, vs. approx. 8.3% in 2013 and about 9.5% in 2012.

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

Area C – General Insurance

12. Key products and services

12.1 General

The area of general insurance includes all other insurance lines in which the Group engages, other than insurance lines included under the area of life assurance and long term savings and long term health insurance. The area includes the following sub-lines:

The **compulsory motorcar bodily injury ("CMBI") area** - focuses on coverage whose acquisition by car owners or drivers is mandatory under the Law (Motor Vehicle Insurance Ordinance (revised version) – 1970.

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

The area of other general insurance lines - includes other general insurance lines that are not vehicles (CMBI or property). It focuses mainly on property insurance and liability insurance, and is characterized by providing coverage for specific risks or "packages" for houses, businesses etc., which combine several insurance coverages, and also includes the health lines which provide short-term coverage, such as personal accidents.

12.2 Key changes in the area

12.2.1 **Actuarial valuations and the way insurance reserves in general insurance are calculated –** in January 2015 the Ministry of Finance published updated Circulars regarding this issue. The main change that will occur when the Circulars come into effect is the cancellation of reserves for the excess of revenues over expenses ("**surplus reserves**"), which will come into effect in the Financial Statements for 2015. For details see Clause 26.8.2 in Part D below, and Note 37b3c)(6).

12.2.2 **The renewal of insurance contracts in the lines of comprehensive casco, homeowners and personal accidents** – in September 2014 a Circular regarding this issue was published, setting forth that such a renewal requires the policy holder's consent. For details see Clause 26.8.1 in Part D below.

12.2.3 **Standard policy in homeowners insurance** – in January 2015 **the Supervision of Insurance Business Regulations (Conditions of Contract for Home Insurance and Content) Regulations (Amendment) – 2015** were published, updating the aforementioned Regulations and the terms of the standard policy. The updated Regulations will come into effect on July 27th, 2015. For details see Clause 26.8.3 in Part D below.

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

Type of plan	Coverage description
Motorcar insurance	
CMBI	
Providing insurance coverage by virtue of the Motorcar Insurance Ordinance (New Version) - 1970 ("Motorcar Insurance Ordinance")	The product is a policy that covers bodily injuries caused as a result of using a car, and its purchase is mandatory under the Motorcar Insurance Ordinance. The CMBI policy covers, according to the Motorcar Insurance Ordinance, the owner of the vehicle and the driver from any liability they may bear according to the Traffic Accident Casualty Compensation Law - 1975 ("**TACC Law**") due to bodily injury caused by the use of a motorcar to the driver, to the passengers, or to pedestrians hit by the vehicle. The policy is a standard policy that should be issued pursuant to the Regulations of Supervision of Financial Services (Insurance) (Conditions of Contract for Insurance of Vehicles) – 2010. The amount of insurance benefits in this area is unlimited except for certain heads of damage such as "pain and suffering" whose amount is limited, and compensation in respect of salary loss, all as per the coverage restrictions set forth in the TACC Law. Amendments to the TACC Law and/or precedents regarding interpretation to this Law affect the scope of coverage. Usually, CMBI policies are written for a period of one year. However, claims in this area are handled over a long period, which might take several years, due to the long time that elapses from the occurrence of the event until the final damage assessment date and the settlement of the claim. The tariff principles are based on the instructions of the Commissioner of Insurance and as per these principles, the parameters / variables that may be used by insurers in order to determine the tariff and the procedures with which insurers must comply regarding the approval of insurance fees, including the maximum tariffs that may be charged by insurers[25], were set. The Group applies a differential tariff, based on some variables, selected by the Group as being the most appropriate in assessing risk and setting premium.
Casco	
Casco insurance includes coverage for property damages to the insured vehicle and property damages caused by the vehicle to a third party	Casco insurance is divided into two main groups according to the type of vehicle: • Insurance for private and commercial vehicles of up to 3.5 tons that grants insurance coverage as per the terms of the standard policy set forth in the Supervision of Insurance Business Regulations (Conditions of Contract for Insurance of a Private Vehicle) – 1986. It is possible to add to the standard policy extensions as to the scope of coverage and covered risks (within riders). Various coverages are offered, such as windshields, road services and towing, alternative vehicle etc. The tariff is an actuarial differential tariff (not homogenous for all insureds, and adjusted to risk), and it is based on several parameters / variables, both related to the vehicle insured by the policy (such as make, model, etc.) and to the insured's characteristics (number of drivers, drivers' age, past claim record etc.). • Insurance for other types of vehicles such as trucks of over 3.5 tons, motorcycles, taxis, heavy equipment, buses, agricultural equipment etc. Insurance policies for these types of vehicles are not subject to the terms of the standard policy.
Other general insurance	
These are divided into property insurances and liability insurance.	

[25] In February 2014 the **Variables in the CMBI Line Circular**, updating the list of variables based on which insurance companies may set insurance tariffs for various vehicles, came into effect.

Type of plan	Coverage description
Property insurances	
Property insurances are aimed at providing insureds with coverage against physical damage to their property. The main risks covered in property policies are fire hazards, explosion, burglary, earthquake and natural disasters. Property insurances sometimes include coverage for consequential damage (loss of profit) due to physical damage caused to the property, and they are a layer in homeowners insurance, business insurance, engineering insurances, goods in transit (marine, terrestrial, aerial) etc. In most cases, the property insurance policies are issued for a period of one year. Also, in most cases, claims in respect of such policies are clarified a short time after the occurrence of the insurance event.	
Homeowners insurance	Homeowners insurance includes building insurance and content insurance, based on property insurances as described above plus liability insurances related to homes (third party liability and employers' liability in respect of housekeeping employees). The homeowners insurance policy is based on the terms set forth in the Supervision of Insurance Businesses (Conditions of Contract for Home Insurance and Content) Regulations – 1986. It is possible to add to the standard policy extensions as to the scope of insured coverage, risks, property and liability of the insured. The proposed coverages are water damages, repair of electric appliances, computers, emergency services, house calls by physicians etc. Regarding the updated Regulations, which will come into effect on July 27th, 2015, see Clause 26.8.3 in part D below. The underwriting of this product is based on a basic tariff (with some variance regarding parterres, villas and penthouses) through analyzing the specific risk. The Group also offers a "structure insurance for mortgage" policy, which is a policy covering the building only, whose main target is mortgage banks borrowers.
Business insurance	Business insurance is property, buildings and content insurance, which are used for business needs against fire risks and associated risks (risks coverage sold together with fire risks coverage, such as coverage for burglary, explosion and earthquake). This coverage is extendable to consequential damage coverage, namely loss of profits. This product is usually sold as part of an "umbrella" policy, which includes several coverage chapters (property and liability chapters), aimed at combining into one policy all coverages needed for the business. The underwriting of this product is mostly based on the specific risk analysis and in large corporations insurance, on individual negotiations with the reinsurers.
Other property insurance	This framework includes diversified insurance coverages such as marine and aviation insurances (watercraft, aircraft, goods in transit), contractor work insurances, mechanical engineering equipment insurance, fidelity insurance and all risks insurance. The scope of activity in these insurance lines is non-material.
Personal accidents insurance	Personal accidents insurance compensates the insured in respect of any damage caused to him/her due to an accident. Coverage is granted against death or disability as a result of an accident, and may also include coverage for temporary occupational disability.
Liability insurance	
Liability insurances are aimed at covering an insured's liability, by law, in respect of damage he/she may inflict upon a third party. The liability insurance policies are usually issued for one year. However, the pace at which claims in this line progress is longer and may take several years, for several reasons: the damage covered in the policy is caused to a third party who is not the policyholder, the time elapsed between the occurrence of the event and the time of establishing the liability and damage and filing the claim, is relatively long. In many cases it involves a relatively complex factual and legal inquiry, both regarding the insured's liability and the scope of damage. The statute of limitation period in respect of the cause of claim is longer than the customary limitation period in property insurance. In some of the liability insurances (mainly third party and employers' liability), coverage is usually event-based, namely the coverage is for events that occurred during the insurance period and the claim can be filed after the end of the insurance period, subject to limitation.	

Type of plan	Coverage description
Insurance of liability towards a third party	The purpose of this product is to protect insureds from liability which they might bear, in respect of damage they caused, by negligence, to a third party. The coverage is adjusted to the insureds' activity and the limit of liability in the policy is determined by the insureds, at their discretion, based on the risk level to which they are exposed, in their opinion. This product is sold both as an independent individual policy (third party liability coverage only), and as part of an "umbrella" policy, which includes several coverage chapters (property and liability chapters), whose aim is to combine into one policy all coverages required for the business.
Employers' liability insurance	The purpose of this product is to protect employers from liability which they might bear, in respect of damage they caused, by negligence, to one of their employees, during and due to work. Coverage in these policies is provided above the sums provided by the National Insurance Institute of Israel, which handles work accidents. The limit of liability in such policies is set by the insureds, as per their discretion, based on the risk level to which they might be exposed. This product is sold both as an independent individual policy (employers' liability coverage), and as part of an "umbrella" policy, which includes several coverage chapters (property and liability chapters), whose aim is to combine into one policy all coverages required for the business.
Other liability insurances	These are insurance coverages for product liability, professional liability insurance, and D&O insurance.

12.4 Special arrangements referring to the CMBI line

12.4.1 Residual insurance arrangement ("the Pool")

Since on the one hand there is a duty imposed on vehicle owners to insure their vehicles pursuant to the CMBI Ordinance, but on the other hand, insurance companies may refuse to insure vehicles as per their discretion, vehicle owners who were rejected by insurance companies may acquire insurance via "the Pool" – the Israeli Vehicle Insurance Database, which is a corporation in which all the insurance companies are parties.

The Motorcar Insurance Regulations (Residual Insurance Arrangement and Mechanism for Setting the Tariff) - 2001 ("**the arrangement regulations**") regulate, *inter alia*, the establishment of this corporation, the way the corporation is managed, the share of each company in that insurance, the settlement of accounts of the co-insurance, including arrangements regarding setting residual insurance tariffs and the duty to sell insurance to anyone approaching the said corporation. All insurance companies operating in the area of CMBI participate in "the pool" and each bears the pool's losses or profits as per its relative share in the CMBI market, and as of January 2013, following an amendment to the Pool's Articles of Association, the share of companies participating in the Pool is set at the end of the current year, and not based on their share in the previous year. For the Group's share in the Pool's results see Clause 3.6.5 in the BoD Report.

12.4.2 **Karnit**

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

Insurance companies must pay Karnit 1% of their insurance premiums without fees in respect of CMBI policies. Furthermore, as from January 2010, insurance companies must transfer to Karnit another 9.4% of insurance premiums, less the amount transferred to Karnit, as collected by them in the preceding month in respect of all the CMBI policies they issued, since as from that date, the insurance liability for granting medical services due to bodily injuries to car accident victims was transferred from insurance companies to health funds.

12.3.4 **"Light heavy" clearance outline**

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

From 2006, the authority of the outline manager was expanded, such that he/she also has arbitration authority for disputes regarding liability, both in the legal aspect and the factual aspect.

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

12.5.1 As per Clause 328 to the National Insurance Institute Law (combined version) – 1995, the NII has the right to claim from a third party to pay back annuities paid or that will be paid by the NII, if the case serves as a cause for charging a third party as per the Civil Wrongs Ordinance or the TAAC Law.

As of January 2014, an amendment to the arrangement included in Clause 328 to the National Insurance Institute Law as set forth above, regarding the duty to inform the NII by insurers whenever insurers deducted or were allowed to deduct from the compensation amount the amounts of annuity that the NII paid or would pay under the NII Law, and which the NII may claim from insurers, as set forth above, came into effect. The provisions also set forth the deadlines and the ways the reporting should be made. If insurers do not inform the NII within the time set forth by the Law, the statute of limitation period of NII claims in respect of the subrogation right shall begin upon the reporting or when the NII was informed about the procedures in which insureds are entitled to compensation, the earlier of the two, provided no such claim is filed if 15 years have elapsed since the event that mandated the NII to pay the annuity[26].

In 2014 an agreement with the NII was signed. The agreement regulates the relations between Migdal Insurance and the NII, regarding bodily injuries related to road accidents.

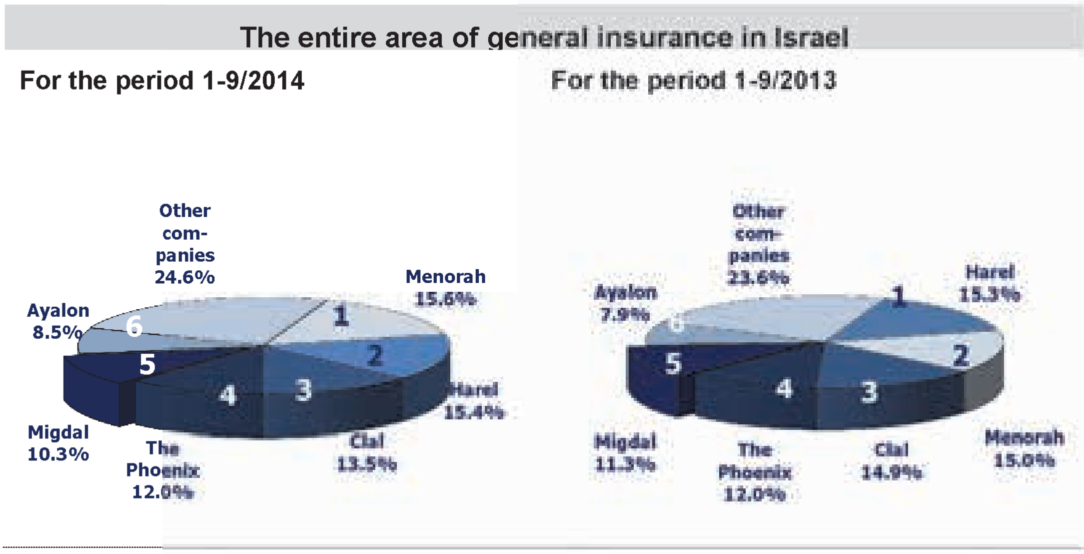
[26] The Amendment to the NII Law was made by amending the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Objectives for 2013 and 2014 – 2013, approved in July 2013.

12.5.2 **Discount interest rate in National Insurance Institute of Israel (NII) allowances** – in June 2014 an intra-ministerial committee headed by the retired judge Dr. Eliyahu Winograd, for the examination of the data used by the NII in determining the amount of compensation fees due to work-related accidents and the discount of such allowances. The allowances are based on mortality tables and interest rates that were not updated. The committee was established pursuant to an appeal filed to the Supreme Court against the NII, claiming that the persons who are entitled to higher compensations than those they actually receive. The committee's recommendations may affect the amount of allowances these victims are entitled to, and accordingly, they may affect the insurance sums that insurance companies will have to pay to the NII, within subrogation claims filed by the NII to insurers, and may affect the insurance sums that the companies will have to pay to victims in disability claims. At this point, the committee's recommendations have not yet been outlined, and in light of its deliberations, it is impossible to forecast its impact, and it depends, *inter alia*, on the recommendations, the extent of their implementation and their scope, as well as on the scope of deductions that will actually be made by the Company and/or that the Company will be entitled to deduct from the compensation fees paid by it to insureds.

13. Competition

13.1 The area of general insurance is characterized by harsh competition, which focuses on tariffs and service.

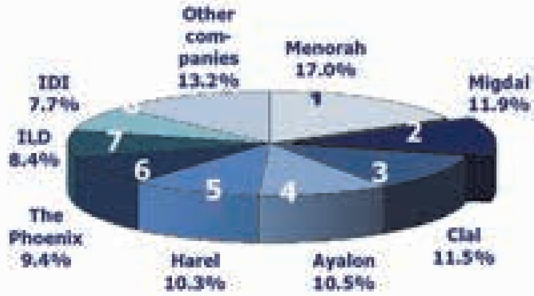
13.2 **Market data in terms of gross premiums**[27]



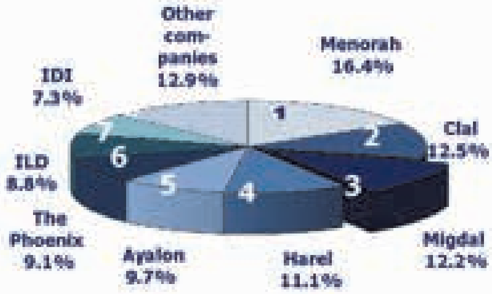
[27] The data brought in this Clause are based on the processing of the MoF Reports published on the MoF's website ("Managerial Reports") unless specified otherwise.

CMBI

For the period 1-9/2014



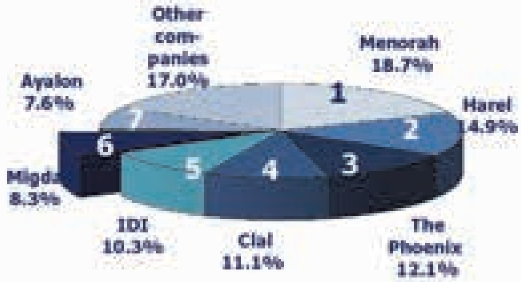
For the period 1-9/2013



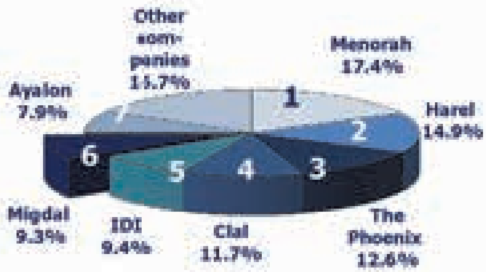
The share of all direct insurance companies in this period equaled approx. 10.7% of total gross premiums in the line, vs. approx. 10.1% in the same period in 2013.

Casco

For the period 1-9/2014



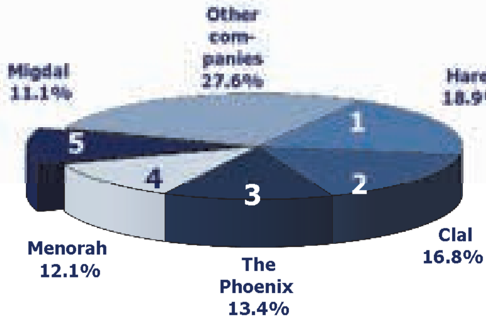
For the period 1-9/2013



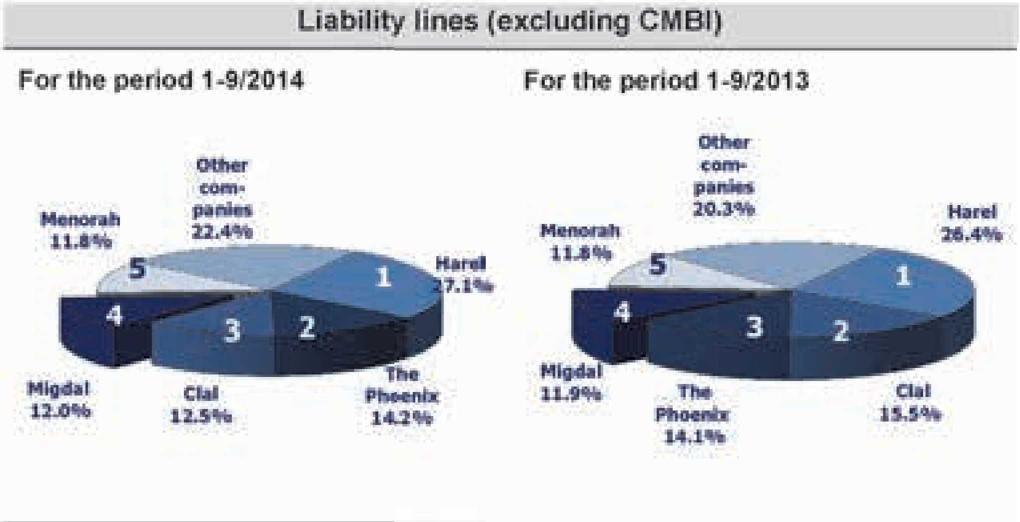
The share of all direct insurance companies in this period equaled approx. 14.0% of total gross premiums in the line, vs. approx. 12.9% in the same period in 2013.

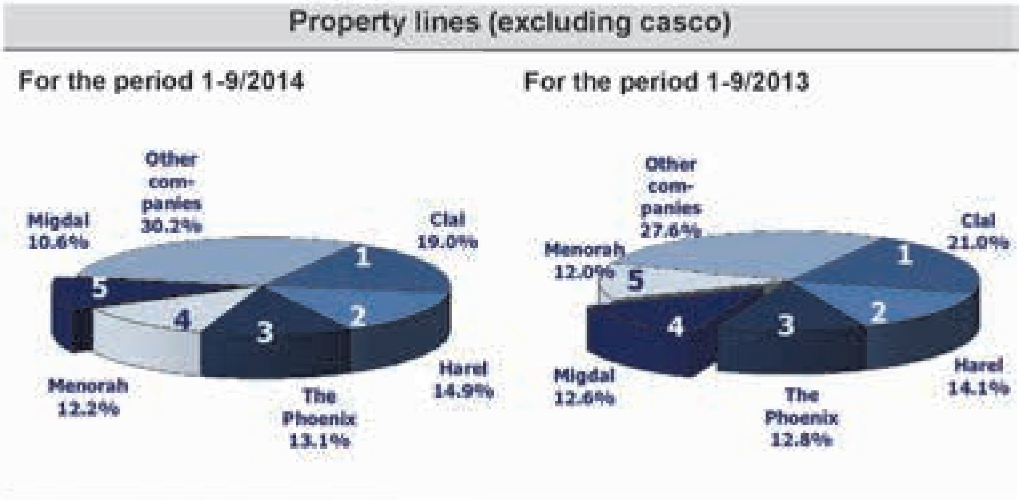
Other general insurance lines

For the period 1-9/2014



For the period 1-9/2013





In 2013, following the absorption of the new general insurance business from Eliahu Insurance, the Group's market share in the entire area increased from approx. 8% to 11.3%, and in the CMBI line it increased from 6.2% to 12.2%. The comparison data with 2013 detailed above are after the absorption of the new general insurance business from Eliahu Insurance.

In 2014 there was a decrease in the Group's market share in general insurance compared with 2013, affected by a reduction in the number of motorcar policies sold by the Group, as well as by a reduction in premiums in other property lines, partly stemming from renewal dates of policies in which coverage exceeds one year in several large businesses, and a decrease in the number of policies in homeowners insurance sold by the Company. The decrease in motorcar insurance premiums, as aforementioned, was partly affected by a focus on the types of insurance that are profitable, including the discontinuation of activity in several collective insurances and the erosion of tariffs in CMBI due to the competition in the area.

Furthermore, there was a decrease in premiums in homeowners insurance following a decrease in the number of policies sold by the Company due to an update of the coverage composition and tariffs by the Company, and the impact of the harsh competition in the area. The decrease in premiums in 2014 followed a significant increase in premiums in 2013, affected mainly by the absorption of Eliahu Insurance's new business in Migdal.

For more details, see Clause 3.6.5 in the BoD Report.

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

The Company deals with the competition in several ways:

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

Increasing sales by recruiting new agents, setting sales objectives for agents and salespersons and expanding the activity in the area of insurance for large vehicle fleets.

In addition, the Company takes the following measures: improving service to customers and agents, operational streamlining and integrating advanced computerization systems, including developing various digital tools.

14. Customers

14.1 **Breakdown of activity in the area of general insurance**

Presented below are details about the breakdown of activity in the area of general insurance, by gross premiums, in 2012-2014 (in NIS million and in %):

	2014		2013		2012	
	NIS million	Breakdown in %	NIS million	Breakdown in %	NIS million	Breakdown in %
Individual insureds and small business customers	1,526	78	1,513	75	972	69
Collective insurance and big businesses[1]	443	22	509	25	434	31
Total	1,969	100	2,022	100	1,406	100

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

The increase in the share of individual insureds and small business customers in 2014 was affected by the discontinuation of activity in several motorcar collective insurance, as well as by a decrease in premiums attributed to large businesses, partly stemming from the renewal dates of policies in which insurance coverage exceeds one year, following the increase recorded in 2013, mainly due to the absorption of Eliahu Insurance's new business in Migdal.

14.2 **Customers' seniority and persistency**

14.2.1 **General**

Renewal rates in 2013 detailed in this Clause refer to policies in force in Migdal Insurance before the absorption of the new general insurance business of Eliahu Insurance in Migdal. The new policies that were absorbed as set forth above, in the data referring to the breakdown of customers by seniority, are presented in "First insurance year (no seniority)". Policies that were renewed from this population are included in 2014 in the second insurance year (one seniority year).

14.2.2 **CMBI**

In 2014, the renewal rate in the CMBI line, in terms of premiums to policies in force in the previous year, equaled approx. 62%, vs. a renewal rate of about 58% in 2013 and about 67% in 2012.

In 2014 there was a moderate increase in the renewal rate compared with 2013, partly affected by the tariff update in the fourth quarter, following a decrease in renewal rate in 2013, mostly due to the discontinuation of insurance in several collective insurances.

Presented below are details of the breakdown of customers by seniority in CMBI, in terms of premium turnover, in 2012-2014:

Number of underwriting years (seniority years)	2014	2013	2012
First insurance year (no seniority)	39%	73%	39%
Second insurance year (one seniority year)	44%	9%	22%
Third insurance year (two seniority years)	6%	6%	12%
Over three seniority years	11%	12%	27%
Total	100%	100%	100%

In 2014 the segment of customers that is common to the CMBI and casco lines is approx. 49% of premiums in CMBI, vs. about 48% in 2013 and about 59% in 2012 (data referring to 2012 refer to policies in force in Migdal Insurance only).

14.2.3 **Casco**

In 2014, the renewal rate in the casco line, in terms of premiums of policies in force in the previous year, equaled approx. 69%, vs. approx. 70% in 2013 and 2012.

Presented below are details of the breakdown of customers by seniority in casco, in terms of premium turnover, in 2012-2014:

Number of underwriting years (seniority years)	2014	2013	2012
First insurance year (no seniority)	32%	59%	29%
Second insurance year (one seniority year)	42%	12%	22%
Third insurance year (two seniority years)	7%	9%	14%
Over three seniority years	19%	20%	35%
Total	100%	100%	100%

In 2014 the segment of customers that is common to the casco and CMBI lines is approx. 79% of premiums in casco, vs. about 75% in 2013 and about 79% in 2012 (data referring to 2012 refer to policies in force in Migdal Insurance only).

14.2.4 **Homeowners insurance**

In 2014, the renewal rate in the homeowners insurance[28] line in terms of premiums of policies in force in the previous year, equaled approx. 79%, vs. about 86% in 2013 and approx. 96% in 2012. The decrease in the renewal rate in 2014 was mainly affected by an update in tariffs and the composition of coverages in the homeowners line.

Presented below are details of the breakdown of customers' seniority in homeowners insurance[29], in terms of premium turnover, in 2012-2014:

Number of underwriting years (seniority years)	2014	2013	2012
First insurance year (no seniority)	11%	27%	15%
Second insurance year (one seniority year)	25%	10%	14%
Third insurance year (two seniority years)	9%	10%	10%
Over three seniority years	55%	53%	61%
Total	100%	100%	100%

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

Area D – The Area of Financial Services

15. Financial information in the area of financial services[30]

	2014	2013	2012
Total revenues			
From external sources	210	196	198
From other areas of activity	-	5	11
Total revenues	**210**	**201**	**209**
Costs that do not constitute revenues from areas of activity	208	201	191
Costs that constitute revenues from areas of activity	1	4	7
Total costs	**209**	**205**	**198**
Out of which: expenses in respect of original difference amortization	1	1	1
Income (loss) for the period before tax	**1**	**(4)**	**11**
Comprehensive income (loss) for the period before tax	**2**	**(3)**	**11**
Total assets in balance sheet	**789**	**883**	**727**

Presented below are details of development in revenues of different segments comprising the financial services area between 2012-2014 (NIS million):

	2014	2013	2012
Revenues from old mutual funds management fees	144	144	143
Revenues from brokerage services and commissions	44	37	40
Other revenues	7	4	5
Income/losses from securities (net) and finance income	15	16	21
Total revenues of the area	**210**	**201**	**209**

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

[30] The information in this Clause is information which, pursuant to the Securities Regulations, appears in Part B to the Corporation Businesses Description. Since this Report is prepared as per the Commissioner's Circular mentioned in the introduction to this Chapter, this information appears in the beginning of the area's description. Data regarding revenues, expenses and income before tax include the results of activity of financial services performed under Migdal Capital Markets, as well as the activity of Arxcis Global Wealth Management Ltd., held by Migdal Management and other revenues / expenses.

16. General information about the area of financial services

16.1 General

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

The Capital Markets Group engages in providing various services in the financial area, especially financial asset management services (mutual funds management, portfolio management and hedge fund management[31]) and investment marketing (marketing structured products and hedge funds), execution services in the Stock Exchange and in regulated markets (brokerage), distribution and investment banking, as well as in other activities that are non-material for the Group.

16.2 The area of activity structure and its changes

16.2.1 General

The financial services area is highly affected by the local and global capital market condition. The area is characterized by high volatility as a result of political and economic events both in Israel and abroad, affecting the securities rates in the Stock Exchanges and regulated markets. The financial services area is characterized by high regulation, and is affected by decisions taken by the various regulators in the capital market, including the Israel Securities Authority (ISA), the Tel Aviv Stock Exchange Ltd. ("**the Stock Exchange**"), the Bank of Israel etc. There is harsh competition in the line of financial services, both on the part of various banking corporations (brokerage activity) and other financial entities (all of the line’s activities).

16.2.2 **The activity of financial asset management and investments marketing in the Group** – includes mutual funds management (including mutual tracking funds, that are a passive/index-tracking means for investment management), investment portfolio management and investments marketing and management of hedge funds. The activity is performed through the following companies, fully owned and controlled by it – Migdal Trust Funds Ltd. (“**Migdal Funds**”), Migdal Investment Portfolio Management (1998) Ltd. ("**Migdal Portfolio Management**") and MGTF Hedge Funds Management Ltd. ("**MGTF**"), in which the hedge funds activity is centered via corporations controlled by it.

16.2.3 **The brokerage activity in Capital Markets Group** – this activity is mainly rendering execution services in stock and derivatives in the TASE and in Stock Exchanges and regulated markets overseas. This activity is performed by Migdal Stock Exchange Services (N.E.) Ltd. ("**Migdal Stock Exchange Services**"), which is a member of the Stock Exchange and the Stock Exchange clearinghouse.

[31] Within the hedge fund management activity, Capital Markets Group also has independent investments (Nostro), in securities and various financial assets, by investing as a limited partner in hedge funds managed by it, via corporations controlled by it, in a long-term outlook for bringing external investors to this activity, based on an aggregation of proven yield data (track data) in these hedge funds. As of the date of this Report, all monies managed in hedge funds belong to Capital Markets Group and interested parties thereof. Furthermore, as of the date of the balance sheet, Capital Markets Group does not manage Nostro investment monies not under hedge funds activity.

16.2.4 **Other activity –** within the activity of the financial services area, there are several activities that are non-material in the Group[32], including the Family Office[33] activity, carried out via Arxcis Global Wealth Management Ltd., which is not part of the Migdal Capital Markets Group[34] ("**Arxcis**"). Since the activities are non-material, the reporting in their respect in this Report is limited.

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

See Clause 25 below.

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

16.4.1 **General**

For developments in the economy and in capital markets, see Clause 4.1 to the BoD Report.

16.4.2 **Area of asset management and investments marketing[35]**

The line of asset management is divided into 2 ways of management - traditional investment management (also called active management) and index-tracking management (also called passive management). In 2014 there was an increase in the volumes of activity in the mutual funds line and the index products line:

[32] These activities include the distribution of securities in issuances and investment banking, carried out via a subsidiary that is (indirectly) fully owned and controlled by the Company – Migdal Underwriting and Business Initiatives Ltd. ("**Migdal Underwriting**"), It should be noted that in the reported period, Migdal Underwriting changed its classification to "non-active underwriter" in the Registrar of Underwriters in the ISA, and from then on, the distribution activity is carried out via Migdal Stock Exchange Services. Furthermore, until the date of the balance sheet Migdal Capital Markets, via the subsidiary Migdal Capital Markets – Finance Academy Ltd. ("**Finance Academy**"), engaged in extending various professional educational courses on the capital market, including preparation courses for the professional exams of the MoF and the ISA. Beginning from January 1st, 2015 Migdal Capital Markets collaborates in this activity with a third party, that is not related to the Group, which, on that date, acquired all Migdal Capital Markets' shares in the Finance Academy.

[33] Assistance in selecting investment managers, including for hedge funds and other private investment funds, setting asset allocation for every investment manager, supervising the composition of the portfolio managed by various investment managers, follow up on the customers' expenses and concentrating the customers' financial information in one place, etc.

[34] Arxcis is owned by Migdal Management. Since the activity of Arxcis focuses on extending investment management services via portfolio managers, Arxcis' activity is included within the financial services activity in this area.

[35] Data referring to the mutual funds line in 2014 are based on Bizportal system data for 2014 and the data referring to ETNs for 2014 are based on information of chambers of commerce. Regarding the portfolio management line, since there are no official data regarding this line, the Company is unable to refer to developments in this line.

	Traditional management / "active management" (in NIS billion)		Index-tracking management / "Passive management" (in NIS billion)	
	Traditional funds	Money market funds[36]	Tracking funds	Index products
2014	185.0	51.3	24.5	118.1
2013	155.0	61.1	14.7	101.3
2012	125.6	34.8	9.4	68.9
% change in 2014 vs. 2013	19.4%	(16.0%)	66.7%	16.6%

As can be seen from the data above, the trends that characterized 2014 are as follows:

The competition between tracking funds and indices products - in 2014 investment houses continued to deploy towards the passive market regulation reform, as a result of which, the tracking funds will become ETFs and will begin to be traded daily. Right now, management fees are hardly collected in the tracking funds industry, and in 2014 management fees were collected only in respect of approx. 9.5% of total tracking funds' assets in Israel produced. However, in tracking funds, fund managers do not absorb distribution commissions, since, as of the date of this Report, unlike other mutual funds, there is no distribution commission paid by the fund managers to the banks in tracking funds, except acquisition and selling commissions which are paid directly by the customers to banks

Increased competition - the increased competition continued to be characterized by the fact that investment houses continued to collect low management fees in certain funds managed by them, and recorded an increase in the tracking funds' segment.

A change in the public's preferences – in 2014 the public's transition to funds with a high risk profile has continued, as part of the change in the public's preferences that increased asset risk, in light of the positive trend on domestic and global stock exchanges. This trend was reflected in money raisings by traditional funds and tracking funds with exposure to shares.

16.4.3 **Brokerage services line of business**[37]

The volume of brokerage activity is affected by the trade turnovers on the Stock Exchange and worldwide and the volatility in the capital market. On the TASE, 2014 was characterized by price increases, after the increases recorded in 2012-2013, however, trade turnovers remained almost unchanged, and trade turnovers in bonds decreased a tad this year. In addition, the number of public companies traded on the TASE decreased from 508 to 473. Starting from 2009 a trend of erosion in the profitability of the brokerage services extended by TASE members that are not banks, including Migdal Stock Exchange Services, began, due to regulatory changes and several other events. The regulatory changes include the coming into effect of the Joint Investments Trust Law (Amendment No. 14) – 2010, and the coming into effect of the Supervision of Financial Services (Provident Funds) (Acquisition and Sale of Securities) – 2009 Regulations.

Most of the events that caused an erosion of profitability in the line are the increased competition by banks in the area of trading services (the banks offer low commissions on trading services, thus there is an aggressive price

[36] Money market funds in NIS.
[37] The data are based on the annual review of the Stock Exchange for 2014.

war vis-à-vis TASE members that are not banks) and the continued downward trend in trade turnovers in Israel and worldwide. In light of the above, in recent years there have been mergers and acquisitions of several investment houses in the line, including the merger of Meitav and Dash, the sale of Harel's TASE membership, the sale of Clal Finance Investment House's activity to Bank of Jerusalem (brokerage activity) and to Harel (other activities).

Equity market

In 2014 the average daily volume (on the TASE and outside the Stock Exchange) totaled approx. NIS 1.2 billion, similar to the average daily volume in 2013. The average daily volume remained stable in 1H14 at approx. NIS 1.2 billion. In July and August, due to Operation Protective Edge, the average daily volume decreased to NIS 1 billion. In September-November the average daily volume was similar to the annual average in 2014. In December the average daily volume increased to about NIS 1.7 billion per day.

The bond market

On the bond market, average daily trading volumes (on the TASE and off Stock Exchange) totaled approx. NIS 4.2 billion, a bit lower than in 2013. Most of the decline was recorded in NIS government bonds with fixed interest rate, in which the average daily trading volume totaled approx. NIS 2 billion this year, reflecting a decrease of about 8% compared with the average volume in 2013. The decrease in volumes was mainly due to a decrease of approx. 8% in the trading volume in NIS government bonds, in which it totaled approx. NIS 2 billion (vs. approx. NIS 2.2 billion in 2013).

In 2014 the average daily trading volume in short term loans (on the TASE and off Stock Exchange) totaled approx. NIS 0.64 billion, exceeding the previous year's trading volume by approx. 10% (which totaled approximately NIS 0.58 billion).

Derivatives market

In 2014 the trade in options on TA-25 index was characterized by lower volumes, unlike trading in the base asset (shares). In 2013 approx. 198 thousand units were traded per day, vs. approx. 205 thousand units in 2012. It should be noted that the volume includes the weekly options launched last July, in which the daily trading volume totaled approx. 24 thousand units this year.

Trading volumes in ETNs

By the end of 2014, 590 ETNs were traded, including 24 currency ETNs, and the value of the public's holdings in them reached a record of approx. NIS 130 billion by the end of November 2014, following an increase of about NIS 17 billion in 2014. The average daily trading volume in ETNs on share indices (domestic and international) increased in 2014 and totaled (on the TASE and off Stock Exchange) approx. NIS 350 million, exceeding 2013 volume by about 28%. This volume constituted approx. 30% of the total trading volumes in shares, vs. 23% in 2013. This year about 75 new ETNs were issued, and at the same time 15 ETNs were delisted.

16.4.4 **Underwriting and investment banking line of business**[38]

In 2014 the total issuances of shares to the public amounted to over NIS 41 billion, an increase of approx. 5% compared with 2013, in which approx. NIS 39 billion were raised. Debt raisings totaled approx. NIS 37 billion, an 8% increase compared with 2013, in which debt raisings totaled approx. NIS 34.2 billion. NIS 3.3 billion of total debt raised in 2014 were raised in private expansions of negotiable series. The scope of capital raising in 2014 was approx. NIS 4 billion, performed in 88 issuances, out of which 39 issuances

[38] The data are based on the annual review of the Stock Exchange for 2014.

of shares (IPOs and secondary) in the scope of approx. NIS 2.2 billion, 23 rights issues at a total scope of approximately NIS 11 billion (a decrease of about 30% in the scope of rights issues compared to 2013), 18 private placements in the sum of NIS 274 million and 8 issuances of convertible bonds in the sum of approx. NIS 421 million.

16.5 **Changes in the volume of activity of Capital Markets Group and in its income**

The revenues in the area of financial services mainly stem from management fees that are calculated as a rate of the volume of managed assets, from commissions in respect of brokerage services, underwriting and distribution commissions and gains/losses of independent investments (Nostro).

The volume of managed assets

Presented below are details of the volume of assets managed by Capital Markets Group (in NIS million), for unrelated parties, with a breakdown between mutual funds, portfolio management and hedge funds, in 2012-2014:

	2014	2013	2012
Portfolio management (1)	6,285	5,703	5,110
Mutual funds (2)	28,919	24,530	18,712
Hedge funds (3)	76	49	111
Total	35,280	30,282	23,933

(1) The data refer to the volume of assets managed within the portfolio management line, net (excluding assets managed by portfolio management and held by mutual funds managed by Capital Markets Group, and excluding the asset management of mutual funds, provident funds and educational funds managed by Capital Markets Group and/or the Group).

Until June 30th, 2013, Capital Markets Group extended investment management services to some of Migdal Makefet's provident funds (mainly those previously managed by Migdal Platinum).

(2) Out of which about NIS 70 million as of the end of 2014 were managed by external portfolio managers, who do not belong to Capital Markets Group, vs. about NIS 76 million as of the end of 2013 and approx. NIS 62 million as of the end of 2012.

(3) In addition to the asset management as set forth above, Capital Markets Group extended investment marketing services for hedge funds to various customers, and the volume of their assets for these services total about NIS 5 million as of the end of 2013.

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

For changes in the market share of players in the mutual funds line – see Clause 21.1 below. Due to the lack of official sources, Capital Markets Group has no information about the share of non-banking entities in the lines of portfolio management, brokerage and primary dealership, and underwriting and investment banking[39].

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

Portfolio management and mutual funds

The main alternative to the asset management services provided by the financial services area is asset self-management, whereby the customers decide how to manage their assets, usually through consulting bank investment advisors. The banking system saving plans and deposits serve as some alternative to asset management services. Direct acquisition of securities and acquisition of ETNs on various indices (including on indices of securities overseas), constitute an alternative to mutual funds in general, and to tracking funds in particular. Until now,

[39] The entities active in the financial services area are divided into two categories: banking and non-banking entities. Following the implementation of the Bachar Legislation, the banks ceased operating in the mutual funds management line.

Capital Markets Group has not issued such ETNs, but at the beginning of 2008 it started managing tracking funds, which are an alternative product to ETNs, and as of the end of 2014, it manages 45 tracking funds on various indices. Some of the structured products marketed in Israel are alternative products to mutual funds, or to investment in securities and other financial derivatives. Capital Markets Group engages in marketing structured products, issued by third parties.

In addition to the above, there is certain substitution among some of the area's various products. Customers may purchase asset management services in the capital market both by receiving portfolio management services (tailor-made services), and by acquiring units in mutual funds (selecting investments as per the policy set forth for the fund by the fund manager), such that mutual funds constitute some kind of alternative to the investment portfolio management services.

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

The financial services area is characterized by harsh competition, *inter alia*, due to the fact that the market is relatively small, and the number of competitors is large. In 2014 there was no substantial change in the sector, and the trend of investment houses consolidation, which characterized recent years, decreasing the number of competitors in the various lines in the capital markets (as detailed above), did not continue.

17. The area's main products and services

Following are the main services provided by Capital Markets Group:

Mutual funds management – as of December 31st, 2014, Capital Markets Group manages 172 mutual funds, differing in their investments policy or their tax status. Mutual funds enable investments in multiple and varied basic assets, while maintaining high liquidity. The mutual funds management activity is characterized by the distance between the customers and the funds manager, since most of the public's investments in mutual funds are made through the banks.

Some of the mutual funds are managed via the investment management of a non-related external investment manager, who manages the investment portfolio of these funds in return for a portion of the management fees in their respect.

Presented below are additional details on mutual funds managed by Capital Markets Group, not via the investment management of a non-related external investment manager, as of December 31st, 2014 (NIS millions)[40]:

Categories	Scope of assets of Migdal Capital Markets Group funds	Scope of assets in the sector by category	Average rate of management fees in Capital Markets Group's funds (%)	Average rate of management fees in the sector by category (%)
Bonds in Israel - general	5,651	66,832	0.78	0.89
Bonds in Israel - State	1,660	41,352	0.84	0.72
Bonds in Israel - Forex	59	210	1.37	1.51
Bonds in Israel - NIS	2,429	23,950	0.58	0.64
Overseas bonds	211	8,915	0.73	0.93
Bonds in Israel - companies and convertible	986	22,698	1.16	1.04
Fund of funds	25	1,116	0.55	0.85
Flexible	-	1,500	-	1.90
Overseas - general	-	304	-	0.29

40 As per Bizportal system data for December 31st, 2014.

Money market - USD	357	2,016	0.14	0.26
Money market - NIS	3,969	51,252	0.11	0.13
Bond tracking	10,161	20,699	0.01	0.02
Share tracking	2,180	3,803	0.03	0.05
Leveraged and strategic	234	764	3.10	2.49
Shares in Israel	523	9,208	1.56	2.00
Shares abroad	473	6,045	1.87	1.92
Foreign residents	-	65	-	2.37
Total in 2014	28,919[41]	260,727	0.40	0.69
Total in 2013	24,454	230,783	0.52	0.71

The assets in these mutual funds include tracking funds, whose assets totaled about NIS 12,341 million as of December 31st, 2014, vs. NIS 8,307 million as of December 31st, 2013, and NIS 4,731 million as of December 31st, 2012, and as of December 31st, 2014, they constituted about 42.7% of total assets of mutual funds managed by Migdal Funds (excluding funds whose investments are managed by unrelated external investment managers), vs. approx. 34.0% as of December 31st, 2013 and approx. 25.4% as of December 31st, 2012.

The significant and increasing scope of investment management in tracking funds is owing to a long-term strategic outlook, by which the reform in the area of passive management creates an opportunity for Migdal Funds to enter the market of passive products.

Investment portfolio management and investment marketing – in this framework the customers' assets are managed, or they are provided with investment marketing services, according to the investments policy agreed upon vis-à-vis the customers and customized to their needs, and pursuant to the provisions of the Regulation of Investment Law and the regulations thereof. The portfolio management and investment marketing activity is characterized by direct and personal contact with customers.

Brokerage services - in this framework there are transaction execution services (on and off trade on the Stock Exchange) in securities and financial derivatives, traded in the Stock Exchange and in stock exchanges and regulated markets abroad, as well as custodian services for securities and financial derivatives. Sometimes credit is provided to customers for acquiring securities and making transactions in financial derivatives. Brokerage services are provided to customers, who open an account for this purpose with Migdal Stock Exchange Services, through different ways: operating transaction rooms and trading rooms, providing e-trading platforms to customers to trade in the TASE and stock exchanges overseas, or providing online trading systems allowing direct access (FMR system). In order to provide brokerage services abroad, Migdal Stock Exchange Services has accounts with several foreign brokers. Migdal Stock Exchange Services also provides centralized services in issues and in offers for acquisition and sale. Some of the customers (usually institutional entities) receive transaction execution services only, while custodian services are provided to these customers by banks / other TASE members.

Business development - Capital Market Groups examines and operates on an ongoing basis towards developing and issuing / distributing new financial products, collaborates with managers and issuers of products abroad, has contacts with foreign broker-dealers in order to examine the expansion of collaborations in the area of brokerage, and constantly adjusts its products and services to the needs of its customers and to market conditions.

[41] Also, Capital Markets Group manages mutual funds together with non-related external investment managers, whose scope of assets as of December 31st, 2014 totaled approx. NIS 70 million, see details in Note (2) to Clause 16.5 above.

18. Revenues and profitability breakdown of products and services

The financial services area does not include a group of products, whose revenues constitute 10% or more of the Group's total revenues.

19. Customers

Some of Capital Market Group's customers receive only portfolio management and investment marketing services from Capital Markets Group, some of them receive only brokerage services (whether as independent customers, or as customers of portfolio managers [whether or not from Capital Markets Group] who manage the investments in the customer's account), some of them receive only investment marketing services for hedge funds, and some of them receive various services simultaneously.

Customers of the portfolio management and investment marketing line and of the brokerage services and primary dealership line - Capital Markets Group has a large number of scattered customers, divided into three main groups:

19.1 **Private customers** – usually households whose scope of asset portfolio is relatively small. These customers do not include eligible customers as defined in the Regulation of Investment Law.

19.2 **Eligible customers** - customers meeting the detailed criteria in the annex to the Regulation of Investment Law (mainly educational funds, provident funds, pension funds, insurance companies, local municipalities, public companies etc., whose equity exceeds NIS 50 million; and private customers meeting the criteria of the Regulation of Investment Law for this matter). The asset portfolios of these customers are usually relatively large, but on the other hand the level of management fees is competitive, since sometimes the engagement with them is the result of winning a competitive procedure.

19.3 **Other external corporations and companies (that may not be defined as eligible customers)** - usually public companies with equity that is lower than NIS 50 million, private companies etc. The asset portfolios of these customers is usually relatively large (but usually lower than those of eligible customers), but on the other hand the level of management fees is competitive, since sometimes the engagement with them is the result of winning a competitive procedure.

The Group has no clear data as to revenue distribution by type of customer in this Clause.

Presented below are details of the breakdown of the relative share of the portfolios managed by Capital Markets Group by type of customer (excluding mutual fund assets managed by Capital Markets Group, but including mutual funds managed by Capital Markets Group and held within the portfolio management line under customer portfolios) totaling approx. NIS 6,983 million[42] as of December 31st, 2014:

Type of customers	**Rate to total AuM in managed portfolios**	
	31.12.2014	**31.12.2013**
Eligible customers	52%	50%
Private customers	26%	28%
Other companies and corporations	22%	22%
Total	100%	100%

[42] Out of which about NIS 0.7 billion were invested in mutual fund units managed by Capital Markets Group.

Capital Markets Group has a large number of customers, and there is no dependence on a single customer, or on a small number of customers, the loss of which might have a material impact on the area of financial services. Capital Markets Group does not have a customer whose revenues in the area constitute 10% or more of total revenues in the area of financial services.

It should be noted that Capital Markets Group's total revenues in respect of brokerage and/or portfolio management services provided to the other areas of activity in the Group totaled approx. NIS 5 million in 2014.

20. Marketing and distribution

Capital Markets Group uses several marketing and distribution channels to distribute its products and services, the main ones of which are:

Marketing and distribution through banking corporations' investment advisors
This channel serves as the main channel for distributing mutual funds. Capital Markets Group's main activity in this channel is to inform investment advisors of its products and services, and provide them with the relevant information and marketing documentation. As of the date of this Report, Migdal Funds engaged in distribution agreements with most of the banks. The distribution agreements state that the commission rate paid to those banks will be the maximum rate that the banks may collect from time to time as per the provisions of the Law. The distribution agreements with all banks are for an unlimited period or for a renewable period, whose termination is subject to prior notice of a few months.

Marketing and distribution (except regarding mutual funds) are performed through a large number of different mediators, including referral by insurance agents, including agents working with the Group's Customer Division.

This channel is the main channel for the distribution of portfolio management and brokerage services of Capital Markets Group. With respect to customers that are referred to receiving portfolio management services, Capital Markets Group is accustomed to pay these mediators commissions at a certain rate out of the management fees collected from the referred customers, and in some cases a one-time payment based on the amount of assets deposited by the referred customers, followed by commissions at a lower rate out of the management fees collected from the referred customers. As to customers referred to brokerage services, Capital Markets Group usually pays these mediators some of the commissions it collects, and sometimes a one-time payment in respect of each referred customer.

Directly soliciting customers through Capital Markets Group employees, among other things, through taking part in tenders published by customers, and soliciting public companies regarding the underwriting and investment banking lines.

Holding professional/marketing conventions.

Press and internet-related advertising.

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

21. Competition

The factors on which the Group competes in the area of financial services are the achieved yield (relative to the risk level), the rate of management fees, the commissions' rate in respect of the different services and the quality of service.

21.1 **Mutual funds management services**[43]

Key competitors operating in the mutual funds sector[44]	**Data as of the end of 2014**	**Data as of the end of 2013**	**Data as of the end of 2012**
Competitor name		**Market share**	
Psagot	12.4%	15.5%	16.8%
Harel-Pia	12.9%	14.3%	11.5%
Dash-Meitav	15.7%	18%	11.2%
Migdal Funds	11.2%	10.6%	11.0%
Excellence	9.2%	9.4%	11.0%
Altshuler Shaham	8.4%	7.4%	7.7%
Dash (before the merger with Meitav)	-	-	6.2%
Clal Finance (before the merger with Harel)	-	-	6.1%
IBI	5.7%	4.5%	4.8%

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According to data published by the Bizportal system, as of the end of 2014, about 19 mutual funds management companies operate in Israel. All in all, these companies manage together about 1,300 mutual funds. Among the mutual funds management companies, 9 manage assets exceeding NIS 10 billion, another 8 companies manage assets exceeding NIS 1 billion, and another 2 companies manage assets of approx. NIS 0.5 billion.

The size of funds' assets in Israel increased from NIS 230.8 billion at the end of 2013 to NIS 260.7 billion at the end of 2014, out of which about NIS 51 billion are money market funds (NIS) and NIS 24.5 billion are tracking funds.

As of the end of 2014, Migdal Funds is the fourth largest managing company in AuM, with about NIS 28.9 billion in managed assets (vs. approx. NIS 24.5 billion at the end of 2013)[45].

Out of these assets, the size of tracking funds managed by Migdal Funds as of the end of 2014 totaled approx. NIS 12.3 billion (vs. NIS 8.3 billion by the end of 2013 and NIS 4.7 billion as of the end of 2012). Migdal Funds' market share in the tracking funds' industry as of the end of 2014 constituted approx. 50.4% (vs. approx. 56.5% by the end of 2013 and approx. 50.3% at the end of 2012). Migdal Trust Funds is the largest company as far as AuM in tracking funds is concerned

Migdal Trust Funds' market share out of total passive investment management (tracking funds and ETNs) constituted approx. 8.65% at the end of 2014 (vs. 7.16% at the end of 2013 and approx. 6.04% at the end of 2012).

[43] As per data of Bizportal system as of December 31st, 2014.
[44] As per Bizportal data for 2012-2014. The data include funds managed by non-related external investment managers and money market funds.
[45] Out of which, Capital Markets Group manages mutual funds under the investment management of an unrelated external investment manager, whose scope of assets, as of December 31st, 2014, totaled approx. NIS 70 million. For details see Note (2) to Clause 16.5 above.

21.2 **Portfolio management and investment marketing services**

There are many portfolio managers in the portfolio management and investment marketing business. Due to the lack of official publication, the Group cannot estimate the scope of portfolio assets managed by portfolio managers in Israel. As mentioned above, the size of the net portfolio assets[46] managed by Capital Markets Group as of December 31st, 2014 is approx. NIS 6,285 million, and the gross[47] scope of assets is approx. NIS 7,108 million. In addition to the above mentioned asset management, Capital Markets Group provided investment marketing services for hedge funds to various customers. The size of assets for which these services were provided totals NIS 845 thousand as of the end of 2014.

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

21.3 **Brokerage services**

The Stock Exchange is comprised of 12 TASE members which are banks and 14 members which are not banks[48].

According to the trading data published by the Stock Exchange, the average daily trading volume in stocks and convertibles, traded on or off the Stock Exchange, in 2014, was approx. NIS 1.2 billion, out of which Migdal Stock Exchange Services executed about 1.1%. At the end of 2014, Migdal Stock Exchange Services is rated 15th among the TASE members (banks included) as to stock and convertibles trading.

According to the trading data published by the Stock Exchange, the average daily trading volume in bonds, traded on or off the Stock Exchange, in 2014, was approx. NIS 4.2 billion, out of which Migdal Stock Exchange Services executed about 0.8%. At the end of 2014, Migdal Stock Exchange Services is rated 14th among the TASE members (banks included) as to bonds trading.

According to the trading data published by the Stock Exchange, the average daily trading volume in short term bonds, traded on or off the Stock Exchange, in 2014, was approx. NIS 0.6 billion, out of which Migdal Stock Exchange Services executed about 2.7%. At the end of 2014, Migdal Stock Exchange Services is rated 8th among the TASE members (banks included) as to short term bonds trading.

According to the trading data published by the Stock Exchange, the average daily trading volume in options on the TA-25 index, in 2014, was approx. 198 thousand units, out of which Migdal Stock Exchange Services executed about 4.2%. At the end of 2014, Stock Exchange Services is rated 6th among the TASE members (banks included) as to trading volume in options on the TA-25 index.

According to the trading data published by the Stock Exchange, the average daily trading turnover in USD options, was approx. 40 thousand units, out of which Migdal Stock Exchange Services executed about 11.5%. At the end of 2014, Migdal

[46] Excluding units of mutual funds managed by Capital Markets Group, held as part of the assets managed under the line of portfolio management, and excluding asset management of mutual funds managed by Capital Markets Group and/or the Group.

[47] Including units of mutual funds managed by Capital Markets Group held as part of the assets managed under the line of portfolio management and including asset management of mutual funds managed by Capital Markets Group and/or the Group.

[48] Including 7 international entities – HSBC bank PLC, Barclays Bank PLC, Citibank N.A, Citigroup, UBS, Deutsche Bank and Merrill Lynch (which is a remote member).

Stock Exchange Services is rated 4th among the TASE members (banks included) as to trade turnover in USD options.

The names of Capital Markets Group's main competitors, to the best knowledge of the Company, regarding brokerage services are as follows: members of the Stock Exchange that are Israeli banks, foreign banks and investment houses (Citibank N.A, Citigroup, HSBC, Merrill Lynch, Barclays Bank PLC, Deutsche Bank and UBS), as well as non-banking TASE members (Poalim Sahar Ltd., Israel Brokerage &Investments (IBI) Ltd., Meitav Dash Trade Ltd., Excellence Nessuah Stock Exchange Services Ltd., Psagot Securities Ltd. and E-Broker Trading and Securities Ltd.).

In light of the significant increase in the banking system's activity in the area of securities trading, originating, *inter alia*, from a diversion of brokerage activity by institutional entities towards the banking system, along with a reduction in commissions paid by them and in light of the coming into effect of the Duty for Mandatory Tenders in Funds, see Clause 25.1.3(b) below, there was a marked deterioration in the ability of TASE members which are not banks to compete with the banking system in the area of brokerage services.

21.4 **The main methods used by Capital Markets Group to handle competition in all the financial services area lines are as follows:**
Striving towards high yields (relative to risk level) in assets management; increasing awareness to the performances and quality of Capital Markets Group's products, mainly among banks' investment advisors, who are the main marketing and distribution channel of the mutual funds; adjusting and diversifying the basket of products offered to customers according to their needs and market conditions, including with respect to foreign asset management; developing new products; advertising; using the Group's reputation; using insurance agents who work with the Group as a source for customer referral; improving the customer services quality; giving competitive commission rates in the brokerage services line; maintaining current professional relations with institutional investors in Israel, who are the main target for the acquisition of securities, structured products and hedge funds; professionalism and high reliability.

22. Seasonality

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

23. Suppliers and service providers

Presented below is the Capital Markets Group's acquisition rate from its main suppliers relative to overall expenses (which are not wage costs):

Supplier	Rate (in %)
FMR Computers and Software Ltd.	About 5.5%

Agreement to receive software services from F.M.R. Computers and Software Ltd. ("**FMR**") – Capital Markets Group is engaged with FMR in an agreement, according to which FMR provides Migdal Stock Exchange Services with the software, through which Migdal Stock Exchange Services gives instructions to the Stock Exchange to execute securities and financial derivatives-related trade, and manages its Back Office array. In addition, FMR provides Migdal Stock Exchange Services with software for monitoring and revaluating Migdal Funds' funds, operated in Migdal Stock Exchange Services. Capital Markets Group is dependent on FMR, since replacement of the latter without adequate p

On December 31st, 2013 a new agreement was signed between Migdal Stock Exchange Services and FMR, effective from September 30th, 2012 and until March 31st, 2015, which was extended to May 15th, 2015. On November 12th, 2014 Migdal Stock Exchange Services informed FMR that it is not extending the agreement and it is terminating it. Pursuant to the agreed-upon Order signed between the Israel Antitrust Authority General Director and FMR in September 2014, Migdal Stock Exchange Services also informed FMR that it would like to terminate the agreement later than the original date set forth in the agreement – May 15th, 2015, such that the agreement should end on November 10th, 2015. Furthermore, Migdal Funds began transferring the mutual funds operated in Migdal Stock Exchange Services via the FMR software, to other operators in the banking system. We note that most of the non-bank TASE members and even some of the banks operate through the FMR software.

As to payments to the various distribution channels used by Capital Markets Group – see Cla

24. Working capital

Customers' credit: Migdal Stock Exchange Services extends credit to its customers for the purchase of securities and financial derivatives. The amount of credit is limited according to the formula set in the Stock Exchange instructions, and calculated according to the different types of securities in the customer's portfolio. To secure the credit, different collateral is given based on the Stock Exchange instructions. In 2014, average customers' credit in NIS amounted to approx. NIS 34 million, and the average customers' credit in foreign currency amounted to approx. NIS 48 million. It should be noted that the above credit is given to customers on a daily basis, and bears commercial interest.

Suppliers' credit: in 2014, the average suppliers' credit was not material.

25. Restrictions and supervision applied to the financial services area

25.1 **Main laws and regulations** - hereunder is a summary of the legal provisions and arrangements that significantly affect this area of activity, changes that occurred during the reported period and new legal provisions that were legislated and/or published during the reported period:

25.1.1 **General**

On June 30th, 2014 the State of Israel reached an agreement with the U.S. Government regarding the implementation of the Foreign Account Tax Compliance Act (FATCA), which are rules originating in the American regulations, setting forth that non-American financial institutions must report American investors to the American tax authorities, and strive towards localizing and handling them. The Company and the relevant companies in Migdal Capital Markets Group performed the actions they were requested to carry out by now, pursuant to the timetables set forth in the FATCA rules, and they continue to strive towards implementing the provisions.

25.1.2 **Mutual funds management**

(a) **The Joint Investments Trust Law- 1994 and the regulations and the ISA's circulars issued thereunder**

This Law and the Regulations and Circulars thereof regulate the licensing requirements, the duties imposed on the fund managers as to the managed fund, corporate governance rules that apply to them, the way mutual funds should be established and managed, the assets they may purchase and hold and their percentage, the supervising and enforcement powers of the ISA, including administrative enforcement, towards the fund manager and fund trustee.

(b) Within the implementation of the **Road Map: the Objectives of the ISA and its Plans for Upcoming Years**, published by the ISA in September 2012, in July 2014 amendments to the regulations set forth pursuant to the Funds Law and the Securities Law were published, introducing several reliefs in the area of joint investments in trusteeship and in the area of portfolio management, in addition to the reliefs included in the Law for Reliefs on the Capital Market and for the Promotion of Activity therein (Legislative Amendments) – 2014, published in the official gazette on January 27th, 2014.

(c) Planned amendments in the regulation that applies to fund managers

(1) The ISA is promoting a reform in the area of index products (ETNs) from a reporting regime (rules for the disclosure of a reporting corporation) to a supervision regime that is currently common in the mutual funds sector. This reform is expressed in a pending **Bill for the Joint Investments Trust Law (Amendment No. 21) (ETNs and ETFs) – 2012**. The Bill is aimed at closing the gap that currently exists between the regulatory provisions that apply to index products and the regulatory provisions that apply to mutual funds. In addition, the proposed amendment will allow creating a new type of mutual fund - ETF funds: closed tracking funds traded on the TASE, aimed at achieving results that are as similar as possible to the tracked asset, and sets forth provisions that would apply to them. Within the reform, **Joint Investment Managers** may manage simultaneously one or more of the following arrangements - traditional mutual funds, ETFs or ETNs. Furthermore, since ETNs and ETFs are alternative investment instruments, whose general characteristics are similar, it is suggested to apply the same rules to ETFs and ETNs, in order to provide the public an accessible platform for comparing these products. This reform, if it is completed, may allow Migdal Funds to continue developing and expanding the area of tracking mutual funds management, upon turning them into ETFs traded on the TASE. In November 2013 the updated **draft of Joint Investments Trust Regulations (Shift from Tracking Funds to ETFs) – 2013** regarding the required conditions in order for tracking funds to become ETFs, was published.

(2) In July 2014 **the Joint Investments Trust Law (Amendment No. 23) – 2014** (known as Amendment No. 15) was published. The amendment regulates the possibility of offering foreign fund units in Israel, after regulations are set forth regarding this issue. At this stage, it still unknown whether this amendment shall have a material impact on Migdal Funds.

25.1.3 **Brokerage services**

(a) **TASE supervision** – TASE members who are not banks, such as Migdal Stock Exchange Services, are subject to the supervision of the TASE pursuant to the **TASE Articles of Association Provisions**. The TASE Articles of Association, rules and regulations, regulate the registration of different securities for trade, the manner of trading in the TASE, TASE membership, including qualification and members' admission procedures and the TASE's supervision over members, equity required from TASE members who are not banks, areas of activity allowed to TASE members, TASE members' duties towards the TASE and other members and towards their customers, etc. As of

December 31st, 2014 and as of the date of this Report, Migdal Stock Exchange Services fully complies with the capital adequacy and liquidity requirements as per the new model, set forth in the TASE Articles of Association.

(b) **Restrictions on commissions from related parties** – under regulation applying to institutional entities and fund managers, there is a restriction on the amount of commissions these entities may pay from the assets managed by them for brokerage services, to a TASE member which is not a bank and which is a related party. Pursuant to these restrictions, commissions exceeding 20% of total commissions paid by the institutional entity or the fund during the year shall not be paid to TASE members that are related parties to these entities. Also, the payment of commissions is subject to the existence of a competitive procedure or a tender. The coming into effect of the **Joint Investments Trust Law (Amendment No. 14) – 2010 ("the Law of the Duty of Tenders in Funds")** in December 2011 materially reduced the amount of revenues and profitability of Migdal Stock Exchange Services from mutual funds. It should also be noted that Migdal Funds held a tender for the activity related to future contracts traded abroad, options on these contracts traded abroad, options on indices traded abroad and bonds issued by governments traded abroad, and selected one of the banks in order to serve as a securities agent of the funds with respect to this activity, which was previously performed by Migdal Stock Exchange Services.

(c) **Money Laundering Prohibition Law – 2000**. TASE members must comply with anti-money laundering rules and Orders issued under this Law, and in this respect, are supervised by the ISA. This regulation sets a duty for TASE members to identify and know their customers, and a duty to report unusual transactions made by them. In May 2013 the ISA issued for the public's comments, a **Draft Amendment of the Activity Order in a Closed System (Clause 8)** in the Money Laundering Prohibition Law that applies to TASE members. As part of a move aimed at increasing the competition in the area of trading services in securities, mainly to private customers, between non-banking Stock Exchange members and banks, the ISA proposed to allow non-banking Stock Exchange members access to the activity of retail customers by giving non-banking Stock Exchange members an exemption from the duty to identify clients face-to-face within the managing of accounts in a closed system.

25.1.4 **Portfolio management and investment marketing services**

(a) **Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law - 1995 ("Regulation of Investment Law")** – this Law and the regulations and provisions thereunder regulate required licensing, duties imposed on portfolio managers, including duties of trust and caution, eligibility requirements, corporate governance rules, disclosure provisions, special consent provisions required from customers in the execution of transactions within the management of their investment portfolios, submission of periodic reports to customers, how to check customers' needs and instructions and the adjustment of services to these needs, publishing and presenting yields, submitting reports to the ISA and regulating its supervisory authority including administrative enforcement, etc. In September 2013 **a list of acts that attest to a violation of fiduciary duty and duty of care by portfolio managers**, came into effect. It should be noted that the initiation of an administrative procedure in respect of an act included in the list shall be made if this behavior was made with a clear deviation from proper behavior.

(b) **Money Laundering Prohibition Law – 2000**. This Law and the Orders issued thereunder, regulate the duty to identify and know the customers of portfolio managers, similar to the regulations that apply to TASE members in this regard. For details see Clause 25.1.3(c) above.

(c) **Planned amendments in the regulations that apply to portfolio managers:**
Within the **road map published by the ISA** (see Clause 25.1.2(b) above), the ISA is considering introducing several reliefs in the area of portfolio management, some of which have already been included in the Reliefs Law, and some reliefs were included in the Amendments to the Regulations set forth further to the Securities Law, published on July 29th, 2014.

25.2 **Licenses and permits**
Following are the licenses and permits issued in the areas of activity:

Migdal Stock Exchange Services – a member of the Stock Exchange, member of the Tel Aviv Stock Exchange Ltd. clearinghouse.

Migdal Portfolio Management – holds a portfolio management license in accordance with the Investment Consulting Regulation Law.

Migdal Funds – holds a license for managing mutual funds in accordance with the Joint Investments Law.

Migdal Underwriting – registered in the Registrar of Underwriters in accordance with the Securities Regulations (Underwriting) – 2007.

We note that on December 24th, 2014 Migdal Underwriting announced that is it ceasing its activity as an underwriter, and as a result, it is registered as "non-active underwriter" in the Registrar of Underwriters in the ISA.

25.3 **Standardization and control** – Capital Markets Group's companies detailed above are required to meet the requirements and standards set forth in the regulatory and supervising provisions that apply to them as set forth above, including the ISA and/or TASE instructions and provisions.

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

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

Part D - Additional Information at the Entire Company Level

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

26.1 **General**

The Group's activity in the various areas is subject to vast regulation and strict supervision. In addition to the laws, the body supervising the insurance, pension and provident activity in the Group is the Commissioner of Insurance/the Commissioner of the Capital Markets in the Ministry of Finance who, within his/her authorities pursuant to the various laws, may publish provisions regarding the way the entities under his/her supervision operate and are managed.

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

The Group's activity in the area of financial services, via Migdal Capital Markets Group, is also subject to the Joint Investments Trust Law and the regulations thereof and the supervision of the ISA. Regarding legislation specific to the area of financial services, see Clause 25 above.

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

26.2 **Key laws and regulations in the insurance and LTS areas of activity**

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

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

The Supervision Law also includes provisions that if violated, are considered to be a criminal offense, and it also empowers the Commissioner to impose financial sanctions and civil fines in significant amounts, without having to file an indictment.

For the Amendment regarding the change in the regulation of insurance plans, introduced in the reported period, see Clause 26.4.1 below.

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

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

Furthermore, under his/her supervisory authorities, the Commissioner from time to time conducts audits and/or examinations of the Group's institutional entities. Under this framework, instructions are received and/or guidelines are provided regarding the Group's handling of various products, including instructions to amend various actions, including by way of making reimbursements, and sometimes, pursuant to the findings, and if the Commissioner estimates that there has been a violation, he/she imposes a financial sanction under administrative enforcement.

For details regarding rulings, rulings in principle, audits, data requests, financial sanctions, see Note 39 1 f to the Financial Statements.

26.2.2 **The Law of Supervision of Financial Services (Provident Funds) – 2005 (“Provident Funds Law”)**

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

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

The Investment Regulations that came into effect in July 2012 regulate the investment principles in assets of institutional entities/institutional investors, and empower the Commissioner to set provisions regarding various issues referring to the investment rules applying to institutional entities (Nostro, managing companies, monies of profit participating policies and the assets of pension and provident funds).

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

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

26.2.4 **The Insurance Contract Law – 1981**

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

26.3 **Material legal pronouncements (including drafts) published in the reported period and until publication of this Report, referring to all areas of activity of the Company and the institutional entities**

26.3.1 **Remuneration policy in institutional entities**

In April 2014 an **Updating Circular regarding the Remuneration Policy in Institutional Entities** was published**.** The Circular sets provisions regarding the outline of the remuneration policy for Senior Officers, key position holders and other workers, as well as the prevention of incentives that might encourage taking risks. The Circular's main provisions are: (1) the roles of the BoD in the process for determining the policy; (2) the composition of the compensation committee and its roles; (3) the principles upon which the policy will be determined; (4) specific provisions for other position holders employed by the institutional entity in control, audit, investments, brokerage and sales positions. The Circular came into effect on July 1st, 2014, including transition provisions in order to adjust current agreements to the policy that will be set.

In July 2014 the **Bill for the Remuneration for Senior Officers in Financial Corporations (Special Authorization and Non-Permission of Tax Deductible Expense due to Extraordinary Remuneration) – 2014** was published and passed the first reading, pursuant to the Law Memorandum published in June 2014.

The Bill proposes to limit the wages of executives in financial institutions, as defined in the Bill, to up to NIS 3.5 million per year. Wages exceeding this wage cap require the approval of the Compensation Committee, the BoD and the General Meeting, and in public companies, the procedure for approving wages exceeding the wage cap in a GM will require a special majority among the minority shareholders. In addition, wages exceeding the cap would require reporting to the Ministry of Finance. In an indirect amendment to the Income Tax Ordinance, it was clarified that it will be impossible to deduct expenses by employers due to wages exceeding the cap.

For the approval of the remuneration policy of institutional entities in the Group, pursuant to the aforementioned Circular and to the adoption of the cap proposed in the Law Memorandum, see Clause 31.4 below, as well as the Company's Immediate Report dated June 30th, 2014, Reference No. 2014-01-103386.

26.3.2 **Solvency governance and risk management**

For the arrangements published regarding this issue in the reported period, see Clause 27.1.2 below.

26.3.3 In April 2014 the Commissioner published a **letter to institutional entities' managers regarding the preparation to adopt FATCA**. The Commissioner describes the legal provisions and regulations and their application to non-American financial entities ("**foreign financial entities**") ("**the regulation**"). Pursuant to the regulation's instructions, foreign financial entities will have to do the following: (1) register in the IRS website (2) identify accounts of entities belonging to American citizens/residents (3) transfer information regarding these accounts to the IRS (4) deduct tax at source from customers who refuse to provide information and documents as requested. Foreign financial entities that do not engage in an agreement with the IRS will have to deduct tax in respect of revenues from American sources and from receipts on the sale of assets that may create revenues from American sources.

As an alternative to the implementation of the FATCA, the IRS offered various countries to engage in a bilateral agreement that will exempt foreign financial entities, in most cases, from the duty to deduct tax at source and to report directly to the IRS. In July 2014 the agreement between Israel and the United States was published. The agreement regulates the transfer of information to the IRS, via the Israeli Tax Authority, that will receive the information from financial entities in Israel.

In December 2014 the Commissioner published a **Draft regarding the Preparation for the Implementation of the FATCA Agreement** ("**the agreement**"). The document includes clarifications regarding the agreement that was signed between the Israeli and U.S. governments. In the Draft, the Commissioner clarifies her interpretation to the agreement and its application regarding companies operating in the areas of insurance, pension and provident at the entity and product level. Furthermore, the Draft refers to the role of the license holder as to the duties set forth in the agreement and the possible way for handling customers who do not collaborate with the agreement's requirements.

26.3.4 **Consolidated circular – future regulation codex**

The Commissioner began to initiate a move to compile the instructions the Commissioner of Capital Market has given from time to time throughout the years to the institutions supervised by him/her, via a consolidated circular, organized as per a table of contents of issues under his/her authority. The introduction to the consolidated circular, table of contents, instructions as to investment asset management and the extension of credit, general insurance contracts, pension funds and measurement rules have been published. Drafts for other chapters in the table of contents are still pending, and not all the chapters have been published yet.

26.3.5 **Fees paid by institutional entities**

In November 2014, two Drafts for the Amendment of Regulations regarding Fees Paid by Institutional Entities were published. Regarding fees paid by insurance companies against receiving a license, it is suggested to raise the amount. In addition, it is suggested to change the way the annual fee is paid in order to engage in various lines, such that financial entities will pay a percentage from the AuM at the end of the last reporting year. In addition, for provident funds or investment tracks in track provident funds, another flat amount will be paid.

26.3.6 **Bill for the Amendment of the Income Criterion in the Companies Law**

In March 2014 the ISA published a **Proposal for the Amendment of the Income Criterion set forth in the Companies Law – 1999**. The main recommendations that were outlined regarding the income criterion:

(a) The income criterion will rely on the last consolidated financial statements (that were published), and will be based on the retained earnings less other comprehensive income, if it is negative ("**income available for distribution**").

(b) If the retained other comprehensive income is positive, this income will not be taken into account when calculating the income available for distribution.

(c) The income available for distribution should be examined as follows: if the corporation recorded income every year for two consecutive years (8 quarters) and under another condition – that the corporation's equity after the distribution is positive, therefore the possibility that a non-recurring income will allow a distribution is reduced.

(d) Furthermore, the calculation will be based on realized income – i.e., changes in the fair value of assets and liabilities or the impact of other results will be neutralized.

In addition, it was suggested to demand the inclusion of a special note in the financial statements, detailing the way the corporation calculated the income available for distribution. There will also be a note in the quarter in which the quarterly report serves as the basis for distribution.

Regarding the balances of retained earnings and capital reserves in respect of available for sale assets, see the condensed consolidated statements of changes in equity that are included in the condensed consolidated interim financial Statements.

In this context it should be noted that in addition to the criteria set forth in the Companies Law regarding dividend distribution, in insurance companies there are additional restrictions pursuant to the Commissioner's instructions. See Note 7c to the Financial Statements.

26.3.7 **Minimum Wage Law**

In January 2015 the Knesset approved the **Minimum Wage Law (Increasing Minimum Wage Sums – Temporary Provision) – 2015**. Pursuant to the Law, the minimum wage shall increase gradually beginning from April 1st, 2015 and until January 1st, 2017, such that from January 1st, 2017, it will be NIS 5,000.

26.3.8 **The position of the ISA Staff regarding International Accounting Standard No.19**

In November 2014 the **ISA Staff published its position regarding the existence of a high quality deep market for corporate bonds in Israel**. The position refers to International Accounting Standard No. 19, which sets rules as to employee benefit plans, and sets forth that in Israel there is a high quality deep market for CPI-linked corporate bonds whose currency is the NIS. This means that yields that are higher than those which served for years for the discount of liabilities should be used, and this is supposed to decrease employers' liabilities and increase a company's equity. It was also set forth that the Standard will be implemented prospectively. In reality, the corporate bonds that should be used in order to determine the discount rate are rated AA and higher, for details see Note 2c to the Financial Statements.

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

26.4.1 **Changes referring to the establishment of insurance plans or changes thereof**

In December 2014 the **Supervision of Financial Services (Legislative Amendments) Law – 2014** was published.

Pursuant to the Law that came into effect on January 1st, 2015, Article 40 to the Insurance Business Supervision Law was amended, and there are new arrangements regarding the establishment of insurance plans, regarding changes in insurance conditions, insurance fees or another issue as instructed by the Commissioner. Pursuant to the proposed Amendment, insurers must submit to the Commissioner 30 working days before he/she would like to establish the insurance plan or change thereof, the plans' conditions or changes thereof, and if the Commissioner does not respond within 30 days of the submittal day, insurers may establish the plan or the change thereof. The Commissioner was empowered to set forth other instructions for certain insurance lines or certain insurance plans or certain changes. The Commissioner was empowered to instruct insurers to discontinue insurance plans or instruct changes in insurance plans, after considering the possible damage to insureds following such instruction, and taking into account all the conditions in the plan and the possibility to adjust it to changes. Furthermore, the Commissioner was empowered, due to special reasons to be detailed, after considering the possible damage to insureds following such instruction, give instructions also regarding policies written pursuant to the insurance plan before the date of the instruction, provided the conditions set forth in the Article were met. In addition, the Commissioner may give instructions regarding insurance fees and regarding conditions in insurance plans and their wording, except in the event of standard policies and if there is no other arrangement. The instructions that apply regarding insurance plans shall apply, with the necessary changes, to riders as well.

In this Law several technical articles in the Provident Funds Law were also amended.

This amendment is an expansion of the Commissioner's authority pursuant to the Supervision Law, and will affect the process of products launching.

Regarding the above, the following provisions were also published:

(a) In January 2015 the **Draft Circular regarding Provisions as to the Wording of Insurance Plans and the Commissioner's Position regarding Principles for the Wording of Insurance Plans** was issued. The update of provisions instructs which conditions may be included in policies and which conditions may not be included, in light of the lack of homogeneity in the insurance market and the existence of inappropriate conditions. The Draft Circular adopts the key points of the Commissioner's position dated July 10th, 2013, and adds instructions regarding conditions that may be included and may not be included in policies. The updated Draft Commissioner position will supersede the Commissioner's position dated July 10th, 2013.

(b) In February 2015 the Commissioner published a **Circular regarding the Establishment of Insurance Plans and Provident Funds' Articles of Association**. The Circular replaces Circular 2014-9-5 and sets forth the instructions for the implementation of the Amendment to the Supervision Law. Most of the updates in the Circular's provisions refer to the way notifications should be submitted to the Commissioner, and to the way pricing plans will be prepared by actuaries. Furthermore, the dates for submitting the requests for approval of an insurance plan (30 days), for the usage of internet interfaces and provisions regarding the establishment of collective insurance plans, were updated.

26.4.2 **Joining insurance plans**
In December 2014 the Commissioner published a **Draft Circular regarding Joining Insurance Plans**. The aim of the proposed Draft is setting the way in which insurers or insurance agents should behave when selling or renewing insurance contracts, regarding the following issues: the initiated marketing and restrictions, instructions to the stage in which people join an insurance plan, submitting material information before joining insurance, submitting relevant information after joining, documentation and control.

26.4.3 As per the Company's estimate, should the Draft be approved, this will require an operational deployment in order to adjust the existing sales and operation processes to the provisions. In December 2014 a Draft Circular regarding principles for medical underwriting was published. The Draft details principles for medical underwriting, including: using discretion and proportionality in the underwriting process, the adjustment of the underwriting and the medical questionnaire to the type of requested information and the candidate's characteristics, rules for phrasing medical questionnaires, performing the underwriting vis-à-vis the insurance candidate except exceptions, the duty to receive full and clear answers, rules for underwriting via the phone, deadlines for the completion of the underwriting process, information that must be disclosed to the candidate, the duty to protect the candidate's privacy and the duty to document the underwriting.

26.4.4 In February 2015 a ruling in principle regarding the Equal Rights for People with Disabilities Law was published. Within the ruling, the Commissioner sets forth the format in which notifications should be sent to people with disabilities, whose candidacy for insurance was rejected or who received a different treatment, and the information that should be included in such notification, as well as the summary of database and the summary of information upon which the ruling relied.

26.4.5 **Provisions regarding License Holders (Including Pensionary License Holders) – Changes in Brokerage Fees**
For proposed arrangements regarding this issue – see Clause 32.2.2 below.

26.5 **Key laws and regulations specific to the area of insurance and LTS**

26.5.1 **The Law of Supervision of Financial Services (Pensionary Advice, Marketing and Clearing System) – 2005 (“the Advice and Marketing Law”)**

This Law regulates two key issues:

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

Provisions regarding the central pensionary clearing system.

The practice of providing advice for and marketing of pensionary products - the Advice and Marketing Law defines two practices requiring training and licensing – the advisor and the marketing agent. The distinction between advice and marketing is based on the existence of “**affiliation**”. The Advice and Marketing Law sets forth regulations regarding the requirement of licensing for both pensionary advisors and pensionary marketing agents and the conditions, duties, prohibitions and restrictions that apply regarding the practice of pensionary advising and pensionary marketing, including provisions regarding the practice of pensionary advising by banking corporations, provisions regarding the supervision of license-holders, including the Commissioner's authority to publish instructions for proper management and securing insureds' businesses, provisions regarding the relationship between the pensionary advisor/agent and the institutional entity aimed at unifying relevant legal provisions that apply to agents by having them apply also to pension advisors and marketing agents, as well as provisions that give the Commissioner the authority to impose financial sanctions and civil fines, including criminal sanctions. The Advice and Marketing Law also includes a provision setting forth that transactions for pensionary products for customers should be made only as part of pensionary advising or pensionary marketing and pursuant thereto.

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

For the amendments to the Advice and Marketing Law published in the reported period see Clause 26.6.7 below.

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

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

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

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

26.6 **Significant legal pronouncements (including drafts) published in the reported period and until publication of this Report, referring to insurance and LTS**

26.6.1 **Provisions regarding management fees**

(a) In August 2014 the Commissioner published a clarification to Circular 2013-4-1 **Ruling in Principle regarding Increasing Management Fees with No Prior Notice ("the Ruling")**. Pursuant to the clarification, if a managing company increases management fees with no prior notice in the reimbursement period (from January 1st, 2006 until December 31st, 2009), there will be reimbursement to the persons entitled to reimbursement, also regarding the management fees that were increased as set forth above and were collected after the reimbursement period.

In December 2014 the Commissioner published an **Amendment to the Ruling in Principle regarding Increasing Management Fees with No Prior Notice.** The Amendment postpones the implementation date to August 31st, 2015. Furthermore, the dates for reporting to the Commissioner regarding the execution of reimbursement were postponed. The Amendment clarifies that the additional interest on the amounts to which the members are entitled will be calculated from the date upon which management fees were collected and until 30 days before the payment execution.

The Group's Financial Statements include a provision in respect of the Ruling's costs and implementation.

(b) In July 2014 a **Circular regarding Giving Discounts on Management Fees in respect of Annuitants in Pension Funds** was published.

The Circular regulates the way annuities are calculated and the way in which management fees will be collected by the management company whenever a discount on management fees is given to annuitants. The Circular sets forth that a discount on management fees to annuitants shall be given for the entire period in which annuity is paid (and in the case of a discount to old age annuitants – the discount shall apply to the survivors as well), and it also sets forth that the annuity that will be paid on a monthly basis to the annuitant who is entitled to a discount will be calculated based on a conversion coefficient that embeds management fees after the benefit, and it also sets forth provisions regarding the way management fees are collected in respect of annuitants.

As per the Company's estimate, the Circular might have an impact on the rate of management fees to be collected from annuitants in the period in which annuity is paid. At this point, it is impossible to assess the exact implications of this Circular, which will depend, *inter alia*, also on the extent of competition between the managing companies in the market, on the distribution and advice channels and on customers.

(c) In September 2014 a **Bill for the Amendment of the Supervision of Financial Services (Provident Funds) Law - 2005** was published. Within the Bill, it is proposed to empower the Commissioner to receive, from pension and provident funds' managing companies, a report regarding management fees that will be collected from new joiners, in the manner and format to be instructed by the Commissioner. The information that will be concentrated by the Commissioner shall constitute the infrastructure for establishing a management fees calculator, through which new joiners will be able to compare management fees in various funds. This way, the Commissioner aims to increase transparency and lead to a price reduction in management fees collected from members.

In January 2015 the Commissioner published a **Draft Circular regarding Reporting to the Commissioner on Management Fees in Pensionary Savings Products**. The aim of the Draft Circular is regulating reports by institutional entities regarding management fees in order to present them in the management fees calculator that will be launched by the MoF. The calculator will enable new joiners to compare management fees in various provident funds. Entities that do not report management fees as set forth above, will be considered as having the maximal management fees set forth in the Articles of Association's or the plan's provisions as the ones applying for new joiners. The reported management fees will serve as the management fees cap for new joiners.

As per the Company's estimate, the Bill for the Amendment of the Law, if approved, may cause an increased competition in the line, including an impact on the management fees rate that will be collected from members.

26.6.2 **Direct Expenditures for the Execution of Transactions**

(a) **The Regulations of the Supervision of Financial Services (Provident Funds) (Direct Expenditures for Execution of Transactions) – 2008** ("**Direct Expenditures Regulations**") deal with the expenditures and external management commissions that may be deducted from members' monies ("**direct expenditures**").

(b) In March 2014, the **Amendment to the Regulations of the Supervision of Financial Services (Provident Funds) (Direct Expenditures for Execution of Transactions) (Amendment No. 2) – 2014** was published. The Amendment redefines certain direct expenditures that will be incurred in the period until the end of 2017. Furthermore, a temporary provision was set forth, pursuant, to which, in each year until the end of 2017, the total annual direct expenditures, in respect of the types of expenditures that were set forth in the temporary provision, shall not exceed 0.25% ("the percentage restriction") of the total assets managed in the previous year. The Regulations also set forth, *inter alia*, that expenditures for the financing of infrastructure projects, stemming from extending loans or investing in non-negotiable shares, and expenses in respect of investment in real estate rights shall not be included in the percentage restriction. The percentage restriction shall not apply to new provident funds or new investment tracks in track provident funds that are not default tracks, as instructed by the Commissioner.

(c) Pursuant to the Direct Expenditures Regulations, in June 2014 an Amendment to the Consolidated Circular – Investment Asset Management – Direct Expenditures for Execution of Transactions - was published. The aim of the Amendment is setting the conditions according to which direct expenditures in respect of investment in ETNs in which at least 75% of the exposure liability is for assets issued in Israel may be deducted as follows: (1) the rate that may be collected shall not exceed 0.1% of the ETN's fair value, as per the method for calculating the commissions detailed in the ETN; (2) the index that the ETN tracks is not included in the list of specific indices published in the Amendment to the Circular.

(d) In March 2015 the Commissioner published a position regarding direct expenditures in respect of investing in funds of funds. In the position, the Commissioner clarified that when investing in a fund that invests in a fund, a foreign fund or an investment fund ("FOF"), the expenditures that may be deducted at 0.25% of the revalued value of provident funds' assets should include the expenditures collected by the FOF and additional expenditures, if collected at all, directly and indirectly, by funds in which the FOF invests.

(e) In February 2015 a Circular regarding Reporting in respect of Direct Expenditures was published, aimed at amending the existing Circulars in order to adjust the current reporting to the amendments entered in 2014 in this issue. In principle, the Amendment adds details to the current appendices regarding the 0.25% restriction, expenditures in respect of claims, extending mortgages or ETNs, and updates the cases in which it is required to separate a specific entity from the other entities under the same type of direct expenditure and separate it from the "other" category. In addition, the reporting regarding pension funds, which was aggregate until now, changes in part to a separate reporting for each track.

26.6.3 Investment tracks in provident funds (the SMART model)

In February 2015 the Commissioner published a Circular for institutional entities regarding **Investment Tracks in Provident Funds** (which was previously called the SMART model).

The Circular imposes on institutional entities the duty to manage for pensionary savings default tracks adjusted to savers' age, and it sets forth homogenous rules for giving names and the investment policy in the various tracks.

Pursuant to the Circular, within the investment tracks defined as default, there will be three tracks: until the age of 50, for the ages of 50-60 and for people over the age of 60, or alternately, in a different breakdown, as long as the members in each group have an age difference of at least 5 years, but no more than 10 years.

In addition, the Circular sets forth that there should be a unique track for annuitants, and institutional entities of paying funds to annuity may offer additional specializing investment tracks for annuitants.

Beginning from January 1st, 2016, all new members who join the funds should be added to the default track, unless they ask differently, and their savings accumulation during the saving period should be transferred between default tracks as per their age.

Insureds may join or stay in a default track that does not reflect their age, unless the institutional entities decide not to allow it. Insureds who have policies that were purchased prior to January 2016 may ask to join default tracks as per their choice.

In addition to the default tracks, it is possible to establish tracks specializing in investment channels, in an area of investment or in an investment instrument and in tracks that combine bonds and shares, subject to the BoD giving an argued resolution and pursuant to the conditions detailed in the Circular, as well as other tracks approved by the Commissioner. However, institutional entities may not manage more than 10 specializing investment tracks.

It will be possible to continue managing existing general tracks in provident funds that are not educational funds, provided that they will be closed for new joiners.

In insurance plans that are not insurance funds (individual) and in educational funds, it will be possible to manage one general investment track subject to the conditions that were defined, as well as combined tracks, tracks specializing in an investment channel in an area of investment or in an investment instrument subject to the terms that were set, and tracks specializing in target populations such as risk-seeking persons or monies that may be withdrawn in the short term, subject to the BoD' approval of the track in an argued resolution that complies with the conditions detailed in the Circular.

The Circular sets forth the way for naming the investment tracks that will be selected from a list of investment tracks published by the Commissioner on the website, the way the tracks' investment policy is codified in Articles of Association, the way they are published, and the provisions regarding changes in the investment policy or the closing of tracks.

Furthermore, there are instructions regarding the assets held by each track and in the case of tracks that deviate from the tracks' investment policy in the first year due to the need to adjust assets, such deviation will be considered as a passive deviation as far as the Investments Regulations are concerned.

It was stated that there will be an adjustment of existing investment tracks in order to comply with the Circular, up to three months after the application date.

The Circular will come into effect on January 1st, 2016, except insurance funds marketed prior to 2004, whose application will be on January 1st, 2017.

As per the Company's estimate, the change in the existing portfolio, if requested individually by insureds/members, will be gradual. However, the institutional entities will have to deploy towards adjusting the existing portfolio from the first day, for insureds/members who will ask it as well as for the annuitants' track.

In addition, the operation of age-adjusted investment tracks, including the separate management of annuitants' assets, might affect insureds' yields and the accrual balances in these tracks, and as a result, the management fees that the Company will collect in respect of asset management. Since it is impossible to assess the behavior of all the entities involved in the implementation of the Circular's provisions, including the behavior of the capital market in general, the Company is unable to assess the implications of the implementation of the Circular's provisions.

26.6.4 **Payments to Provident Funds**

(a) In August 2014 the **Regulations of Supervision of Financial Services (Provident Funds) (Payments to Provident Funds) – 2014** were published. The Regulations include instructions as to the way and timetables upon which employers' deposits for the pensionary products of their workers that are managed by institutional entities should be made, and the information that employers must submit to institutional entities upon depositing payments. Also, employers will have to pay interest if there are delays in deposits. On the other hand, institutional entities must give feedback to employers on the dates and regarding details set forth in the Regulations. The Regulations will come into effect gradually beginning from January 1st, 2016.

In December 2014 the Amendment to the Regulations of Supervision of Financial Services (Provident Funds) (Payments to Provident Funds) – 2014 was published. The Amendment sets forth the immediate application of several Regulations, including Regulation 11, regarding employers' duty to pay interest in case of a delay in transferring savings monies.

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

The main implications of the implementation of these provisions, as per the Company's estimate, except the fact that it requires a computerized deployment for its implementation, are also the possible creation of operating entities that would compete with arrangement managers, as well as the creation of direct interfaces with employers.

26.6.5 **Joining life assurance, pension funds or provident funds**

(a) In March 2014 the **Bill for the Law of Supervision of Financial Services (Pensionary Advice, Marketing and Clearing System) – (Amendment No. 6) - 2014** was published. The Bill was published in the past (in July 2012), and it was published again. The Bill sets forth, *inter alia*, that workers who would like to carry out a transaction in a pensionary product may execute it via any license holder of their choice; employers may not stipulate granting a benefit to workers when executing a pensionary transaction by a license holder. It is also suggested to exclude the deposit of payments to provident funds from the definition of transactions.

(b) In November 2014 the Commissioner published a **Draft Circular regarding Joining Pension or Provident Funds**. The aim of the Circular is setting provisions as to the joining of salaried or self-employed members, or via employers. The Draft sets a homogenous wording for the joining form and the form for changes, and which information pages must be attached to the form. Furthermore, the Draft sets provisions regarding the information that should be submitted to joining members, and the way notifications sent to members should be presented. The Draft includes an amendment to the Circular regarding Transfer of Monies between Provident Funds in order to maintain successive rights for members, and sets rules for the transfer of monies from pension funds in which the members are non-active to the pension fund that the members are joining in order to consolidate their savings.

(c) In December 2014 the **Second Draft of the Ruling in Principle regarding Joining Collective Life Assurance** was published. From the Draft Ruling it seems that in many cases in which joining fees are charged from insureds, in an audit carried out by her, the Commissioner did not find signed joining forms, in spite of the provision regarding this issue in the Supervision Regulations – Collective Life Assurance. In light of the above, regarding existing policies, the ruling sets forth that insurers who cannot present a written consent, will make sure that there is a consent by insureds regarding the joining, until a certain date. Insurers who are unable to present such consent, shall not renew insurance for these insureds and will notify them of the above.

There are negotiations on this issue between insurance companies and the Commissioner. Since it is still impossible to estimate the ultimate configuration of the proposed regulation, the Company is unable to estimate its impact on the Company.

26.6.6 **Stipulations in pensionary arrangements that include insurance coverage**

In November 2014 the Commissioner published **a Circular regarding Stipulations in Pensionary Arrangements that Include Insurance Coverages**. Pursuant to the Circular, the joining of insureds to a collective or individual insurance coverage via their employers cannot be contingent on managing a pensionary product in a certain entity. Giving a discount on management fees in pensionary products shall not be contingent on acquiring an insurance coverage. Furthermore, the premium that will be presented to insureds is the actual coverage cost, throughout the insurance period, after deducting the discount given to insureds.

When examining transactions that combine several products in the area, the Company measures the comprehensive profitability of the various products and components. These restrictions require the Company to deploy vis-à-vis the various corporations in order to set the price of the sold products.

26.6.7 **Provisions referring to clearing house/homogenous structure**

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

The information included under Clause 26.6 regarding the implementation and/or the Company's estimates regarding the implementation of the provisions detailed in this Clause, whether these are draft provisions or final provisions, is forward-looking information, and in the case of drafts, it relies on the provisions that are proposed now, and there is no certainty that this will be the final wording, and it is still unknown whether there will be additional amendments or not. Furthermore, the above is based on estimates and assumptions regarding the behavior that entities operating in the market may choose, these estimates may not realize if the provisions are changed or updated, or implemented in a different manner.

26.7 **Area of health insurance**

Material legal provisions published in the reported period and until the Report publication (including drafts) referring to the area of health insurance.

26.7.1 **The production of LTC insurance plans**

In March 2015 an update to the **Circular regarding Producing LTC Insurance Plans** was published, regarding collective insurances, according to which it will be impossible to market or renew collective policies not pursuant to the Circular's provisions, except the renewal of existing policies until the date set forth in the Circular.

In the above update, the date was postponed to December 31st, 2015.

26.7.2 **Advisory Committee for the Strengthening of the Public Health System ("Germann Committee")**

In 2013 the Minister of Health announced the establishment of the Germann Committee - an advisory committee for the strengthening of the public health system.

In June 2014 the Committee's recommendations regarding insurance were submitted: (a) creating a homogenous basic policy in Supplemental Healthcare Services (Shaban) and in individual insurance, that will include selecting a surgeon and a second opinion, whereby the sale of these coverages under other policies will not be possible without the joint consent of the Ministry of Finance and the Ministry of Health; (b) changes in the surgery insurance plan to include a coverage for selecting the surgeon out of a closed list only and a cap on medical treatment expenses in private hospitals; (c) the premium in the homogenous policy will be set pursuant to wide age ranges and not based on a specific age; (d) the insurance tariffs will be reviewed once in a while and will be updated if necessary; (e) within this homogenous policy, insurance companies may perform medical underwriting, compared with health funds that may not perform underwriting; (f) there will be a bilateral subrogation duty between the health funds and insurance companies in new policies. In existing policies, there will be a bilateral subrogation duty subject to a legal examination; (g) establishing a website for comparing and selecting existing health insurances.

Dismantling the Supplemental Healthcare Services of health funds into three different and independent components, one of which is coverage for surgeries and consulting, and the implementation of regulation regarding homogenous policies that would apply to health funds and insurance companies, as per the Committee's opinion, together with adding significant budgets to the public health system in order to shorten the waiting time for medical treatment, will result in a reduction of crowded hospitals and an expansion in the health basket, as well as a reduction in the cost of health and living.

Since the arrangements suggested in this issue have not yet been set, and since the Knesset was dispersed and the replacement of the Minister of Health and Minister of Finance, it is unclear whether and how the Germann Committee's resolutions will be promoted, the Company is unable to estimate the implications of these resolutions and arrangements, recommended by the Committee, if indeed they come into effect. The reform might have material implications on the health insurance market in Israel, *inter alia*, by changing the structure of health insurance plans currently sold and increased competition between the insurance companies themselves and between health funds.

26.7.3 **Draft regarding a homogenous coverage and the production of individual health insurance plans**

(a) In November 2014 the **Draft Regulations and Draft Circular regarding Homogenous Coverage in Plans for Surgery Insurance, Non-Surgical Alternative Treatments and Consulting** was issued. The Draft Regulations set homogenous conditions that are supposed to appear in such policies, set homogenous insurance fees for every group age and prohibit stipulations. The Draft Circular sets the way insurers should address insureds who were insured by surgery insurance in Israel prior to the Regulations' coming into effect, and the way insureds shift to other insurances, if they choose to do so. In addition, there is a duty to report once a year to the Commissioner regarding premiums and surgeries regarding which there was no contracted physicians in the elapsing year.

At this point, the final wording of the Regulations has not yet been published, and the Company is unable to assess the scope of the impact of this regulation, which depends, *inter alia*, on the terms of competition in the market, that would focus on price, on service and on the way claims are settled.

(b) In December 2014 the Commissioner published a **Draft Circular regarding the Production of Individual Health Insurance Plan**. The Draft is aimed at setting provisions regarding the insurance period and the way renewals are made in individual health insurance plans (except LTC, PHI and foreign travel insurance). The Draft proposes automatic renewals for individual policies every two years with insurance continuity, the duty to receive insureds' consent for renewals in certain cases and its documentation, the duty to notify insureds regarding renewals, the way to cancel insurance as well as the duty to address insureds with offers to shift to a policy adjusted to these provisions. Expected application pursuant to the Draft Circular – beginning on October 1st, 2015 and regarding the surgery coverage – on February 1st, 2016.

Since the arrangements have not yet been set in this matter, the Company is unable to assess the implications of this Draft Circular. However, the impact of this Draft Circular on the health insurance market in Israel may be material. The mechanism of insurance renewal every two years and the reduction of uncertainty as to insurers' future liabilities, along with the increase in competition, are expected to result in a reduction in premiums in these plans. In addition, in light of the short insurance period, the Company's estimate is that there might be an increase in the cancellation rate regarding the new insurance portfolio.

26.7.4 **The definition of insurance event in LTC**

In January 2015 the Commissioner published a **Position regarding the Definition of an Insurance Event in LTC**. In the position paper, the Commissioner states that there were several interpretations regarding how to implement the Circular's provisions regarding the definition of insurance events. For example, there were companies which divided Activities of Daily Living (ADLs) into secondary ADLs, such as by separating between executing the ADL by the upper part of the body and the execution of the ADL by the lower part of the body, or the separation between the execution of the ADL by the right part of the body and the execution of the ADL by the left part of the body, etc.

In these cases, it was found that there are companies that examine the insureds' ability to perform each of the secondary ADLs, and the final score for the ADL itself weights the insureds' ability regarding each of the secondary ADLs, thus, the examination of whether insureds are able to perform the ADL by themselves is not purposeful, and if the ADLs may not be materially performed by the insured, the insurance company may not decide that it is possible to perform at least 50% of the ADL.

26.7.5 **Collective health insurances**

(a) In August 2014 the **Draft Amendment to the Financial Services Supervision Regulations (Insurance) (Collective Health Insurance) – 2014** was issued, pursuant to which it is suggested, *inter alia*, that there is a need to receive insureds' explicit and documented advance consent upon renewing the policies for another period if a basic coverage chapter as defined in the Regulations is cancelled, and if during the insurance period or when a collective insurance is renewed there was an increase in insurance fees to be paid by insureds, in an amount exceeding NIS 15 in aggregate or 20%, the lowest of the two.

If there is no explicit consent by insureds in these cases, even after more than 21 days since a notification was sent to the insureds, the insurance for these insureds will be cancelled, provided that no claim is filed during 60 days from the date of change or renewal.

In addition, it was stated that during 60 days from the cancellation date, if the insureds ask to re-join the insurance and attach their explicit consent for the cancellation of coverage or the increase in premium as set forth above, the insureds will re-join the collective insurance with insurance continuity.

(b) In October 2014 the Commissioner published **Draft Regulations and a Draft Circular regarding Collective LTC to Health Fund Members**. Within the Draft Regulations, the conditions included in the plan were set forth, as well as the conditions for joining, leaving or moving to another insurance plan. Within the Draft Circular there are principles for these plans, the way insureds' monies are managed in a defined benefits plan, rules regarding the shift of insureds between funds, rules regarding the signing of agreements between health funds and insurance companies, and instructions regarding proper disclosure. There are also special provisions referring to the joining of insureds whose collective LTC insurance has ended in the period of up to 4 years from the time these Regulations come into effect and their insurance was not renewed at any insurance company.

The Company estimates that the proposed changes, if the provisions regulating the terms of the homogenous policy for health fund members come into effect, may expand the scope of sales of individual LTC insurance and result in the opening of competition in LTC for health fund members.

Since all the proposed arrangements regarding LTC insurance, including those related to health fund members, have not yet been completed, the Company is unable to assess the implications of the aforementioned changes on the Company.

The information included under Clause 26.7 regarding the implementation and/or the Company's estimates regarding the implementation of the provisions detailed in this Clause, whether these are draft provisions or final provisions, is forward-looking information, and in the case of drafts, it relies on the provisions that are proposed now, and there is no certainty that this would be the final wording, and it is still unknown whether there will be additional amendments or not. Furthermore, the above is based on estimates and assumptions regarding the behavior that entities operating in the market may choose, these estimates may not realize if the provisions are changed or updated, or implemented in a different manner.

26.8 **Area of general insurance**

Material legal provisions published in the reported period and until the Report's publication, referring to the area of general insurance.

26.8.1 In September 2014 the **Draft Circular regarding the Renewal of Insurance Contracts in the Lines of Motorcar Insurance, Homeowners Insurance as well as Personal Accidents, in which Insurance Period does not exceed One Year** was published. Such renewals require the consent of policy holders. The consent may be given in various manners that must be documented. The contract allows the extension of insurance contracts for a period of 21 days also for insureds who did not give their consent, provided that the policy holders are informed of the above in advance, under the conditions detailed therein. Furthermore, insurers must notify policy holders of the details set forth in the Circular 30 days before the end of the insurance period. The Circular's provisions shall not apply to collective insurance, insurance whose insurance periods does not exceed three months and insurances in which it is stipulated that they are renewed automatically when the insurance period ends.

The Company is taking steps for the implementation of the Circular. As per the Company's estimates, there should not be a material impact on policy renewals in the lines set forth in the Circular.

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

In January 2015 the Ministry of Finance published an updated circular regarding actuarial valuations in general insurance, a circular regarding the calculation of insurance reserves in general insurance, as well as a position paper regarding the best way for calculating insurance reserves in general insurance for financial reporting, as follows:

(a) **Insurance Circular 2015-1-1: Actuarial Valuation in General Insurance** – the updated Circular includes changes in the report regarding the development of the actuarial valuation of outstanding claims in insurance, in the analysis of the valuation of outstanding claims in every line, in the analysis of the valuation for unexpired risk reserves, and in the content of the annual actuarial report.

(b) **Insurance Circular 2015-1-2: the Calculation of Insurance Reserves in General Insurance** – **Update** – this Circular updates Clause 5b to Insurance Circular 2013-1-1 and postpones the application date of the cancellation of the reserve for the excess of revenues over expenses for the Financial Statements in respect of 2015. However, the Circular allows early application of the cancellation of the reserve subject to meeting the Commissioner's position detailed below.

(c) **The Commissioner's position - the Best Way for Calculating Insurance Reserves in General Insurance for Financial Reporting –** within the position paper, the Commissioner proposes principles and rules regarding the proper procedure for actuaries when calculating general insurance reserves for the financial reporting, such that they will properly reflect the Company's insurance liabilities.

The Company will strive towards implementing the regulation in the Financial Statements for 2015. At this point, the Company is unable to assess the implications stemming from the cancellation of the surplus reserve.

26.8.3 **Standard homeowners' insurance policy and its content**

In January 2015 the **Supervision of Insurance Business Regulations (Conditions of Contract for Insurance of Homes and their Content) (Amendment) – 2015** were published. These Regulations set forth provisions, some of which expand and other clarify the terms of insurance coverage for insureds with homeowners and content insurance, which all reflect a positive trend for insureds. According to the Commissioner, the Amendment is due to the need to adjust the policies for the current period, as well as in light of the interpretations set forth in the Courts' rulings regarding the conditions set forth in the standard policy.

The update of the standard policy brings about an increase in the competition between insurers, and this requires deployment, both by adjusting the wording of existing policies as well as by updating the estimates of insurance amounts for structure and content, following the provisions regarding underinsurance. The standard policy shall apply to homeowners' insurance policies marketed beginning from July 27th, 2015, and presented below are the material changes thereof:

(a) Structure insurance – in structure insurance there will be no underinsurance; there is the possibility to buy additional insurance for houses registered as condominiums against damages caused by an earthquake at a rate that is not lower than 70% of the homeowners' insurance. The additional insurance amount will be at least 100% of the insurance amount. The definition of earthquakes was updated, and *inter alia*, it currently includes tsunamis.

(b) Content insurance – there are changes in the liability limit regarding certain content items. Underinsurance shall not apply to the list of content items in the policy, provided each item is within the limit set forth above. The limit varies depending on the items, and in any case not more than 15% of the content insurance amount. An optional sub-chapter was added to the expansion of third party liability insurance.

(c) General conditions – cancellation of the policy as per the insured's request – the policy will be cancelled when the notification is given. The premium will be reimbursed as per a fixed formula and with no fines. The cancellation of a policy initiated by the insurer before the end of the insurance period – the cancellation is subject to an advance notice of 30 days and duty to provide just cause (deceit or non-disclosure). Homeowners' insurance benefits shall be linked to the Cost of Building Index. The replacement period was increased to 12 months, and in content insurance – to 90 days. Payment in respect of rental of alternative apartment was extended to 12 months (instead of 6 months). When moving to a new apartment, the coverage shall apply to both apartments for 3 days.

The information included under Clause 26.8 regarding the implementation and/or the Company's estimates regarding the implementation of the provisions detailed in this Clause, whether these are draft provisions or final provisions, is forward-looking information, and in the case of drafts, it relies on the provisions that are proposed now, and there is no certainty that this would be the final wording, and it is still unknown whether there will be additional amendments or not. Furthermore, the above is based on estimates and assumptions regarding the behavior that entities operating on the market may choose, these estimates may not realize if the provisions are changed or updated, or implemented in a different manner.

27. Entry and exit barriers

27.1 Entry barriers

The main entry barriers of the Group's various areas of activity are set by the provisions of the relevant laws which require obtaining licenses and permits.

27.1.1 Licenses and permits

(a) **Insurance, pension funds and provident funds activity**

As per the Supervision Law, insurance activity (including holding a pension fund managing company) requires the granting of an insurer license as per the Supervision Law ("**insurer license**"), holding of more than 5% of a certain type of control means in an insurer, requires receiving a permit for holding means of control from the Commissioner ("**holding permit**"), and control of an insurer or a corporate agent, which is also conditioned on receiving a permit from the Commissioner ("**control permit**"). The management of provident funds also requires a license.

Among other considerations for granting an insurance license or a corporate agent license, a holding permit and a control permit, the Commissioner takes into consideration a large variety of matters, including presenting the action plans of the applicant, qualifications of Senior Officers and their ability to fill their positions, the financial means, the experience and business background of the entities requesting the license or the permits, the capital market competition, including the insurance market, and its service level, the government's economic policy, arrangements as to reinsurance, staff etc. The Commissioner may set conditions and restrictions as to granting the permits, including the existence of a fixed and stable control nucleus in an insurer, a prohibition on pledging the means of control included within the chain of control in an insurer, maintaining the controlling group's structure, including by setting provisions or restrictions as to the sale or transfer of the means of control to another.

As per the Provident Funds Law, the activities of provident funds, also, require receiving a managing company license. Also, holding more than 5% of a certain type of control means in an insurer, requires receiving a holding permit and a control permit. The aforementioned considerations as to granting licenses and permits in the insurer, also apply to provident funds, with the required changes. Provident funds for annuity have the same requirements as insurers.

Also, as per Clause 32 (c1) to the Supervision Law, there is **a prohibition on having a material holding in the area of LTS**. A material holding was defined in the Supervision Law as holding a market share exceeding 15% of all LTS assets[49].

As per data published by the Commissioner, in a Circular dated December 2014, the total value of LTS assets, as of September 30th, 2014, is approx. NIS 778 billion. The maximal market share as of that date is approx. NIS 117 billion.

The Group holds as of September 30th, 2014, on the basis of the data on which the value of the assets was calculated as set forth above, approx. 17.2% of total LTS assets.

(b) **Permits for holding means of control in institutional entities in the Group**

The permit for holding means of control and for the control in institutional entities in the Group was given to Mr. Shlomo Eliahu and Ms. Haya Eliahu, on October 28th, 2012.

The control permit sets forth, *inter alia*, restrictions and limitations as to the way means of control in Eliahu Insurance, Migdal Holdings, Migdal Insurance, Migdal Makefet and Yozma are held, as to maintaining the control structure and the minimal holding rate in the entities mentioned above, regarding the sale or transfer or issuance of means of control in each of the above mentioned entities, including placing a lien[50] on them, regarding maintaining an equity ratio in all the institutional entities controlled by the controlling shareholders, as well as conditions pursuant to which the controlling shareholders and Eliahu Group may receive management fees from the institutional entities controlled by the Company, or provide services to institutional entities controlled by the Company.

Mr. Shlomo Eliahu gave the Commissioner of Capital Market, Insurance and Savings a letter of undertaking signed on October 16th, 2012. Pursuant to that letter of undertaking (a condition for obtaining the control permit was giving this letter), Mr. Shlomo Eliahu, being the controlling shareholder in Eliahu Insurance, Migdal Insurance, Migdal Makefet and Yozma ("**the insurers**"), undertook to supplement Eliahu Insurance's and Migdal Insurance's equity to the amount set forth in the Regulations of Supervision on Insurance Businesses (Minimum Equity Required of Insurers) – 1998, or any other Regulation or Law that would supersede them, and supplement the equity of Migdal Makefet and Yozma to the amount set forth in the Regulations of Supervision of Financial Services (Provident Funds) (Minimum Equity Required from Managing Companies of Provident Funds or Pension Funds) – 2012, or any other Regulation or Law that would supersede them ("**Capital Regulations**"). This undertaking is irrevocable and will be in effect as long as Mr. Shlomo Eliahu controls, directly or indirectly, the insurers set forth above. See Note 38a to the Financial Statements.

[49] Regarding material holdings in the area of LTS in order to receive the permit as set forth above, the following parameters shall be disregarded: (1) a change in the market value of managed LTS assets; (2) a change in the value of all LTS assets; (3) the joining of insureds / members to insurance plans/provident funds in a manner that increases the total assets, except following an engagement with another institutional entity or a merger therewith.

[50] For the lien on some shares held by Eliahu Insurance, see Note 1b to the Financial Statements.

(c) **Permits/restrictions in authorities' permits following the transfer of control in the Company**

Bank of Israel permit – since Mr. Shlomo Eliahu, prior to the completion date, held, directly and indirectly, including via Eliahu Insurance, means of control in Bank Leumi and Israel Union Bank Ltd. ("**the banking corporations**"), Mr. Eliahu informed the Company that he received permits for holding means of control pursuant to the Banking Law (Licensing) – 1981 in banking corporations, referring, *inter alia*, to his holdings in banking corporations via Eliahu Group as well as via the Company and its subsidiaries. Under these permits, Mr. Shlomo Eliahu's holding rate in each of the banking corporations, via the Company and its subsidiaries, shall not exceed 5%, similar to the regulatory restrictions that currently apply to the Company regarding holding means of control in banking corporations (as of the date of this Report, the holdings of the Company and its subsidiaries in these banking corporations are: Bank Leumi - approx. 4.9% and Union Bank – approx. 0.5%)[51].

The Israel Antitrust Authority permit – on June 12th, 2012, the Israel Antitrust Authority General Director approved the merger between Mr. Shlomo Eliahu, Eliahu Insurance and the Company. The General Director's approval was amended on December 7th, 2014. As per the merger's conditions (including the Amendment dated December 7th, 2014): as of the transaction's completion date, the Company shall not engage (directly and indirectly)[52], in an agreement with related trading companies[53] for the execution of transactions in members' assets in which the consideration in their respect is paid from the members' assets, unless via a tender in which all trading companies are given an equal opportunity to participate ("**the tender**"), and in which at least four trading companies participate.

An offer by a related trading company for the execution of certain transactions in members' assets may be selected in a tender only if offers for this certain transaction were given by at least four trading companies, and provided that the financial consideration to be paid by the Company as per this company's offer, is the lowest offered in the tender.

The Company shall not negotiate with related trading companies or anyone on their behalf, regarding the details of the tender and its conditions, before the publication of the tender documents and thereafter, until the selection of winners, except for receiving clarifications regarding the offers submitted by the tender participants.

As of the date of this Report, the provision applies only to engagements with Union Bank. In the period until October 2013 this provision was also relevant to engagements with Bank Leumi, see Note 38a2 to the Financial Statements.

[51] In addition, to the Company's best knowledge, in the BoI permit that was given to Mr. Shlomo Eliahu and Ms. Haya Eliahu regarding the holding of banking corporations, there are restrictions that apply to them regarding the continued holding of the controlling interest in the above mentioned banking corporations, including mandating the transfer of means of control held by them to a trustee.

[52] Regarding this matter, the Company means the Company, including a related person, as per the definition of this term in the Restrictive Trade Practices Rules (General Provisions and Definitions) – 2006.

[53] A Related Trading Company's definition – a trading company in which at least 5% of the shares are held, directly and indirectly, by the controlling shareholder in Migdal, including a holding via a trustee, except a trading company whose entire shares, upon the date of transaction completion, are held, directly and indirectly, by the Company.

(d) **Financial services activity**

In order to perform various activities in the area of financial services, there is a need to receive control permits and licenses from the various State authorities, especially the ISA and the TASE. In their considerations for granting control permits and licenses, as mentioned, the relevant supervision authorities take a wide variety of considerations into account. The sale or transfer of means of control in a TASE member requires receiving a permit.

Fund managers may not receive for their management a fund from another fund manager, if their market share after receiving the fund's management exceeds 20%. There is a prohibition to control fund managers, such that the total market share (the total market share of fund managers controlled by him/her) exceeds 20%, consequent to a fund manager controlled by him/her received control in a fund from another fund manager. It is not possible to receive a permit for the control and holding of means of control in a fund manager, if the total market share, after receiving the permit, exceeds 20%.

27.1.2 **Equity and restrictions on dividend distribution**

The activity of the Group’s institutional entities (insurance companies and managing companies of pension funds and provident funds) requires, as per the provisions of various laws, minimum equity. The capital requirements are tested according to the annual Financial Statements and interim reports of the institutional entities, and if the equity on the report date is less than required, the institutional entities must increase it or reduce their scope of business, on the dates as prescribed by law. As long as such required equity is not completed, the institutional entities may not distribute dividends.

For information regarding equity required from institutional entities in the Group, and restrictions regarding dividend distribution, including surplus amounts that may not be distributed, see Note 7c to the Financial Statements.

The equity requirements in insurance companies are also expected to be affected by the solvency II Directive ("the Directive"), which constitutes a fundamental and comprehensive change in the regulation referring to securing solvency and capital adequacy of insurance companies.

In the reported period, the provisions presented below regarding the solvency governance and risk management were published:

(a) In November 2014 the Commissioner published a **Letter to Insurance Companies Managers regarding the Outline of the Solvency II-Based Solvency Governance**. In the letter, the Commissioner notes that the European Parliament decided that the Directive's implementation in Europe will be in the beginning of 2016, and timetables were set for the implementation of the final guidelines. In light of the intention to publish final guidelines in Europe by June 2015, during 2016 the Commissioner intends to publish guidelines regarding the Directive's first pillar to the domestic market, which will substitute the current guidelines, and insurance companies will be requested to comply with these guidelines beginning from the Financial Statements for 2016. In the planned deployment process towards the final implementation, there are another two phases regarding the execution of IQISs for the years 2014 and 2015, and afterwards – a quarterly report pursuant to the new outline along with reporting the capital requirements as per the current guidelines.

Furthermore, the Commissioner intends to publish guidelines regarding capital management and setting an internal capital objective, regarding a gap survey that companies will have to conduct regarding the risks management array, the controls and the corporate governance, and a consultation paper for the promotion of the process for Own Risk Self-Assessment (ORSA).

(b) In February 2015 the Commissioner published a Draft regarding the guidelines for the implementation of IQIS4 for 2014. The Commissioner notes that the exercise guidance includes several changes and updates compared with IQIS2. Pursuant to the Draft, main reporting files and ancillary files, as well as a special report by the auditing CPA should be submitted to the Commissioner by July 31st, 2015. The survey will be conducted based on the Financial Statements for December 31st, 2014. The Board of Directors must deliberate the findings of the IQIS4 before submitting the report to the Commissioner.

For the Company's deployment towards the implementation of the Directive – see Clause 43 below.

Also, see Note 7c8 to the Financial Statements.

The various companies operating in the area of financial services are required to have equity, and sometimes also a positive working capital and liquid assets, in amounts and rates set forth in the relevant Law provisions.

27.1.3 **Expertise, knowledge and experience**

The insurance and financial activity of the Group's businesses requires specific professional knowledge, mainly in the area of actuary and risk management, and familiarity with the area's markets, including the reinsurance market. Furthermore, experience in this activity, actuarial information and a rich database are very important for setting tariffs and underwriting new businesses.

27.1.4 **Minimum size (critical mass)**

In order to cover the high fixed operational costs required for the operation of the insurance and investment systems, including the requirement to meet changing regulatory demands in the various areas, a minimum amount of revenues is required.

27.2 **Exit barriers**

The main exit barriers of the Group's activities are also set by the relevant laws.

27.2.1 **Insurance, pension and provident activity**

The liquidation or winding up of an insurer's insurance businesses are subject to the supervision of the Commissioner of Insurance, who may instruct insurers to act in a certain way in the winding up of the business or ask the court to give an order stating that the liquidation should be made by the court or under its supervision.

Mergers, spinoffs, management termination or voluntary liquidation, require the prior approval of the Commissioner. If an order application was made to appoint an official receiver or a temporary liquidator in a managing company, and such order was not cancelled within a certain period set in the Provident Funds Law, or if management was not transferred to another managing company within the period set under the law, the Commissioner may apply his/her authorities regarding anything related to maintaining the stability of the provident fund, including appointing an authorized manager in accordance with rules set as to insurance companies.

In life assurance and pension businesses and "long-tail" lines of general insurance businesses – the termination of activity involves setting up an arrangement for the continued handling of all of the insureds' / members' rights (Run-Off).

27.2.2 **Financial services**

During 3 years from the date the last prospectus was signed by an underwriting company, and upon meeting additional conditions, such as the non-filing of a claim against the Company in respect of its obligations under the prospectus as per the Securities Law, it is not allowed to withdraw monies from a deposit that was deposited with a trustee

The liquidation of mutual funds managed by a fund manager is subject to arrangements under the **Joint Investments Trust Law – 1994**. Any sale or transfer of means of control in some of the companies in the area of financial services mandates the buyer to receive the permits set forth in Clause 25.1.2(a) with the required changes.

28. Critical success factors

The following factors can be specified as the common success factors for all of the Group's various areas of activity:

Changes in the market, employment and capital market condition; regulatory demands, including control of tariffs; competition in the area; customer loyalty and portfolio persistency; quality of investment management, including the management of risks involved in all the Group's areas of activity; distribution channels, including their ability to increase demand and create new markets; a variety of products and the ability to adjust them to market conditions and customer needs, including providing integrated solutions for the customers in respect of the Group's variety of products; quality of service to insureds, members and other customers, as well as agents; positioning the Company as a leading company in the life assurance and LTS area, while creating a brand that will enhance its competitive status; preservation and employment of high-quality human capital; computerization and technology level; operational efficiency and operational, marketing and sales expenses level; operation of efficient control and constant examination and improvement of working processes; strength and stability.

Success factors unique to the pension and insurance areas

Level of the permitted management fees allowed under the law, and management fees actually collected; underwriting quality; actuary quality in pricing and reserves and their management; changes in life expectancy; frequency and severity of claims, including catastrophes; quality of claims management, including management of agreements with service providers and fraud control; protection and cost of reinsurance; scope of tax benefits for customers (in the area of life assurance and LTS); technological and other developments in medicine including medical inflation; changes in the health basket.

29. Investments[54]

29.1 Structure of investment management of the Group's institutional entities

The investments in institutional entities in the Group are carried out by an investment array that concentrates the information, expertise and personnel required for investment management, see Clause 31.1 below.

As per the legislative arrangement, there are two Investment Committees in insurers.

One, for managing the investment portfolio of monies to cover yield dependent liabilities ("**Profit Participating Investment Committee**"), and another for investing the insurer's equity, and investing monies to cover non-yield dependent insurance liabilities ("**Nostro Committee**").

[54] The Clause refers to investment management of institutional entities in the Group only.

In Migdal Makefet and Yozma there is an Investment Committee for the management of members' monies managed by Migdal Makefet and Yozma (the profit participating investment committee for the management of members' monies managed by Migdal Makefet and Yozma shall be referred to as "**Members' Investment Committee**").

Pursuant to the legislative arrangement, in the Members' Investment Committee there is a majority of external representatives, who comply with the eligibility requirements for External Directors pursuant to the Law.

The BoD of every subsidiary which is an institutional entity outlines the overall investment policy in its areas of activity. In its overall investment policy, the relevant institutional entity's BoD sets the strategy, objectives and exposure framework for the various investment channels, in each of the portfolios managed by it. The Investment Committees which operate both in the insurer, as well as in the pension and provident funds' managing companies, determine the investment policy specifically for each of the above-mentioned entities in the Group, within the overall investment policy set forth by the BoD.

Furthermore, in the Group there is a joint Credit Committee for Migdal Insurance (Members' Monies and Nostro), Migdal Makefet and Yozma, whose main role is to review credit transactions as set forth regarding this issue in the legislative arrangement that applies to all institutional entities.

The provisions of the legislative arrangement which apply to investment management include the Investment Rules Regulations and the Circular regarding Investment Rules, the Consolidated Circular – Chapter 4 – Investment Assets' Management (Investments Codex), and other Circulars published by the Commissioner of Insurance regarding investment management by institutional entities. The legislative arrangement sets forth various restrictions and frameworks adjusted to the type and nature of various liabilities of institutional entities (members' monies and Nostro monies).

On March 30th, 2014 Migdal Insurance's BoD decided to concentrate the investment array in Migdal insurance Group, which was built in a matrix structure of two Chief Investment Officers (CIOs), one is the CIO in charge of real investments, private equity investments, credit and Nostro investments of Migdal Group's companies, and the other is the CIO in charge of members' monies, real estate and hedge fund investments – in a single division.

As aforementioned, the Investments Division in Migdal Group concentrates the investment management of the Nostro portfolio, the profit participating portfolio, the pension funds portfolio and provident funds portfolio of institutional entities in the Group, and each portfolio has a designated investment manager who is in charge of the overall investment management of that investment portfolio.

29.2 **Breakdown of assets under management**

Presented below is the breakdown of managed assets of the Group's institutional entities, as of December 31st, 2014 and December 31st, 2013 (NIS million):

	31.12.2014		31.12.2013	
Institutional entity	**Nostro**	**Yield-dependent monies (1)**	**Nostro**	**Yield-dependent monies (1)**
Migdal Insurance (2)	34,988	77,771	33,498	70,595
Migdal Makefet – pension funds	217	43,491	197	37,740
Migdal Makefet – provident funds		15,736		15,336
Yozma	11	1,658	7	1,557
Total	35,216	138,656	33,702	125,228

(1) "Yield-dependent monies" are in insurers – assets against yield-dependent liabilities, and in managing companies – members' assets.

(2) As of December 31st, 2014 the total liabilities in respect of yield-dependent contracts in Migdal Insurance is approx. NIS 78,047 million, out of which: approx. NIS 76,303 million is in respect of yield-dependent insurance contracts and approx. NIS 1,744 million in respect of yield-dependent investment contracts, vs. the total liabilities in respect of yield-dependent contracts as of December 31st, 2013 of approx. NIS 70,559 million, out of which: approx. NIS 69,822 million in respect of yield-dependent insurance contracts and approx. NIS 737 million in respect of yield-dependent investment contracts.

(3) For additional details regarding the breakdown of investment channels see the Company's websites:
https://www.migdal.co.il/He/MigdalTeam/investments/Pages/nustro.aspx
https://www.migdal.co.il/He/MigdalMakefet/Investments/Nechasim/Pages/default.aspx

29.3 **Declaration in advance regarding the investment policy**

The Institutional Entities Circular 2009-9-13, Declaration in Advance by Institutional Entities regarding their Investment Policy ("**Circular regarding Declaration of Investment Policy**"), requires institutional entities to declare their investment policy, regarding non-specialized investment tracks and specialized investment tracks, as per the provisions set forth in the Circular regarding Declaration of Investment Policy, including reporting in the event of a change. For the links to the websites in which the institutional entities' declarations were published:
https://www.migdal.co.il/He/MigdalTeam/investments/Pages/InvestmentPolicy.aspx
https://www.migdal.co.il/He/MigdalMakefet/Investments/InvesPolicy/Pages/default.aspx
https://www.migdal.co.il/He/PensionarySavings/pensia/Yozma/Pages/InvestPlicty.aspx

29.4 **Material investments in investees, partnerships and ventures that are not subsidiaries**[55]

The balance of the Group's investments in affiliates is approx. NIS 644 million as of December 31st, 2014, vs. approx. NIS 654 million as of December 31st, 2013. The change is mostly due to the income of affiliates in the amount of approx. NIS 80 million, less dividends in the amount of approx. NIS 30 million, and the redemption of capital notes in Ramat Aviv Mall Ltd. in the amount of approx. NIS 60 million. For additional information regarding affiliates and the amount of investment in them, see also Notes 7b and 38h to the Financial Statements.

[55] For the definition of investees, subsidiaries, affiliates, see the definitions in Note 1 to the Financial Statements.

The material affiliates are:

29.4.1 **Ramat Aviv Mall Ltd.** (formerly Meqarqee Merkaz Ltd**.) ("Mall Company")**
This is a private company whose shares are held at approx. 73.4% by Melisron Ltd., a public company, and at approx. 26.6% by Migdal Real Estate Holdings Ltd. (which is a subsidiary fully held by Migdal Insurance). The Mall Company owns the Ramat Aviv Mall, which includes retail areas and an adjacent office building and office spaces for rent. In January 2013, the management activity of a subsidiary of the Mall Company was discontinued, and the management activity is carried out by the Mall Company.

For the loans received from the Mall Company, see Note 38h to the Financial Statements. Regarding tax assessments issued for Migdal Real Estate Holdings Ltd, which holds the Mall Company, see Note 21d to the Financial Statements.

29.4.2 **Amot Investments Ltd. ("Amot")**
Amot is a public company, whose shares are traded on the TASE, engaged, directly and indirectly, via corporations controlled by it, in renting, managing and holding assets in Israel, as well in acquiring, initiating and developing real estate for rent for self-use. Amot is a subsidiary of Alony Hetz Properties and Investments Ltd., a public company whose securities are also traded on the TASE. Migdal Insurance holds approx. 13.3% of Amot's issued and paid up share capital.

30 Reinsurance

30.1 General

As an integral part of its activity in insurance and risk management, the Group operates to cover some of the insurance risks it takes via foreign reinsurers. The engagement with reinsurers has several advantages, mainly protection against high exposure risks and fluctuations in the level of risk. Reinsurance is adjusted to various risks according to the nature of risk and its level.

The acquisition of reinsurance is performed in policies or lines in which, in the Group's estimation, it is more efficient to cede the risk than to use the Company's capital. Internal actuarial estimates, various actuary or statistical models and claims experience, help the Group in assessing the required reinsurance level.

Reinsurance transactions are signed in the Company's various areas of activity, life assurance, health insurance and general insurance (property and liability insurances). The balance of risk imposed on the insurance company after ceding part of the risk to reinsurers is called "**retention**".

Usually there are two types of engagements in reinsurance:

- **Contractual reinsurances** – the reinsurer receives in advance all the risks that the insurer placed upon it, in a pre-defined line / area, during the treaty period and in the insurance scopes defined in the treaty ("**reinsurance treaty**"). Reinsurance treaties are signed and/or renewed, usually every year (usually in the beginning of a calendar year), and they cover, in the conditions set forth in them, a variety of risks included in the various insurance policies, sold by the Group during the activity period to which the treaty applies. Claims under the reinsurance treaties are paid both during that year and/or during the following years, subject to the Statute of Limitation[56].

[56] In life assurance and health insurance, where the policies are for the long term, usually reinsurance treaties cover the policies sold in the area of activity to which the treaty refers, but their validity will be for the entire life of the policies that were sold until their cancellation, even if the reinsurance treaty is not renewed in the following years. In some reinsurance treaties in health insurance, the reinsurer may request changes in the treaty also for existing insureds if certain conditions set forth in the treaty are met, see Clause 30.3 below.

- **Facultative reinsurance** - the reinsurers are asked to participate in each business separately, and they may accept or reject the proposed business. The engagement with the reinsurer is in order to cover risks in the specific policies ("**facultative reinsurance**"). Usually businesses will have this type of insurance when the insurance amount exceeds the insurance amounts covered by the reinsurance treaties mentioned in the previous paragraph, and/or when the risk is excluded from the reinsurance treaty and/or due to specific underwriting considerations and their adjustment to the outlines and terms of the treaties.

The customary structures of reinsurances are:

- **Proportional reinsurances** – the reinsurers participate in the pro rata share of the risk, and in return they receive the same pro rata share of premiums. There are mainly two types of proportional reinsurance:

  (a) **Quota Share**, in which the reinsurers participate in a pre-determined rate, in premium, risk and claims.

  (b) **Surplus treaty -** in which the reinsurers participation rate varies from one risk to another, and from the moment it is defined, the reinsurers participate in the same rate in premium, risk and claims.

- **Non-proportional reinsurances –** the share of the reinsurers is not proportional to their share in premium. Usually, reinsurers do not pay commissions in non-proportional treaties. The main treaty in non-proportional reinsurance is **Excess of Loss**, in which reinsurers receive a payment deriving from the scope of the line to which the treaty refers, in return for which they cover damages exceeding a certain amount, per risk, claim or event, as they were set.

Reinsurance engagements in general insurance are usually conducted on an annual basis.

In life assurance and health insurance, reinsurance engagements are usually conducted with relation to a defined period, and apply throughout the entire life of the covered policies issued at such defined period. In some health insurance (LTC, medications insurance etc.), reinsurers may interrupt the insurance coverage during the agreement period, such that the agreement does not cover all the lives of issued policies, under certain conditions in the agreements.

In reinsurance transactions, the insurance company pays reinsurers a premium. Reinsurers pay the ceding company payments in respect of claims, as well as commissions, depending on the structure of the reinsurance transaction. As already mentioned, usually, in non-proportional reinsurances, no commissions are paid by reinsurers.

The commissions received from reinsurers are usually set as a share of the premium ceded to the reinsurers. Sometimes, the commission rate is fixed, regardless of the achieved results, and sometimes the commission rate depends on the underwriting results of the ceded businesses. Sometimes, Migdal receives a profit commission in addition to the fixed commission, which is calculated as part of the underwriting profit of the same risk (namely, premiums less claims and commissions).

Sometimes the Group also executes more complex transactions. Usually, these transactions are transactions in which the customer has global activity, both in Israel and abroad. The insurance coverage is given not only to the Israeli activity but also to activity overseas ("**multi-national transaction**").

Reinsurers' liabilities towards the insurance companies do not release the insurance companies from their liabilities towards their insureds, therefore reinsurers' financial stability affects the insurance companies – see Notes 37a3b and 37b(4.1) to the Financial Statements.

30.2 **Life assurance**

The Group acquires reinsurance in respect of the risk component in life assurance policies (risks of death, disability and PHI). In 2014 the amount of reinsurance premiums in life assurance in the Group was equal to approx. 2.4% of gross premium.

Reinsurance covering risks of death, disability and PHI is signed in surplus or quota share treaties.

In 2014, in surplus treaties for death risk, the coverage cap is approx. NIS 8,724 thousand per insured.

In 2014 the Company has quota share treaties for PHI for Shalva policies, in which the cap of coverage of monthly compensation is approx. NIS 48.6 thousand per insured. In addition, the Company has a reinsurance treaty for Migdal for Income policies, which is a combination of surplus and quota share reinsurance, in which the coverage cap for monthly compensation is approx. NIS 90 thousand.

The level of reinsurance coverage varies depending on the insurance risks assessed by the Company.

Furthermore, there are facultative reinsurance treaties, signed for covering risks embedded in specific policies.

In 2014, the Company has a reinsurance treaty for covering death and permanent and total PHI in catastrophe events in the amount of approx. USD 150 million, beyond USD 40 million in the event of an earthquake and beyond USD 80 million in the event of any other event, except plagues (including war). This treaty is effective until December 31st, 2015. In 2013 the treaty covered death only.

For details regarding premiums paid to reinsurers, the share of reinsurers in claims and commissions paid by reinsurers, see Notes 3b, 3c and 3d to the Financial Statements.

The Company has several reinsurers whose share of reinsurance premium in life assurance constitutes 10% or more, as detailed below:

		2014		2013	
Name of reinsurer	**Rating as per AM BEST[57]**	**Reinsurance premium ceded to reinsurer (NIS million)**	**Share of total reinsurance premiums in the area of life assurance in percent**	**Reinsurance premium ceded to reinsurer (NIS million)**	**Share of total reinsurance premiums in the area of life assurance in percent**
Swiss Re	A+	104.5	55	90.8 (1)	52
Munich Re	A+	36.8	19	33.4	19

[57] Regarding the Company's shift to AM BEST's rating of reinsurers, see Clause 30.5.1 below. The rating in the table was accurate just before the Report was published.

(1) After the transfer of premiums in the amount of approx. NIS 39 million recorded to Generali's credit and transferred to Swiss Re's credit within a transaction carried out in 2013, in which Generali sold its reinsurance portfolio referring to PHI policies for the period from January 1st, 1970 until December 31st, 2012 to Migdal Insurance, and this portfolio was sold to Swiss Re, for details see Note 38g3 to the Financial Statements.

30.2.1 **Pension** – Makefet Ishit pension fund has a reinsurance treaty for the coverage of death and permanent disability in catastrophic events (without coverage of plague). The total compensation is USD 70 million, over retention of USD 15 million. The coverage cap per member is approx. USD 1 million. The cost of reinsurance premiums is paid from the fund assets. Reinsurers do not pay commissions.

In 2014, the coverage was increased from USD 50 million to USD 70 million due to an increase in the amount at risk for death, and it was expanded to cover permanent disability in addition to death, against a lower cost of reinsurance. Migdal Makefet Comprehensive Pension Fund has a quota reinsurance treaty covering 90% in case of death and/or disability of the active fund members who are not in the basic old age track, paid as per the fund's Articles of Association ("**the insureds**"). Coverage is obligatory and is up to an amount at risk of approx. NIS 4.5 million in case of death and approx. NIS 7 million in case of disability, for each insured. The cost of reinsurance premiums is paid from members' assets at a tariff of 90% of insurance fees paid by them pursuant to the fund's Articles of Association. Reinsurers do not pay commissions.

30.3 **Health insurance**

The Group purchases reinsurance in respect of the risk element in health policies (transplant risks, dread diseases and LTC). In 2014, the scope of reinsurance premiums in the Group's health insurance accounted for approx. 7.3% of gross premium.

Reinsurance coverage for transplants, dread diseases and LTC is by a quota share treaty.

There are also facultative reinsurances, which are signed to cover risks embedded in specific policies.

In the dread disease reinsurance quota share agreement, the coverage cap is approx. NIS 745 thousand per insured, and in the transplant insurance quota share agreement, there is no cap.

In LTC policies sold beginning from 2014, the Company has a new quota share treaty, in which the coverage cap for monthly compensation is approx. NIS 20 thousand.

The Company discontinued the reinsurance treaty for medications not included in the health basket in respect of new policies sold beginning from January 1st, 2014. The policies written until December 31st, 2013 continue to be covered by reinsurance.

In most reinsurance treaties described above, the Company is paid flat commissions from the premium ceded to reinsurers, and in addition, the Company receives a profit commission that is usually calculated as a rate out of the underwriting profit.

In some reinsurance treaties, the reinsurer may demand that changes in the treaty also apply to existing insureds, if certain conditions set forth in the treaty are met.

The Head of the Division also serves as the Strategy Manager since the end of February 2014.

Customers and Distribution Channels Division – it concentrates the activity vis-à-vis insurance agents/agencies/pensionary marketing agents of insurance and pensionary products via the regional districts and the national sales arrays of the Group's various distribution channels (except the Employers and Customers District, which as of the end of February 2014 was transferred to the Division of LTS, Health and Quality of Life, as set forth above). Until then, this Division also centralized the activity of operation and service management for the Group's customers and distribution channels. In addition, beginning from February 2015, the activity of the service teams for agents, as set forth above, also moved under this Division.

The following activities were transferred from the Customers and Distribution Channels Division to the Division of General Insurance and Reinsurance: the business array in general insurance (from March 2014), the activity of marketing and sales in the area of general insurance (from August 2014).

Area of General Insurance and changes thereof – since August 2014 the general insurance activity was managed under two Divisions: (1) the Division of Reinsurance, General Insurance Claims and Business Array; (2) the General Insurance Division that centralizes all the areas of Headquarters, products, actuary, surveyors and the overall marketing and sales in the area of general insurance. Until then, the activity was under one Division – the General Insurance and Reinsurance Division.

At the end of January 2015, the area of general insurance claims was separated from the Division of Reinsurance, General Insurance Claims and Business Array, and accordingly, the name of the Division was changed to the Reinsurance and Business Array Division. The area of general insurance claims reports directly to Migdal Insurance's CEO.

Investments Division – it concentrates the know-how, the expertise and the manpower required to manage the Group's institutional entities' investments, which includes the members' investments, Nostro investments, real estate, credit, hedge funds, real investments and PE activity.

Effective from April 2014, Migdal Insurance's Investments Division is managed in a single Division. Before that date, the array was managed under two areas - the area of members' investments, real estate and hedge funds and the area of Nostro investments, credit and real investments. In addition, the research department was transferred from the Finances and Actuary Division to the Investments Division.

Finances and Actuarial Division – it concentrates the issues of finances and actuary in the area of LTS and health, and from the end of February 2014, other units were added (previously included under the HQ functions), including: the Risk Management Array (including operational risks), the SOX Array, Investments Control, the Unit for the Wages and Benefits, as well as a Unit for Payment of Commissions (which was transferred from the Customers and Distribution Channels Division). It should be noted that the Risk Manager has direct access to the Company's CEO.

Technology and Resources Division - it coordinates the IT Services Unit which provides the Group's IT services through Migdal Technologies Ltd. ("**Migdal Technologies**") and also coordinates purchasing, data security and administration and logistics.

Headquarters Unit – it is in charge of the activities of the internal enforcement units, service, the HR Discipline, O&M and the Ombudsman Unit. As of January 2015, the Marketing Discipline, which was managed in the Division of LTS, Health and Quality of Life, as set forth above, is also under the Unit.

Company Secretariat and Legal Unit are directly subordinated to the CEO.

The Internal Audit Array provides services to Group companies. The Internal Auditor reports directly to the Chairman of the Board.

The area of Financial Services is managed in the Group primarily through Migdal Capital Markets Group, which operates as a separate unit.

The Group's **insurance agencies activities** are mainly concentrated in Migdal Agencies.

The other ancillary activities, mainly Migdal Management's and Migdal Health's activities, are carried out as separate units (in the employees' breakdown below, they are included under "other").

31.2 **The Group's workforce**[63]

The Group does not have a clear distribution of employees by areas of activity mentioned in this Report, *inter alia*, since there are various Divisions / Units (such as employees of the Customers, Investments, Finances and Actuarial Divisions, the Headquarters Unit, the Technology Unit etc.) which provide services to more than one area of activity.

As of December 31st, 2014, the Group employs about 4,349 employees (out of whom about 24 are hired through manpower companies), vs. about 4,376 employees (out of whom about 36 employees were hired through manpower companies) as of December 31st, 2013[64].

As of the said date, the Group's workforce (including employees hired through manpower companies) can be divided in accordance with the following breakdown and the aforementioned organizational structure:

[63] It is clarified that in this Clause the reference is to workers who are Group employees, or workers hired via manpower companies as detailed below, and does not include workers hired via other employment patterns, such as workers employed by service providers to the Company.

[64] The data regarding employee strength exclude employees who are employed by affiliates held at 50% or less, which are not material.

Division / Unit	No. of employees as of December 31st, 2014	No. of employees as of December 31st, 2013
Group management and HQ functions (1)	86	102
Finances and Actuarial Division (1) (2)	209	141
Division of LTS, Health and Quality of Life (3)	1,368	174
Customers and Distribution Channels Division (3)	384	1,590
Reinsurance, General Insurance Claims and Business Array Division (4)	222	216
General Insurance Division (4)	62	
Investments Division	80	70
Technology and Resources Division	372	386
Internal Audit Array	23	20
Migdal Capital Markets Group	246	249
The Group's insurance agencies	1,093	1,237
Other (5)	204	191
Total	4,349	4,376

(1) The Group's management and HQ functions include the CEO of Migdal Insurance, the HQ Unit, the Company Secretariat and the Legal Unit. The employee strength as of December 31st, 2013 also included units which were transferred to the Finances and Actuarial Division in February 2014.

(2) An increase in the employee strength in the Finances and Actuarial Division following the joining of units from the HQ functions and from the Customers and Distribution Channels Division.

(3) In 2014 about 1,122 workers in the Chief Business Underwriting Unit, the operations arrays of the LTS area, the Employers and Customers District and the Marketing Discipline, who in 2013 were included in the Customers and Distribution Channels Division, joined the Division of LTS, Health and Quality of Life. In the beginning of 2015 there was another change, pursuant to which approx. 80 employees in the service teams were transferred from the Division of LTS, Health and Quality of Life to the Customers and Distribution Channels Division, and about 30 employees from the Marketing Discipline moved to the HQ Unit.

(4) In 2014 the General Insurance and Reinsurance Division was split into two Divisions. Within the changes detailed in Clause 31.1 above, employees were transferred to the two Divisions set forth above from the Customers and Distribution Channels Division. In the beginning of 2015 there was another change, pursuant to which the area of general insurance claims was separated from the Division of Reinsurance, General Insurance Claims and Business Array, under which approx. 170 employees were transferred thereto.

(5) Other – including Migdal Management, subsidiaries of Migdal Health and Data Car.

According to the aforementioned organizational structure, some of the Group employees, mainly employees of the LTS Division, the Customers and Distribution Channels Division, employees of the Investments Division, as well as some of the Finances and Actuarial Division and HQ functions employees, are jointly employed by institutional entities of the Group.

Besides the changes in the organizational structure that were recorded in the reported year, as detailed in the notes attached to the table above, there was an increase in employee strength in the Division of LTS, Health and Quality of Life, that was affected mainly by an expansion of activity, mostly in the operations arrays and the customers call center. Furthermore, there was an increase in the employee strength in the Customers Division and the Division of Reinsurance, General Insurance Claims and Business Array, due to an expansion of activity. On the other hand, there was a decrease in employee strength in insurance agencies.

31.4 **Benefits and the nature of employment agreements/signing a collective agreement**

31.3.1 Subject to the following regarding the signing of a collective agreement, the working relations between the Group and its employees are based on personal working agreements, except a few workers in Migdal Makefet, to whom the collective working agreement applies.

The working agreements define the terms of employment, including basic salaries, social benefits and ancillaries.

The Group includes several employee groups, mainly supervisors, salespersons and some of the investment staff in Migdal Capital Markets Group, who are remunerated beyond the basic salary, also by salary based on performance or meeting targets and subject to the Law.

31.3.2 **Signing a collective agreement**

On February 17th, 2015 Migdal Insurance and Migdal Makefet signed a collective agreement with the New General Federation of Labor, which was recognized as the representative organization among the workers of Migdal Insurance and Migdal Makefet.

The collective agreement applies to the workers of Migdal Insurance and Migdal Makefet employed by them when the agreement was signed, workers who will begin working in Migdal Insurance and Migdal Makefet after signing the collective agreement, and it does not apply to workers in the rank of CEO, Deputy to CEO and Assistant to CEO, nor does it apply to workers serving in positions that were identified and detailed in the agreement. The collective agreement does not apply to other companies in Migdal Holdings Group (that are not Migdal Insurance or Migdal Makefet).

The collective agreement is effective from January 1st, 2015 until December 31st, 2017. While the agreement is in effect, the parties will maintain mutual temporary state of peace regarding the issues and subjects arranged by the agreement.

The collective agreement regulates provisions regarding receiving new employees, trial periods, tenure and other provisions regarding the manning of positions and the mobility of workers, as well as regarding the absorption of workers in certain areas, who are currently employed through contractors and outsourcing, via direct employment by Migdal Insurance or Migdal Makefet, within a period set forth in the agreement (daytime cleaning staff, daytime receptionists, certain maintenance workers, scanning, operations, LTS).

Furthermore, the agreement includes arrangements regarding the reduction of outsourcing services in the Technology Division in Migdal Insurance, and the execution of certain projects in Migdal via other employment patterns (contractors/outsourcing).

The collective agreement includes provisions regarding the following issues: the regulation of the working week, overtime and global overtime, sick leave and other absenteeism, etc., work orders, procedures and behavior rules, including discipline committee, dismissal, resignation and advance notice.

Also, it includes provisions regarding collaboration with employees' representation, the conditions extended to the employees' committee who will serve in the position in addition to their work as employees of Migdal Insurance, including membership fees and handling fees that will be collected from employees' wages, as well as the participation in the employees' committee budget.

For more details regarding the conditions of wages and main ancillary conditions included in the collective agreement, as well as the estimated costs in respect of the agreement's implementation, see the Company's Immediate Report dated February 17th, 2015, Reference No. 2015-01-033544, as well as Note 40a to the Financial Statements.

The collective agreement also includes provisions regarding streamlining in the period in which it is in effect, that Migdal Insurance intends to carry out, reducing the scope of employment in Migdal insurance by approx. 240 workers in the various units, pursuant to a consulting procedure set forth in the agreement.

31.4 Policy and principles of the remuneration for Senior Officers

31.4.1 Change and update in the Company's remuneration policy for Senior Officers for the years 2014-2016

On October 27th, 2014 the Company's General Meeting approved the change and update of the Company's remuneration policy, which was approved by the Company's General Meeting on September 2nd, 2013 for the years 2013-2014 ("**the original policy**"), by adopting a new remuneration policy that is adjusted to the remuneration policy for institutional entities for the years 2014-2016, pursuant to the Commissioner Circular mentioned below, and which will be effective for the years 2014-2016, replacing the original policy for all intents and purposes ("**the adjusted policy**").

The adjusted remuneration policy applies to all Senior Officers in the Company, who serve, in addition to their office as Senior Officers in the Company, as Senior Officers in the subsidiary Migdal Insurance and/or Migdal Makefet and/or Yozma ("**the institutional entities**").

31.4.2 Institutional entities' remuneration policy

On June 30th, 2014 the Boards of Directors of the institutional entities approved the remuneration policy for the years 2014-2016, further to the Circular issued by the Commissioner of Insurance dated April 10th, 2014 ("**Commissioner's Circular**"). The institutional entities' remuneration policy includes specific provisions regarding the salary components of "key position holders", who were determined as such in the Commissioner's Circular, and they include, *inter alia*, all Senior Officers in institutional entities as per the Companies Law, Senior Officers who were defined as such in the Commissioner's Circular, relatives of controlling shareholders, investment entities as well as position holders who were identified by the institutional entities as holding a key position, if the position holders' activity may have a material impact on the risk profile of the institutional entities or if they manage a group of workers who are subject to the same remuneration arrangements, and the variable component in their remuneration may, in aggregate, expose the institutional entity or the monies saved via that institutional entity to a material risk.

Within the adoption of the remuneration policy for institutional entities, it was decided to adopt the Commissioner's position from June 9th, 2014, and the Law Memorandum regarding the Remuneration for Senior Officers in Institutional Entities (Special Approval and Restriction of Expenses due to Extraordinary Remuneration) – 2014, and accordingly, no remuneration will be paid beyond the cap suggested in the Law Memorandum attached to the Commissioner's letter, except in special and extraordinary cases. The remuneration policy was re-validated by the institutional entities' BoD on December 31st, 2014.

For details regarding the remuneration policy in the Company see the Company's Immediate Reports issued on September 22nd, 2014, Reference No. 2014-01-161913, and October 27th, 2014, Ref. No. 2014-01-181653, as well as the Company's Immediate Report dated June 30th, 2014, Ref. No. 2014-01-103386.

Furthermore, for details regarding the principles of the remuneration policy, see also Note 38j3 to the Financial Statements.

The principles set forth in the remuneration policy are also published in the Company's website:
https://www.migdal.co.il/He/MigdalTeam/Investorsconnection/Pages/RewardPolicy.aspx

31.5 **Executive Senior Officers' group**

As of the date of the Report, the group of Executive Senior Officers (who are not Directors) in the Group includes 19 workers, and it includes the Executive Senior Officers detailed in Regulation 26a in the Chapter of Additional Data on the Corporation ("**Executive Managers**").

The Senior Officers[65] are employed under personal agreements, detailing their terms of employment.

Pursuant to the remuneration policy for Senior Officers in the Company and in the institutional entities, rules were set regarding adaptation grants at the end of the employment period, that will substitute any adaptation grant and/or retirement grant and/or any other payment to be paid upon retirement or afterwards, which are not in respect of early notice.

The adaptation grant is 9 times the salary, to be paid as follows: half the adaptation grant is paid upon the termination of employment, and as to the second half – there are deferral provisions as to its payment until the end of 36 months. Furthermore, the adaptation grant is stipulated, in its deferred part, by performance, and for part of the deferred payments – to not finding another work at the time of the deferred payment.

For details regarding wages and remunerations given in 2014, including the terms of employment of the persons receiving the highest wage among Executive Senior Officers in the Company and in Corporations controlled by it, see Regulation 21 in the Chapter of Additional Data on the Corporation.

32. Marketing and distribution

32.1 General

The Group's main marketing and distribution channels in its areas of activity (excluding the area of financial services) are as follows:

32.1.1 **Insurance agents and agencies / pension marketing agents**

Most of the Group's insurance plans are marketed via insurance agents and insurance agencies (pensionary marketing agents for pension products and insurance agents for non-pensionary products), including insurance agencies held by the Group.

[65] Since 2010 the Group classifies managers in the Company and in the Group's institutional entities with the title "Assistant to CEO" and who report directly to the CEO as "Senior Officers" pursuant to the Companies Law. Also, the classification includes managers who fulfill roles that as per their content and essence, including regarding institutional entities in consolidated companies as per the legislative arrangement that applies to them, roles that require subordination to the CEO or regarding which there are regulatory provisions testifying that they hold a position who, from the material aspect, are "Senior Officers". On the other hand, managers with the title "Assistant to the CEO" but who do not actually report to the CEO, and whose position does not match the title in its content and essence, are no longer perceived as "Senior Officers" by the Company pursuant to the Companies Law, in light of the examination of the content and essence attached to the types of positions in which these managers serve. Such classification does not affect managers included under "Executive Senior Officers of the Corporation", as detailed in Regulation 26a in the Chapter of Additional Data on the Corporation.

The Group is in contact with about 2,600 insurance agencies (corporations[66]) and insurance agents ("**agents**") around the country. The Group is engaged with most agents in life, pension and provident insurance business, health and general insurance business, and they conduct most of the Group sales. Most agreements with agents are not exclusive and agents, including agencies held by the Group, also work with other insurance companies. The channel of distribution via agents is the most significant distribution channel in the Group.

Some of the marketing and distribution activity via agents is also performed via insurance agencies controlled by the Group. Migdal Agencies concentrates most holdings in them. Mivtach Simon, Sagi Yogev and Shaham are the insurance agencies that concentrate the marketing and distribution activity in the area of life assurance, LTS and health insurance, while Peltours Insurance Agency concentrates most of the marketing and distribution activity in the area of general insurance.

32.1.2 **Direct distribution** – directly, via Group employees.
Most of the activity is in the pension and provident lines, in which, due to the mandatory pensionary insurance, there are direct engagements vis-à-vis employers, employees' organizations, for directly joining pension and provident funds managed by the Group, as well as participation in tenders published by employers/employees' organizations.

Some collective policies in life assurance and health insurance are marketed via direct sale by the Group, mostly by participating in tenders.

In general insurance – most activity is with large customers such as companies dealing with vehicles, or having car fleets, mortgage banks, or participation in various customers' tenders.

32.1.3 **Banking corporations** – in pension and provident lines – distribution by pensionary advisors in bank branches (activity which is still non-material).

In 2014 the Group does not have a single agent whose scope of sales exceeds 10% of the premiums in any relevant area of activity.

32.1.4 In the pension and provident lines, where there is direct activity, the share of distribution channels is as follows:

Pension – distribution via agents – approx. 69% of contributions (approx. 66% in 2013 and about 67% in 2012), direct distribution – approx. 30% of contributions (approx. 33% in 2013 and about 32% in 2012), and distribution via banking corporations – approx. 1% of contributions (similar to previous years).

Provident – distribution via agents – approx. 33% of AuM (approx. 32% in 2013 and about 29% in 2012), direct distribution – approx. 48% of AuM (approx. 49% in 2013 and about 50% in 2012), and banking corporations – approx. 19% of AuM (approx. 19% in 2013 and approx. 21% in 2012).

[66] Some insurance agents are corporations employing workers, who are not included in the figure stated above.

32.1.5 The premiums and contributions received in 2014 from the agencies controlled by the Group (including data regarding these agencies' sub-agents) are as follows: 29% of the total life assurance businesses (similar to 2013 and vs. approx. 31% in 2012), approx. 29% of the total pension businesses (vs. approx. 30% in 2013 and about 34% in 2012), approx. 28% of health businesses (vs. approx. 27% in 2013 and about 26% in 2012) and approx. 7% of general insurance businesses (vs. approx. 8% in 2013 and about 11% in 2012).

For details regarding the work force of insurance agencies controlled by the Group, see the Table in Clause 31.2 above.

32.2 **Regulation of agents / pensionary marketers / pensionary advisors**

32.2.1 Agents' activity is supervised by the Commissioner of Insurance, and the provisions of the Insurance Contract Law, the Supervision Law and the Marketing and Advice Law (related to pensionary products), apply to their activity. These relate to licenses required for their activity and the way they operate.

The Supervision Law requires the existence of a written engagement agreement between the insurer and the insurance agent. Insurance agents must keep the insurance fees collected from the insureds in a separate account until they are transferred to the insurer, and provisions were set as to the dates upon which insurance agents must transfer such monies to insurers. The granting of loans and advance payments to agents by the insurance companies is also regulated in regulations and circulars.

The Regulations of the Supervision of Financial Services (Provident Funds) (Distribution Commissions) – 2006 set the maximal commission rates that will be paid to pensionary advisors for provident and pension products. A draft for the amendment of these Regulations is pending, proposing to also regulate the maximum commission for insurance products included under the definition of pensionary products.

32.2.2 Material changes in the Laws referring to distribution channels that were published in the reported period:

(a) In January 2015 the Commissioner published the **Commissioner Position: Institutional Entities' Payment to License Holders**. The Position Paper states that due to several requests submitted to the Capital Markets, Insurance & Savings Division, several contracts of institutional entities with license holders were examined, and it was found that institutional entities usually pay license holders brokerage fees deriving from management fees paid by the member of the insured. Pursuant to these contracts, brokerage fees that will be paid to license holder will be higher if management fees paid by customers are higher. The Position Paper states that the Commissioner is of the opinion that paying brokerage fees in this manner, which encourages license holders to offer products with higher management fees to customers, is wrong, and does not comply with the fiduciary duty imposed both on institutional entities and on license holders. The Position Paper was proposed, although the Draft Commissions Regulations set forth in paragraph (b) below, which has not yet been approved, is still pending.

The Life Assurance Companies Association addressed the Commissioner, claiming that the publication of the Position Paper, as well as its content, include significant fundamental flaws, and that the rules of proper management and the rules of natural justice were violated, therefore the Position Paper has no binding force regarding whether the fiduciary duty of institutional entities was violated or not. In her answer to the address made by the Life Assurance Companies Association, the Commissioner stated, *inter alia*, that this is a manifesto regarding the relation between institutional entities' and agents' fiduciary duty, and the agreements regarding commission payment. Since this is not a Circular, nor a specific regulation for the market, the Position Paper does not set the date upon which it should come into effect. The Commissioner asked to clarify that under the circumstances and taking into account the scope of the current practice, and the need to change the array of current contracts, she does not intend to apply her enforcement authority pursuant to the Law, regarding customers who joined before the Position Paper was published, and even just after its publication. Also, it was noted that the Commissioner intends to publish the clarifications detailed in the answer document.

The issue of brokerage fees is the Regulation Drafts, and Brokerage Fees Regulations, mentioned in paragraph (b) below, have been published. At this point, it is early to estimate the overall implications that the Position Paper may have on the Group's institutional entities, should it be within the authority and/or should it reflect the legal situation, and it depends on various parameters, including, *inter alia*, all the regulations regarding this issue, the market's responses and the implementation of the Company's instruments in order to cope with the issue, and insofar as the Court issues a different interpretation than that expressed by the Commissioner.

As per the Company's estimate, should the Position Paper apply, this would require adjustments, both in engagements with agents, as well as regarding the pricing of LTS products, to which the Position Paper refers, and the Company is also of the opinion that this would require a deployment period in order to introduce the required adjustments.

(b) In September 2014 the Commissioner published the **Draft Financial Services Supervision Regulations (Insurance) (Brokerage Fees) – 2014**. The aim of the proposed Regulations is to regulate the structure of commission payment to insurance agents and to pensionary license holders. The compensation of insurance agents will be via service commissions, target commissions or payment in respect of professional training. It is suggested to set restrictions on the payment of brokerage fees in general, and specific restrictions on the payment of service commissions and target commissions, including, *inter alia*, the execution of payments only through financial means. The restrictions include, *inter alia*, the prohibition on paying to agents commissions that depend on the rate of management fees paid by customers in respect of the product, as well as restricting conditions on the payment of commissions to two agents simultaneously. Furthermore, the brokerage fees that may be paid in respect of a product that is not for a limited period to one insurance agent will be restricted, pursuant to the rules set forth in the Draft Regulations, including spreading service commissions over 5 years, pursuant to the conditions set forth in the Draft Regulations. The suggested application date is July 1st, 2015.

The Draft Regulations regarding Commissions, if approved, may affect the following key issues: a change in the remuneration and incentives model for insurance agents, including a different spreading of commissions throughout the insurance period, such that the ratio between the commissions paid in the first insurance year and the commissions paid throughout the policy's life will change, such that on average and relatively, the target commissions will decrease. This change, if at all, may make the activity of license holders who do not a substantial insurance portfolio from the past more difficult, might decrease the overall remuneration received by license holders, and all the above would require producers to build a remuneration mechanism that reflects the profitability of various products.

The information regarding the implementation and/or the Company's estimates regarding the implementation of the provisions is forward-looking information that relies on the provisions that are proposed now, and there is no certainty that this would be the final wording, and it is still unknown whether there will be additional amendments or not. Furthermore, the above is based on estimates and assumptions regarding the behavior that entities operating on the market may choose, these estimates may not realize if the provisions are changed or updated, or implemented in a different manner.

(c) In June 2014 the Commissioner published the **Draft of the Supervision of Financial Services (Provident funds) (Distribution Commissions) Regulations – 2014** that was transferred to the Knesset's Finance Committee. The Draft re-defines the type of pensionary products in respect of which pensionary advisors may receive commissions, a homogenous distribution commission rate that may be paid to pensionary agents in respect of transactions in pensionary products set forth in the Draft, as well as other changes. Pensionary advisors may receive distribution commissions also in respect of the distribution of insurance funds (except guaranteed-yield insurance funds) and in respect of insurance plans combined in the pensionary product. The distribution commission to which the advisors are entitled shall not exceed the following sums:

- The lowest between 0.2% of accrual or 40% of management fees collected by the institutional entity from accrual at the members' disposal.
- The lowest between 1.6% of all deposits transferred by members in respect of the pensionary product and in respect of the risk plan for PHI or death included in the pensionary product or 40% of management fees collected on all deposits and in respect of the risk plan for PHI or death included in the pensionary product.

The maximal distribution commission to which pensionary agents may be entitled in respect of the distribution of educational funds will be 0.25% of accrual. In respect of deceased members or members with whom contact was lost, advisors will not be entitled to a distribution commission as per the conditions and periods set forth in the Draft.

32.3 **Below is the structure of commissions and average commission rates as per areas of activity**

32.3.1 **Area of life assurance and LTS**

(a) Insurance agents

The Group pays variable commissions to insurance agents in respect of marketing its products; the commission rate varies according to the plan sold and to individual agreements entered with the agents.

(1) The commission structure in life assurance:
Current commissions from premium - the commissions paid to agents are “flat commissions”, i.e. the same commission is paid for several years, after which, in most agreements, a collection fee usually lower than the flat commission is paid (in most of the Group-marketed insurance plans, the commission is paid for 15 years). However, in certain savings products the commission is paid at a fixed rate throughout the entire insurance period. In addition, in certain products a fixed commission out of the management fees from accruals and/or from management fees on premiums is paid throughout the entire insurance period.

Prizes/grants – usually this commission is based on the amount of sales and the agents' meeting sales targets set for them and in some cases the agents' meeting portfolio persistency targets. In some savings policies the commission is calculated as a function of parameters that affect the product profitability, and it is paid subject to arrangements with respect to cancellation of policies in a predetermined period. In addition, there is other remuneration at the product level, derived from the meeting of targets defined by the Company. Furthermore, the Group holds sale campaigns under which it remunerates agents with additional prizes and/or grants; in certain insurance products – fixed commissions are paid, which are based on the accrual in the policy or on the accrual transferred as a lump sum deposit.

(2) The structure of commissions in respect of pension products' marketing:

Current commissions from contributions at a fixed rate from the contribution actually paid.

Prizes/grants – the Group pays agents a commission which is usually based on the amount of sales and the agents' meeting sales targets set for them, and in some cases the agents' meeting portfolio persistency targets as a function of parameters that affect the product profitability, and subject to cancellation of policies as described above regarding life assurance commissions. Furthermore, the Group holds sale campaigns under which it remunerates agents with additional prizes and/or grants. Sometimes the Group pays fixed commissions which are based on the amount of accrual.

(3) The structure of commissions in respect of marketing provident funds:

Commissions paid to insurance agents in respect of marketing **provident funds** are, usually, at a fixed rate of the management fees on accrual actually collected.

(b) **Pension advisors**
Banking corporations are entitled to a distribution commission pursuant to the Distribution Regulations.

(c) **Average commission rate**s
Below are average commission rates in percentages:

	2014	2013	2012
Life assurance			
Rate from premium	6.7	7.3	8.1
In the first year – rate from new annualized premium	23.7	27.7	25.4
Pension funds			
Rate from contributions	2.7	2.8	2.8
Provident funds			
Rate from average AuM	0.2	0.2	0.2

32.3.2 **Area of health insurance**
In individual health insurance – the Group pays insurance agents variable commissions in respect of marketing products, and the commissions vary depending on the plan sold.

The commission structure is usually as follows:

Current commissions from premium - the commissions paid to agents are “flat commissions”, set forth in individual agreements with agents.

Prizes/grants – usually this commission is derived from the amount of sales and the agents' meeting the sales targets set for them, and in some cases from the agents' meeting portfolio persistency targets set for them and subject to the arrangements regarding cancellation of policies in a predetermined period. In addition, there is other remuneration at the product level, derived from the meeting of targets defined by the Company.

In addition, the Group holds sale campaigns under which it remunerates agents with additional prizes and/or grants.

In collective health insurances – commissions at a specific rate of premiums are paid.

Below are average commission rates in percentages:

	2014	2013	2012
Rate from premium	30.1	25.8	24.2

32.3.3 **Area of general insurance**

The commissions paid to agents in this area are calculated at predetermined percentages of premium, and the commission rate varies depending on the specific line.

Below are average commission rates from premium in percentages:

	2014	2013	2012
CMBI line	4.7	5.5	6.2
Casco lines	17.9	19.5	20.7
Property lines (not motorcar)	15.8	15.9	16.3
Liability lines	14.8	14.9	14.3
Total	13.2	14.0	15.1

Sometimes the Group extends loans to its agents, guaranteed by future commission flows or other guarantees. The loans are extended under commercial conditions within the rules set forth by the Commissioner. For details see Note 9 to the Financial Statements.

33. Suppliers and service providers

33.1 General

The Group acquires products and services from many suppliers and service providers[67], and they are selected based on the quality of service, availability, areas of expertise, commercial conditions, etc. Usually, such engagements are made for unlimited periods of time, and do not contain an exclusiveness arrangement. In general, the Group avoids "dependence on one supplier", as per the definition of this term in the Commissioner Circular regarding the update of instructions in insurance companies' Periodic Report, and acts towards creating diversification among its suppliers.

33.2 Assistance services

Migdal Insurance has agreements with Femi Premium Ltd. ("**Femi**"), which provides assistance services granted to insureds under the riders sold mainly in the motor casco insurance area, as well as most of the related services in the health and homeowners policies. The purchases from Femi in 2014 amounted to approx. NIS 58 million, vs. approx. NIS 60 million in 2013. The cost of services purchased from Femi is included in the costs of insurance claims.

In 2014 Migdal Insurance decided to purchase from B-Well Quality of Life Solutions Ltd. ("**B-Well**"), a consolidated company of Infomed Medical Sites Ltd. ("**Infomed**")[68], most of the services in the area of riders, including in the area of riders that the Company previously purchased from Femi in the area of health. Thus, B-Well was added as a party to the agreement between the Company and Infomed, and the agreement that existed until then was updated, such that the agreement has become a framework agreement that bundles the riders currently signed by Migdal and Infomed and B-Well, as well as future riders, subject to the agreement's terms.

[67] It is hereby clarified that in suppliers and service providers, the Group does not include marketing agents / advisors, who are included in the distribution and marketing channel as described in Clause 32 above, and does not include reinsurers described in Clause 30 above.

[68] Infomed is 71% held by Migdal Health and Quality of Life Ltd. and the balance is held by third parties.

Regarding the transfer of services in the area of riders to B-Well, on November 13th, 2014 an agreement for cooperation and service provision was signed between B-Well and Femi, pursuant to which, in respect of Migdal's riders that are transferred from Femi to B-Well, B-Well will purchase services from Femi, and the cooperation between B-Well and Femi ("**the service agreement**") was regulated. Pursuant to the conditions set forth in the service agreement, and against the operation of services that were purchased via B-Well call center, Femi paid to B-Well a non-recurring sum of NIS 1.6 million, plus VAT. Since some riders remained in Femi, within the existing agreement that is effective until March 2016, this agreement included an undertaking for continuing receiving services from Femi. The service agreement will be effective until March 30th, 2019, although B-Well may terminate the service agreement earlier as set forth in the conditions. If the agreement is cancelled before that date, B-Well will pay to Femi an agreed-upon compensation that equals the product of the number of remaining months until that date by NIS 30,000. In 2014 B-Well paid to Femi the total amount of NIS 23 thousand for the purchased services.

During 2014 the scope of services extended by B-Well to the Company was expanded by additional riders, and another agreement stating that B-Well may provide the Company with additional services was signed.

Pursuant to the terms of engagement between the parties, the Company will pay to B-Well a monthly payment as per the price appendix attached to the agreement. The consideration that will be paid by the Company to B-Well is lower than the consideration paid by the Company to Femi for the same services. The consideration that will be paid by the Company to B-Well is lower than the consideration it paid to Femi for the same services.

In 2014 and 2013 the Company paid to B-Well or Infomed, as the case may be, approx. NIS 2.1 million and approx. NIS 0.3 million, respectively.

33.3 **Computerization and software providers**

The Group is engaged with several hardware and software suppliers, which provide it with equipment and services, as well as in other agreements for the rendering of maintenance services in respect of data base and manpower services for development and maintenance of software. Some of these suppliers are designated hardware and software companies, with which the Company may need to collaborate in the event of a material shutdown. Ongoing payments to each of these suppliers are non-material. The suppliers included in this category are: Med-1, Binat, Taldor Communications, Microsoft, Bezeq International, IBM, Oracle, SAP, SPL Software, Hilan Tech, Neoxan. For details regarding a designated software company in the area of financial services (FMR), see Clause 23 above.

33.4 **Operation services in provident activity**

Migdal Makefet is engaged with Leumi Capital Markets Services Ltd. ("**Leumi Services**"), pursuant to which Leumi Services provides Migdal Makefet with operation, computer and members' rights management services for all provident funds managed by Migdal Makefet. The first engagement with Leumi Services was regarding operation services for Kahal Educational Fund (acquired from Bank Leumi and Discount Bank in 2007), and the engagement with it was expanded, from January 1st, 2013, to include all provident funds managed by Migdal Makefet (previously, Migdal Provident received operation services for other provident funds from another supplier). For the description of the engagement with Leumi Services, see Note 38f1 to the Financial Statements.

34. Fixed assets and information about investments in computerized systems

34.1 The main real estate assets owned or rented by the Company and included under fixed assets are presented below:

Location	Area in sq. m	Main use	Owned / rented
Petach Tikva	52,221	The main office buildings of the Group, including most of the activity of insurance agencies held by the Group	Owned
	7,576	Offices, warehouses / parking lots	Rented
	13,100	Not completed yet / not populated yet	Owned
Tel Aviv	5,828	Capital Markets Group's office buildings	Long term leasing
	792	Capital Markets Group's office buildings	Rented
	790	Infomed and 50 Plus' office buildings	Rented
Jerusalem	1,000	The Group's agencies office buildings	Rented
	1,476	The Group's branch office in Jerusalem	Owned
Netanya	1,999	The Group's agencies office buildings	Rented
Haifa	1,608	The Group's branch office in Haifa	Owned
	2,139	The Group's agencies office buildings	Rented
	197	Capital Markets Group's office buildings	Rented

We would like to note that there are additional locations in which the Group rents buildings for its activity and for the activity of agencies held by it, in a non-material scope.

For details regarding the depreciated cost of land and office buildings and leasehold improvements and additional information regarding the Group's fixed assets, see Note 6 to the Financial Statements.

34.2 Data regarding the buildings that are part of Migdal Insurance's Nostro investments portfolio[69]':

Location	Sq. m as of December 31st, 2014	Sq. m as of December 31st, 2013
Dan area	37,769	37,769
Northern area	34,396	35,194
Southern area	15	135
Lowland and Jerusalem	3,604	3,604
Total	75,784	76,702

The buildings detailed above serve mostly as office buildings and for retail. Most of the buildings described above are held against insurance liabilities within the Company's Nostro portfolio.

[69] In addition, Migdal Insurance holds real estate assets managed for insureds, for details see Note 8 to the Financial Statements.

34.3 **Information regarding the Company's investments in the computerized system**

The Group's computerized and information systems are essential for managing its businesses, and it has a variety of computerized equipment, including servers, infrastructures, communication equipment, terminals, and other peripheral equipment, as well as a wide variety of ownership and/or usage rights in different software, including software in self-development.

The Group has a designated unit, Migdal Technologies, which serves as the internal information technologies unit that provides most of the computerization services to the Group's various units and uses, whenever needed, the services of various suppliers and software companies in order to provide the Group's computerization services. For the personnel employed in this unit, see Clause 31.2 above.

The institutional entities' main computer room is located in the Group's headquarters in Petach Tikva. Within the project for technological deployment towards crises (DRP – Disaster Recovery Plan) completed in 2013, the Group has a remote backup site in MED-1 at Tirat HaCarmel. The aforementioned DRP is a significant technological infrastructure regarding the Company's Business Continuity Plan (BCP) in crises, including in emergency.

The Group has IT systems that include hardware, software and additional equipment, whose amortized cost as of December 31^{st}, 2014 totals approx. NIS 322 million, vs. approx. NIS 369 million as of December 31^{st}, 2013.

In 2014, the Group invested approx. NIS 121 million in computers and information system development, vs. approx. NIS 114 million in 2013. See Notes 4 & 6 to the Financial Statements.

Investments in IT systems are designated both for supporting the Group's strategic objectives and supporting regulatory demands from time to time.

In the reported period, the Group's investments in computerized systems focused mainly on the following areas: improving service to the Group's customers (insureds, agents and employers), including via a cross-organization CRM system, supporting the implementation of the change in the LTS and health insurance operation array, improving systems in general insurance, supporting the development of products in life assurance, health insurance and general insurance, strengthening the ability to protect the Company's data, enriching the monitoring and control over the Company's technological assets, etc.

35. Seasonality

35.1 **LTS**

Revenues from life assurance (as well as health insurance premiums), and revenues from management fees from pension funds and provident funds are not characterized by seasonality. However, because of the timing of the tax year, there is certain seasonality in deposits of premiums / contributions to pensionary savings products in December, since in this month significant amounts are deposited in order to exhaust tax benefits.

Presented below is the breakdown of the quarterly gross premium earned in life assurance[70] in 2012, 2013 and 2014 (NIS million and percent):

	2014		2013		2012	
	NIS million	%	NIS million	%	NIS million	%
First quarter	1,798	24.9	1,946	25.8	1,804	24.5
Second quarter	1,772	24.5	1,774	23.5	1,763	24.0
Third quarter	1,786	24.7	1,749	23.2	1,899	25.8
Fourth quarter	1,869	25.9	2,078	27.5	1,891	25.7
Total per year	7,225	100.0	7,547	100.0	7,357	100.0

Presented below is the breakdown of the quarterly contributions in pension funds in 2012, 2013 and 2014 (NIS million and percent):

	2014		2013		2012	
	NIS million	%	NIS million	%	NIS million	%
First quarter	1,259	23.5	1,074	22.6	1,030	23.5
Second quarter	1,318	24.6	1,210	25.4	1,102	25.1
Third quarter	1,368	25.5	1,168	24.6	1,065	24.3
Fourth quarter	1,414	26.4	1,305	27.4	1,189	27.1
Total per year	5,359	100.0	4,757	100.0	4,386	100.0

Presented below is the breakdown of the quarterly contributions in provident funds in 2012, 2013 and 2014 (NIS million and percent):

	2014		2013		2012	
	NIS million	%	NIS million	%	NIS million	%
First quarter	421	24.7	366	20.7	392	22.2
Second quarter	354	20.8	418	23.6	385	21.8
Third quarter	404	23.7	386	21.8	386	21.9
Fourth quarter	568	30.7	601	33.9	602	34.1
Total per year	1,747	100.0	1,771	100.0	1,765	100.0

35.2 **General insurance**

Revenue turnover from gross premium in general insurance is characterized by seasonality, which stems mainly from motorcar insurances of various employee groups and businesses' vehicle fleets, whose renewal dates usually fall in January, as well as various business policies, whose renewal dates usually fall in January or April. The impact of such seasonality on the income for the period before tax is mostly offset through the reserve for unexpired risks.

In the other expense categories, such as claims and other income categories, such as revenues from investments, there is no significant seasonality, which is why there is no income-significant seasonality. However, it should be mentioned that a harsh winter may bring about an increase in claims, mainly in the property line, during the first and fourth quarters of the year, which in turn, leads to a reduction in income before tax for the period.

In this context, it should be noted that in 1Q13 and 4Q13 there were winter-related damages, estimated at approx. NIS 29 million in gross terms and approx. NIS 9 million in terms of retention in 1Q13, and approx. NIS 25 million in gross terms and approx. NIS 7 million in terms of retention in 4Q13.

[70] Excluding receipts in respect of investment contracts that totaled approx. NIS 1,190 million in 2014 vs. approx. NIS 525 million in 2013 and approx. NIS 272 million in 2012.

Presented below is the breakdown of the quarterly gross premiums in general insurance in 2012, 2013 and 2014 (in NIS million and percent):

	2014		2013		2012	
	NIS million	%	NIS million	%	NIS million	%
First quarter	635	32.2	782	38.7	478	34.0
Second quarter	515	26.2	472	23.3	369	26.2
Third quarter	423	21.5	418	20.7	306	21.8
Fourth quarter	396	20.1	350	17.3	253	18.0
Total per year	1,969	100.0	2,022	100.0	1,406	100.0

The data for 2013 include, *inter alia*, the absorption of Eliahu Insurance's new business in Migdal.

35.3 **Financial services**
As per the Company's estimate, the area of financial services is not characterized by seasonality.

36. Intangible assets

36.1 **General**
For its activity, the Group uses the companies' names and logos, some of which were not registered as trademarks.

36.2 **Data warehouses**
The institutional entities in the Group have various registered data warehouses, where the data submitted by the Group's customers are saved. The data stored in the warehouses, regarding customers, includes data submitted by them when acquiring one of the Group's products, as well as additional data submitted to the Group, or located by the Group in relation with services it provides (such as information about handling insurance claims etc.). Furthermore, the institutional entities in the Group have registered data warehouses regarding the Group's agents, suppliers, Group employees etc., whose storage and registration in a computerized repository are mandatory by law. The databases serve the Group in the ongoing operation of its businesses.

36.3 **Goodwill and initial difference**
The Company accumulated goodwill and initial difference, mainly upon the acquisition of insurance agencies, insurance portfolios, managing companies of pension funds, educational funds and activities of mutual funds. In 2013 the absorption of the new business in general insurance was also recorded as an intangible asset.

In 2014 there was a valuation allowance attributed to the provident fund activity, in the amount of approx. NIS 14 million (value in the books of the provident unit exceeded the value of its the recoverable amount, therefore it was recognized as an impairment loss, fully attributed to goodwill) as well as a valuation allowance on goodwill of hedge fund attributed to the financial services activity in the amount of approx. NIS 7 million. For details see Note 4 to the Financial Statements.

37. Discussion on risk factors

37.1 Presented below is the table of risk factors regarding insurance and LTS activity:

		The effect of risk factors on the Group's activity		
	Risk factors	**Great effect**	**Medium effect**	**Little effect**
Macro risks	Economic situation	V		
	Market risks	V		
	- Interest rate risk	V		
	- Market risks (capital instruments / real assets)	V		
	- Risks related to CPI		V	
	- Currency risk		V	
	Credit risks		V	
Sectorial risks	Insurance risks			
	-Longevity and morbidity	V		
	-Earthquake risk		V	
	-Other insurance risks		V	
	Portfolio persistency level	V		
	Reinsurance		V	
	Competition and competitors	V		
	Public preferences	V		
	Regulatory changes	V		
	Legal precedents (class actions and Commissioner's authorities)	V		
Risks unique to the Group	Business mix		V	
	Liquidity risks			V
	Legal procedures including the Commissioner's authorities		V	
	Goodwill		V	
	Operation risks			
	-Dependence on IT systems	V		
	- Data security and cyber	V		
	-Other operation risks		V	
	Compliance risks		V	

The effect of risk factors on the Group is pursuant to the Group management's estimate, taking into account the scope and characteristics of its activity as of the date of this Report. The extent of effect may be different in reality, in light of changes in the characteristics of the Group's activity or market conditions and/or decisions made by regulators.

37.2 The Company manages its areas of activity using risk management methodologies. In its activity, the Group focuses on managing the risks to which it is exposed, in order to identify and assess the impact of such potential risks on the Group, with reference to the correlation between risks. Also, the Company's BoD approved risk appetite and risk tolerance for various risks. For the description of key risk factors in the Group's insurance activity and their management – see Note 37b3 to the Financial Statements.

37.3 **Key risk factors in the financial services activity**

The financial services area deals with various areas of the capital market, some of which are characterized by high volatility, *inter alia* due to the impact of political and economic events in Israel and abroad. The various risks to which the financial services area is exposed are related to trading activities in the Nostro accounts managed by the Group, to assets managed for various customers (mutual funds and portfolio management), to the activity of customers who receive brokerage services (including credit extended to them), to legal risks and additional risks related to operational exposures in activity.

For the description of exposure to market risks and the way they are managed, see Clause 6 to the BoD Report.

The key risks in the financial services activity are:

37.4 **Macro risks**

37.4.1 **Market risks** - political and economic events in Israel and abroad affect the scope of activity on the capital market, and as a result, the activity of the financial services' area, its assets and business results.

Companies engaged in the financial services area perform their own transactions in negotiable assets in Nostro accounts. These transactions expose the financial services area to risks stemming from trading fluctuations in the various channels of the capital markets (share, bonds, currency, interest rates etc.), including due to changes in interest rates and exchange rates, political, security-related and economic events.

Activity in brokerage accounts – activity in brokerage accounts is performed only if a back-to-back transaction may be performed, with no inventory activity and without holding a position for a long time. Activity in these accounts is aimed at collecting the remuneration to which Migdal Capital Markets' subsidiary (Stock Exchange Services) is entitled, deriving from the spread between the execution of transactions between the two counter parties in the transaction. The subsidiary operates brokerage accounts in several types of securities. However, a failure in the clearance of one of these counter transactions might expose Migdal Capital Markets Group to risks stemming in fluctuations in assets in these transactions, since if there is a deterioration in the price of the relevant asset between the dates upon which the two counter transactions were supposed to be carried out and the execution date of the alternative transaction, Migdal Capital Markets Group shall bear this damage, and its ability to collect the damage from the violating party requires a legal claim.

37.4.2 **Sectorial risks**

Decline in the value of assets under management and scopes of activity – the results of the financial services area are directly affected by the total value of AuM managed by the financial services area. The results and yields of mutual funds and investment portfolios under management, as well as customers' preferences, affect the scope of AuM. A decrease in the scope of AuM may materially affect the profitability of the financial services area. Stock Exchange Services is affected by the volumes of trade on the Stock Exchange. The volatility characterizing the primary market and changes in institutional entities' preferences may materially affect Migdal Underwriting's scope of activity.

Insolvency of Israeli and foreign financial institutions holding assets – Stock Exchange Services must keep its customers' cash in a customer trust account in banks, hence there is exposure in case of insolvency of such banks. In addition, the company holds foreign securities and financial assets of its customers with different foreign brokers, who provide the company with custodian services, hence there is exposure in case of insolvency of such brokers.

Regulation – the area of financial services is subject to very broad regulation, which is changed and updated frequently. Additional regulatory changes and/or more stringent demands with regard to existing regulatory requirements and/or non-compliance of financial services companies with regulatory demands might have a material impact on the businesses and/or results of the financial services area.

37.4.3 **Risks unique to the area of financial services**

Credit risks to customers – Stock Exchange Services extends credit to its customers on a regular basis in order to purchase securities and financial assets. Extending the credit is done under restrictions detailed in the TASE's Articles of Association and directives. Usually credit is secured by the customers' securities portfolio, but from time to time credit is extended pursuant to Stock Exchange Services' credit policy and depending on the credit amount that is extended, without full collateral. Also, in certain cases, the value of the customers' securities portfolio may be insufficient for covering credit.

Credit risks to custodian customers – Stock Exchange Services provides certain customers, usually institutional entities, with execution services only (without custodian services), when at the end of the day, the transactions executed for them vis-à-vis the banks providing the custody services are cleared. If, for any reason, the clearing bank does not approve the transaction intake at the end of the day, Migdal Capital Markets Group is left with the position. In such case, the above risk is one of changes in the price of securities / derivatives until execution of the counter transaction to close the position (i.e. market risk). In case of loss as a result of closing the position, the custodian customer will owe Migdal Capital Markets Group the loss amount, and in fact, will be receiving credit from Migdal Capital Markets Group. Since custodian customers do not receive custody services from Migdal Capital Markets Group, in such cases Stock Exchange Services will not hold any collateral against such credit.

Credit risks in respect of activity in derivatives – the customers of Stock Exchange Services perform activities in derivatives. As a result of these activities, Stock Exchange Services is exposed to the possibility that customers might exceed their collateral (mainly in Israel due to changes in the market).

Legal risks – the financial services area is exposed to claims filed against it by customers, suppliers or third parties, claiming alleged incompliance with the provisions of the law and/or agreements and/or professional negligence, including the exposure to class actions, and it is also exposed to fines and administrative enforcement measures that might be imposed by supervising authorities in case of a violation of legal provisions.

Liquidity risks – companies that manage assets may hold assets in respect of which there are liquidity problems or difficulties in paying debt in behalf of issuers. Customers of a TASE member may use credit against an asset which was given as a non-exercisable collateral.

Operational risks – the financial services area is exposed to risks related to the operation of its activity and to the functioning of various arrays under its responsibility, both computerized and human. Furthermore, the financial services area is exposed to negligence and embezzlements on the part of its employees, and to fraud on the part of customers. Flaws in trading systems and/or in communication lines along with human errors made by traders, may bring about non-execution or wrong execution of transactions, and expose the area to fluctuations in asset trade ordered by customers, and claims in material amounts. The area may be exposed to information security events, in which a third party tries to break into computer systems in order to perform unauthorized activity or to be exposed to unauthorized information.

The management of credit risks and market risks is performed through various online systems – flaws in these systems might bring about inaccurate control of activity. Flaws in the recording of phone calls received in the trade room of Stock Exchange Services may expose Stock Exchange Services to market risks, in case of clarifications with clients regarding their instructions. Stock Exchange Services allows its customers to perform Buy and Sell actions of securities and financial assets through the Internet. As a result, it is exposed to fraud and cybercrimes on the part of customers and/or third parties.

Stock Exchange Services allows some of its customers to directly contact foreign brokers abroad, in order to give Buy and Sell orders for securities and financial assets. As a result, Stock Exchange Services is exposed to the possibility of foreign brokers allowing customers to execute transactions exceeding the customers' purchasing power permitted by the TASE member, such that the customer will receive in practice unauthorized credit from Stock Exchange Services.

Professional negligence of foreign brokers and/or clearing houses in Israel and abroad may expose the financial services area to material claims.

Execution errors – errors by Stock Exchange Services in executing customers' instructions bring about an exposure to risks stemming from fluctuations in the trading of assets set forth in customers' instructions, since if there is a decline in the price of the relevant asset between the date upon which the error in the instruction was made and the date of the correction, Stock Exchange Services shall absorb this damage.

Damage to goodwill – the goodwill of the financial services area and its reputation are an important factor in engaging with new customers and maintaining existing customers. Damage to reputation might affect the businesses of the financial services area.

37.5 **Presented below is the table of risk factors regarding the area of financial services**

		The effect of risk factor on the activity of financial services		
	Risk factors	**Great effect**	**Medium effect**	**Little effect**
Macro risks	Capital markets risks	V		
Sectorial risks	Decrease in the value of AuM and scopes of activity	V		
	Insolvency of Israeli and foreign financial institutions due to holding assets	V		
	Regulation	V		V
Risks specific to the area	Credit risks to ordinary customers		V	
	Credit risks to custodian customers			V
	Credit risks in respect of activity in derivatives		V	
	Legal risks		V	
	Operational risks	V		
	Liquidity risks	V		
	Execution errors			V
	Damage to goodwill		V	

37.6 The activities of Migdal Health and Migdal Management are non-material, therefore in the Company's estimation, the risk in their respect is non-material.

38. Material agreements and collaboration agreements

38.1 **Agreement for the absorption of Eliahu portfolio**

For the description of the agreement signed between Migdal Insurance and Eliahu Insurance regarding the absorption of new business in general insurance, see Note 38e2 to the Financial Statements.

38.2 **Collective agreement**

For the description of collective agreement signed between Migdal Insurance and Migdal Makefet and the New General Federation of Labor - see Clause 31.3.2 above, as well as the Company's Immediate Report dated February 17th, 2015, Reference No. 2015-01-033544.

Part E – Corporate Governance Aspects[71]

[71] This Part and the description and data included therein are brought pursuant to the Commissioner's Circular No. 2014-1-3 regarding Corporation Businesses Description.
For the attachment of the corporate governance questionnaire pursuant to the ISA's instruction as per Clause 36 a (b) to the Securities Law, see "Additional Data on the Corporation – Corporate Governance Questionnaire".

39. External Directors

In Migdal Holdings and Migdal Insurance there are 3 External Directors. In the reported period there was no change in the office of these External Directors. In this context, it should be noted that in the reported period, the service of Messrs. Eyal Ben Chlouche and Jacob Danon as External Directors in Migdal Holdings and in Migdal Insurance was approved for a third tenure.

40. Disclosure regarding the Chief Internal Auditor[72]

The Company's Chief Internal Auditor as of the date of this Report is Ms. Michal Leshem, who entered this office on February 1st, 2014[73]. She also serves as Migdal Insurance's Chief Internal Auditor. Previously, Ms. Leshem served as the Strategy, Control and Compliance Discipline Manager. The Chief Internal Auditor reports to the Chairman of the Board of Directors.

To the best knowledge of the Corporation, the Chief Internal Auditor does not hold securities of the Corporation, except option warrants and shares included within remuneration plans for Senior Officers in the Company, as set forth in Note 33 to the Financial Statements[74].

Migdal Holdings' and Migdal Insurance's annual Work Plan regarding internal audit work is submitted by the Chief Internal Auditor, and is approved by the Audit Committee of the Company and of Migdal Insurance.

Regarding holdings of securities by Chief Internal auditors who served in 2013, see details below.

2014 Work Plan is derived from the multi-annual Work Plan for 2014-2018.

In 2013 a risk survey was conducted in the Company, and the issues brought up in the risk survey constitute the basis for preparing the multi-annual Work Plan. In addition the Work Plan took into consideration the results of previous audits, changes and organizational and content-related events, laws and regulations and regulatory instructions. More issues are added to the Work Plan if they are deemed necessary by the Chief Internal Auditor, and the Work Plan allows the Chief Internal Auditor to make changes thereof, taking into account needs that arise from time to time due to the scope of activity, after notifying the Audit Committee.

The Chairman of the Board of Directors, the Chairman of the Audit Committee and its members, the Corporation's CEO and the CPAs are involved in determining the Work Plan.

Transactions with interested parties are discussed and are submitted for approval by the authorized organs after they are examined by the professional departments. Within the Work Plan, the Audit Committee also examines transactions that were approved with interested parties. The examination of other material transactions is performed from time to time within Work Plan and as per generally accepted audit rules.

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[72] The disclosure regarding the Chief Internal Auditor and the CPA as detailed herewith in this Part also refers to the area of financial services, and it is brought pursuant to the Commissioner Circular mentioned above.

[73] In the period since April 1st, 2013 and until January 31st, 2014 – Ms. Osnat Manor-Zisman served as the Company's Chief Internal Auditor. For details regarding the wages paid to the retiring Auditor, see Clause 41 to the Periodic Report for 2013, which also includes the amounts paid to her in respect of her work termination.

[74] For details regarding shares and other securities held by Ms. Michal Leshem, as of January 27th, 2015 (to the best knowledge of the Corporation), see the Company's Immediate Report dated January 27th, 2015, Reference No. 2015-01-020095.

41. Auditing CPA

41.1 The name of the Company's CPA office and the name of the partner handling the audit

The Company’s CPAs are Kost, Forer, Gabbay & Kasierer and Somekh Chaikin, which are joint auditors in all the Group’s material companies.

The partner who handles the audit on behalf of Kost, Forer, Gabbay & Kasierer is Mr. Moshe Shachaf, CPA, and the partner on behalf of Somekh Chaikin is Mr. Avraham Fruchtman, CPA.

The CPAs started serving as joint auditors in April 1998.

The table below presents details of the CPAs fees (excluding VAT) for services provided by them for the years 2013-2014 and the number of hours invested:

	2014				
	Audit services (1)	**Audit-related services**	**Special tax services**	**Other services**	**Total (2)**
	Fees (NIS thousand)				
Migdal Insurance and investees	4,620	244	121	1,242	6,226
Migdal Capital Markets	447	-	15	211	673
The Company	160	10	-	-	170
Migdal Management Services and investees	110	-	-	-	110
Migdal Health and Quality of Life and investees	80	-	-	-	80
Total	5,417	254	136	1,453	7,259
	Hours				
Migdal Insurance and investees	20,753	1,141	403	4,584	26,881
Migdal Capital Markets	3,165	-	40	700	3,905
The Company	900	53	-	-	953
Migdal Management Services and investees	480	-	-	-	480
Migdal Quality of Life and investees	664	-		-	664
Total	**25,962**	**1,194**	**443**	**5,284**	**32,883**

(1) Audit services include fees in respect of SOX audit.

(2) Referring to all hours and fees in their respect.

About 3.6% of fees for audit services were paid to other CPAs.

In addition to the above, an amount of approx. NIS 2.1 million was paid to CPAs who are not the auditing CPAs of the Group, mainly in respect of services regarding SOX.

	2013				
	Audit services (1)	Audit-related services	Special tax services	Other services	Total (2)
	Fees (NIS thousand)				
Migdal Insurance and investees	4,378	497	111	847	5,833
Migdal Capital Markets	472	-	-	41	513
The Company	160	-	-	-	160
Migdal Management Services and investees	127	-	-	-	127
Migdal Health and Quality of Life and investees	80	-	-	-	80
Total	5,217	497	111	888	6,713
	Hours				
Migdal Insurance and investees	19,921	1,402	288	2,423	24,034
Migdal Capital Markets	1,889	-	-	163	2,052
The Company	890	-	-	-	890
Migdal Management Services and investees	726	-	-	-	726
Migdal Health and Quality of Life and investees	469	-	-	-	469
Total	**23,895**	**1,402**	**288**	**2,586**	**28,171**

(1) Audit services include fees in respect of SOX audit.

(2) Referring to all hours and fees in their respect.

About 3.3% of fees for audit services were paid to other CPAs.

In addition to the above, an amount of approx. NIS 1.8 million was paid to CPAs who are not the auditing CPAs of the Group, mainly in respect of services regarding SOX.

42. Effectiveness of internal control over financial reporting and disclosure

Management, under the BoD's supervision, conducted an examination and assessment of: Entity Level controls (ELC), controls on the closing and processing of reports, general controls over IT systems and controls over very critical processes (within Migdal Insurance).

In addition to the managers' statements and the Report regarding the Effectiveness of Internal Control requested pursuant to the Securities Regulations, attached are statements, reports and disclosures regarding the internal audit in the consolidated institutional entities, to which the Commissioner's instructions apply. These are attached in Chapter 6 to the Periodic Report.

Requested information pursuant to the Commissioner Circular

The institutional entities in the Group adopted the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) that is a defined and known framework that serves to assess the internal control.

42.1 **Controls and procedures regarding disclosure**

The managements of the institutional entities in the Group, together with their CEOs and CFOs, assessed the effectiveness of controls and procedures regarding the institutional entities' disclosure in their financial Statements. Based on this assessment, the CEOs and the CFOs of the Group's institutional entities, respectively, concluded that as of the end of this period, the controls and procedures regarding the disclosure of each institutional entity, are effective for the purpose of recording, processing, summarizing and reporting the information that the institutional entity is required to disclose in the annual report, as per the provisions of the law and the reporting instructions set by the Commissioner of Capital Markets, Insurance & Savings and on the date stated in these instructions.

42.2 **Internal control over financial reporting**

During the covered period ending on December 31st, 2014, there was no change in the Group’s institutional entities' internal control over financial reporting, which materially affected, or is likely to materially affect, the institutional entity’s internal control over financial reporting.

However, the institutional entities in the Group are developing, upgrading and/or replacing several information systems, inter alia, in order to improve and increase the efficiency of various processes and/or the internal control and/or service to customers.

Attached to the Group's institutional entities' Financial Statements are the required statements, reports and disclosures regarding the relevant processes, pursuant to the provisions of Management Responsibility Circulars and interim stages set forth in them for the Circulars' implementation.

At the same time, the Group's institutional entities continue to prepare for the implementation of the next stages included in the Management Responsibility Circular, regarding financial reports to members and insureds.

43. Preparation towards the implementation of the Solvency II Directive

Since July 2008, the Commissioner has issued circulars and instructions regarding the preparation towards adopting the Solvency II provisions (“**the Directive**”).

During the preparations period, instructions are issued as to the calculation of capital requirements as per the Quantitative Impact Study (QIS), which includes a quantification of the various insurance and financial risks that the insurance companies face, as per the requirements set forth in the relevant Commissioner Circulars.

Within the preparations towards the first pillar, Migdal Insurance is studying the results of the Quantitative Impact Study and their expected effect on its activity, and it is examining the computerized and procedural deployment involved in its implementation.

Below are details regarding the Company's progress as to preparations towards the Directive's implementation during 2014:

In October 2014 a meeting was held between the Commissioner and the insurance companies' representatives, regarding the expected updates to the model, towards the publication of guidance for the execution of an exercise for 2014 (IQIS14), whose results will be submitted to the Commissioner by July 2015.

During 2014 the Company held discussions in the BoD Committee established as per the Commissioner's instructions in order to supervise and control the process of preparations towards the Directive's implementation ("**Committee next to the BoD for the Accompaniment of the Directive Implementation**"), and in the BoD, regarding the progress in the preparations towards the Directive's implementation.

During 2014, the Company conducted an internal exercise, for the calculation of the solvency ratio, for 2013 (IQIS13).

For additional details, see Note 7c8 to the Financial Statements.

Migdal Insurance and Financial Holdings Ltd.

Oded Sarig	**Eran Czerninski**
Chairman of the Board of Directors	CEO

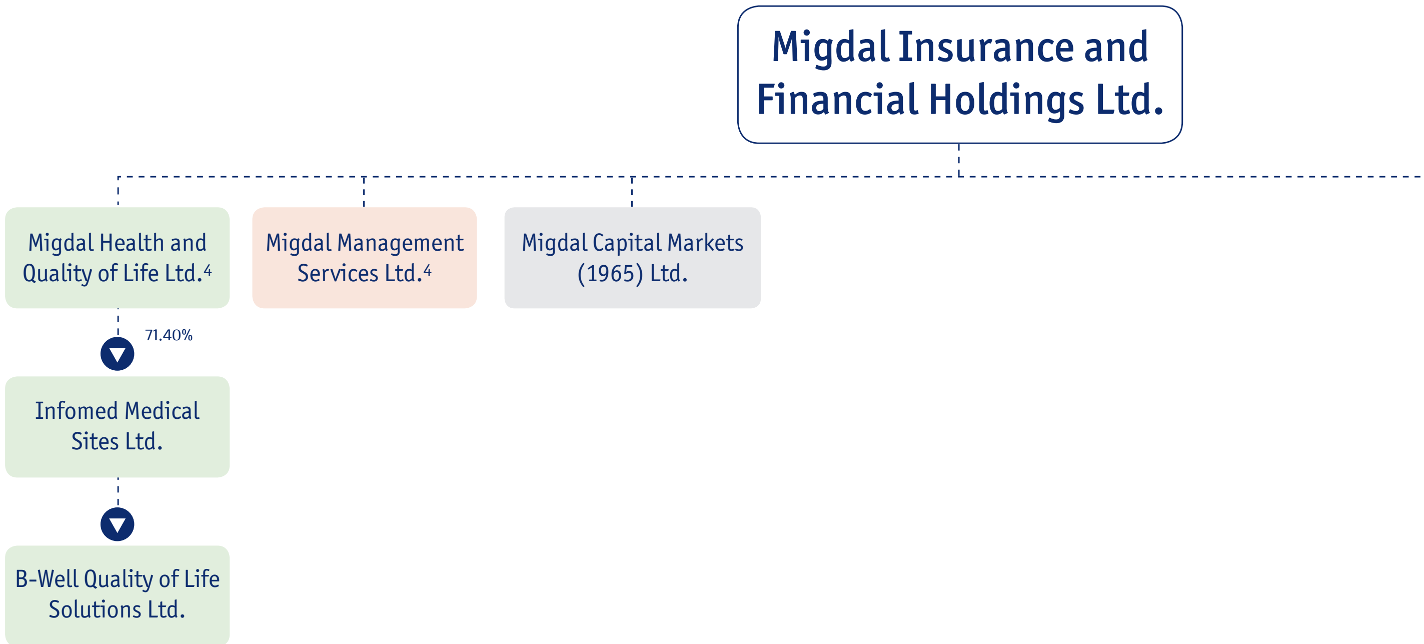
March 24th, 2015

GROUP HOLDINGS STRUCTURE

Nimrod Fortress

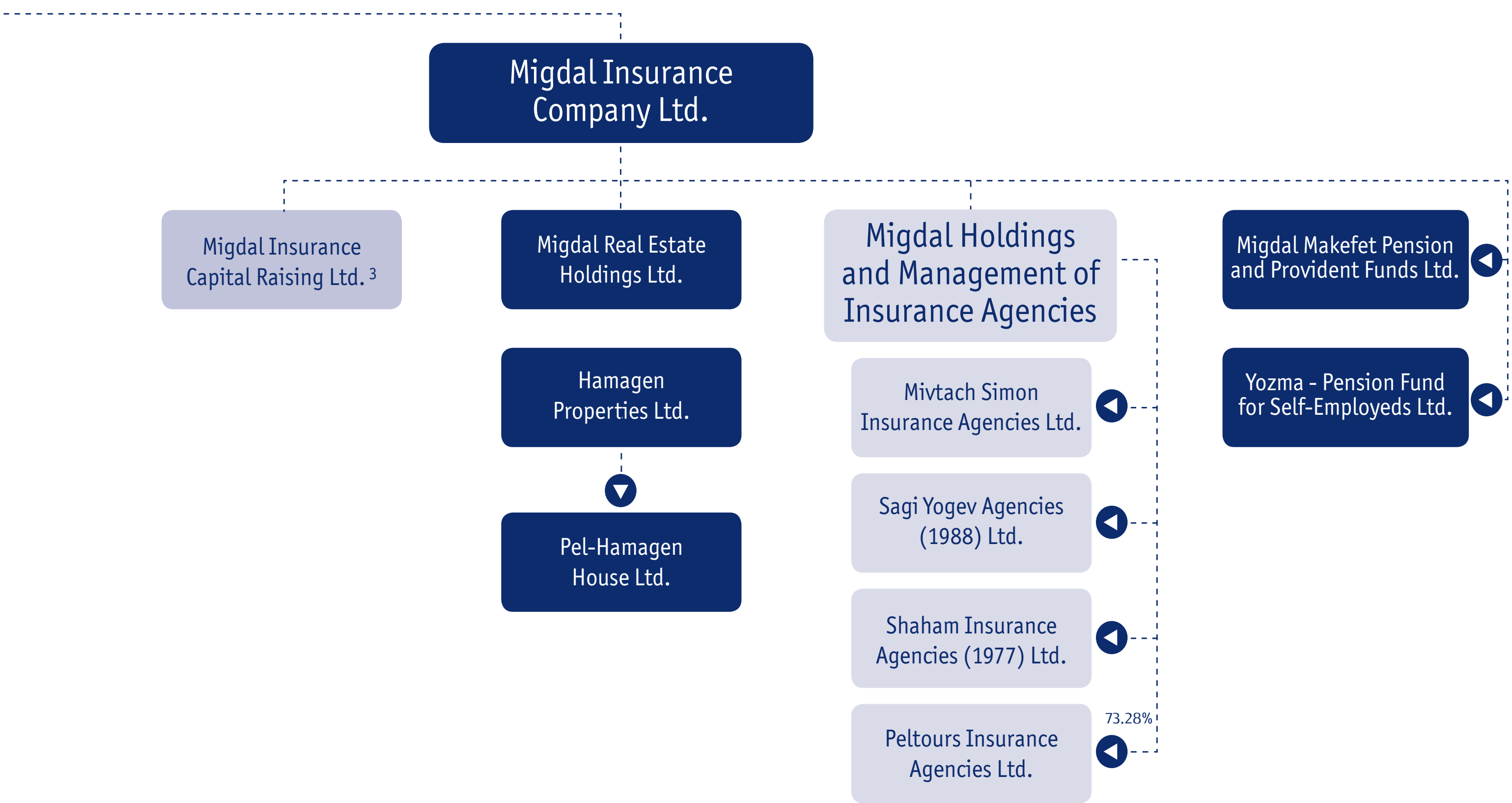
Group Holdings Structure

As of March 24th, 2015



Notes:

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



Migdal Insurance Company Ltd.
Migdal Insurance Capital Raising Ltd. 3
Migdal Real Estate Holdings Ltd.
Hamagen Properties Ltd.
Pel-Hamagen House Ltd.
Migdal Holdings and Management of Insurance Agencies
Mivtach Simon Insurance Agencies Ltd.
Sagi Yogev Agencies (1988) Ltd.
Shaham Insurance Agencies (1977) Ltd.
73.28%
Peltours Insurance Agencies Ltd.
Migdal Makefet Pension and Provident Funds Ltd.
Yozma - Pension Fund for Self-Employeds Ltd.

BOD REPORT ON THE SITUATION OF THE CORPORATION BUSINESSES

Galilee

Chapter 2 – Board of Directors Report on the Situation of the Corporation Businesses

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

BOARD OF DIRECTORS' REPORT ON THE COMPANY'S BUSINESS POSITION AS AT DECEMBER 31, 2014

The Board of Directors' Report as at December 31, 2014 reviews the main changes in the activities of Migdal Group in the reported period (hereinafter – "**the reported period**"). The Board of Directors' Report is an integral part of the Periodic Report including all its parts, and the Periodic Report should be read as a whole.

1. Company description

1.1 General

The Company, via its subsidiaries ("**Migdal Group**", "**the Group**"), operates mainly in the area of insurance, pension, provident funds and financial services.

The Group's insurance, pension and provident fund activity is carried out via Migdal Insurance Company Ltd. ("**Migdal Insurance**" or "**Migdal**") and its subsidiaries. The Group's pension and provident fund activity is carried out via Migdal Insurance's subsidiaries: Migdal Makefet Pension and Provident Funds Ltd. ("**Migdal Makefet**" or "**Makefet**"), which manages the Group's new pension funds ("**Makefet Ishit**" and "**Makefet Supplementary**"), and it also manages all the Group's provident funds, as well as via Yozma Pension Fund for Self-Employeds Ltd. ("**Yozma for Self-Employeds**" or "**Yozma**"), which manages an old pension fund, Yozma Pension Fund for Self-Employeds.

The Group also has holdings in insurance agencies, which are mainly performed via Migdal Holdings and Management of Insurance Agencies Ltd. ("**Migdal Agencies**"), fully controlled by Migdal Insurance.

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

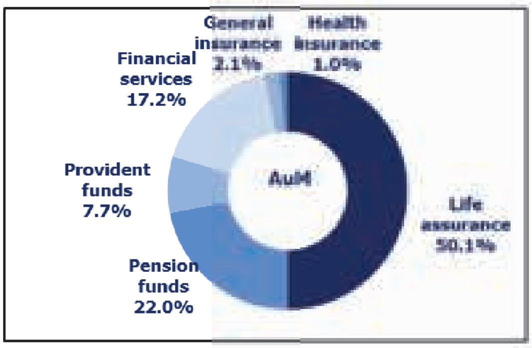
As of the date of the Report, Eliahu Insurance Company Ltd. ("**Eliahu Insurance**") holds approx. 69% of the Company's issued and paid-up capital.

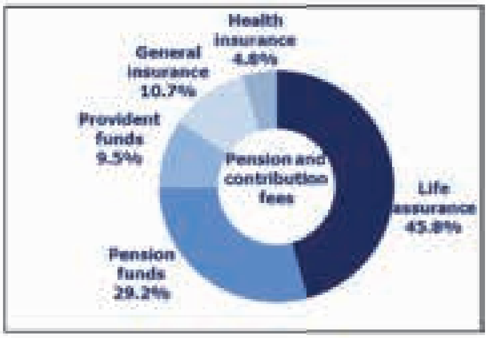
For additional details regarding the controlling shareholders' holdings in the Company see Clause 2.2 to Part A in the Periodic Report – Corporation Businesses Description ("**Corporation Businesses Description**"). For the description of the Group's areas of activity and main holdings structure, see Clauses 2.3 and 3 to the Corporation Businesses Description.

Migdal Insurance is the largest and leading insurance company in the area of life assurance and Long Term Savings in Israel[1].

[1] As of September 30th, 2014, based on insurance liabilities in life assurance and AuM in pension and provident funds.

The breakdown of (gross) insurance liabilities in insurance businesses and Assets under Management (hereunder – AUM) in pension funds, provident funds and financial services ("AuM"), as well as the breakdown of premiums, receipts in respect of investment contracts and contributions by areas / lines of activity





As of December 31st, 2014 For 2014

The Company serves over 2.0 million private and business customers in the areas of insurance, pension and provident funds has business relations with approx. 2,600 insurance agencies and agents, and has over 4,300 employees.

1.2 Key developments since the last annual report

1.2.1 **The impact of the economic environment – the decrease in risk-free curve**

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

In 2014 there was a significant decrease in the risk-free interest rate in the economy, which caused a substantial increase in life assurance reserves, including the need to examine the reserves' adequacy. As a result of these trends, the examination of the reserves' adequacy as well as the provisions for Supplementary Annuity Reserves (SAR) became components with high sensitivity to assessment, in the Company's Financial Statements. These calculations are mainly based on methodologies used by the Company also in assessing "the embedded value" in long term insurance policies.

For details see Clauses 3.2, 3.3 and 4.1 below and Note 37b3(b)(5) to the Financial Statements.

The decrease in the risk-free interest rate also affects the actuarial deficit in pension funds. In pension funds, the annuity conversion coefficients are calculated based on a yield assumption (pricing interest rates) as set forth in legislative arrangements. The pricing interest rates embedded in the conversion coefficients in pension funds is higher than the risk-free interest rate, which contributed to the actuarial deficit created in pension funds.

After the reporting date, there was another significant decrease in the risk-free interest rate, which is expected to significantly increase insurance liabilities. For the sensitivity of insurance liabilities to a cut in interest rate, see Note 37b1a) to the Financial Statements. In addition, *inter alia*, due to the decrease in the interest rate curve as aforementioned, there was a significant increase in the value of the Company's financial investments, with a similar impact on the financial results. It is still too early to assess the entire impact of these events on the Company's financial results, especially due to the high sensitivity of results to the aforementioned changes. See also Note 40c to the Financial Statements.

1.2.2 **The area of life assurance and Long Term Savings – the impact of regulatory changes**
Following the regulation in annuity coefficients and the reform in management fees, there were material changes in the area of life assurance and LTS, resulting, *inter alia*, in a material change in the mix of products sold in the area, along with a substantial increase in the weight of new sales in pension funds, and a significant decrease in the weight of new sales in life assurance. Pension sales are increasing compared to managers' insurance, and at the same time, there was an additional acceleration in the competition over management fees on products in the area. For additional details see Clause 4.2.1 below.

1.2.3 **Changes related to the Senior Officers** – in the reported period, and until the publication of the Report, there have been changes in the key Senior Officers in the Group, including the CEO, changes in the identity of the CoB and the appointment of a CoB for Migdal Insurance. For additional details see Clause 2.4.3 to Part A in the Corporation Businesses Description chapter, Note 38j4 to the Financial Statements, and Regulation 26 and Regulation 26a in the Additional Data on the Corporation chapter.

1.2.4 **Change and update of the remuneration policy for Senior Officers in the Company for the years 2014-2016 and the approval of a remuneration policy in institutional organs** – for the change and update of the remuneration policy for Senior Officers in the Company for the years 2014-2016 and the approval of the remuneration policy in institutional organs, see Clause 31.4 to Part D in the Corporation Businesses Description.

1.2.5 **Raising second tier capital in Migdal Insurance –** on March 24th, 2015 Migdal Insurance's BoD approved filing a request in order to receive the ISA's permission for publishing a prospectus regarding capital raising, in the scope of up to NIS 1 billion, by Migdal Capital Raising Ltd. ("**Migdal Capital Raising**"), a designated company owned by Migdal Insurance, of bonds complying with the definition "second tier capital", pursuant to the provisions of the Law and the Commissioner's instructions, whose consideration will be deposited at Migdal Insurance. For details regarding this issue, including actions carried out in the reported year, see Note 7c9 to the Company's Financial Statements.

1.2.6 **Signing a collective agreement –** for details regarding the collective agreement signed on February 17th, 2015 between Migdal Insurance and Migdal Makefet and the New General Federation of Labor, see Clause 31.3.2 to Part D in the Corporation Businesses Description, as well as Note 40a to the Financial Statements.

2. Description of the business environment

For the description of the business environment, see Clause 4 below.

3. BoD explanations to the Corporation's situation

3.1 Analysis of the financial situation and activity results

NIS million	2014	2013	Change in %	2012	10-12/14	10-12/13	Change in %
Area of Long Term Savings							
Gross earned premium, receipts in respect of investment contracts and contributions [1]	15,519.7	14,599.3	6%	13,780.2	4,256.3	3,989.8	7%
Income (loss) for the period before tax	292.1	781.2		88.4	(60.5)	300.1	
Comprehensive income (loss) before tax	444.5	905.9		216.1	(42.3)	389.7	
Area of Health Insurance							
Gross earned premium	879.9	770.2	14%	692.5	232.7	206.2	13%
Income for the period before tax	75.3	71.3		96.2	22.9	3.4	
Comprehensive income before tax	82.3	77.2		102.3	22.8	8.4	
Area of General Insurance							
Gross earned premium	1,939.9	1,755.9	10%	1,426.6	474.2	490.5	(3%)
Gross premium	1,968.9	2,021.5	(3%)	1,406.3	397.4	349.7	14%
Premium in retention	1,562.5	1,508.6	4%	952.0	290.0	262.2	11%
Income for the period before tax	108.4	104.2		110.0	9.3	2.8	
Comprehensive income before tax	116.6	153.9		184.2	2.0	37.5	
Area of Financial Services							
Revenues	209.6	200.7	4%	208.8	54.1	53.0	2%
Income (loss) for the period before tax	0.5	(4.3)		10.6	2.3	(5.3)	
Comprehensive income (loss) before tax	2.1	(3.5)		10.8	3.8	(5.0)	
Total Areas of Activity							
Total gross earned premium, receipts in respect of investment contracts and contributions	18,339.5	17,125.3	7%	15,899.2	4,963.3	4,686.5	6%
Total gross premium, receipts in respect of investment contracts and contributions [2]	18,368.5	17,391.0	6%	15,879.0	4,886.4	4,545.7	7%
Total income (loss) for the period before tax	476.3	952.4		305.2	(26.0)	301.0	
Total comprehensive income before tax	645.5	1,133.5		513.3	(13.6)	430.7	
Other [3]							
Income (loss) for the period before tax	132.1	30.8		30.4	25.8	(11.0)	
Comprehensive income before tax	147.3	54.0		112.7	13.1	8.5	
Income for the period before tax	608.3	983.2		335.6	(0.2)	290.0	
Comprehensive income for the period before tax [4]	792.7	1,187.6		626.1	(0.6)	439.2	
Income tax							
Income tax – in terms of income for the period	185.5	366.5		117.5	(33.4)	104.1	
Income tax – in terms of comprehensive income	255.1	448.7		221.4	(34.1)	159.7	
Income for the period	**422.8**	**616.7**	**(31%)**	**218.1**	**33.1**	**185.9**	**(82%)**
Comprehensive income for the period	**537.6**	**738.9**	**(27%)**	**404.6**	**33.5**	**279.5**	**(88%)**
Return on equity (based on income for the period)[5]	**8.5%**	**13.2%**		**4.9%**	**0.6%**	**3.7%**	
Return on equity							
(based on comprehensive income)[5]	**10.8%**	**15.9%**		**9.1%**	**0.6%**	**5.6%**	

(1) Receipts in respect of investment contracts are not included in the premiums item, but are credited directly to liabilities in respect of insurance contracts and investment contracts. The data regarding contributions to pension and provident funds managed by the Group are not included in the consolidated Financial Statements.
(2) In general insurance, including data of gross premiums, and in life assurance and health insurance, including gross earned premiums.
(3) The "Other" item mainly includes the results of activity of insurance agencies in the Group, related Group activity, performed within Migdal Health and Migdal Management of an insignificant scope, as well as net investment income (including income from affiliates) not attributed to areas of activity, as well as adjustments within the reports consolidation.
(4) The comprehensive income for the period includes the results of investment activity of available for sale financial assets (Nostro portfolio) that have not yet been realized, vs. the income/loss for the period that includes the results of investment activity of securities that were realized in the reported period beginning from the day of acquisition, therefore, the difference between the comprehensive income for the period and the income for the period is mainly affected by the timing of the realization of income or loss from securities, except in cases in which there is a provision for impairment that is recognized in the P & L report before the realization. The Company mainly utilizes comprehensive income for measuring its results.
(5) The calculation of return on equity was made after adjustment of the equity balance for dividend distribution during the reported period.

The above Notes refer to the way the description is made throughout all the parts of the BoD Report.

3.2 Description of the development of activity results in 4Q14

In 4Q14, there was a decrease in the Group's comprehensive income vs. 4Q13, mostly affected by a decrease in the yields achieved by the Group on capital markets, compared with 4Q13, in which especially high yields were achieved.

In 4Q14, variable management fees collected in life assurance totaled approx. NIS 44 million before tax, vs. approx. NIS 304 million before tax in 4Q13.

Furthermore, the comprehensive financial spread from investments against guaranteed yield policies in life assurance decreased compared with 4Q13, due to a decrease in the real yields achieved in investments that are not designated bonds. In addition, income from investments in the area of health insurance and the area of general insurance and income from investments against capital decreased, due to lower nominal yields achieved by the Group on capital markets in 4Q14, vs. 4Q13.

In life assurance, there was a provision in the amount of approx. NIS 123 million before tax following the examination of the adequacy of reserves in life assurance, including the SAR. This provision was recorded in respect of life assurance plans, including their appendices that were marketed in the past, and it stems mainly from the update of assumptions regarding annuity take-up rates, following the experience that was accrued in the Company, as well as a decline in interest rate curves. In 4Q13 there was an immediate provision for annuities in the amount of approx. NIS 63 million before tax.

It should be noted that in 4Q13 there was a special income of NIS 52 million in respect of transactions in which Migdal Insurance purchased from Generali its reinsurance portfolio for PHI policies for the period between January 1st, 1970 until December 31st, 2001, and sold it to another reinsurer. Furthermore, last year a special grant in the amount of approx. NIS 97 million was distributed to the employees in the Group's main companies, one year after the closing of the control in the Company.

In addition, in life assurance there was a decrease in income from risk, due to an increase in claims, and on the other hand, there was an increase in revenues from fixed management fees in profit participating policies, following an increase in the volume of the managed assets.

In 4Q14 total new sales (excluding increases) in the area of life assurance and LTS remained stable compared with 4Q13, along with a decrease in the sale of life assurance plans in pension sales.

In the area of health insurance, there was an increase in underwriting income in 4Q14 vs. 4Q13, mostly due to the impact of the estimated claims in LTC, which was partly offset due to a deterioration in claims in medical expenses insurance.

In the area of general insurance, underwriting results (excluding investment income) increased vs. 4Q13, which was reflected in a decrease of underwriting loss in liability insurances and an increase in underwriting income in other property lines, partly offset due to a decline in underwriting income in CMBI. In liability lines, the underwriting loss in the reported quarter was due to a trend of deterioration in claims experience, which brought about an increase in the actuarial valuation of outstanding claims, an increase that was lower than the increase in the actuarial valuation in 4Q13. On the other hand, in the CMBI line the underwriting results in the reported quarter were due to a trend of improvement in the claims experience, which led to a decrease in the actuarial valuation of outstanding claims, which was lower than the decrease in the actuarial valuation in 4Q13.

In the area of financial services, the shift to income compared with loss in 4Q13 was mostly due to an increase in expenses in 4Q13 due to the special grant that was distributed as set forth above.

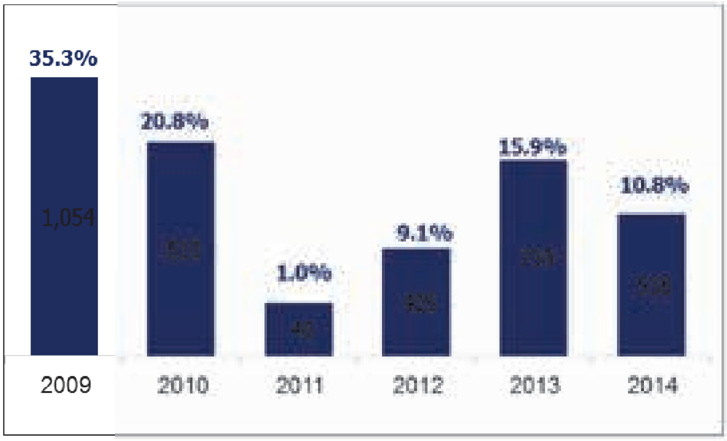
In the results of other areas of activity, which mainly include the results of activity of insurance agencies in the Group, there was an increase in the comprehensive income vs. 4Q13, which was mostly due to a decrease in expenses, *inter alia*, due to the special grant that was distributed in 4Q13, as set forth above.

For additional details regarding the development of results in 4Q14, see within the areas of activity below.

For additional details regarding the development of premiums and income in quarters in 2014, see Regulation 10a to the Additional Data on the Corporation chapter.

3.3 Description of the development of activity results in the reported year

Presented below is the development of comprehensive income for the period (NIS million) and RoE in 2009-2014:



The results in 2014 as well as in 2012-2013 were affected by the high yields achieved by the Group on capital markets.

The decrease in the Group's comprehensive income in 2014 vs. 2013d year was mainly affected by a provision in the amount of approx. NIS 466 million before tax, following the adequacy examination of reserves in life assurance, including the SAR, taking into account, *inter alia*, the update of annuity take-up rates. This provision was recorded in respect of life assurance plans, including their appendices that were marketed in the past, and it is mostly due to a decrease in interest curves and in respect of the update of assumptions regarding annuity take-up rates following the accrued experience in the Company.

In 2013 there was an immediate provision to annuity in the amount of approx. NIS 63 million before tax vs. an immediate provision for annuity of approx. NIS 257 million before tax in 2012. For details see Note 37b3(b)(5) to the Financial Statements.

In addition, in 2014 there was a decrease in variable management fees collected in life assurance, which totaled approx. NIS 384 million before tax, vs. approx. NIS 637 million before tax in 2013, due to a decrease in real yields achieved by the Company in 2014, vs. the especially high yields achieved by the Company in 2013. In 2012 variable management fees in the amount of approx. NIS 172 million before tax were collected, and they were recorded mainly in 4Q14, and in 2011 no variable management fees were collected.

On the other hand, the comprehensive financial spread from investments against guaranteed yield policies in life assurance increased in 2014 compared with 2013, due to an increase in the real yields achieved in investments that are not designated bonds. Also, revenues from investments against equity in the general insurance area increased due to higher real yields achieved by the Group on capital markets compared with 2013. This increase is following a decrease in the comprehensive financial spread and in investment income in 2013 vs. 2012.

For additional details regarding the financial spread, including management fees, yields and management fees in the profit participating portfolio, see Note 18 to the Financial Statements, as well as Clause 3.4.6 below.

The Group's activity and results are greatly affected by capital markets, including by the low interest rate that affects embedded yields in the insurance portfolios and the other financial assets, and as a result, also management fees / financial spread in investments. For more details about the effect of investment income on the Group's income, see Clause 4.1.4 below.

Regarding the development on capital markets in Israel and abroad, in the reported year and after the balance sheet date, see Also Clause 4.1 below.

It should be noted that in 2013 there was an extraordinary income in the amount of NIS 52 million recorded in respect of the transaction for the acquisition of a reinsurance transaction and selling it to another reinsurer, and there was an increase in the Group's G&A expenses in the amount of approx. NIS 97 million, following the special grant that was distributed, as set forth in Clause 3.2 above.

In life assurance, in 2014 there was an increase in risk income due to a decline in claims and an increase in revenues from fixed management fees in profit participating policies, due to an increase in the scope of AuM. In 2013 there was also an increase in fixed management fees, as set forth above, and on the other hand, there was a decrease in risk income.

In the area of health insurance there was an increase in the underwriting income compared with last year, mostly due to the impact of the estimated claims in LTC, which was partly offset due to an increase in claims in medical expenses insurance, *inter alia*, transplants. In 2013, compared with 2012, there was a decrease in the comprehensive income, which was affected by an increase in claims.

In the area of general insurance there was a decrease in underwriting results compared with 2013, which was mainly reflected in the CMBI and liability lines, and there was a current amortization in respect of a full calendar year of non-tangible assets attributed to the absorption of Eliahu Insurance's new business in Migdal, compared with the beginning of recording of current amortization in 4Q13. On the other hand, there was an improvement in underwriting results in the property lines. In liability lines, the underwriting loss in the reported year was due to a trend of deterioration in the claims experience, which led to an increase in the actuarial valuation of outstanding claims, which was higher than the increase in the actuarial valuation in 2013. On the other hand, in the CMBI line the underwriting results in the reported year were due to a trend of improvement in the claims experience, which led to a decrease in the actuarial valuation of outstanding claims, which was lower that the decrease in the actuarial valuation last year. In 2013 there was a deterioration in underwriting results in the liability lines, vs. an improvement in underwriting results in the motor casco and motor act lines vs. 2012.

Premiums in general insurance decreased compared with 2013, due to a reduction in the number of policies in motorcar insurances sold by the Company, as well as a reduction in premiums in other property lines, which was due, in part, to the dates of renewal of policies in which the insurance coverage exceeds one year in several large businesses, and a decrease in homeowners insurance policies sold by the Company. The decrease in premiums in motorcar insurances as aforesaid was partly affected by a focus on profitable insurances, including the discontinuation of activity in several collective insurances, and by an erosion of tariffs in CMBI due to the competition in the line. Furthermore, there was a decline in premiums in homeowners insurance, due to a reduction in the number of policies sold by the Company due to an update in the composition of coverages and tariffs by the Company, and the impact of the high competition in this line. The decrease in premiums in 2014 followed a significant increase in premiums in 2013, which was mostly affected by the absorption of Eliahu Insurance's new business in Migdal.

In the area of financial services, the shift to income compared with loss in 2013 was mostly due to an increase in revenues in respect of mutual funds management, to Arxcis and financial and financing transactions, and it was party offset due to amortization of goodwill attributed to Dragon Hedge Funds ("**Dragon**"), held by a subsidiary of Migdal Capital Markets. In 2013 there was a decrease in revenues from activity in negotiable securities, mainly abroad, and other financial transactions, as well as a decrease in revenues from portfolio management and underwriting activity.

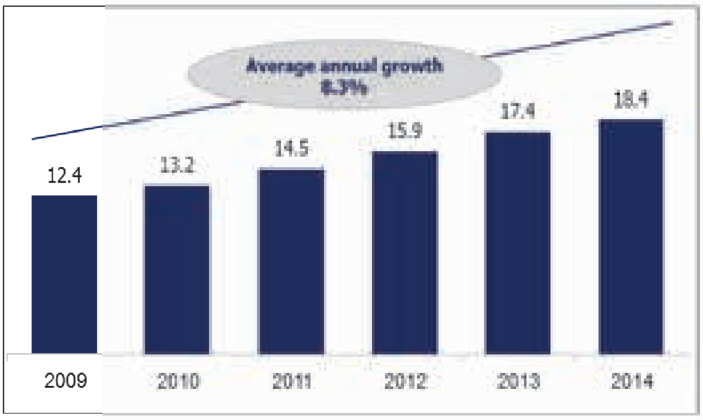
In the results of other areas of activity, which mainly include the results of activity of insurance agencies in the Group, there was an increase in the comprehensive income vs. 2013, which was mostly due to a decrease in expenses, *inter alia*, due to the special grant that was distributed as aforementioned.

It should also be noted that in 2014 there was an increase in the provision for class actions, see Note 39 1e2).

In 2013 there was a decrease in comprehensive income in the amount of approx. NIS 42 million, mostly due to an update of balances of deferred taxes, pursuant to a 1% increase in profit tax in June 2013, and the coming into effect of the Arrangements Law, which increased the companies' tax rate from 25% to 26.5%. For details see Note 21c to the Financial Statements.

For details regarding the financial results as per areas of activity, see below. Also, see Note 3 to the Financial Statements.

Description of the development in the Group's scope of activity in the reported year
Presented below is the development in premiums, receipts in respect of investment contracts and contributions from insurance, pension funds and provident funds businesses, in 2009-2014 (NIS billion):

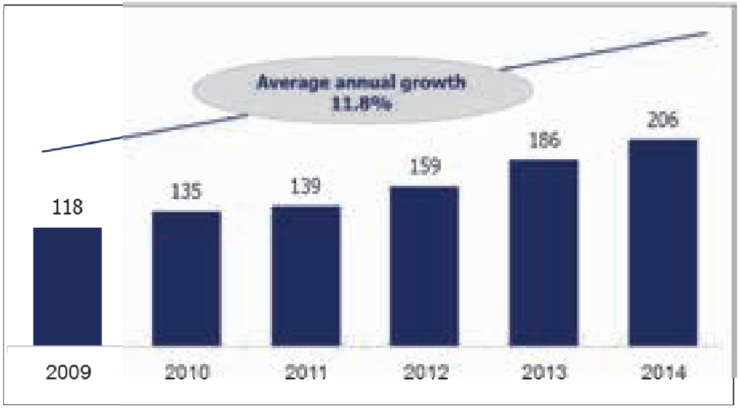


In 2014 the increase in premiums, including receipts in respect of investment contracts, and in contributions in the area of life assurance and LTS and in the area of health, continued.

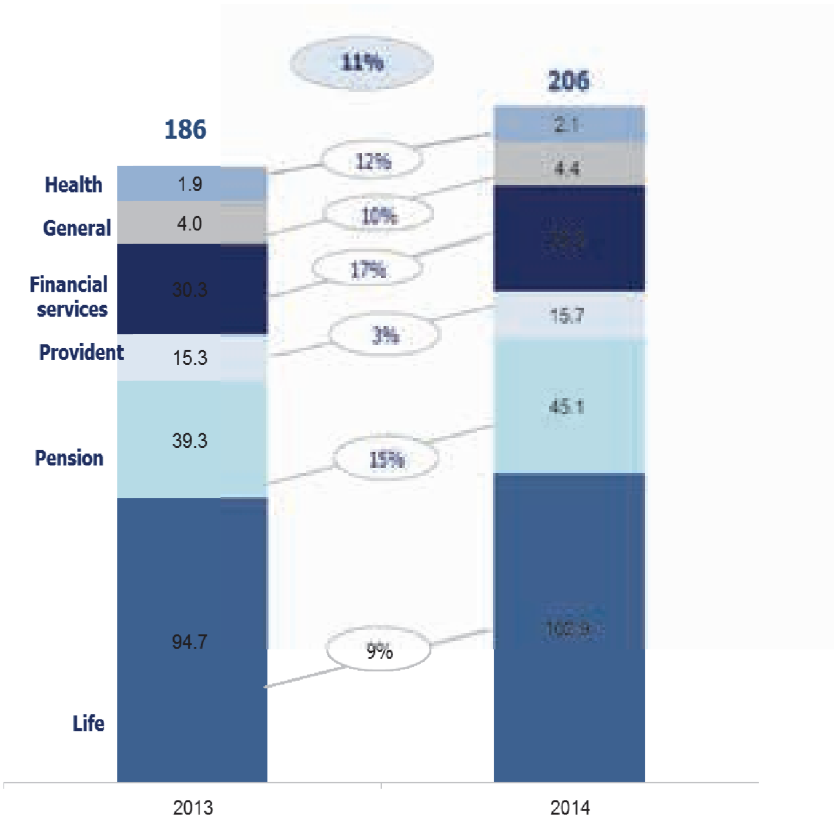
As set forth above, in the area of general insurance, there was a certain decrease in gross premiums in 2014, following a significant increase in premiums in 2013, which was mainly affected by the absorption of the new business of Eliahu Insurance in Migdal, which brought about an increase in CMBI, casco and homeowners insurance.

In 2014, pursuant to the reform in the area of life assurance and LTS, the decrease in the weight of life assurance new sales to total new sales of life assurance and LTS products in the Group, continued, and on the other hand, there was an increase in new sales of pension funds. Total new sales (excluding increases) remained stable compared with 2013, following a certain decrease in 2013. For additional details see Clause 3.4 below.

Presented below is the development of total AuM[2] in 2009-2014 (NIS billion):



Presented below is the breakdown of AuM in the Group by area of activity as of the end of 2014, vs. the end of 2013 (NIS billion):



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[2] AuM in pension funds, provident funds, mutual funds and portfolio management are not included in the Company's Consolidated Financial Statements.

3.4 Area of life assurance and LTS

3.4.1 Presented below is the breakdown of the condensed results of activity of the area in the reported year:

NIS million	2014	2013	Change in %	2012	10-12/14	10-12/13	Change in %
Life assurance							
Gross current earned premiums	6,817.5	6,657.2	2%	6,268.8	1,731.6	1,690.5	2%
Single premiums and receipts in respect of investment contracts	1,596.2	1,414.1	13%	1,360.4	542.8	393.3	38%
Gross earned premiums including investment contracts in life assurance	**8,413.7**	**8,071.3**	**4%**	**7,629.2**	**2,274.3**	**2,083.8**	**9%**
Management fees	946.1	1,115.1	(15%)	574.2	192.3	430.5	(55%)
Income (loss) for the period	192.4	686.3		(0.3)	(78.9)	282.3	
Comprehensive income (loss)	343.8	809.0		118.6	(60.1)	369.8	
Pension							
Contributions	5,359.0	4,757.0	13%	4,386.0	1,414.0	1,305.0	8%
Management fees	340.6	302.4	13%	286.4	89.8	84.4	6%
Income for the period	83.4	69.9		69.8	20.4	10.0	
Comprehensive income	84.2	71.9		77.9	19.6	12.0	
Provident							
Contributions	1,747.0	1,771.0	(1%)	1,765.0	568.0	601.0	(5%)
Management fees	138.1	138.7	(0%)	140.0	34.6	37.3	(7%)
Income for the period	16.3	25.0		18.8	(2.0)	7.8	
Comprehensive income	16.4	25.0		19.6	(1.8)	8.0	
Total gross earned premiums, receipts in respect of investment contracts and contributions	**15,519.7**	**14,599.3**	6%	**13,780.2**	**4,256.3**	**3,989.8**	7%
Total management fees	**1,424.8**	**1,556.1**	(8%)	**1,000.5**	**316.7**	**552.1**	(43%)
Total income (loss) for the period	292.1	781.2		88.4	(60.5)	300.1	
Total comprehensive income (loss)	444.5	905.9		216.1	(42.3)	389.7	

3.4.2 Presented below are data regarding insurance liabilities in life assurance and AuM in pension and provident funds in the Group as of the end of 2014 vs. the end of 2013, respectively:

NIS million	31.12.2014	31.12.2013	Change in %
Liabilities in respect of yield-dependent insurance and investment contracts	76.4	69.1	10.6%
Liabilities in respect of insurance and investment contracts that are not yield-dependent	26.5	25.6	3.3%
Total liabilities in respect of insurance and investment contracts – life assurance	102.9	94.7	8.7%
AuM in pension funds	45.1	39.3	14.9%
AuM in provident funds	15.7	15.3	2.7%
Total life assurance and LTS	**163.7**	**149.3**	**9.7%**

3.4.3 **Results of activity in the area of life assurance and LTS in 4Q14**

(a) Life assurance

Scope of activity

In 4Q14, there was a slight increase in current premiums in respect of insurance contracts and in current receipts in respect of investment contracts, which was affected by new sales less cancellations, which remained similar to their level last year. Also, single premiums in respect of insurance contracts and single receipts in respect of investment contracts recorded a significant increase vs. 4Q13, due to a marked increase in receipts in respect of investment contracts.

The rate of surrenders to average reserve (in annual terms) in 4Q14 totaled approx. 1.8% vs. 2.2% in 4Q13.

Comprehensive income before tax

The shift from comprehensive income in 4Q13 to a loss in the reported quarter was affected by a decrease in the collection of variable management fees in the profit participating polices marketed until 2004, from approx. NIS 304 million before tax in 4Q13 to approx. NIS 44 million before tax in 4Q14. Furthermore, the comprehensive financial spread from investments against guaranteed yield policies in life assurance decreased compared to 4Q13, due to a decrease in the real yields achieved by the Company in investments that are not designated bonds.

In addition, there was a provision in the amount of approx. NIS 123 million before tax in respect of life assurance plans, including their appendices that were marketed in the past, and it stems mainly from the update of assumptions regarding annuity take-up rates, following the experience that was accrued in the Company, as well as a decline in interest rate curves. In 4Q13 there was an immediate provision for annuities in the amount of approx. NIS 63 million before tax.

Risk income decreased due to an increase in claims vs. 4Q13. On the other hand, there was an increase in revenues from fixed management fees in profit participating policies, pursuant to an increase in the scope of AuM.

Furthermore, in 4Q13 there was a special gain of NIS 52 million was recorded in respect of the transaction for the acquisition of a PHI reinsurance treaty and selling it to another reinsurer, an there was an increase in expenses due to a special grant that was distributed, as set forth in Clause 3.2 above.

(b) Pension funds

Scope of activity

In 4Q14, there was an increase in contributions, which was affected by in new sales and salary increases, less cancellations.

Comprehensive income before tax

The increase in comprehensive income in 4Q14 vs. 4Q13 was mainly affected by an increase in total management fees, due to an increase in the scope of AuM and contributions. On the other hand, there was an erosion in the rate of management fees because of the harsh competition in the area. G&A expenses decreased partly due to the distribution of a special grant in 4Q13, as set forth above.

(c) Provident funds

Scope of activity

In 4Q14 there was a decrease in contributions, that was affected by a decrease in end-of-year deposits, mainly by self-employeds.

Comprehensive income before tax

The decrease in comprehensive income in 4Q14 vs. 4Q13 was mainly due to a goodwill valuation allowance in the amount of approx. NIS 14 million, attributed to provident activity.

In addition, there was a decrease in management fees, partly affected by an erosion in the average management fees rate, which was partly offset by an increase in the scope of the Company's AuM, and a change entered last year in the provision for the reimbursement of management fees pursuant to a ruling in principle by the Commissioner regarding the increase of management fees with no prior notice. On the other hand, there was a decrease in G&A expenses, partly due to the distribution of a special grant in 4Q13.

3.4.4 **Results of activity in reported year**

(a) Life assurance - scope of activity

In 2014, there was a slight increase in current premiums in respect of insurance contracts and in current receipts in respect of investment contracts, which was affected by new sales less cancellations. Also, single premiums in respect of insurance contracts and single receipts in respect of investment contracts recorded an increase, following a marked increase in receipts in respect of investment contracts.

In 2013 the increase in current premiums was affected by a significant increase recorded in 2H12 in new sales, due to the reform in annuity coefficients that came into effect in January 2013, pursuant to which it is no longer possible to market life assurance plans that include guaranteed annuity coefficients to insureds under the age of 60.

The increase in current premiums in 2014 and 2013 was also affected by the continued decline in cancellation rates.

However, in light of the reform in annuity coefficients and the restrictions imposed as to new insurance plans regarding the inclusion of guaranteed annuity coefficients as set forth above, in 2014 and 2013 there was a significant decline in new sales in life assurance plans (excluding investment contracts), totaling approx. 21% and approx. 32%, respectively.

For additional details see also Clauses 6.2.3 (c) and 6.2.4 in Part B to the Corporation Businesses Description chapter.

The rate of surrenders to average reserve in life assurance (including outgoing transfer of funds) totaled approx. 1.9% in 2014, vs. approx. 2.0% in 2013 and approx. 2.3% in 2012.

As per the MoF data[3], in the first nine months of 2014 the aggregate amount of premiums in the life assurance line (excluding receipts in respect of investment contracts) remained unchanged compared with the same period in 2013, compared with a decrease of approx. 2% in the amount of premiums in the Group. As a result, there was a certain decline in the Group's market share, for details see Clause 7.2 to the Corporation Businesses Description chapter.

As per the MoF data[4], as of December 31st, 2014, the amount of managed assets in the life assurance line totaled approx. NIS 301 billion, an increase of approx. 9.4% compared with December 31st, 2013 (vs. approx. 8.7% in the Group). Out of the above, the scope of assets managed under profit participating policies totaled approx. NIS 221 billion, an increase of approx. 12.0% vs. December 31st, 2013 (vs. approx. 10.6% in the Group).

Comprehensive income before tax
The decrease in comprehensive income in the reported year was mainly affected by a provision in the amount of approx. NIS 466 million before tax, in respect of life assurance plans, including their appendices that were marketed in the past, and it stems mainly from a decline in interest rate curves and an update of assumptions regarding annuity take-up rates, following the experience that was accrued in the Company. For additional details, see Note 37 b 3 b) (5) to the Financial Statements.

In 2013 there was an immediate provision for annuities in the amount of approx. NIS 63 million before tax following the accrued experience in the Company regarding annuity take-up rates, after recording an immediate provision to annuities in the amount of approx. NIS 257 million before tax in 2012, pursuant to an update of life expectancy estimates and the experience accrued by the company.

In addition, in 2014 there was a decrease in variable management fees collected in life assurance, which totaled approx. NIS 384 million before tax, vs. approx. NIS 637 million before tax in 2013, due to a decrease in real yields achieved by the Company in 2014, vs. the especially high yields achieved by the Company in 2013. In 2012 variable management fees in the amount of approx. NIS 172 million before tax were collected, and they were recorded mainly in 4Q14, and in 2011 no variable management fees were collected.

On the other hand, the comprehensive financial spread from investments against guaranteed yield policies in life assurance increased compared with 201, due to an increase in the real yields achieved by the Company in investments that are not designated bonds, following a decrease in the financial spread in 2013 vs. 2012.

[3] The market data are based on the processing of the MoF reports published on the website ("**Managerial Reports**").
[4] Based on "Bituachnet" website and the MoF monthly Investments Report.

In 2014 there was an increase in risk income due to a decline in claims and an increase in revenues from fixed management fees in profit participating policies, due to an increase in the scope of AuM. On the other hand, there was an increase in provisions for class actions, see Note 39 1 e 2).

In 2013 there was also an increase in fixed management fees, as set forth above, and on the other hand, there was a decrease in risk income. Also, there was a special gain of NIS 52 million in respect of the transaction for the acquisition of a reinsurance treaty and selling it to another reinsurer, as set forth in Clause 3.2 above. On the other hand, there was an increase in expenses, partly attributed to the special grant that was distributed.

The rate of commissions, marketing expenses and other acquisition expenses to gross earned premium totaled approx. 9.0% in 2014 vs. approx. 9.1% in 2013 and approx. 9.6% in 2012.

The rate of commissions to premiums totaled approx. 6.71% in 2014, a decrease vs. approx. 7.3% in 2013 and approx. 8.1% in 2012. The decrease was affected by the decline in new sales in life assurance, see Clause 32.3.1 to the Corporation Businesses Description chapter.

G&A[5] expenses rate to gross earned premium totaled approx. 5.7% in 2014, vs. approx. 5.8% in 2013 and approx. 5.5% in 2012. In 2013, the increase in expense rate to premium was affected by the special grant that was distributed.

For additional details regarding the life assurance businesses, the financial spread, including management fees, yields and the rate of management fees in the profit participating portfolio, see Clauses 3.4.5 and 3.6.5 below, as well as Note 18 b and d to the Financial Statements.

(b) Pension - scope of activity

In the reported year there was an increase in pension contributions, following an increase in 2013, which was affected by an increase in new sales, as well as salary increases, less cancellations.

Pension sales increased in 2013 and in 2014, along with a decrease in life assurance sales, in light of the reform in annuity coefficients and the restrictions imposed as to new insurance plans regarding the inclusion of guaranteed annuity coefficients, as set forth above.

As per the Ministry of Finance data[6,] the aggregate amount of contributions in the line of new pension funds in 2014 totaled approx. NIS 25,046 million, vs. NIS 21,651 million in 2013, an increase of about 16% (vs. an increase of approx. in the Group).

Contributions in pension funds exclude money transfers in respect of the mobility of members from one fund to the other. Money transfers to the Group's new pension funds in 2014 totaled approx. NIS 397 million (vs. approx. NIS 288 million in 2013), and on the other hand, money transfers from the Group's new pension funds to other funds totaled about NIS 902 million (vs. approx. NIS 713 in 2013).

For details regarding surrender rates (including outgoing transfer of funds), see Clause 8.4 to the Corporation Businesses Description chapter.

As per the Ministry of Finance data[7], as of December 31st, 2014, the aggregate scope of AuM in the pension funds line totals about NIS 191 billion, vs. approx. NIS 160 billion on December 31st, 2013, an increase of approx. 19%.

[5] G&A expenses are after the allocation of expenses to the item of change in liabilities and payments in respect of insurance contracts and to the item of commissions, marketing expenses and other acquisition expenses.

[6] Based on data published on the "Pensyanet" website.

[7] Based on data published on the "Gemelnet" website.

The Group's AuM increased by approx. 15% in 2014, affected by increases in capital markets and an increase in net current accrual[8].

As a result of the above, in the reported year there was a decrease in the Group's market share in the pension funds line, for details see Clause 7.2 to the Corporation Businesses Description chapter.

Comprehensive income before tax
The increase in comprehensive income in 2014 compared with 2013 was affected mainly by an increase in management fees, due to an increase in the scope of contributions and AuM, as well as due to the impact of the change in the provisions for the reimbursement of management fees as per the ruling in principle as set forth above, regarding the increase in management fees with no prior notice (see Note 39 1f6) to the Financial Statements. On the other hand, there was an erosion in the management fees rate in light of the harsh competition in the line. Furthermore, there was an increase in G&A expenses due to an expansion in activities as well as due to an increase in the amortization of deferred acquisition costs.

The decrease in total comprehensive investment income in 2013 vs. 2012 was affected by the recording of a non-recurring provision for the reimbursement of management fees pursuant to the ruling in principle as set forth above, by a decrease in comprehensive revenues from investments in the Nostro portfolio, as well as by an increase in acquisition costs and G&A expenses, partly non-recurring.

For the continued decrease in average management fees, in light of the increased competition in pension plans that became the main marketed product, see Clause 6.4 to the Corporation Businesses Description chapter.

The average commission fees to contributions were stable in 2012-2014, see Clause 32.3.1 to the Corporation Businesses Description chapter.

The rate of expenses and acquisition costs to contributions of all activity in pension funds in the Group totaled approx. 4.9% in 2014, vs. approx. 5.1% in 2013 and 2012.

For additional details regarding pension businesses' results, see Note 3c to the Financial Statements.

(c) Provident - scope of activity
Contributions in provident were relatively stable in 2012-2014.

Contributions exclude money transfers in respect of the mobility of beneficiaries from one fund to another. In 2014, money transfers to the Group's provident funds totaled approx. NIS 202 million (vs. approx. NIS 235 million in 2013), and on the other hand, money transfers from the Group's provident funds to other funds totaled approx. NIS 1,003 million (vs. approx. NIS 1,113 million in 2013).

For details regarding surrender rates (including outgoing transfer of funds), see Clause 8.4 to the Corporation Businesses Description chapter.

As per the Ministry of Finance data[9], as of December 31st, 2014, the aggregate scope of AuM in the line of provident funds totaled approx. NIS 369 billion, vs. approx. NIS 347 billion as of December 31st, 2013, an increase of approx. 6%.

The Group's AuM increased by approx. 3%, affected by increases in capital markets, partly offset due to net negative accrual that was affected by net money transfers, as set forth above.

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8 Current accrual, net, is defined as contributions plus the net transfer of beneficiaries, less surrenders and pension payments.
9 Based on data published on the "Gemelnet" website.

For details regarding the Group's market share, see Clause 7.2 to the Corporation Businesses Description chapter.

Comprehensive income before tax
In 2014, there was a decline in comprehensive income, due to a provision for a goodwill valuation allowance in the amount of approx. NIS 14 million, attributed to provident activity, and on the other hand, there was a certain increase in revenues in the Nostro portfolio.

In 2013 there was an increase in comprehensive income vs. 2012, mostly due to a decrease in G&A expenses, which was partly affected by an update of agreement vis-à-vis service providers.

The scope of management fees remained relatively stable in the years 2013-2014, affected by a certain increase in the scope of AuM, and on the hand by an erosion in the average management fees rate. Furthermore, management fees were affected by the recording and change in the provision for the reimbursement of management fees as per the Commissioner's ruling in principle regarding the increase in management fees with no prior notice.

For additional details regarding the Commissioner's ruling in principle regarding the increase in management fees with no prior notice as set forth above see Note 39 1f6) to the Financial Statements.

For additional details regarding the development of average management fees in provident funds, see Clause 6.4 to the Corporation Businesses Description chapter.

3.4.5 **Additional information regarding life assurance businesses' results**
Presented below is additional information regarding life assurance businesses' results (Note 18 to the Financial Statements):

The Note analyses the Group's life assurance businesses in cuts of products with a savings component as per layers based on different underwriting years, and products with no savings component, with a separation between individual policies and group policies.

NIS million	2014	2013	2012
Comprehensive income (loss) as per policy types			
Policies with a savings component			
Until underwriting year 1990	(19)	154	(25)
Until underwriting year 2003	261	736	241
From underwriting year 2004	(77)	(170)	(218)
Policies with no savings component			
Individual risk	160	112	145
Collective risk	19	(23)	(24)
Total comprehensive income	**344**	**809**	**119**
Out of which: financial spread including management fees [10]	1,417	1,447	926

The shift from comprehensive income in 2013 to comprehensive loss in the reported year **in the policies written until 1990** (mainly guaranteed yield and backed by Hetz bonds), is mainly affected by a provision in the amount of approx. NIS 350 million the examination of the adequacy tests of reserves in life assurance, including the SAR, taking into account, *inter alia*, the update of annuity take-up rates. This provision is mainly due to the decrease in interest rate curves and from the update of assumptions regarding annuity take-up rates, following the experience that was accrued in the Company. In 2013 there was a provision for annuities in the amount of approx. NIS 42 million. On the other hand, there was an increase in the financial spread from investments against guaranteed-yield policies.

In 2013 there was an increase in the comprehensive income due to a reduction in the recording of a non-recurrent provision for SAR compared with the provision recorded in 2012.

The decrease in income **in policies written until underwriting year 2003** (mainly profit participating policies) in the reported year vs. 2013 is mainly due to the collection of variable management fees in the amount of approx. NIS 384 million in these policies in 2014, vs. approx. NIS 637 million in 2013. In 2012 variable management fees in the amount of approx. NIS 172 million were collected. In addition there was a provision for annuities due to the update of assumptions as to take-up rates in the amount of approx. NIS 116 million in the reported year, vs. a provision for annuities in the amount of about NIS 21 million in 2013.

In **underwriting years from 2004** (both in profit participating policies and in guaranteed-yield policies), most of the profitability in these products is due to fixed management fees that depend on the amount of reserves, which, at this stage of the policies' life, is relatively low.

The continued decrease in loss in 2014 vs. 2013 and 2012 stems, *inter alia*, from an increase in fixed management fees due to the increase in the size of the average reserve.

[10] The financial spread including other comprehensive income (loss) that was imputed to capital reserves.

The increase in income from individual risk in 2014 vs. 2013 was affected by a decrease in claims, following the increase in claims recorded in 2013 vs. 2012. Furthermore, the results are affected by changes in income from investments in respect of assets held against reserves in these policies.

In the collective risk the shift from comprehensive loss in 2013 and 2012 to comprehensive income in 2014 was in 2013 and 2012 was mainly affected by an improvement in underwriting results.

The Note presents a breakdown of insurance liabilities from two aspects: a breakdown as per financial exposure (guaranteed-yield or participating in investment income) and a breakdown as per insurance exposure [the Company's undertaking at the end of the insurance period – a surrender in a lump amount (capital) or annuity]. Regarding the Company's financial exposure, see also Note 37b2 to the Financial Statements.

3.4.6 **Additional information regarding the development of income in life assurance**

(a) Weighted yields in profit participating policies (in %)

	Policies written in 1992-2003 (J Fund)		
	2014	**2013**	**2012**
Gross positive real yield	5.87	10.33	9.67
Net positive real yield	4.46	8.24	8.60
Gross positive nominal yield	5.77	12.44	11.25
Net positive nominal yield	4.36	10.31	10.16

	Policies written from 2004		
	2014	**2013**	**2012**
Gross positive real yield	5.23	9.61	9.07
Net positive real yield	3.95	8.26	7.73
Gross positive nominal yield	5.13	11.71	10.64
Net positive nominal yield	3.85	10.33	9.28

	Policies written in 1992-2003 (J Fund)				
	4Q14	**3Q14**	**2Q14**	**1Q14**	**4Q13**
Gross positive real yield	0.76	1.31	0.65	3.03	4.63
Net gross positive real yield	0.52	1.00	0.42	2.45	3.84
Gross positive nominal yield	0.57	1.61	1.14	2.32	4.53
Net positive nominal yield	0.33	1.30	0.91	1.75	3.74

	Policies written from 2004				
	4Q14	3Q14	2Q14	1Q14	4Q13
Gross positive real yield	0.40	1.19	0.71	2.85	4.34
Net positive real yield	0.10	0.88	0.39	2.53	4.02
Gross positive nominal yield	0.21	1.48	1.20	2.14	4.25
Net positive (negative)nominal yield	(0.10)	1.18	0.89	1.83	3.92

(b) Investment income credited to insureds in profit participating policies and management fees in their respect

Presented below are details regarding the estimated amount of investment income credited to insureds in profit participating life assurance and management fees calculated pursuant to the instructions set forth by the Commissioner of Insurance, based on yield and quarterly balances of insurance reserves in the Company's business reports:

	2014	2013	2012
	NIS million		
Investment income credited to insureds after management fees	2,914	6,105	5,022
Management fees	946	1,115	574

	4Q14	3Q14	2Q14	1Q14	4Q13
	NIS million				
Investment income credited to insureds after management fees	128	906	676	1,204	2,392
Management fees	192	227	180	347	431

(c) Weighted yields in pension funds (in %)

	Migdal Makefet (Ishit) – general track		
	2014	2013	2012
Gross nominal yield	5.61	11.51	8.93

	Migdal Makefet (Ishit) – general track	
	10-12/2014	10-12/2012
Gross nominal yield	0.67	3.67

3.5 Area of health insurance

3.5.1 Presented below are condensed results in the area of health insurance (NIS million):

	2014	2013	Change in %	2012	10-12/2014	10-12/2013	Change in %
Gross earned premiums	770.2	789.9	14%	692.5	232.7	206.2	13%
Income for the period	71.3	75.3		96.2	22.9	3.4	
Comprehensive income for the period	77.2	82.3		102.3	22.8	8.4	

Composition of premiums and income by the main insurance lines

	2014	2013	Change in %	2012
LTC insurance				
Gross premiums	244.7	215.4	7%	201.3
Income for the period	21.4	9.8		2.8
Comprehensive income for the period	22.9	10.7		3.7
Other				
Gross premiums	636.2	554.8	13%	491.2
Income for the period	53.9	61.5		93.4
Comprehensive income for the period	59.4	66.5		98.6

3.5.2 **Results of activity in 4Q14**

The increase in premiums in 4Q14 vs. 4Q13 is mainly due to an increase in premiums from individual insurance, due to the continued growth in new sales. The upwards trend in premiums is evident in all health products marketed by the Group.

The increase in comprehensive income in 4Q14 vs. 4Q13 was mainly due to the implication of the estimated claims in LTC, which was partly offset due to a deterioration in claims in medical expenses insurance and a decrease in revenues from investments against insurance liabilities.

3.5.3 Results of activity in 2014

Scope of activity
The continued increase in gross earned premiums in 2014 and 2013 is mainly due to premiums from individual insurance, due to the continued increase in new sales, less cancellations. The upwards trend in premiums is evident in all health products marketed by the Group.

New sales of health insurances in the Group increased by approx. 37% in the reported year vs. 2013, following an increase of about 48% in 2013 compared with 2012.

New sales of LTC increased by approx. 71% in 2014 compared with 2013, following an increase of approx. 21% in 2013 compared with 2012. Other new sales in the area recorded an increase of about 29% compared with 2013, following an increase of approx. 56% in 2013 compared with 2012.

The increase in premiums in 2014 is despite an increase in the cancellation rates, following a decrease in cancellation rates in 2013. For details see Clause 11 to the Corporation Businesses Description chapter.

As per the Ministry of Finance data[11], in the first nine months of 2014, there was an increase of approx. 10% in the aggregate amount of premiums in the health insurance line compared with the first nine months in 2013, compared with an increase of approx. 15% in the Group in this period.

Comprehensive income before tax
The slight increase in comprehensive income in 2014 vs. 2013 was mainly due to the impact of the estimate of claims in LTC, which was partly offset due to an increase in claims in medical expenses insurance, *inter alia*, transplants, and a reduction in revenues from investments against insurance liabilities.

In 2013 there was a decrease in comprehensive income vs. 2012 due to an increase in claims, which was partly offset due to an increase in revenues from investments against insurance liabilities. The increase in claims was reflected both in LTC and in other products.

The rate of commissions, marketing expenses and other acquisition expenses to gross earned premium totaled approx. 28.8% in 2014 vs. approx. 26.3% in 2013 and approx. 23.6% in 2012.

The rate of commissions to premiums totaled approx. 30.1% in 2014, an increase vs. approx. 25.8% in 2013 and approx. 24.2% in 2012. The upwards trend was affected by the increase in new sales in health insurance, see Clause 32.3.2 to the Corporation Businesses Description chapter.

The G&A[12] expenses to gross earned premium totaled approx. 4.9% in 2014, vs. about 5.1% in 2013 and approx. 5.8% in 201.

For additional details see Notes 3 b and 19 to the Financial Statements.

[11] The market data are based on the processing of the MoF reports published on the website ("**Managerial Reports**").
[12] G&A expenses are after the classification of expenses to the item of change in liabilities and payments in respect of insurance contracts and to the item of commissions, marketing expenses and other acquisition expenses.

3.6 Area of general insurance

3.6.1 General insurance – structure of profitability in the area

(a) **CMBI**

In the area of CMBI, in the first 3 years (“**the open years**”), the excess of income over expenses is not recorded as income, but is credited to outstanding claims (“**accumulation**”)[13]. As a result, income in this area mainly reflects the profitability of an underwriting year which ended 3 years before the reported year, plus the accumulated investment income, adjustments in respect of underwriting years released in previous years (“**old years**”), income (loss) in respect of "the open years" stemming from the difference between the investment-based income actually achieved in respect of these years and real 3% interest credited to excess reserves as per the Commissioner regulations, as well as activity not included in the reserves calculation.

This line is characterized by a relatively high reserve level stemming from the considerable time interval between receiving the premiums and completing the handling of claims and the accounting method of creating an accumulation reserve which is included in outstanding claims as aforesaid, which is why the investment results considerably affect income, see Clause 4.1.4 below.

For the regulations regarding the way to calculate reserves in general insurance, including the calculation of revenues in excess of expenses, which will come into effect beginning from December 31st, 2015 Financial Statements, see Note 37b3c)(6) to the Financial Statements.

(b) **Casco**

Profitability achieved on investments affect the line's profitability, however, the weight of reserves in the casco line is relatively low compared with the CMBI line, due to the short time required for the completion of handling of casco claims, therefore the impact of investment income on reserves in casco is lower than in CMBI.

(c) **Liabilities**

Liability insurances are characterized by a relatively high reserve level stemming from the considerable time interval between receiving the premiums and completing the handling of claims and the accounting method of creating an accumulation reserve which is included in outstanding claims. Therefore, profitability achieved from investments has a significant impact on profitability and it is affected by changes in capital markets, see Clause 4.1.4 below.

[13] Following the IFRS standards, income from investments credited to accumulation are calculated based on a real yield of 3% per year, regardless of the actual yield of investments.

3.6.2 Presented below are details of the condensed results in the area of general insurance (NIS million):

NIS million	2014	2013	Change in %	2012	10-12/2014	10-12/2013	Change in %
CMBI							
Gross premiums	540.0	538.6	0%	266.2	93.4	95.5	(2%)
Premiums in retention	528.2	530.1	(0%)	260.7	89.5	93.9	(5%)
Income for the period	85.0	129.2		103.8	18.8	53.0	
Comprehensive income	89.4	155.9		142.4	15.1	71.9	
Casco							
Gross premiums	553.5	579.9	(5%)	350.6	110.5	108.4	2%
Premiums in retention	552.9	578.9	(4%)	349.6	110.3	108.2	2%
Income (loss) for the period	9.2	(0.9)		(13.1)	(7.1)	(4.2)	
Comprehensive income (loss)	9.9	2.4		(8.5)	(7.8)	(2.0)	
Other property							
Gross premiums	571.1	620.2	(8%)	535.3	135.7	101.1	34%
Premiums in retention	253.0	184.8	37%	156.2	54.9	33.4	64%
Income (loss) for the period	44.0	5.8		6.7	14.5	(4.5)	
Comprehensive income (loss)	44.4	7.3		9.7	14.2	(3.5)	
Liabilities							
Gross premiums	304.2	282.8	8%	254.2	57.8	44.7	29%
Premiums in retention	228.4	214.8	6%	185.5	35.4	26.8	32%
Income (loss) for the period	(29.8)	(29.9)		12.7	(16.9)	(41.5)	
Comprehensive income (loss)	(27.0)	(11.7)		40.5	(19.4)	(28.8)	
Total Area of general insurance'							
Gross premiums	1,968.9	2,021.5	(3%)	1,406.3	397.4	349.7	14%
Premiums in retention	1,562.4	1,508.6	4%	952.0	290.0	262.2	11%
Income (loss) for the period	108.4	104.2	4%	110.0	9.3	2.8	
Comprehensive income (loss)	116.6	153.9	(24%)	184.2	2.0	37.5	

3.6.3 Below is information regarding underwriting profitability indices – Loss Ratio ("LR") and Combined Ratio ("CR") – in the property lines [14], [15]:

Casco line

	2014	2013	2012
Gross Loss Ratio	72.7%	74.3%	76.9%
Retention Loss Ratio	74.8%	74.5%	77.1%
Gross Combined Ratio	99.8%	102.2%	106.2%
Retention Combined Ratio	99.9%	102.4%	106.5%

Property lines (excluding motorcar)

	2014	2013	2012
Gross Loss Ratio	47.4%	38.3%	37.7%
Retention Loss Ratio	42.2%	44.4%	37.9%
Gross Combined Ratio	73.8%	64.6%	65.0%
Retention Combined Ratio	81.1%	99.7%	99.2%

3.6.4 **Results of activity in 4Q14**

Scope of activity
The increase in gross premiums in 4Q14 vs. 4Q13 was mainly affected by an increase in premiums in other property lines and liabilities, which was due, in part, to renewal dates in policies in which the insurance coverage exceeds one year in several large businesses, as well as the absorption of several new businesses. On the other hand, there was a slight decrease in CMBI, which was partly affected be an erosion of tariffs due to the competition in the line.

Comprehensive income before tax
The decrease in comprehensive income in 4Q14 vs. 4Q13 was due to a reduction in real revenues from investments vs. 4Q13, as well as an increase in financing expenses in respect of deposits from reinsurers. On the other hand, there was a reduction in the underwriting loss in liability insurances and an increase in the underwriting income in other property lines, which were partly offset due to a decrease in underwriting income in CMBI.

Presented below is a breakdown of underwriting results by line:

In the CMBI line most underwriting results (excluding investment income) stem from an upwards trend in the claims experience, which led to a reduction in the actuarial valuation in old underwriting years. Such reduction in the reported quarter was lower than the reduction in the actuarial valuation in 4Q13. For details see the Statement of the general insurance actuary.

In the casco line there was a slight increase in underwriting loss vs. 4Q13, mainly due to an increase in claims.

[14] Loss ratio is defined as the ratio between payments and the change in liabilities in respect of insurance contracts and earned premiums. Combined Ratio is defined as the ratio between payments and the change in liabilities in respect of insurance contracts, commissions and acquisition costs less revenues from reinsurance commissions and G&A and between earned premiums.

[15] The data exclude a systematic amortization of non-tangible assets, recognized upon the acquisition of the Eliahu portfolio.

In the property line (excluding motorcar) the improvement in underwriting results was mainly due to a reduction in the cost of reinsurance and a decrease in claims, which was partly affected by the damages caused by the winter storm in 4Q13.

In the liability lines the underwriting loss stems from the deterioration trend in the claims experience, which led to an increase in the actuarial valuation of outstanding claims in third party liability and employers' liability lines. In 4Q14, such increase was lower than the increase in the actuarial valuation in 4Q13. Such deterioration is partly offset by an improvement in the professional liability and product liability lines. For details see the Statement of the general insurance actuary.

3.6.5 **Results of activity in the reported year**

Scope of activity

The decrease in gross premiums in 2014 vs. 2013 was due to a reduction in the number of motorcar insurance policies sold by the Company, as well as a reduction in premiums in other property lines, which was partly due to the renewal dates of policies in which the insurance coverage exceeds one year in several large businesses and a reduction in the number of homeowners policies sold by the Company.

It should be noted that in the reported year, in CMBI there was a non-recurrent update in Migdal's share in the Pool. Excluding this update, there was a decrease in premiums in motorcar insurance, which was partly affected by a focus on profitable types of insurance, including the discontinuation of activity in several collective insurances, and by an erosion of tariffs in CMBI due to the competition in the line. Furthermore, there was a decrease in premiums in homeowners insurance following a reduction in the number of policies that were sold by the Company due to the update of the composition of coverages and tariffs by the Company and the impact of the significant competition in the line.

The decrease in gross premiums in 2014 occurred after a significant increase in gross premiums in 2013, which was reflected in all the lines, and it was mainly affected by the absorption of the new business of Eliahu Insurance in Migdal, which brought about an increase mainly in CMBI, casco and homeowners insurance.

On the other hand, premiums in retention increased in 2014 vs. 2013, and this was affected by a change in the mix of businesses insured in reinsurance, as well as a change in proportional reinsurance treaty in property insurance, in which retention is higher than the weighted retention in 2014 compared with 2013.

As per the Ministry of Finance data[16], in the first nine months of 2014, there was an increase of approx. 2% in the aggregate amount of gross premiums in the general insurance line compared with the first nine months in 2013 (vs. a decrease of approx. 6% in the Group). In CMBI there was an increase of approx. 3% (vs. an increase of 1% in the Group), in casco insurance there was an increase of approx. 5% (vs. an increase of 6% in the Group), in property insurance (excluding motorcar) there was a decrease of about 1% (vs. a decrease of 16% in the Group), and in liability insurances there was an increase of approx. 5% (vs. an increase of 4% in the Group).

As a result, in 2014 there was a decrease in the Group's market shares in most lines in general insurance compared with 2013, following a significant increase in market shares recorded in 2013 following the absorption of the new business of Eliahu Insurance in Migdal. For details regarding the Group's market shares see Clause 13.2 to the Corporation Businesses Description chapter.

In other property lines (excluding motorcar) the increase in premiums was also affected by an increase due to changes in insurance periods in several large businesses.

[16] The market data are based on the processing of the MoF reports published on the website ("**Managerial Reports**").

For details regarding the breakdown of activity in general insurance by type of costumer and regarding renewal rates, see Clause 14 to the Corporation Businesses Description chapter.

Comprehensive income before tax
The decrease in comprehensive income in 2014 compared with 2013 was mainly reflected in underwriting results (excluding investment income) in CMBI and liabilities. Furthermore, there was a current amortization in respect of a full calendar year of non-tangible assets attributed to the absorption of Eliahu Insurance's new business in Migdal, compared with the beginning of recording of current amortization in 4Q13. On the other hand, there was an improvement in underwriting results in the property lines as well as a certain increase in real revenues from investments, which was partly offset due to an increase in financing expenses in respect of deposits from reinsurers.

In 2013 there was a decrease in comprehensive income compared with 2012, which was affected by a decrease in revenues from investments and a deterioration in underwriting results (excluding investment income) in liability insurances, compared with an improvement in underwriting results in casco and CMBI.

It should be noted that the business results attributed to the increase in new business as a result of the absorption of Eliahu's general insurance portfolio in Migdal in 2013 will originate mainly by an expression in the Financial Statements in future periods, pursuant to the accounting rules and the legislative arrangements regarding the recognition of income in CMBI and liabilities.

For the legislative arrangements regarding changes in the way reserves in general insurance are calculated, see Note 37b c)(6) to the Financial Statements.

Presented below is a breakdown of results by line:

In the CMBI line in 2014 most underwriting results (excluding investment income) were affected mainly by the improvement trend in the claims experience, which led to a decrease in the actuarial valuation in old underwriting years. In the reported year the decrease is lower than the decrease in the actuarial valuation in 2013, for details see the Statement of the general insurance actuary. In addition, in the reported year the Pool's estimates were updated, following a negative development recorded in the Pool's claims. This negative development affected the development of Migdal's reserves as per its share in the Pool.

In 2013 there was an increase in the underwriting income, due to the continued improvement trend in the claims experience, which led to a decrease in the actuarial valuation. On the other hand, there was decrease in income released in 2013 in respect of underwriting year 2010, compared with the income released in the previous year in respect of underwriting year 2009 due to a decline in underwriting income following the erosion in tariffs and a decrease in the scope of activity in underwriting year 2010.

It should be noted that residual insurance ("**Pool**") losses decreased the Group's income in CMBI by approx. NIS 14 million in 2014, by approx. NIS 13 million in 2013 and by approx. NIS 8 million in 2012.

For details regarding the composition of income and the development of income by underwriting year in the CMBI line – see Note 17c5 and c& to the Financial Statements.

In the casco line in 2014 there was an improvement in underwriting results due to an improvement in the cost of claims, *inter alia*, due to damages caused by the winter storms which occurred in 2013. In 2013 as well, there was an improvement in underwriting income compared with 2012, due to an improvement in the costs of acquisition and G&A, as well as an improvement in the cost of claims, in spite of the damages caused by the winter storm, as aforementioned. For changes in the rates of underwriting profitability rates, see LR and CR data above.

In the property line (excluding motorcar) underwriting results in 2014 increased, due to a decrease in claims in retention, partly affected by the damages caused by the winter storms which occurred in 2013, as well as a decrease in the cost of reinsurance. In 2013 underwriting income was relatively stable compared with 2012, affected by the damages of winter storms as aforementioned, and on the other hand, by a decrease in the cost of reinsurance. For the changes in underwriting profitability rates, see LR and CR data above.

In the liability lines underwriting results are mostly due to the deterioration in claims experience, which led to an increase in the actuarial valuation of outstanding claims in the lines of third party liability and employers' liability. The increase in these valuations in the reported year was higher than the increase in last year's actuarial valuations. This deterioration is partly offset due to an improvement in the lines of professional liability and product liability. For details see the Statement of the general insurance actuary.

In 2013 as well, there was a deterioration in underwriting results compared with 2012, which was mostly due to the continued growth trend in the claims experience, which led to an increase in the actuarial valuation of outstanding claims in third party liability and employers' liability lines, which was partly offset due to an improvement in the lines of professional liability and product liability.

For information regarding the composition of income and the development of income by underwriting years in liability lines – see Note 17c6 and c8 to the Financial Statements.

The rate of commissions, marketing expenses and other acquisition expenses to gross premium totaled approx. 20.5% in 2014 vs. approx. 21.2% in 2013 and approx. 22.5% in 2012.

The rate of commissions to gross premium totaled approx. 13.2% in 2014, a decrease compared with 14.0% in 2013 and 15.1% in 2012. The decline was recorded in most lines, for details see Clause 32.3.3 to the Corporation Businesses Description chapter.

The rate of G&A[17] to gross premium totaled approx. 2.3% in 2014, vs. about 2.3% in 2013 and approx. 2.8% in 2012.

3.7 The area of financial services[18]

Below are details of the condensed results in the area of financial services (NIS million):

	2014	2013	Change in %	2012	10-12/2014	10-12/2014	Change in %
Revenues	209.6	200.7	4%	208.8	54.1	53.0	2%
Income (loss) for the period	0.5	(4.3)		10.6	2.3	(5.3)	
Comprehensive income (loss) for the period	209.6	200.7	4%	208.8	54.1	53.0	2%

[17] G&A expenses are after the allocation of expenses to the item of change in liabilities and payments in respect of insurance contracts and the item of commissions, marketing expenses and other acquisition expenses.
[18] The data regarding revenues, expenses and income before tax include the results of activity in financial services performed within Migdal Capital Markets, as well as the activity of Arxcis Global Wealth Management Ltd, held by Mivtach Management, and other revenues/expenses.

Below is a breakdown of AuM and total assets in the balance sheet in the area of financial services as of the end of 2013 and 2012, respectively (NIS million):

	31.12.2014	31.12.2013	Change in %
AuM	35,354	30,282	17
Total assets in the balance sheet	789	883	(11)

AuM – the increase in the scope of AuM in the Group was mainly affected by an increase in the scope of mutual funds managed by the Group, as well as by a certain increase in the scope of managed portfolios. For details see Clause 16.5 to the Corporation Businesses Description chapter.

Total assets in the balance sheet – the decrease in total assets in the balance sheet in the area is mainly due to the discontinuation of the activity of a designated subsidiary that engaged in the management of Nostro accounts, which rely on models of investment in State bonds, Migdal L.B Ltd., whose asset balance in respect of this activity (mortgaged cash and short term investments) totaled approx. NIS 139 million as of December 31st, 2013 against current liabilities (liabilities in respect of short sale) in the amount of approx. NIS 134 million.

On the other hand, there was an increase due to the beginning of activity of the hedge fund MGT Hedge Fund L.P ("**MGT**") which was established in January 2014, to which the Nostro activity that relies on certain models of investment, with an emphasis on activity abroad, was transferred. The general partner in MGT is a subsidiary of Migdal Capital Markets. The investors in the fund, in equal parts, are Migdal Capital Markets and Eliahu Insurance, which NIS 35 million each. During 1Q15 Eliahu Insurance and Migdal Capital Markets filed a request for withdrawing all their investments in the fund. As of the publication date of this Report, the withdrawal has not yet withdrawn, for details see Note 38e to the Financial Statements (transactions that are not extraordinary nor negligible with controlling shareholders).

It should be noted that the scope of investments in securities, cash balances and cash equivalent of the area, the scope of short term credit from banks and the scope of credit to customers, vary significantly depending on the situation in the capital markets.

3.7.1 **Results of activity in 4Q14**

In 4Q14 there was a slight increase in revenues, partly due to an increase in revenues from Arxcis.

The shift from comprehensive loss to comprehensive income in 4Q14 vs. 4Q13 was mainly affected by a non-recurrent grant that was distributed in 4Q13, less the increase in variable expenses.

3.7.2 **Results of activity in 2014**

Revenues

The increase in the scope of revenues in the reported year compared with 2013 was mainly affected by an increase in revenues from mutual funds, following an increase in the scope of AuM, which was partly offset by a decline in the average rate of management fees, *inter alia*, due to the continued raising in the channel of tracking funds, in which no management fees were collected, and on the other hand, a decrease in revenues from portfolio management fees[19]. Furthermore, the increase in revenues was affected by an increase in Arxcis' revenues and an increase in revenues from financing and financial transactions.

[19] Until June 30th, 2013 Migdal Capital Markets Group provided investment management services to some of Migdal Makefet's provident funds.

The reduction in the scope of revenues in 2013 vs. 2012 was mostly affected by a decrease in revenues from activity in negotiable securities, mainly abroad, and other financial transactions, as well as a reduction in revenues from portfolio management and underwriting activity. On the other hand, there was an increase in revenues from management fees on mutual funds, following an increase in the scope of AuM, which was partly offset by a decline in the average rate of management fees, which was partly due to the fact that the amendment in the Distribution Commissions Regulations came into effect, leading to a reduction in management fees collected from customers as well as the continued rise in the tracking funds track, in which so far no management fees are collected.

Comprehensive income before tax
The increase in comprehensive income in 2014 vs. 2013 was affected by an increase in revenues as described above, partly affected by a goodwill amortization attributed to Dragon Hedge Funds ("**Dragon**"), held by a subsidiary of Migdal Capital Markets, as well as a certain decrease in expenses due to the special grant that was distributed in 4Q13, and on the other hand, an increase in variable expenses.

The decrease in comprehensive income in 2013 vs. 2012 was affected by a decrease in revenues in the area, as well as by an increase in expenses, due to the special grant that was distributed as set forth above.

3.8 **G&A expenses**

In 2014 the Group's G&A expenses[20] totaled approx. NIS 1,663 million vs. NIS 1,762 million in 2013 and approx. NIS 1,651 million in 2012.

The decrease in expenses compared with 2013 was affected mainly by a special grant that was distributed in 2013 the amount of approx. NIS 97 million, as set forth in Clause 3.2 above.

For additional information regarding G&A expenses, see Note 32 to the Financial Statements.

3.9 **Key data sheet data from the Financial Statements**

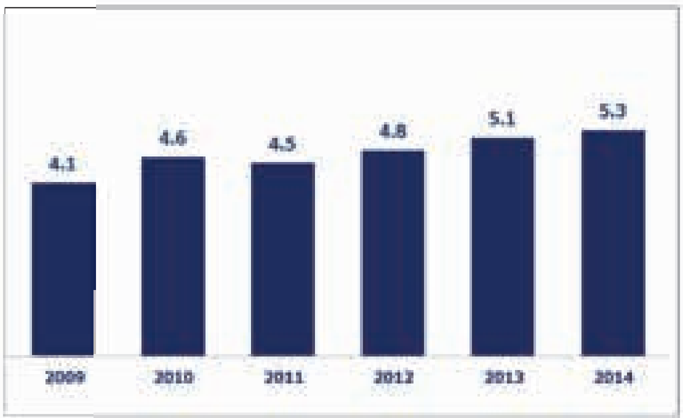
NIS million	31.12.2014	31.12.2013	Change in %
Total balance sheet	119,052	109,734	8%
Total assets for yield-dependent contracts	78,708	70,818	11%
Total equity	5,278	5,140	3%
Total liabilities in respect of insurance and investment contracts	109,450	100,686	9%
Out of which:			
Liabilities in respect of yield-dependent insurance and investment contracts	78,046	70,558	11%
Liabilities in respect of insurance and investment contracts that are not yield dependent	31,404	30,128	4%

The increase both in the scope of assets and the scope of liabilities in respect of insurance contracts and investment contracts was affected mainly by the yields achieved by the Group on capital markets, as well as due to the increase in net accruals in the asset portfolio.

[20] G&A expenses include expenses allocated to the item of change in liabilities and payments in respect of insurance contracts and to the item of commissions, marketing expenses and other acquisition expenses.

The change in cash and cash equivalent balances from approx. NIS 6.5 billion as of December 31st, 2013 to approx. NIS 4.9 billion as of December 31st, 2014 is mostly due to an increase in the investments of cash and cash-equivalent in financial investments for yield-dependent insurance contracts.

Presented below is the development in equity as of the end of the year, in 2009-2014 (NIS billion):



In 2012 a subsidiary of Migdal Insurance executed two private bond issuances to classified investors, in the total scope of approx. NIS 825 million, which serve as hybrid second tier capital in Migdal Insurance.

In January 2015 Midroog Ltd. left Migdal Insurance's financial strength rating unchanged at Aaa with stable horizon, and the rating of subordinate deeds (hybrid second tier capital) at Aa2 with a stable horizon.

On March 24th, 2015 Migdal Insurance's BoD approved filing a request in order to receive the ISA's permission for publishing a prospectus regarding capital raising, in the scope of up to NIS 1 billion, by Migdal Capital Raising Ltd. (**"Migdal Capital Raising"**), a designated company owned by Migdal Insurance, of bonds complying with the definition "second tier capital", pursuant to the provisions of the Law and the Commissioner's instructions, whose consideration will be deposited at Migdal Insurance. For additional details see Note 7c9 to the Company's Financial Statements

In 2014 the Company distributed dividends of approx. NIS 400 million, which were distributed in May and October 2014.

The increase in equity compared with December 31st, 2013 is mainly due to a comprehensive income of approx. NIS 538 million in the reported year, less dividends in the amount of approx. NIS 400 million.

On March 24th, 2015, subsequent to the balance sheet, the Company's BoD approved the distribution of a dividend in the amount of approx. 200 million, subject to the General Meeting approval. For details see Note 40e to the Financial Statements.

Equity in Migdal Insurance as of December 31st, 2014, pursuant to the Commissioner's Regulations and instructions, calculated as per the capital requirements is approx. NIS 5,564 million, including hybrid second tier capital of approx. NIS 844 million. Migdal Insurance has an equity surplus of about NIS 1,419 million over the required minimal equity as set forth above.

Migdal Insurance's capital surplus, taking into account the event subsequent to the balance sheet, is approx. NIS 1,215 million.

For additional details regarding equity requirements, see Note 7e to the Financial Statements, that includes information regarding the amount that may not be distributed pursuant to the Investment Regulations.

3.10 **Financing sources**

NIS million	31.12.2014	31.12.2013	31.12.2012
Financial liabilities	1,588	1,220	1,044
Long term loans (1)	851	865	860
Short term loans (2)	40	108	81
Derivatives(3)	697	113	103
Out of which: short sales(4)	13	134	-
Liabilities for yield-dependent policies	641	97	80

(1) The decrease in long term liabilities is mainly composed of two private issuances of subordinate deeds in the total scope of approx. NIS 825 million par value executed in 2012, serving as hybrid second tier capital in Migdal Insurance.
(2) In short term credit there are significant fluctuations pursuant to Migdal Capital Markets' current activity.
(3) The balance of derivatives included in the financial liabilities reflects the liability that was created as of the date of the balance sheet due to activity in derivatives, mainly regarding exposure to foreign exchange.
(4) The decrease in current liabilities in respect of short sales is attributed to Migdal Capital Markets activity in the management of Nostro accounts based on models of investment in State bonds at the end of 2014, see Clause 3.7 above.

4. Trends, events and developments in the Group's activity and in its business environment

4.1 Macro-economic environment

Below is a concise description of trends, events and developments in the Group's macro-economic environment, which have or may have an impact on the Group[21].

4.1.1 Developments in the economy and employment

The Group operates within the Israeli market whose economic, political and security condition have an effect on sales in various areas, on the scope of insurance claims and on various costs involved in its operation. The level of salary and employment mainly affects the scope of life assurance businesses and long term savings.

Global environment – in 2014 the global activity continued to be restrained, along with an increased differentiation between countries. In developed countries – the American economy is recovering, but Japan's economy suffers from a recession and Europe is on the verge of a recession. In developing countries, growth rates are lower than in the past, due to low global demand and structural changes.

The global monetary policy remained very expansionary. The Fed completed the Quantitative Easing, but undertook to leave interest rate at its low levels for a while, while the European Central Bank continued to increase the power of the Quantitative Easing.

The Israeli economy - in 2014 the moderate growth in the economic activity level continued. In 3Q14 growth was almost zero due to Operation Protective Edge, however in 4q14 growth data recovered. The moderate growth rate is expressed by a continued decrease in investments in fixed assets, but on the other hand private consumption continued to support the continued growth in GDP. The export of goods and services recorded a moderate increase only.

As per the estimates of the Central Bureau of Statistics for 2014, in the reported year the GDP increased by approx. 2.8%, following an increase of approx. 3.2% in 2013 and approx. 3.0% in 2012. GDP per capita increased by approx. 0.8% in 2014, following an

[21] The review is based, *inter alia*, on the BoI publications as well as those of the CBS.

increase of approx. 1.3% in 2013 and an increase of approx. 1.1% in 2012. In 2014 the business GDP increased by approx. 2.7%, following an increase of approx. 3.4% in 2013 and an increase of approx. 2.9% in 2012.

The increase in GDP in 2014 is reflected by an increase of approx. 4.0% in expense for private consumption (vs. an increase of approx. 3.3% in 2013), an increase of about 4.2% in expense for public consumption (approx. 3.5% in 2013) and an increase of about 1.3% in the export of goods and services (vs. an increase of approx. 1.5% in 2013). On the other hand, there was a decrease of approx. 2.5% in investments in fixed assets (vs. an increase of approx. 1.1% in 2013).

The analysis of development according to quarters indicates that in 4Q14 GDP increased by approx. 6.8% in annual terms, following an increase of 0.2% in 3Q14, an increase of approx. 1.7% in 2Q14 and an increase of approx. 3.0% in 1Q14.

Job market – during 2014 there was a moderate decline in the unemployment rate, to approx. 5.9% on average compared with approx. 6.2% on average in 2013. At the same time there was a moderate increase in the participation in the work force.

Furthermore, in January-December 2014 there was an increase of approx. 1.5% in the average real wage compared with the average in 2013, along with an increase in the average number of positions

4.1.2 **Capital market**

Insurance companies, pension funds and provident funds, and companies operating in the financial services area, invest the larger part of their asset portfolio in the capital market. The yields in the capital market in the various channels materially affect both the achieved yield for the Group customers and the Group's income, see also Clause 4.1.4 below.

During 2014 there was a positive trend on most financial markets abroad and in Israel.

Presented below are the main trends recorded in 2014 in the key investment channels, and their impact:

Inflation – in 2014 there was a decrease of approx. 0.1% in the CPI as per the known index at the end of the month and approx. 0.2% as per the index in respect of the month. In 4Q14 the CPI decreased by approx. 0.2% as per known index and the index in respect of the month, and by approx. 0.1% as per the index in respect of the month.

Interest rate– the monetary interest rate for December 2014 was 0.25%, vs. 1.0% in December 2013. The cuts in interest rates by the Bank of Israel were due to the global and domestic moderate activity and the decrease in inflation expectations.

By the end of 2014 inflation expectations[22] (for the next 12 months) decreased to approx. 0.6%, compared with inflation expectations of 1.7% at the end of 2013. As a result, the real monetary interest rate as of the end of 2014 was negative, approx. 0.4%, vs. a real negative interest rate of approx. 0.7% at the end of 2013.

Government bonds – in 2014 there were declines in yield to maturity of unlinked bonds in all ranges. In CPI-linked bonds, there were increases in yield to maturity in the short and medium ranges, vs. a decrease in the long term. The decrease in yields to maturity is due to the cut in interest rate by the Bank of Israel, as well as due to the decrease in yield to maturity in the USA and in the Eurozone.

[22] Inflation expectations are based on gaps in yields between CPI-linked and unlinked government bonds.

In 4Q14 yields to maturity of unlinked bonds were relatively stable, compared with an increase in yields to maturity of CPI-linked bonds, mainly in the short and medium range, due to the decrease in inflation expectations.

As a result, YTD non-linked bond with fixed interest rate recorded a real yield of approx. 8.4% on average, and CPI-linked bonds recorded a real yield of approx. 5.9%.

In 4Q14 non-linked bond with fixed interest rate recorded a real yield of approx. 0.5%, and CPI-linked bonds recorded a real negative yield of approx. 0.5%.

Corporate bonds – following a decrease in yield to maturity in corporate bonds in 1H14, which was parallel to a decrease in yield to maturity in State bonds, in 4Q14 yield to maturity of corporate bonds increased, mainly due to an increase in yield gaps between corporate bonds and State bonds.

As a result, by the end of 2014, the corporate bonds index increased by approx. 1.6% in real terms, and in 4Q14 it decreased by approx. 2.4% in real terms.

The changes in interest rates and in expected inflation, as already mentioned, brought about changes in the embedded yields in the financial asset portfolios held by insurance companies, including the asset portfolios held against profit participating policies, from which the insurance companies' investment income is derived.

The low interest rate levels decrease future yields when refinancing assets against liabilities and decrease the life assurance portfolio EV, as well as future yield on members' monies. For the implication of interest rate on reserves in life assurance and the creation of an actuarial deficit in pension funds, see Clauses 1.2.1, 3.2 and 3.3 above.

Shares (domestic market) – in 2014 there was a mixed trend on the domestic equity market, with increases in the Maof index, recorded in spite of the deterioration in the security situation in 3Q14 due to Operation Protective Edge, and in spite of the political uncertainty towards the end of the year.

By the end of 2014, TA-100 index increased by approx. 6.9% in real terms, TA-25 index increased by approx. 10.3% in real terms, TA-75 index increased by approx. 9.7% in real terms and the Yeter index increased by approx. 7.5% in real terms.

In 4Q14, TA-100 index decreased by approx. 1.1% in real terms, TA-25 index increased by approx. 0.6% in real terms, TA-75 index decreased by approx. 9.7% in real terms and the Yeter index decreased by approx. 10.8% in real terms.

Shares (foreign markets) – in 2014, most indices worldwide traded with increases, led by the American share market, in light of monetary expansion measures on leading markets worldwide.

In 2014, the MSCI worldwide share index produced a nominal yield of approx. 2.1% (14.4% including exchange rate effect), the NASDAQ-100 index increased by approx. 17.9% (32.2% including exchange rate effect) and the Dow Jones index recorded a nominal yield of approx. 7.5% (approx. 20.5% including exchange rate effect).

In 4Q14, the MSCI worldwide share index produced a nominal yield of approx. 0.1% (yield of approx. 5.4% including exchange rate effect), the NASDAQ-100 index increased by approx. 4.6% in nominal terms (an increase of approx. 10.1% including exchange rate effect) and the Dow Jones index recorded a nominal yield of approx. 4.6% (a nominal yield of approx. 10.1% including exchange rate effect).

Foreign exchange – in 2H14 there was a significant depreciation in the rate of the NIS against the USA, affected by the USD's strengthening worldwide, as well as by the interest rate cut by the Bank of Israel, Forex acquisitions by the BoI and the demand for Forex on behalf of institutional investors.

By the end of 2014, the NIS weakened by a nominal rate of approx. 10.8% against the USD, strengthened by a nominal rate of approx. 1.3% against the Euro, against the GBP it weakened by approx. 5.3%, and against the Yen it strengthened by approx. 1.7%.

These changes include changes in exchange rates recorded in 4Q14, as follows: the NIS weakened against the USD at a nominal rate of approx. 5.0%, against the Euro it weakened by approx. 1.5%, against the GBP it weakened by approx. 1.4%, and against the Yen it strengthened by approx. 3.5%.

4.1.3 **Developments in the macro-economic environment after the date of the balance sheet**

After the date of the balance sheet and until just before the publication of the report, there was a positive trend on financial markets both in Israel and worldwide.

In Israel, CPI in respect of January and February 2015 decreased by an aggregate rate of 1.6%. The Bank of Israel cut the monetary interest rate for March by approx. 0.15% to 0.1%, and yields embedded in State bonds decreased significantly.

In the key economies worldwide, inflation continued to decrease to record levels, the European Central Bank started a QE program, and other Central banks took measures for monetary expansions. The yields of State bonds reached a new low record in most key countries, due to the continued monetary expansions and low growth. In the USA, the uncertainty as to when interest rates will begin to increase continues.

According to the BoI estimates as of March 2015, in 2015 we expect an increase of 3.2% in GPD, compared with 2.8% in 2014. These estimates rely, *inter alia*, on forecasts by international institutions, pursuant to which the growth rate of GDP in developed markets will improve in 2015, albeit at a more modest rate, with a differentiation between various countries: in Europe and in Japan a relative weakness is expected, while in the USA higher growth is expected. Furthermore, in 2015 an acceleration in the increase rate in global trade is also expected.

4.1.4 **Revenues from investments and their impact on the income of insurers and managing companies**

Revenues from investments against insurance liabilities and equity, as the case may be, have a material impact on insurance companies' income. The scope of the impact on income depends on the characteristics of insurance liabilities (Nostro, profit participating) and the terms of management fees in products against which the relevant reserve is held.

In profit participating policies written from 2004, insurance companies are entitled to fixed management fees on accrual (the amount of AuM), which do not depend on investment's results. Yield on investments (less management fees) is credited to insureds in these policies and the impact of yields on the financial results of insurance companies is limited to the impact derived from the total amount of AuM, from which the insurers' fixed management fees are derived.

In the pension and provident businesses as well, managing companies are entitled to fixed management fees on accumulation, and the yield on investments, less management fees, is credited to the members. Therefore, the impact of yields on investments on the income of the managing company of the pension fund or the provident fund, is limited to the impact derived from the total scope of the accrual in the pension fund or the provident fund, from which the management fees of the managing company that manages the pension fund or provident fund insurers' are derived.

In profit participating policies written until December 31st, 2003, insurance companies are entitled to fixed management fees on accrual, plus 15% of real yield, less fixed management fees ("**variable management fees**"). If real losses were accrued, insurance companies are not entitled to variable management fees, up until the aggregate loss is covered as per a mechanism set forth in this respect, pursuant to the Commissioner's instruction. In these products, insurance companies' financial results are also affected by the volatility in yield credited to insureds, in light of the fact that variable management fees are collected from the real yield achieved, after deducting fixed management fees.

In non-profit participating life assurance (in respect of the share of the life assurance portfolio not backed by designated bonds), in general insurance and in equity, there is no full matching between the assets' linkage basis and the liabilities' linkage basis.

A significant part of the Group's asset portfolio is invested in the capital market. Thus, the capital market yields in various channels and, *inter alia*, the low interest rates materially affect both the achieved yield for Group customers and Group income. Investment gains and losses reflect the behavior of capital markets in Israel and abroad and the behavior of the CPI and NIS exchange rates vis-à-vis the key currencies, whose aggregate impact on management fees / financial spread is the main reason for the volatility in the reported results.

4.2 The Area of life assurance and LTS

4.2.1 The regulatory changes in the area and their implication on the Company's activity

The area of life assurance and LTS, which is the Company's main area of activity, has been affected in recent years by frequent legislative arrangements, aimed at increasing competition. In January 2013 legislative arrangements which changed the area in a material manner came into effect: one of them – the management fees reform, in which the structure of management fees in some pensionary savings products was changed, and there was a reduction in the maximum management fees rate that may be collected, and the other – the regulation regarding annuity coefficients, pursuant to which, *inter alia*, as of 2013 it is forbidden to market insurance plans that combine savings with annuity coefficients that embed a life expectancy guarantee ("**guaranteed annuity coefficients**") to anyone who is under the age of 60 at the time of sale.

Therefore, in 2013 there was a change in the mix of products sold by the Group beginning from January 1st, 2013, with a significant decrease in the weight of life assurance new sales out of total pensionary savings sales in the Company, and on the other hand, there was an increase in the new sales of pension funds, a trend that continued in 2014. Total new sales of pensionary savings products in the Group (except provident funds) were stable in 2014, following a certain decrease in 2013. For details regarding the trends in new sales in the area, see Clause 3.4.4 (a) above and Note 18 to the Financial Statements.

Along with the increase in pension products sales at the expense of managers' insurance products, the harsh competition in pension continued, causing an erosion in management fees in pension plans, which became the leading pensionary product marketed, as well as the continuation of the trend in transfer of accruals between pension funds in the market. For details regarding the management fees rate and the transfer of accruals in pension funds in the Group, see Clause 6.4 to the Corporate Businesses Description chapter and Clause 3.4.4 (b) above.

Pursuant to the management fees reform, there was a decrease in the rate of management fees in life assurance products sold beginning from January 2013. The average rate of management fees collected in these policies in 2014 is approx. 0.98% to accrual and approx. 2.4% to premium, vs. approx. 1.01% to accrual and approx. 2.61% to premium in 2013.

In the life assurance plans marketed beginning from 2004 to the end of 2012 there was a slight erosion in management fees, in light of the increasing competition. The average rate of management fees collected in these policies in 2014 is approx. 1.22% from accrual and about 3.42% from premium, vs. average management fees of approx. 1.22% from accrual and about 3.59% from premium in 2013 and approx. 1.23% from accrual and about 3.85% from premium in 2012.

The increased competition in the area is also reflected in provident products, with a continued erosion in management fees and the continued trend of accrual transfers between provident funds on the market. For details see Clause 6.4 to the Corporation Businesses Description chapter and Clause 3.4.4 above.

As mentioned above, the strengthening of the pension product and the changes in management fees, including the acceleration of the competition in management fees, affect management fees in respect of plans sold in the past as well. In light of the competition in the pension product and the discontinuation of guaranteed coefficients in managers' insurance, the risk of higher cancellation rates and transfer of funds in the area's products increases. However, the guaranteed coefficients included in insurance products marketed until December 2012 may help in the persistency level, which may also involve a decrease in management fees in these policies, as long as legislative arrangements are not changed.

In the Company's estimation, the competition around the products that the players on the market will offer to their customers, both until the age of retirement and after this age, shall focus on several key parameters, such as: service quality, management fees, yield achieved compared to risk level, the remuneration structure of distribution channels, operational streamlining of the institutional entity in adaptation to this changing reality, the IT, organizational and operational infrastructure at their disposal, the stability of the institutional entities, including their ability to comply with equity requirements, the marketing and distribution system at the institutional entities' disposal, insureds' behavior regarding the choice of products, etc.

The legislative arrangements in the area affect and will affect the entire value chain in the area, including the Company's expenses structure and rate, whether as a result of internal streamlining or due to the need to cope with this changing market, in which, *inter alia*, management fees will decrease, both due the reduction in management fees and the strongest competition in the area.

The organization and the coping of players in this changing market, including by the Company, shall be performed, in the Company's estimation, gradually over a long period, and it involves complex processes, including some that will be reflected in the long run. The extent of the impact shall be determined by business developments in the market, on the one hand, and the organization and adjustments implemented by the Group pursuant to these developments, on the other hand. In this context it should be noted that in 2014 the Group strived towards building an infrastructure that would allow, later on, changing the structure of the LTS operation array, aimed at improving the streamlining of operation and service to agents and customers.

For the Group's coping with competition in the area, in light of the changes in this area, and for the Company's strategy, see Clause 7.3 to the Corporation Businesses Description chapter and Clause 5 below,

Information in this paragraph as regards the implementation and/or the Company's expectations regarding the proposed changes is forward-looking information as per its definition in the Securities Law – 1968, is based on the current legislative arrangements, and it is still unknown whether the Commissioner shall take additional or supplementary measures to the current arrangements. Furthermore, the aforesaid is based on expectations, assumptions and forecasts regarding future events whose realization is uncertain, and which are not under the control of the Company. All these may not take place if the regulations are changed, amended or are implemented in a manner different than that forecasted, or if they are not realized.

4.2.2 **Changes in the scope of activity on the market**

Based on life assurance premium data in the years 2012 till September 2014 and contributions and net accruals[23] in 2012-2014, we see an upward trend in the aggregate activity of the life assurance and LTS[24] area, along with an accelerated growth in pension.

In life assurance, in the first nine months of 2014 the scope of premiums on the market remained similar to that in 2013, following a growth of approx. 5% in 2013.

In the pension line activity, in the last two years there was accelerated growth (approx. 16% in each of the years 2013 and 2014). In provident funds (including educational funds activity), there was moderate growth in contributions (approx. 7% in 2014 and approx. 4% in 2013) and a net positive accrual in 2014 and 2013, which follows a net negative accrual in 2012.

Also in the aggregate scope of activity in terms of AuM, in 2014 there was an increase in the area's products (approx. 10%), affected by increases on capital markets and net current accrual, compared with an increase of approx. 13% in 2013.

The weight of the life assurance line, in terms of AuM, maintained its stability vs. 2013 and was approx. 35%, the weight of the new pension funds line increased from approx. 21% as of December 31st, 2013 to approx. 22% as of December 31st, 2014, and the weight of the provident line decreased from about 44% as of December 31st, 2013 to approx. 43% as of December 31st, 2014.

5. The Company's objectives and business strategy

The business environment and the increasing competition require the Company to examine, from time to time, its thinking and deployment as to its objectives and business strategy. The material changes that occurred in the area of life assurance and LTS, which is the main area in the Company, and came into effect in January 2013, namely – the discontinuation of the marketing of insurance plans that combine savings with guaranteed annuity coefficients and the decrease in management fees, mainly in life assurance plans – pose challenges to the Group in setting its strategic objectives, in light of this changing reality.

Although the Group strives towards adjusting its activity to its strategy, obviously, there is some uncertainty in any strategic planning. Exercising the strategic planning depends on many changing factors, including the economic and employment situation, capital markets, competition level, as well as continued impact of regulatory changes, whose scope and focus cannot be assessed with any certainty for years to come, including the effect of additional regulatory changes.

The Company outlined its business strategy at the end of 2012. In light of material developments in the Company's business environment, including the increased competition, the change in pensionary products mix, the interest rate decrease and the change in the customers' preferences, this year the Company is planning to conduct a process of validation and update of its business strategy, including referring to the following key issues: the mix of products marketed by the Company, pricing and business conduct, distribution channels mix, how investments are managed and the Company's equity.

[23] Net accruals are defined as contributions plus net transfers of beneficiaries.
[24] Based on the data published on the Ministry of Finances website, including "Bituachnet", "Pensyanet" and "Gemelnet".

The Company's main strategic objectives, as set forth by its BoD, are:

Preserving and strengthening the Group's status as a leading entity in the area of life assurance and LTS.

Maintaining good profitability over time, along with strengthening the general insurance arm.

Constant improvement in customers' loyalty and satisfaction and distribution channels.

In order to maintain good profitability, the Group will diversify profit sources, will adjust the insurance sales mix in order to improve profitability, will improve operational efficiency and resource management, and investment management that allows providing yields along with adjustment to the risk level.

In the area of life assurance and LTS, the Company acts towards changing the sales mix along with deepening the sales of the pension product that has become the leading product in the area, and a focus on the sale of risk and individual products, including the development of products that will be adjusted to the new changing reality. In addition, the Group strives towards adjusting the distribution systems in order to leverage sales abilities by adjusting the remuneration method and assimilating sales tools that will produce profitable businesses, and expanding sales to existing customers along with preserving the life assurance and LTS portfolio and preventing surrenders and policy cancellations.

In order to diversify the sources of profit, the Company strives towards expanding its activity in the area of general insurance, expressed in 2013 by absorbing Eliahu insurance's new business in general insurance in the Company's activity, while trying to improve profitability in this area.

In the area of health insurance, the Company wants to expand its activity in the area, along with expanding the basis of its business activity and target populations. In the recent years the Company decided to increase its market share, by developing products, advertising, and expanding services to its customers.

In addition, the Company will try to develop non-insurance activities in areas that are related to quality of life, health services and Third Age, including all their aspects. The Company considers the population of insureds after the age of retirement (the Third Age) and its various aspects, as a developing market, and it will exercise the Group synergetic potential in respect of this developing market segment.

In light of the regulatory changes and the increased competition in the area, the Group strives towards improving the operational efficiency and service to customers and the Group's distribution channels, *inter alia*, by implementing advanced IT systems, including the development of various digital tools, as well as via organizational changes.

The Company is working for a constant improvement in customers' loyalty and satisfaction and distribution channels, that will be achieved via leadership in service provided to customers and to distribution channels and via deepening customer share, while creating a long-term basis for its relations with the end customers. In order to deepen the customer share, the Group emphasizes the simplification of selling processes, the development of appropriate products and services and utilizing the synergy between the Group's various activities and products.

The Company continues to strive towards achieving good yields for insureds and members relative to the risk level. For this purpose, the Group strives towards diversifying its investments, including expanding investment activity in foreign markets and increasing investments in channels which in the Group's estimation, will have excess yields, *inter alia*, in the areas of real estate and credit.

The information included in this Part includes forward-looking information, and reflects the Group's estimates. These estimates are based, *inter alia*, on all the facts and data detailed in this Part. Actual results may be different from estimates in a material way due to changes that will occur in any of the aforesaid facts and data, and/or as a result of changes that may occur in the risk factors applicable to the Group in general, detailed in Note 37 to the Financial Statements and Clause 37 to part D to the Corporation Businesses Description.

6. Report regarding exposure to market risks and the manner of their management

The report enclosed herewith regarding risk management refers to the investments of the Company and its material consolidated companies, except insurance companies, pursuant to the Securities regulations (Periodic and Immediate Reports) – 1970.

For details regarding Migdal Insurance's risk management, see Note 37 to the Financial Statements as well as Clause 37 to the Corporation Businesses Description chapter.

6.1 The persons in charge of market risks management in the Corporation

Mr. Itzhak Ben Menachem is the risk manager in Migdal Holdings, Migdal Insurance and of the institutional entities managed by it, from October 1st, 2013.

The persons in charge of market risk management in Migdal Capital Markets are the CEOs of every subsidiary. In addition, in Migdal Capital Markets there is a Chief Risk Manager who operates a plan of independent controls over the Company's activities, including investment management and compliance with the risk policy and appetite as set forth. Regarding Nostro risks, there is also a market risk management software in order to assess the exposures stemming from these activities.

6.2 Market risks description

Except for Migdal Insurance Group businesses, the Company has additional key investments, concentrated in Migdal Holdings itself as well as in Migdal Capital Markets, a consolidated company, as detailed hereinafter:

6.2.1 The Company (Migdal Holdings)

As of December 31st, 2014, the Company's scope of financial assets is non-material, therefore the Company has no material exposure to market risks.

In general, the Company is exposed to market risks, such as: changes in interest rates, in CPI, foreign exchange rates and share prices in Israel and abroad, in light of its holdings in various financial assets.

6.2.2 Migdal Capital Markets

Migdal Capital Markets Group is active in various areas of the capital market, characterized with volatility as a result of political and economic events in Israel and overseas. These fluctuations affect securities' prices on the Stock Exchange and the scope of activity on the capital market, and as a result, its activity, assets and business results. Furthermore, Migdal Capital Markets Group results are also affected by the decisions made by regulators and various legislative entities.

The tables herewith describe the impact of changes in market factors on the value of net financial assets of Migdal Capital Markets (NIS thousand):

Market factor – Foreign exchange

	Income (loss) from changes			Income (loss) from changes	
Sensitive instrument	**10% increase in market factor**	**5% increase in market factor**	**Fair value**	**10% decrease in market factor**	**5% decrease in market factor**
Cash and cash equivalent	823	411	8,226	(823)	(411)
Derivatives	64	32	2,320	(64)	(32)
Customers	2,645	1,322	26,451	(2,645)	(1,322)
Receivables	164	82	1,639	(164)	(82)
Credit from banking corporations	(2,733)	(1,366)	(27,326)	2,733	1,366
Total	963	481	11,310	(963)	(481)

Market factor – CPI

	Income (loss) from changes			Income (loss) from changes	
Sensitive instrument	**10% increase in market factor**	**5% increase in market factor**	**Fair value**	**10% decrease in market factor**	**5% decrease in market factor**
Receivables	709	355	7,089	(709)	(355)
Payable current taxes	189	95	1,885	(189)	(95)
Total	898	450	8,974	(898)	(450)

Market factor – interest rate (*)

Sensitive instrument	Income (loss) from changes				Income (loss) from changes		
	10% increase in market factor (multiplica-tive)	5% increase in market factor (multiplica-tive)	2% (**) increase in market factor (additional)	Fair value	10% decrease in market factor (multiplica-tive)	5% decrease in market factor (multiplica-tive)	2% decrease in market factor (additional)
Government bonds and Sort Term Bonds	(1)	0	(43)	3,122	1	0	44
Corporate bonds	0	0	0	399	0	0	0
Derivatives	0	0	(9)	5	0	0	9
Total	(1)	(1)	(52)	3,526	1	1	54

(*) In interest rate scenarios - the changes of 5% and 10% are changes of the interest rate itself (for example, at basic interest of 4% the 10% increase is to 4.4%), while a change of 2% is an additional change (for example, if the basic interest rate is 4%, the change is to 6%).

(**) The Company`s estimate is that 2% is the maximum representative increase rate over long periods

Market factor – shares (***)

Sensitive instrument	Income (loss) from changes				Income (loss) from changes		
	Maximum increase in market factor (17%)	10% increase in market factor	5% increase in market factor	Fair value	Maximum decrease in market factor (17%)	10% decrease in market factor	5% decrease in market factor
Shares and ETFs	629	542	272	5,660	(632)	(545)	(272)
Derivatives	(440)	(379)	(190)	5	440	379	190
Total	189	163	82	5,665	(192)	(166)	(82)

(***) Below is a list of risk factors in which the maximum daily change (in absolute terms) detected during the last ten years before the report date exceeds 10%, with the date of the report and the daily change.

Risk factor	Maximum change rate	Date of change
TA-75 Index	17.0%	21.9.2008
TA-100 Index	10.3%	21.9.2008
S&P - 500	11.6%	13.10.2008

6.2.3 **Assumptions used for sensitivity calculations**

It should be noted that although the Financial Statements of Migdal Capital Markets' hedge funds are fully consolidated in Migdal Capital Markets' Financial Statements, in light of the fact that it controls them entirely, the results of the VaR measurements and the results of the sensitivity tests of hedge funds refer only to Migdal Capital Markets' share in these investments, and not to investments by other investors not from Migdal Group (if at all).

Derivatives calculation methodology

Options are calculated using the Black & Scholes model, and their pricing is affected by the following factors: time to maturity, exercise price, standard deviation, currency, base asset (such as currency, share, bond), interest to maturity range.

In order to calculate risk indices, the option value in the scenario is affected by the change in the relevant risk factors. When the base asset is a share (that is not a risk factor), the reference to a change in it is the same as in shares.

Future contracts are represented by splitting them into two: changes in the base asset and changes in interest rates relevant to the maturity range.

Extreme scenarios

Extreme values in the volatility of risk factors were examined as the maximum daily changes in the last 10 years. The extreme scenario for interest rates as of December 31st, 2014 is an absolute (additional) change of 2% in interest rate, pursuant to the Securities instructions. This scenario was set after examining the databases of interest rate curves, which indicated that during the last ten years there were no absolute changes exceeding 2% for a day horizon.

In several risk factors that are not interest rate and which were examined, we found changes exceeding 10% as set forth above.

6.2.4 **Other activity**

As of December 31st, 2014, the activity of Migdal Health and Migdal Management is not material, therefore according to the Company's assessment, the risk in their respect is not material.

6.3 **Fair value at risk**

As per the Securities Regulations (Periodic and Immediate Reports – 1970) the value at risk for Migdal Capital Markets' Nostro portfolios is measured at a significance level of 95% as of December 31st, 2014.

NIS thousand	Investment in a hedge fund*
VaR value as of 31.12.2014	(25)
Nominal VaR value	(19)
Maximum VaR value	(55)
Average VaR value	(29)
The number of times in which the actual loss rate exceeded the (Backtest)** VaR	-

* The measurement of position was conducted based on 500 retroactive observations.

** The VaR presents a maximum loss at probability of 95% for the existing position as of the measurement date, however, since the position changes every day, it is impossible to compare the actual loss and the VaR that was received.

Presented below are the main model assumptions used in the VaR model adopted by Migdal Capital Markets.

The VaR model reported by Migdal Capital Markets is a daily one with a 95% significance rate.

The period used in the historic simulation period is about two years back (500 observations).

6.4 **Corporate policy in market risk management**

6.4.1 **Migdal Holdings**

The market risk management policy is set by the Board of Directors and investment committee of Migdal Holdings' asset portfolio ("**investment Committee**"). These organs receive reports on the exposure of the Group's various investment portfolios to changes in the financial and capital markets, interest rates, foreign exchange rates and inflation, and accordingly, they determine exposure levels to the various investment channels as a framework for the execution of investments by the Group's Investment Discipline.

6.4.2 **Migdal Capital Markets**

Migdal Capital Markets and its subsidiaries, through their employees, supervise the various exposures stemming from market risks of Migdal Capital Markets Group as detailed hereinafter:

Exposure to inflation, changes in foreign exchange and interest rates – Migdal Capital Markets and its subsidiaries do not fully hedge themselves against an inflation environment, but partially (in scopes as per their discretion), by buying CPI-linked and foreign exchange-linked assets. In cases where the interest rate paid by a subsidiary of Migdal Capital Markets to banks in respect of short term loans increases, the subsidiary raises the interest rate it charges its customers if the change is material.

Credit risks in respect of customers – a subsidiary of Migdal Capital Markets ("**the subsidiary**") may grant credit to its customers for the purchase of securities / financial assets only (in Israel or abroad).

The subsidiary grants credit to each customer, in the amount of NIS 100 thousand, or in the amount of the excess of collateral in the account, the lower of the two. Increasing credit beyond that requires internal approvals in the subsidiary.

Most of the credit that is granted is backed by collateral, however, the subsidiary puts a lien on credit amounts above a certain sum, pursuant to the credit policy or the decision of Migdal capital Markets' BoD. Some credit is credit with no collaterals at all, and granting it to customers requires receiving internal approvals in the subsidiary, as per its credit policy.

The subsidiary uses several mechanisms for managing the amount of credit extended to customers pursuant to the limits set forth by the TASE and in accordance with the credit policy in Migdal Capital Markets.

In the subsidiary there is a credit controller whose role is making sure that customers do not exceed the credit limits assigned to them, and if there is such a deviation, the Company operates in order to reduce it immediately.

The subsidiary's equity as of December 31st, 2014 was approx. NIS 351 million and the scope of overall credit (including credit not backed by collaterals) as defined in the TASE Articles of Association was approx. NIS 400 million.

The main risk embedded in the subsidiary's activity is the inability of a customer to pay back credit received from the Company. This risks exists both regarding customers who received credit with no collaterals, as well as regarding customers who received credit backed up by collaterals, since strong fluctuations on the markets might lead to a significant reduction in the collaterals' value, which may then lead to a situation of a lack of sufficient collaterals. Furthermore, there might also be a situation in which it is impossible to exercise collaterals with no lien.

Credit risks for custodian customers – in respect of activity in derivatives by customers who do not use custodian services in the subsidiary, an approval is received in advance from the clearing bank, that it would absorb the transactions of up to a certain amount. If there is no approval from the clearing bank, the transaction shall be perceived as a credit transaction with no collateral.

If the activity in derivatives is performed by Migdal Insurance Group, in accounts managed in the subsidiary, there is a guarantee and a pledge by Migdal Capital Markets towards the subsidiary, up to NIS 20 million per account and up to NIS 40 million for all accounts in respect of the credit that constitutes activity in derivatives.

The subsidiary mitigates credit risks related to providing execution services only (without custodian) by granting such credit only to customers with financial strength such as mutual funds, provident funds, insurance companies, banks' Nostro, companies that operate Nostro in a wide scope, ETFs etc. Furthermore, the credit facility for each customer for this activity is approved individually, pursuant to internal approvals in the subsidiary.

Customers' activity in derivatives - the subsidiary demands collaterals from its customers as per the provisions of the Articles of Association of the Stock Exchange and its instructions. Furthermore, the subsidiary performs ongoing control procedures during trading, through human and computerized tools.

Execution errors – the subsidiary might have to correct, at its expense, execution errors due to misunderstandings of instructions given by customers. In order to reduce the exposure to allegations made by customers regarding execution errors, the subsidiary records phone lines in the trading room, in order to allow customers' allegations regarding execution errors and the origin of said errors.

Capital market risks stemming from distribution activity – during December 2014 a subsidiary of Migdal Capital Markets announces that its classification has been changed to "non-active underwriter" in the underwriters' register in the ISA, therefore market risks resulting from underwriting activity do not apply to it. Regarding activity in distribution activity – the market risk, due to issuances' failure, does not apply to Migdal Capital Markets.

Capital market risks (Nostro and brokerage accounts) –
Hedge funds activity – in hedge funds managed by Migdal Capital Markets (via companies owned and fully controlled by it), Migdal Capital Markets invests money as a general partner pursuant to their investment policy. These monies constitute most of MCM's self investments, in order to present track record on these investments, such that it would help in bringing external investors as general partners to the hedge funds in the future. Some hedge funds will act following to investment models developed by external entities specializing in investment consulting via models as set forth above. Migdal Capital Markets' investments in hedge funds must comply with restrictions, such as the size of maximal position size, the leverage level, the exposure limit to single issuers, a limit on the total exposure in the account, limits as to the issuers rating, limits of maximum loss allowed in every trading day, as well as an independent control for the examination of the compliance with the investment policy and in order to calculate the expected potential loss via VaR.

It should be noted that in 4Q14 Migdal Capital Markets decided to focus its Nostro investment activity in hedge funds, therefore its Nostro management activity in State bonds, that was carried out not via hedge funds, was discontinued.

Activity in brokerage accounts – the activity in these accounts is aimed at collecting contributions to which the subsidiary is entitled, deriving from the spread between the execution of transactions between their two counterparts. The subsidiary operates brokerage accounts in several types of securities. The trading activity in brokerage accounts is limited, in such a manner that the subsidiary does not perform activity in these accounts unless another counter transaction is performed back-to-back simultaneously, such that the buying transaction and the selling transaction are cleared at the same time, so in reality there is no inventory and there is no position in the account. However, a failure in the clearance of one of the counter transactions might expose the subsidiary to risks stemming from trading fluctuations in the assets of these transactions, since should there be a negative change in the price of the relevant asset between the date upon which the two counter transactions were supposed to be carried out and the date upon which an alternative transaction was carried out, the subsidiary will be exposed in respect of such damage, and its ability to charge the breaching party will require a legal claim. In addition, in brokerage transactions for the sale of structured products from an Israeli seller to a foreign buyer, usually, the subsidiary stipulates the transaction by the condition that the Israeli seller takes upon himself the risk of the foreigner buyer's insolvency (such that the transaction would be carried out only if the foreign buyer transfers the payment in respect of the structured product to the subsidiary). The execution of such a transaction without this stipulation requires internal approvals in the subsidiary.

In transactions in foreign bonds vis-à-vis financial institutions there is a difference in clearance time, such that if the other party does not execute its share in the transaction, the transaction will not be actually completed. In such a case, the subsidiary is exposed to the risk of a change in the price of foreign bonds until the execution of an alternative transaction.

Cases of insolvency to Israeli and foreign financial institutions due to holding assets – Migdal Capital Markets might be exposed to cases of insolvency of the foreign custodians through which it operates abroad. Migdal Capital Markets strives towards receiving a written certificate from these custodians, stating that the assets are held separately from the custodian assets. Furthermore, usually there is a deposits' insurance for such entities abroad, although there are doubts as to the ability of entities such as Migdal Capital Markets to activate this insurance if needed. Migdal Capital Markets makes sure it works with custodians supervised by the local Securities Authority and by self-regulatory organizations (SROs). In recent years, Migdal Capital Markets transferred clearance from several small custodians to larger ones. Regarding banks in Israel, indeed, in Israel there is no deposits' insurance, but on the other hand, the assumption based on past experience is that the State of Israel shall back the banks in Israel. In light of the TASE's Articles of Association, anyway Migdal Capital Markets can only deposit customers' cash in Israeli banks, and it does it pursuant to the policy set forth by Migdal Capital Markets' BoD.

6.5 Supervision of the market risks management policy and the way it is implemented

6.5.1 Migdal Holdings

The supervision of the Group's market risk management is performed through the investment committees that convene on a regular basis.

The committees report investment portfolio's exposure levels both through measuring value at risk (VaR), which measures the maximum potential damage at a given probability, as well as by examining the expected damage to the Group in various market scenarios.

As mentioned above, as of the date of the report, the scope of financial assets in the Company is non-material.

The Company BoD receives a report regarding market risks once a year.

6.5.2 **Migdal Capital Markets**

Migdal Capital Markets' BoD receives a report regarding market risks once every quarter. Migdal Capital Markets' CEO and the CEOs of its subsidiaries receive an ongoing report regarding risks in the various areas from the Chief Risk Manager.

6.6 **Linkage bases report as of December 31st, 2014**

For data regarding linkage bases, see Note 37c to the Financial Statements.

6.7 **Derivative data as of December 31st, 2014**

As of December 31st, 2014 and throughout the year, the Company did not hold derivatives in significant amounts.

As of December 31st, 2014 and throughout the year, Migdal Capital Markets had a liability balance of approx. NIS 148 million, net, in respect of derivatives.

As of the December 31st, 2014 Migdal Capital Markets has an investment as a limited partner in the amount of approx. NIS 38 million in in hedge funds managed by subsidiaries owned and fully controlled by it, and invested in them, *inter alia*, in derivatives. It should be noted that after the date of the balance sheet, another approx. USD 10 are managed in Migdal Capital Markets, in respect of which a hedging is made. It should also be noted that as of the date of the balance sheet, in the hedge funds there are no external investors who are not from Migdal Group or related parties.

Furthermore, it should be noted that as of December 31st, 2014 the Company had an investment in Dragon Hedge Fund, but during the year investors, including the Company, surrendered their entire investment in the Fund, and its activity was discontinued.

7 Corporate governance aspects

7.1 Group companies' involvement in the community and donations

The Group's companies integrate their social plans in their core business activity, and incorporate an organizational culture based on encouraging employees' volunteering, environmental responsibility, and creating partnerships with a focus on the Third Age population, financial education, and the empowerment of weakened populations from low socio-economic strata. In 2014 the scope of the Company's social involvement in monetary terms totaled approx. NIS 3.5 million.

7.2 Report regarding Directors with accounting and financial expertise

For details regarding Directors with accounting and financial expertise, including their education, experience, expertise and knowledge, based on which the BoD perceives them as Directors with accounting and financial expertise, see Regulation 26 and Clause 11(b) to the Corporate Governance Questionnaire in the Additional Data on the Corporation chapter.

7.3 Deliberation and examination of remunerations to interested parties and Senior Officers The relation between remunerations for Senior Officers detailed in Regulation 21 in the Additional Data on the Corporation chapter

For details regarding the remunerations given to Executive Senior Officers – see Regulation 21 to part D - Additional Data on the Corporation chapter ("**Regulation 21**").

Regarding the remuneration policy in the institutional organs of the Company and in the Company, see Note 38j3 to the Financial Statements.

Within the process for the approval of 2014 Periodic Report, the Company's BoD deliberated the terms of employment and office of each person receiving remunerations detailed in Regulation 21, and discussed, *inter alia*, the relation of the amount of remuneration given in 2014 to each one of them separately, and their contribution to the Group in the reported period, and their compliance with the Company's and/or institutional organs' remuneration policy, if applicable, as the case may be.

It should be noted that the annual grant to senior Officers in the Company and in the institutional organs in the Group in respect of 2014 has not yet been approved nor paid to Senior Officers, and the provision for the annual grant in respect of 2014 in the Company's Financial Statements was performed as per an estimate only, based on 75% of the target grant that is based on the Company's objectives as per the remuneration policy, i.e.: (1) comprehensive income before tax in general insurance (2) comprehensive income before tax not from general insurance and (3) NBV, as per the weights set forth in the remuneration policy. The Company's objectives were set as relative/comparative objectives, which measure the Company's pro-rata share in the results of these parameters, out of the results of the five largest insurance groups in Israel as to these parameters, in each of the years 2014-2016. In addition to the entry requirement of an RoE at a rate of 7%, there are other entry requirements for receiving an annual grant, which include complying with the safety cushion set forth by the Board of Directors, meeting a liquidity ratio, as well as conditions regarding across-the board amortization and cancellation conditions, regarding the rating of the Group's institutional organs' bonds, even regarding deferred payments of the annual grant.

The provision for the grant was recorded as per an estimate only, and the actual grant that will be distributed may vary due to data regarding the relative results of the Company compared with peer companies, in several indices, and it is subject to making the right resolutions in the Company and in the institutional entities.

Taking the above into account, the Company's BoD examined and decided that the remunerations paid to Senior Officers in the Company and in the Group's institutional organs detailed in Regulation 21 comply with the remuneration policy.

Regarding Mr. Sharon Hinkis, who receives remunerations detailed in Regulation 21, paragraph (3):

Mr. Sharon Hinkis does not serve as a Senior Officer in the Company and is not a senior Officer in the institutional organs, thus the remuneration policy of the Company and the institutional organs does not apply to hm. For the terms of employment of Mr. Sharon Hinkis, see details in Regulation 21.

Mr. Sharon Hinkis joined Migdal Group in June 2006 with the acquisition of Afikim Investment House, in which he served as a partner. Mr. Hinkis is employed by Capital Markets Group as an Investments Manager in Migdal Funds, as an Investments Manager in the portfolio management company and as the person in charge of handling debt arrangements and bad debt. The BoD found that the remuneration paid to Mr. Hinkis is fair and reasonable taking into consideration the scope of assets managed by him, the average management fees rate collected in mutual funds, which is relatively high compared with other funds managed by Migdal funds and in the sector, the fact that Mr. Hinkis manages, *inter alia*, very complex mutual funds in a unique manner in the AREA of derivatives and bad debt, Mr. Hinkis' handling of debt arrangements, his help in branding Migdal Capital Markets Group, the fact that he has known the customers of Afikim, who became customers of MCM Group, for many years, and his contribution to customers' persistency after the previous Chief Investments Manager in Migdal Capital Markets Group, Mr. Jacob Weinstein, stopped working. Also, the fact that Mr. Hinkis' overall grant is limited by a cap, in an amount that does not exceed the overall remuneration cap set forth in the Company's remuneration policy for key position holders, although he is subject to this policy, was taken into account.

Mr. Sharon Hinkis does not have peers on the capital market, therefore there was no comparison between the remuneration paid to him and to others.

The BoD is of the opinion that taking into account all the discretions set forth above, the reputation and contribution of Mr. Hinkis to Capital Markets Group's activity, his experience and period of service, the remuneration paid to Mr. Hinkis is reasonable and fair under the circumstances.

7.4 Company policy regarding negligible transactions

For details regarding the Company's policy regarding negligible transactions, see Note 38b to the Financial Statements.

8. Developments after the date of the balance sheet

For details regarding the developments after the date of the balance sheet, see Note 40 to the Financial Statements.

For details regarding the developments in the macro-economic environment after the date of the balance sheet, see Clause 4.1.3 above.

The Board of Directors wishes to thank the managements of the Group companies, the Group employees and agents, for their contribution to the Group’s achievements.

Oded Sarig	**Eran Czerninski**
Chairman of the Board	**CEO**

March 24th, 2015

CONSOLIDATED FINANCIAL STATEMENTS

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014

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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, 2014. 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, 2014.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014 and our report dated March 24, 2015 expressed an unqualified opinion thereon based on our audit and the reports of the other auditors and also draws attention to the matter discussed in Note 39(1) to the consolidated financial statements regarding the exposure to contingent liabilities.

Tel-Aviv, Israel	SOMEKH CHAIKIN	KOST FORER GABBAY & KASIERER
March 24, 2015	Member of KPMG International	Member of Ernst & Young Global

Joint auditors

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INDEPENDENT AUDITORS' REPORT

to the Shareholders of

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

We have audited the accompanying consolidated statements of financial position of Migdal Insurance and Financial Holdings Ltd. ("the Company") as of December 31, 2014 and 2013, 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, 2014. The Company's board of directors and management are responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain investees accounted for at equity, the investment in which amounted to approximately NIS 643,162 thousand and NIS 654,175 thousand as of December 31, 2014 and 2013, respectively, and the Group's share of their earnings amounted to approximately NIS 80,009 thousand, NIS 70,752 thousand and NIS 66,463 thousand for the years ended December 31, 2014, 2013 and 2012, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2014 and 2013, 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, 2014, in conformity with International Financial Reporting Standards ("IFRS") and with the disclosure requirements of the Commissioner of Insurance according to the Control of Financial Services (Insurance) Law, 1981.

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

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

We have also audited, pursuant to Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting", the Company's components of internal control over financial reporting as of December 31, 2014, and our report dated March 24, 2015 includes an unqualified opinion as to the effective maintenance of those components.

Tel-Aviv, Israel	SOMEKH CHAIKIN	KOST FORER GABBAY & KASIERER
March 24, 2015	Member of KPMG International	Member of Ernst & Young Global

Joint auditors

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2014	December 31, 2013
		NIS in thousands	
Assets			
Intangible assets	4	1,359,895	1,453,585
Deferred tax assets	21g	27,017	19,630
Deferred acquisition costs	5	1,769,316	1,736,209
Fixed assets	6	717,456	758,865
Investments in affiliates	7	644,466	654,197
Investment property for yield dependent contracts	8	4,898,057	4,697,884
Investment property - other	8	630,890	610,204
Reinsurance assets	15-16	1,013,707	991,118
Current tax assets		215,259	87,245
Debtors and receivables	9	988,508	315,102
Outstanding premiums	10	579,335	516,522
Financial investments for yield dependent contracts	11	69,582,999	60,990,179
Other financial investments:	12		
Quoted debt assets	12a	6,140,242	5,840,002
Unquoted debt assets	12b	22,053,636	21,616,499
Shares	12d	1,113,352	1,034,807
Others	12e	2,385,203	1,954,720
Total other financial investments		31,692,433	30,446,028
Cash and cash equivalents for yield dependent contracts	13	3,289,969	4,907,015
Cash and cash equivalents - other	13a	1,642,651	1,550,267
Total assets		119,051,958	109,734,050
Total assets for yield dependent contracts in an insurance subsidiary	11	78,708,064	70,817,827

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2014	December 31, 2013
		NIS in thousands	
Equity and liabilities			
Equity	14		
Share capital		110,629	110,628
Share premium		273,735	273,735
Capital reserves		489,110	377,170
Retained earnings		4,402,316	4,377,484
Total equity attributable to equity holders of the Company		5,275,790	5,139,017
Non-controlling interests		2,283	1,384
Total equity		5,278,073	5,140,401
Liabilities			
Liabilities in respect of non-yield dependent insurance contracts and investment contracts	15	31,403,731	30,127,559
Liabilities in respect of yield dependent insurance contracts and investment contracts	16	78,046,216	70,558,408
Liabilities in respect of deferred taxes	21g	722,985	632,174
Liabilities in respect of employee benefits, net	22	249,104	253,761
Liabilities in respect of current taxes		40,836	28,405
Creditors and payables	23	1,723,413	1,772,909
Financial liabilities	24	1,587,600	1,220,433
Total liabilities		113,773,885	104,593,649
Total equity and liabilities		119,051,958	109,734,050

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

March 24, 2015			
Date of approval of the financial statements	Prof. Oded Sarig Chairman of the Board	Eran Czerninski CEO	Eran Czerninski CFO

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

		Year ended December 31,		
		2014	2013	2012
	Note	NIS in thousands (except per share data)		
Gross premiums earned		10,043,396	10,072,574	9,476,028
Premiums earned by reinsurers		687,673	717,337	701,581
Premiums earned on retention	25	9,355,723	9,355,237	8,774,447
Net investment gains and finance income	26	5,614,282	9,385,427	7,524,180
Income from management fees	27	1,569,068	1,696,798	1,137,498
Income from commissions	28	368,529	360,110	350,510
Other income	29	42,956	35,446	17,025
Total income		16,950,558	20,833,018	17,803,660
Payments and change in liabilities in respect of gross insurance contracts and investment contracts		14,113,747	17,577,089	15,302,384
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts		383,737	334,669	256,478
Payments and change in liabilities in respect of insurance contracts and investment contracts on retention	30	13,730,010	17,242,420	15,045,906
Commissions, marketing expenses and other acquisition expenses	31	1,523,055	1,480,839	1,381,113
General and administrative expenses	32	1,041,169	1,094,319	1,033,400
Other expenses	34	76,628	50,672	33,111
Finance expenses	35	51,479	52,323	38,976
Total expenses		16,422,341	19,920,573	17,532,506
Equity in earnings of investees accounted for at equity	7b	80,112	70,774	64,452
Income before taxes on income		608,329	983,219	335,606
Taxes on income	21f	185,494	366,506	117,476
Net income for the period		422,835	616,713	218,130
Attributable to:				
Equity holders of the Company		422,031	617,770	217,236
Non-controlling interests		804	(1,057)	894
Net income for the period		422,835	616,713	218,130
Basic and diluted net earnings per share attributable to equity holders of the Company (in NIS)	36	0.40	0.59	0.20

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2014	2013	2012
		NIS in thousands		
Net income for the period		422,835	616,713	218,130
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 carried to profit and loss		587,082	369,456	392,781
Impairment loss of available-for-sale financial assets carried to profit and loss		(448,933)	(209,219)	(200,516)
		42,875	35,483	84,994
Group's share of earnings (losses) of other comprehensive income of investee accounted for at equity		(183)	2,409	(51)
Foreign currency translation adjustment of foreign operation		(89)	(7)	-
Tax effect	21	(68,709)	(80,688)	(99,677)
Total comprehensive income for the period that has been or will be reclassified from comprehensive income to profit and loss after initial recognition, net of tax		112,043	117,434	177,531
Other items of other comprehensive income that will not be carried to profit and loss:				
Actuarial gain from defined benefit plan		3,659	1,674	13,249
Revaluation of fixed assets carried to investment property		-	4,561	-
Tax effect	21	(911)	(1,498)	(4,273)
Total other comprehensive income for the period that will not be carried to profit and loss, net of tax		2,748	4,737	8,976
Total other comprehensive income		114,791	122,171	186,507
Total comprehensive income for the period		537,626	738,884	404,637
Attributable to:				
Equity holders of the Company		536,765	739,894	403,743
Non-controlling interests		861	(1,010)	894
Total comprehensive income for the period		537,626	738,884	404,637

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company										
	Share capital	Share premium	Capital reserves from available-for-sale assets	Reserve from revaluation of investment after achieving control	Capital reserve from transactions with non-controlling interests	Foreign currency translation adjustment of foreign operation	Revaluation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS in thousands										
Balance at January 1, 2014	110,628	273,735	367,985	6,989	(1,149)	(7)	3,352	4,377,484	5,139,017	1,384	5,140,401
Net income for the period	-	-	-	-	-	-	-	422,031	422,031	804	422,835
Other comprehensive income (loss), net of tax	-	-	112,101	-	-	(58)	-	2,691	114,734	57	114,791
Total comprehensive income (loss)	-	-	112,101	-	-	(58)	-	424,722	536,765	861	537,626
Exercise of employee options into shares	1	-	-	-	-	-	-	-	1	-	1
Benefit in respect of employees options	-	-	-	-	-	-	-	110	110	-	110
Dividend	-	-	-	-	-	-	-	(400,000)	(400,000)	-	(400,000)
Transactions with non-controlling interests	-	-	-	-	(103)	-	-	-	(103)	38	(65)
Balance at December 31, 2014	110,629	273,735	480,086	6,989	(1,252)	(65)	3,352	4,402,316	5,275,790	2,283	5,278,073

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company										
	Share capital	Share premium	Capital reserves from available-for-sale assets	Reserve from revaluation of investment after achieving control	Capital reserve from transactions with non-controlling interests	Foreign currency translation adjustment of foreign operation	Revaluation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS in thousands										
Balance at January 1, 2013	110,607	273,735	250,544	6,989	-	-	-	4,152,835	4,794,710	777	4,795,487
Net income (loss) for the period	-	-	-	-	-	-	-	617,770	617,770	(1,057)	616,713
Other comprehensive income (loss), net of tax	-	-	117,441	-	-	(7)	3,352	1,338	122,124	47	122,171
Total comprehensive income (loss)	-	-	117,441	-	-	(7)	3,352	619,108	739,894	(1,010)	738,884
Exercise of employee options into shares	21	-	-	-	-	-	-	-	21	-	21
Benefit in respect of employees options	-	-	-	-	-	-	-	311	311	-	311
Reclassification of share-based payment from liabilities in respect of employee benefits into equity	-	-	-	-	-	-	-	5,230	5,230	-	5,230
Dividend	-	-	-	-	-	-	-	(400,000)	(400,000)	-	(400,000)
Transactions with non-controlling interests	-	-	-	-	(1,149)	-	-	-	(1,149)	1,617	468
Balance at December 31, 2013	110,628	273,735	367,985	6,989	(1,149)	(7)	3,352	4,377,484	5,139,017	1,384	5,140,401

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	Share capital	**Share premium**	**Capital reserves from available-for-sale assets**	**Reserve from revaluation of investment after achieving control**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	NIS in thousands							
Balance at January 1, 2012	110,607	273,735	73,013	6,989	4,073,275	4,537,619	1,803	4,539,422
Net income for the period	-	-	-	-	217,236	217,236	894	218,130
Other comprehensive income, net of tax	-	-	177,531	-	8,976	186,507	-	186,507
Total comprehensive income	-	-	177,531	-	226,212	403,743	894	404,637
Exercise of employee options into shares	*) -	-	-	-	-	-	-	-
Benefit in respect of employees options	-	-	-	-	3,348	3,348	-	3,348
Dividend	-	-	-	-	(150,000)	(150,000)	-	(150,000)
Non-controlling interests in respect of business combination	-	-	-	-	-	-	(1,920)	(1,920)
Balance at December 31, 2012	110,607	273,735	250,544	6,989	4,152,835	4,794,710	777	4,795,487

*) Represents an amount lower than NIS 1 thousand.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Cash flows from current activities (Schedule A)	(1,020,944)	2,670,733	2,207,494
Cash flows from investment activities			
Investment in affiliates	(1,627)	(20,164)	(2,430)
Cash derecognized due to acquisitions in business combinations, net (Schedule D)	-	(224,826)	(14,875)
Investment in fixed assets	(33,460)	(66,450)	(209,617)
Investment in intangible assets	(115,916)	(99,763)	(155,634)
Repayment of loans granted to affiliates	2,002	317	684
Dividend received from affiliate	25,095	40,905	39,326
Proceeds from sale of fixed assets	1,300	7,144	2,402
Net cash used in investment activities	(122,606)	(362,837)	(340,144)
Cash flows from finance activities			
Exercise of employee options into shares	1	21	*) -
Receipt of loans from banks and others	8,253	79,548	824,554
Repayment of loans from banks and others	(46,039)	(52,115)	(51,805)
Change in short-term credit from banks and others, net	13,151	(12,789)	(76,269)
Dividend	(400,000)	(400,000)	(150,000)
Net cash provided by (used in) finance activities	(424,634)	(385,335)	546,480
Effect of exchange rate fluctuation on balances of cash and cash equivalents	43,522	(103,371)	(23,743)
Change in cash and cash equivalents	(1,524,662)	1,819,190	2,390,087
Balance of cash and cash equivalents at beginning of period (Schedule B)	6,457,282	4,638,092	2,248,005
Balance of cash and cash equivalents at end of period (Schedule C)	4,932,620	6,457,282	4,638,092

*) Represents an amount lower than NIS 1 thousand.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Schedule A - Cash flows from current activities before taxes on income (1)			
Net income for the period	422,835	616,713	218,130
Items not involving cash flows:			
Equity in net results of affiliates	(80,112)	(70,774)	(64,452)
Net gains from financial investments for yield dependent insurance and investment contracts	(3,564,378)	(7,283,001)	(5,338,866)
Net losses (gains) from other financial investments:			
Quoted debt assets	(407,412)	(345,832)	(297,588)
Unquoted debt assets	(1,112,419)	(1,455,417)	(1,335,712)
Shares	(116,861)	(34,075)	(26,184)
Other investments	46,511	(100,295)	(74,541)
Finance expenses in respect of financial liabilities and others	26,762	48,301	35,029
Gain from disposal of:			
Intangible assets	-	250	-
Fixed assets	257	326	303
Affiliates	-	2,356	21
Change in fair value of investment property for yield dependent contracts			
Change in fair value of other investment property	(75,285)	(86,129)	(86,955)
Impairment of investments in affiliate	(13,799)	(4,900)	(4,631)
Impairment of intangible assets	-	-	2,138
Depreciation and amortization:	24,478	3,181	1,037
Fixed assets	67,891	69,650	60,789
Intangible assets	176,673	171,376	145,769
Change in liabilities for yield dependent insurance and investment contracts	7,487,808	10,496,134	8,674,132
Change in liabilities for non-yield dependent insurance and investment contracts	1,276,172	1,578,322	1,271,244
Change in share-based payment transactions	110	311	3,348
Change in reinsurance assets	(22,589)	58,951	131,380
Change in deferred acquisition costs	(33,107)	(111,537)	(85,009)
Taxes on income	185,494	366,506	117,476

(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,		
	2014	2013	2012
	NIS in thousands		
Schedule A - Cash flows from current activities before taxes on income (Cont.)	3,866,194	3,303,704	3,128,728
Changes in other balance sheet items:			
Financial investments and investment property for yield dependent insurance and investment contracts	(124,888)	(695,269)	(309,581)
Acquisition of investment property	(6,458,675)	(1,239,717)	(3,411,188)
Net acquisitions of financial investments			
Other financial investments and investment property:			
Acquisition of investment property	(9,301)	(56,400)	(39,285)
Proceeds from sale of investment property	2,414	-	1,578
Net acquisitions of financial investments	(1,045,916)	(2,081,380)	(434,412)
Outstanding premiums	(62,813)	(70,192)	(11,347)
Debtors and receivables	(668,257)	(49,483)	(1,943)
Creditors and payables	(28,127)	106,146	253,145
Liabilities for employee benefits, net	(998)	(17,450)	19,377
Total adjustments required for presenting cash flows from current activities	(4,530,367)	(800,041)	(804,928)
Cash paid and received during the period for:			
Interest paid	(33,667)	(33,302)	(28,352)
Interest received	2,479,849	2,361,118	2,243,930
Taxes paid, net	(287,273)	(316,832)	(121,182)
Dividend received from financial investments	927,679	843,077	699,896
Net cash provided by (used in) current activities	(1,020,944)	2,670,733	2,207,494

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Schedule B - Cash and cash equivalents at beginning of period			
Cash and cash equivalents for yield dependent contracts	4,907,015	2,376,263	750,299
Other cash and cash equivalents	1,550,267	2,261,829	1,497,706
	6,457,282	4,638,092	2,248,005
Schedule C – Cash and cash equivalents at end of period			
Cash and cash equivalents for yield dependent contracts	3,289,969	4,907,015	2,376,263
Other cash and cash equivalents	1,642,651	1,550,267	2,261,829
	4,932,620	6,457,282	4,638,092
Schedule D – Cash derecognized due to acquisitions in business combinations, net			
Intangible assets	-	(264,661)	(24,849)
Fixed assets	-	(25)	(622)
Investments in affiliates	-	591	(719)
Current tax assets	-	-	(36)
Debtors and receivables	-	(10,836)	(2,441)
Other financial investments	-	27,646	-
Non-controlling interests	-	-	(1,920)
Liabilities for deferred taxes	-	-	2,666
Liabilities for employee benefits, net	-	8	362
Creditors and payables	-	17,656	11,830
Financial liabilities	-	4,795	854
	-	(224,826)	(14,875)
Schedule E – Significant activities not involving cash flows			
Acquisition of fixed assets and intangible assets against creditors	5,414	19,290	34,104
Proceeds not yet received in the sale of real estate property	-	-	2,200
Dividend declared but not yet received from affiliates	5,149	-	-
Repayment of capital notes against loans in affiliate	58,956	-	-

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 4951229. The Company's consolidated financial statements as of December 31, 2014 include the financial statements of the Company and its subsidiaries (collectively - "the Group") and investments in affiliates. The Group operates primarily in the insurance, pension, provident funds and financial services lines of business. The Company's securities are listed for trade on the Tel-Aviv Stock Exchange ("the TASE").

b. Control of the Company:

The Company is controlled by Eliahu Insurance Company Ltd. ("Eliahu Insurance"). Up to October 29, 2012, the Company was controlled by Assicurazioni Generali S.p.A ("Generali"), which held about 69% of the Company's share capital.

Mr. Shlomo Eliahu and Mrs. Chaya Eliahu are the ultimate owners of the shares of Eliahu Insurance, among others, through Shlomo Eliahu Holdings Ltd. and Eliahu Brothers Trust and Investment Company Ltd., which are wholly owned by them. Mr. Shlomo Eliahu is the controlling shareholder of the Company ("the controlling shareholder").

The Company was informed by Eliahu Insurance that Eliahu Insurance has pledged in favor of Bank Leumi Le Israel ("Bank Leumi") about 30% of the Company's share capital ("the pledged shares") as security for liabilities assumed by Eliahu Insurance towards Bank Leumi. On January 22, 2014, Eliahu Insurance informed the Company that it had agreed with Bank Leumi to terminate the trusteeship as a result of which the pledged shares were transferred from the trustee to Eliahu Insurance. Eliahu Insurance also informed the Company that the pledging of the shares as security for Eliahu Insurance's liabilities towards Bank Leumi remains unchanged.

c. Definitions:

The Company	- Migdal Insurance and Financial Holdings Ltd.
The Group	- Migdal Insurance and Financial Holdings Ltd. and its subsidiaries.
Subsidiaries	- Companies controlled by the Company whose financial statements are consolidated with those of the Company.
Affiliates	- Companies in which the Company has significant influence and that are not subsidiaries. The Company's investment therein is accounted for in the consolidated financial statements of the Company using the equity method.
Investees	- Subsidiaries and affiliates.

NOTE 1: - GENERAL (Cont.)

The parent company	-	Eliahu Insurance Company Ltd. ("Eliahu Insurance").
The former parent company	-	Assicurazioni Generali S.p.A ("Generali").
Migdal Insurance	-	Migdal Insurance Company Ltd.
Makefet	-	Migdal Makefet Pension and Provident Funds Ltd.
Yozma	-	Yozma Pension Fund For the Self Employed Ltd.
The institutional entities	-	The institutional entities in the Group pursuant to the Control Law which include Migdal Insurance, Makefet and Yozma.
Related parties	-	As defined in IAS 24 (2009) regarding related parties.
Interested parties	-	As defined in paragraph (1) to the definition of "an interested party" in a corporation, under Section 1 to the Securities Law, 1968.
The Commissioner	-	Commissioner of the Capital Market, Insurance and Savings Division.
Control Law	-	The Control of Financial Services Law (Insurance), 1981.
Capital Regulations	-	Control of Insurance Business Regulations (Minimum Shareholders' Equity required from an Insurer), 1998, as amended.
Ways of Investment Regulations	-	Control of Financial Services (Provident Funds) (Investment Regulations Applying to Institutional Entities), 2012 and the Institutional Entities Circular "Investment Rules applying to Institutional Entities" issued by the Commissioner.
Report Regulations	-	Control of Insurance Business Regulations (Details of Report) 1998, as amended
Insurance contracts	-	Contracts under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
Investment contracts	-	Policies which are not considered to be insurance contracts.
Yield dependent contracts	-	Insurance contracts and investment contracts in the life assurance and health insurance segments, in which the liabilities, are linked to the investment portfolio's yield, due to the savings component or the risk therein (policies, participating in investment income).

NOTE 1: - GENERAL (Cont.)

Assets in respect of yield dependent contracts	-	Total assets held against liabilities derived from yield dependent contracts.
Reinsurance assets	-	Reinsurers' share in insurance reserves and outstanding claims
Liabilities for insurance contracts and investment contracts	-	Insurance reserves and outstanding claims in life assurance, general insurance, general insurance and health insurance segments of activity.
Premiums	-	Premiums including fees.
Earned premiums	-	Premiums relating to the reporting period.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the financial statements:

The consolidated financial statements have been prepared on a cost basis, with the exception of the following assets and liabilities: insurance liabilities, financial instruments at fair value through profit or loss, available-for-sale financial instruments and investment property.

For additional information regarding the measurement of these assets and liabilities see paragraphs j, k and m below.

b. Statement of compliance with IFRS:

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.

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.)

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.

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

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

  For additional information see Note 39(1) below.

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

  For additional information see Note 12f below.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

  For additional information see Note 4b below.

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

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

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

  For additional information see Note 8 below.

- Employee benefits - deep market - on November 25, 2014, the Israel Securities Authority ("ISA") issued Staff Accounting Position No. 21-1 ("the Position") regarding the existence of a deep market for high quality corporate bonds in Israel. Accordingly, the defined benefit obligation and other long-term obligations stated in NIS or in linked NIS will be discounted at an interest rate that is derived from an interest curve based on the yields on high quality corporate bonds in accordance with IAS 19, "Employee Benefits". According to the Position, the appropriate transition from the use of the yield on Government bonds to the yield on high quality corporate bonds will be done prospectively.

  On February 8, 2015, the ISA issued FAQ 22 regarding the required disclosure in the annual financial statements for 2014 of the change in estimate arising from the Position.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In 2014, there was a decrease in the risk-free interest rate which offset the effect of the transition to the interest curve based on high quality corporate bonds. The effects of the change in the discount rate with respect to the discount rate determined at the end of the previous year are as follows:

A decrease in the defined benefit liability and adjustment to the balances of deferred taxes as of December 31, 2014 in the amount of approximately NIS 3,998 thousand and NIS 1,567 thousand, respectively, which were recognized against other comprehensive income. Of the above amount, a decrease of approximately NIS 15,935 thousand and NIS 5,026 thousand in the defined benefit liability and the balances of deferred taxes, respectively, arising from the change in the discount rate at the end of the previous period, which was based on Government bonds, to a discount rate which is based on high quality corporate bonds (of about 1.3%). The expected effect of the above changes on interest cost in 2015 is an increase of approximately NIS 3,188 thousand. The effect of the changes on other long-term employee benefits is immaterial.

See more details in Note 22 below.

d. Change in classification

Internal reclassifications were performed within the components of the following notes: 12c, 21g, 30, 34, 37b(3)(b)(4) and 38. The 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 relevant information, consistent with International IAS 1, "Presentation of Financial Statements", and is in accordance with the directives of the Commissioner of Insurance.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Functional currency and foreign currency:

1. Functional and presentation currencies:

The financial statements are reported in New Israeli Shekels ("NIS"), and have been rounded to the nearest thousand. NIS is the 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 reclassified 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.

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.

Intragroup loans received from or provided to foreign operations for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, a part of the investment in the foreign operation and, accordingly, the exchange rate differences from these loans (net of the tax effect) are recorded, net of the tax effect, in other comprehensive income (loss).

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Changes in accounting policies:

Effective from January 1, 2014, the Group adopts the following new Standards and Amendments:

	Standard/ Interpretation/ Amendment	Principal changes	Application and transition provisions	Implications
1	IAS 32, "Financial Instruments: Presentation regarding Offsetting Financial Assets and Financial Liabilities"	According to the Amendment, an entity currently has a legally enforceable right of set-off of any amounts recognized if the right is not contingent on a future event and is enforceable in the ordinary course of business and/or in the event of bankruptcy or insolvency of the entity or any of the counterparties.	The Amendment is applied retrospectively	The adoption of the Amendment had no material impact on the financial statements.
2	IFRIC 21, "Levies"	The Interpretation provides guidance on the accounting treatment of the liability for the payment of Government levies within the scope of IAS 37, "Provisions, Contingent Liabilities and Contingent Assets", as well as Government levies which are not within the scope of IAS 37 whose maturity date and amount are certain. A levy is defined as negative cash flow of resources imposed on an entity by the Government through legislation and/or regulation. According to the Interpretation, the liability for the payment of the levy is only recognized upon the occurrence of an event that creates the payment liability, even in cases in which the entity has no practical possibility of avoiding said event.	The Interpretation is applied retrospectively	The adoption of the Interpretation had no material impact on the financial statements.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Consolidated financial statements, business combinations and goodwill:

1. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group.

2. Business combinations and goodwill:

The Group implements the acquisition method regarding every business combination.

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

The acquirer recognizes at the acquisition date a contingent liability assumed in a business combination if there is a present obligation resulting from past events and its fair value can be measured reliably.

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

In addition, goodwill is not adjusted for the utilization of tax loss carryforwards which existed at the time of the business combination.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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.

Upon disposal of a cash generating unit, the difference between the consideration and the net assets plus the unamortized goodwill balance, is recognized in the statement of profit and loss. Profit or loss from the disposal of part of the cash generating unit includes part of the goodwill measured according to the proportion of the cash generating unit realized.

3. Non-controlling interests:

Non-controlling interests arise from the capital of a subsidiary which cannot be attributed directly or indirectly to the parent.

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Allocation of the comprehensive income to the shareholders

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

i. Investment in affiliates:

Affiliates are entities in which the Group has significant influence, but not control, over their financial and operating policy. The guideline is that ownership interests of between 20% and 50% in an investee confer significant influence.

In assessing significant influence, 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 applying the equity method from the date it loses significant influence or obtains control and it accounts for the remaining investment as a financial asset or as a subsidiary, as applicable.

On the date on which the Group ceases to have a significant influence, the Group measures any investment that the Group still has in the former affiliate at fair value and recognizes in profit or loss any difference between the fair value of any remaining investment and any consideration from the partial realization of the investment in the affiliate and the carrying value of the investment at that time.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

Circulars issued by the Commissioner regarding the calculation of liabilities for annuities in life assurance policies, determine instructions for the calculation of the provisions as a result of the rate of the improvement in life expectancy. The instructions require monitoring the sufficiency of the reserves with respect to insurance policies which allow receipt of an annuity and the supplementation of the reserves in an appropriate manner.

For further information see Note 37b(3)(b) below.

e) Deferred acquisition costs in life assurance:

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (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.

g) Liability Adequacy Test in respect of life assurance contracts:

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

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

h) Outstanding claims:

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

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

i) Investment contracts:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

2. General insurance:

a) Revenue recognition, see paragraph t below.

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

c) Liabilities for insurance contracts and deferred acquisition costs:

The insurance reserves and outstanding claims, included in the item liabilities in respect of insurance contracts, and the reinsurers' share in reserves and outstanding claims, included in the item reinsurance assets and deferred acquisition costs in general insurance were computed in accordance with the Financial Services Regulations (Insurance) (Calculation of Reserves in General Insurance, 2013) ("Regulation for Calculation of Reserves"), the Commissioner's directives and generally accepted actuarial methods for computing outstanding claims which are applied according to the appointed actuaries' discretion.

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

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

(2) Provision for premium deficiency. This provision is recorded in the event that the unearned premium reserve (net of deferred acquisition costs) does not cover the anticipated cost in respect of insurance contracts. In the motor casco, comprehensive residential and business premises branches the provision is based, inter alia, on a model determined in Regulations for Calculation of Reserves.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

3.1 Outstanding claims (including IBNR) and the reinsurers' share therein are included based on an actuarial valuation, except for the branches detailed in Section 3.2 below. Indirect expenses for the settlement of claims are included according to an actuarial valuation. The actuarial calculation for Migdal Insurance was made by the appointed actuary, Mr. Daniel Israel, an employee of Migdal Insurance.

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

3.3 Excess of income over expenses:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3.4 Subrogations 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.

3.6 Regarding expected changes in the calculation of insurance reserves in general insurance, including cancellation of the excess, see Note 37b(3)(c)(6) below.

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

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

3. Health insurance:

a) Revenue recognition – see paragraph t below.

b) Liabilities in respect of health insurance contracts:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c) Outstanding claims:

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

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

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

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

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

f) Deferred acquisition costs:

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Financial instruments:

1. Non-derivative financial instruments:

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

Initial recognition of financial assets

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

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

Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. See paragraph 2 hereunder regarding the offset of financial assets and financial liabilities.

Financial assets are classified to the following categories

Cash and cash equivalents

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Held-to-maturity investments

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available-for-sale financial assets

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Non-derivative financial liabilities:

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

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

Derecognition of financial liabilities

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

3. Offsetting financial instruments:

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

4. Derivative financial instruments:

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

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

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

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

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

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

Assets meeting the criteria of loans and designated as loans and receivables, including Hetz bonds, were classified to this group and are measured at amortized cost, using the effective interest method.

Unquoted equity instruments were designated as available-for-sale financial instruments.

Investments in quoted securities in the financial statements of a subsidiary engaged in investment management

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

7. Determination of fair value:

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

In determining fair value of an asset or a liability, the Group uses quoted market prices whenever possible. The measurement of fair value is divided into three levels on the basis of the data used in the measurement as follows:

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

For additional information see Note 12f below.

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Fixed assets:

1. Recognition and measurement:

Items of fixed assets are measured at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

2. Subsequent costs:

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

3. Depreciation:

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

Freehold land is not depreciated.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

	%
Buildings	4
Leasehold improvements	10 - 17
Motor vehicles	15
Computers and software	17 - 33
Furniture and equipment	6 - 15

Land leased from the Israel Land Administration and treated as a financial lease, is depreciated over the lease period.

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

The estimates regarding depreciation method, useful lives and residual values are reviewed at least at the end of each reporting year.

4. Real estate under construction:

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

m. Investment property:

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

Furthermore, leased properties that are leased by the Group under an operating lease and are intended for rent to a third party, are classified and treated as investment property.

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

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

Investment property in development intended for use as investment property is measured at fair value, as mentioned above, if and when the fair value can be measured reliably. If fair value cannot be measured reliably, due to the characteristics and the amount of risk in the project, the property is measured at cost, less losses from impairment, if they exist, until the earlier between, when fair value may be measured reliably and when construction is completed. Cost of investment property under development includes the cost of the real estate with the addition of cost of financing used to finance the development, direct additional cost of planning and development and brokerage for contracts for the rental of the property.

For additional information, see Note 8 below.

n. Leases:

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

<u>The Group as lessee</u>

1. Finance leases:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

<u>The Group as lessor</u>

1. Finance leases:

   In finance leases, substantially all the risks and rewards incidental to ownership of the leased asset are transferred to the lessee. The leased asset is derecognized and recognized as a financial asset, "receivables for finance lease", at the present value of the lease payments. After initial recognition, the lease payments are apportioned between finance income and collection of the receivable for the lease. The financial asset, "receivables for finance lease", is tested for impairment and derecognized as prescribed in IAS 39.

2. 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.)

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.)

4. Subsequent expenditure

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

5. Amortization:

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

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

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

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

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

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f) Customer relations - excess of cost resulting from the agreement to absorb new general insurance policies of Eliahu Insurance, recognized at the discounted forecasted cash flow of policies, is amortized over a period of 10 years using the declining sum of digits method.

g) Customer lists – excess of cost resulting from the agreement to absorb new general insurance policies of Eliahu Insurance, is amortized over a period of three years using the straight line method.

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

p. Impairment:

1. Financial assets:

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

Objective evidence that financial assets are impaired can include default by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy or the disappearance of an active market for a security and observable date that indicates that there is a measurable decrease in expected cash flows from a group of financial assets.

Evidence of impairment of available-for-sale financial assets

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

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Treatment of impairment losses of financial assets measured at amortized cost

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

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

Impairment losses are recognized by transferring the cumulative loss that has been recognized in a capital reserve to profit or loss. The cumulative loss which is reclassified from other comprehensive income to profit and loss is the difference between the acquisition cost 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.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

3. Outstanding premiums in general insurance:

The allowance for doubtful accounts in respect of outstanding premiums in general insurance is calculated based on estimates of the depth of the debt in arrears and actual rates of policy cancellations in previous years.

4. Non-financial assets:

Timing of impairment testing

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

Measurement of recoverable amounts

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less realization costs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("cash-generating unit"). For the purposes of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment of goodwill is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes but in any event not larger than a business segment before aggregation of similar segments. Goodwill acquired in a business combination is allocated to groups of cash-generating units, including those existing in the Group before the business combination, which are expected to benefit from the synergies of the combination.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

q. Share capital:

Ordinary shares are classified as equity. Incremental costs directly related to issue of Ordinary shares and warrants are presented as a reduction of capital.

r. Employee benefits:

The Group has a number of employee benefit plans.

The classification of employee benefits for measurement purposes as short-term benefits or long-term benefits is determined on the basis of the Group's forecasts of the date when the benefits are expected to be fully settled.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

1. Short-term benefits:

Short-term employee benefits are benefits which are expected to be settled fully, up to 12 months from the end of the annual reporting period in which employees provide related services.

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

2. Post-employment benefits:

a) Defined contribution plan:

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

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

b) Defined benefit plans:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Group's obligation in respect of defined benefit plans regarding post-employment benefits is calculated separately for each plan by estimating the amount of future benefit that is due to the employees in return for their service in the current and prior periods. This benefit is reported at its present value less the fair value of the plan's assets. The Group determines the net interest expense on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual periods. The discount rate is the yield at the reporting date of high quality corporate bonds denominated in the same currency, and which have maturity dates approximating the terms of the Group's obligations. The calculations are made by a qualified actuary using the projected unit credit method.

When the calculation results in a net asset for the Group, an asset is recognized up to the net present value of economic benefits available in the form of a refund from the plan or a reduction in future contributions to the plan. An economic benefit in the form of refunds or reductions in future contributions is considered available when it can be realized over the life of the plan or after settlement of the obligation.

Remeasurements 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). Remeasurements 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.

Insurance policies in respect of employee severance benefits, which were issued by Migdal Insurance, do not constitute defined benefit plan assets and are presented as a reduction from liabilities in respect of insurance contracts.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. Other long-term employee benefits:

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

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

4. Termination benefits:

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

5. Share-based payment transactions:

Equity-settled transactions

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

If a grant of an equity instrument is cancelled, it is accounted for as if it had vested on the cancellation date and any expense not yet recognized for the grant is recognized immediately. However, if a new grant replaces the cancelled grant and is identified as a replacement grant on the grant date, the cancelled and new grants are accounted for as a modification of the original grant, as described above.

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

Cash-settled transactions

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

s. Provisions:

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

Legal claims

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets affiliated with that contract.

t. Revenue recognition:

1. Premiums:

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

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

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.)

3. Commissions:

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

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

4. Net investment gains (losses), finance income and finance expenses - see paragraph k(8) above.

In the statement of cash flows, the Company chose to present interest received, dividend received and interest paid in cash flows from current activities. Dividends paid are presented in cash flows from finance activities.

u. General and administrative expenses:

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

v. Taxes on income:

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

Current taxes

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

Deferred taxes

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale.

Offsetting of deferred tax assets and liabilities

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

Tax addition in respect of dividend distribution

In the calculation of deferred taxes provisions are not made for tax liabilities in respect of the realization of investments in investee companies, if the realization of the investment is not expected in the foreseeable future. In addition, provisions for deferred taxes are not made for distribution of dividends by investee companies when the distribution of the dividend does not result in additional taxes or since the Group's policy is to not initiate the distribution of a dividend by a subsidiary which results in an additional tax liability.

Intercompany transactions

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

w. Earnings per share:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. New Standards not yet adopted:

	Standard/ Interpretation/ Amendment	Subject	Application and transition provisions	Expected implications
1	IFRS 9 (2014), "Financial Instruments"	IFRS 9 (2014) is the final version of the Standard, prescribing updated provisions for the classification and measurement of financial instruments and a new model for measuring the impairment of financial assets. These provisions are added to the chapter on "hedge accounting - general" issued in 2013. <u>Classification and measurement</u> According to the Standard, there are three main categories for measuring financial assets: amortized cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVTOCI). The classification of debt instruments is based on the entity's business model for managing financial assets and the contractual cash flow features of the financial asset. Investment in equity instruments is measured at FVTPL (unless the Company chose to present the changes in fair value in OCI upon initial recognition). As a rule, the Standard requires recognizing changes in the fair value of financial liabilities designated at FVTPL and attributed to the change in own credit risk in OCI. <u>Impairment of financial assets</u> The Standard provides a new expected credit loss model for the majority of financial debt assets. The new model presents a dual impairment measurement method: if the credit risk attributed to the financial asset has not significantly increased since the initial recognition date, a provision for loss will be recorded in the amount of the expected credit losses due to failure events whose occurrence is possible in the 12 months after the reporting date. If the credit risk has significantly increased, in most cases, the provision for impairment will increase and be recorded in the amount of the expected credit losses over the entire life of the financial asset.	The Standard will be adopted in annual periods beginning on January 1, 2018 with a possibility for early adoption. The Standard will be adopted retrospectively, excluding several exemptions.	The Group has not yet begun studying the implications of the adoption of the Standard on the financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

	Standard/ Interpretation/ Amendment	Subject	Application and transition provisions	Expected implications
2	IFRS 15, "Revenue from Contracts with Customers"	The Standard replaces the existing revenue recognition provisions and introduces a new model for recognizing revenue from contracts with customers. The Standard stipulates two revenue recognition approaches: over time or at a point in time. The model includes five steps for analyzing transactions in order to determine the timing and amount of revenue recognition. The Standard also provides new and more extensive disclosure requirements.	The Standard will be adopted in annual periods beginning on January 1, 2017 with a possibility for early adoption. The Standard prescribes various alternative transition provisions to be chosen by entities upon initial adoption: full retrospective adoption; full retrospective adoption that includes practical exemptions; or adoption of the Standard from the first adoption date while adjusting the balance of retained earnings to that date to ongoing transactions.	The Group is studying the implications of the Standard on the financial statements without any intention of early adoption.
3	Amendments to IAS 16, " Property, plant and equipment", and IAS 38, "Intangible Assets": clarification of acceptable methods of depreciation and amortization	The Amendment to IAS 38 prescribes a rebuttable presumption that a revenue-based amortization method for intangible assets is inappropriate. The purpose of the Amendment is to restrict the use of revenue-based amortization and therefore, entities that wish to continue applying this method to intangible assets must demonstrate that the revenue produced and the consumption of economic benefits are highly correlated. The Amendment to IAS 16 specifically proscribes the use of the revenue-based amortization method for fixed assets.	The Amendments will be adopted prospectively in annual periods beginning on January 1, 2016 with a possibility for early adoption.	

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

	Consumer Price Index		Representative exchange rate of the USD
	Index in respect of	Known index	
	%		
Year ended December 31, 2014	(0.2)	(0.1)	12.07
Year ended December 31, 2013	1.8	1.9	(7.0)
Year ended December 31, 2012	1.6	1.4	(2.3)

NOTE 3:- OPERATING SEGMENTS

a. General

The Group operates in the following operating segments:

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.

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 increase in premiums in general insurance in the Company is the result of the absorption of a new business by the Company following the discontinuation of the sale of new policies by Eliahu Insurance as from January 1, 2013. See also Note 38e(2) below.

NOTE 3:- OPERATING SEGMENTS (Cont.)

- 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.

4. Financial services segment:

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

5. Other operating segments include mainly operating results of insurance agencies.

NOTE 3:- OPERATING SEGMENTS (Cont.)

b. Reportable segments:

	Year ended December 31, 2014							
	Life assurance and long-term savings	Health	General insurance	Financial services	Other operating segments	Unallocated to operating segments	Adjustments and offsets	Total
	NIS in thousands							
Gross premiums earned	7,223,599	879,877	1,939,920	-	-	-	-	10,043,396
Premiums earned by reinsurers	190,767	64,167	432,739	-	-	-	-	687,673
Premiums earned on retention	7,032,832	815,710	1,507,181	-	-	-	-	9,355,723
Net investment income and finance income	5,166,123	105,857	180,879	14,471	2,361	173,176	(28,585)	5,614,282
Income from management fees	1,424,781	-	-	144,287	-	-	-	1,569,068
Income from commissions	65,498	13,567	73,675	43,533	346,994	-	(174,738) *)	368,529
Other income	-	-	-	7,267	-	37,753	(2,064)	42,956
Total income	13,689,234	935,134	1,761,735	209,558	349,355	210,929	(205,387)	16,950,558
Payments and change in liabilities in respect of insurance and investment contracts, gross	12,055,128	617,439	1,443,244	-	-	-	(2,064)	14,113,747
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts	79,286	54,149	250,302	-	-	-	-	383,737
Payments and change in liabilities in respect of insurance and investment contracts on retention	11,975,842	563,290	1,192,942	-	-	-	(2,064)	13,730,010
Commissions, marketing expenses and other acquisition expenses	829,345	253,214	397,913	70,319	142,538	-	(170,274)	1,523,055
General and administrative expenses	592,201	43,360	43,982	127,276	172,742	74,095	(12,487)	1,041,169
Other expenses	22,702	-	17,851	8,315	10,666	17,094	-	76,628
Finance expenses	20,480	-	13,906	3,124	3,178	31,151	(20,360)	51,479
Total expenses	13,440,570	859,864	1,666,594	209,034	329,124	122,340	(205,185)	16,422,341
Share of earnings of investees accounted for at equity	43,461	-	13,217	-	1,611	21,823	-	80,112
Income before taxes on income	292,125	75,270	108,358	524	21,842	110,412	(202)	608,329
Other comprehensive income before taxes on income	152,325	7,028	8,266	1,562	1,549	13,681	-	184,411
Total comprehensive income for the period before taxes on income	444,450	82,298	116,624	2,086	23,391	124,093	(202)	792,740

*) Derived from income from commissions received by agencies owned by the Group, from activities in life assurance and long-term savings in the amount of NIS 126,988 thousand, in health insurance in the amount of NIS 23,050 thousand and in general insurance in the amount of NIS 20,438 thousand.

NOTE 3:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2013							
	Life assurance and long-term savings	Health	General insurance	Financial services	Other operating segments	Unallocated to operating segments	Adjustments and offsets	Total
	NIS in thousands							
Gross premiums earned	7,546,534	770,176	1,755,864	-	-	-	-	10,072,574
Premiums earned by reinsurers	173,721	65,359	478,257	-	-	-	-	717,337
Premiums earned on retention	7,372,813	704,817	1,277,607	-	-	-	-	9,355,237
Net investment income and finance income	8,896,233	183,939	170,349	15,865	2,869	150,285	(34,113)	9,385,427
Income from management fees	1,556,132	-	-	143,873	-	-	(3,207)	1,696,798
Income from commissions	64,031	22,234	59,084	37,077	351,875	-	*) (174,191)	360,110
Other income	-	-	-	3,847	-	31,599	-	35,446
Total income	17,889,209	910,990	1,507,040	200,662	354,744	181,884	(211,511)	20,833,018
Payments and change in liabilities in respect of insurance and investment contracts, gross	15,767,954	638,091	1,171,044	-	-	-	-	17,577,089
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts	122,010	40,365	172,294	-	-	-	-	334,669
Payments and change in liabilities in respect of insurance and investment contracts on retention	15,645,944	597,726	998,750	-	-	-	-	17,242,420
Commissions, marketing expenses and other acquisition expenses	854,588	202,807	371,965	66,624	163,472	-	(178,617)	1,480,839
General and administrative expenses	611,436	39,188	43,448	135,017	203,955	77,193	(15,918)	1,094,319
Other expenses	11,570	-	4,555	2,899	12,458	19,190	-	50,672
Finance expenses (income)	24,009	-	(2,700)	422	1,739	50,255	(21,402)	52,323
Total expenses	17,147,547	839,721	1,416,018	204,962	381,624	146,638	(215,937)	19,920,573
Share of earnings of investees accounted for at equity	39,577	-	13,164	-	1,227	16,806	-	70,774
Income (loss) before taxes on income	781,239	71,269	104,186	(4,300)	(25,653)	52,052	4,426	983,219
Other comprehensive income before taxes on income	124,645	5,933	49,721	837	1,280	21,941	-	204,357
Total comprehensive income (loss) for the period before taxes on income	905,884	77,202	153,907	(3,463)	(24,373)	73,993	4,426	1,187,576

*) Derived from income from commissions received by agencies owned by the Group, from activities in life assurance and long-term savings in the amount of NIS 134,384 thousand, in health insurance in the amount of NIS 15,286 thousand and in general insurance in the amount of NIS 24,521 thousand.

NOTE 3:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2012							
	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	7,356,994	692,483	1,426,551	-	-	-	-	9,476,028
Premiums earned by reinsurers	158,095	62,579	480,907	-	-	-	-	701,581
Premiums earned on retention	7,198,899	629,904	945,644	-	-	-	-	8,774,447
Net investment income and finance income	7,123,544	143,025	158,022	20,521	3,752	108,994	(33,678)	7,524,180
Income from management fees	1,000,537	-	-	143,297	-	-	(6,336)	1,137,498
Income from commissions	50,745	17,300	65,902	40,199	365,386	-	*) (189,022)	350,510
Other income	46	-	-	4,832	-	12,147	-	17,025
Total income	15,373,771	790,229	1,169,568	208,849	369,138	121,141	(229,036)	17,803,660
Payments and change in liabilities in respect of insurance and investment contracts, gross	13,936,263	519,805	846,316	-	-	-	-	15,302,384
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts	88,570	29,068	138,840	-	-	-	-	256,478
Payments and change in liabilities in respect of insurance and investment contracts on retention	13,847,693	490,737	707,476	-	-	-	-	15,045,906
Commissions, marketing expenses and other acquisition expenses	857,539	163,355	320,426	64,304	167,072	-	(191,583)	1,381,113
General and administrative expenses	580,051	39,910	40,314	132,150	195,633	58,114	(12,772)	1,033,400
Other expenses	12,667	-	-	1,774	9,731	8,939	-	33,111
Finance expenses	23,778	-	2,805	69	2,868	36,698	(27,242)	38,976
Total expenses	15,321,728	694,002	1,071,021	198,297	375,304	103,751	(231,597)	17,532,506
Share of earnings of investees accounted for at equity	36,368	-	11,429	-	1,261	15,394	-	64,452
Income (loss) before taxes on income	88,411	96,227	109,976	10,552	(4,905)	32,784	2,561	335,606
Other comprehensive income before taxes on income	127,717	6,057	74,198	206	4,498	77,781	-	290,457
Total comprehensive income (loss) for the period before taxes on income	216,128	102,284	184,174	10,758	(407)	110,565	2,561	626,063

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

NOTE 3:- OPERATING SEGMENTS (Cont.)

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

	Year ended December 31, 2014			
	Life assurance	Pension funds	Provident funds	Total
	NIS in thousands			
Gross premiums earned	7,223,599	-	-	7,223,599
Premiums earned by reinsurers	190,767	-	-	190,767
Premiums earned on retention	7,032,832	-	-	7,032,832
Net investment income and finance income	5,157,219	7,368	1,536	5,166,123
Income from management fees	946,081	340,621	138,079	1,424,781
Income from commissions	65,498	-	-	65,498
Total income	13,201,630	347,989	139,615	13,689,234
Payments and change in gross liabilities for insurance and investment contracts, gross	12,055,128	-	-	12,055,128
Reinsurers' share in payments and change in liabilities for insurance contracts	79,286	-	-	79,286
Payments and change in liabilities for insurance and investment contracts on retention	11,975,842	-	-	11,975,842
Commissions, marketing expenses and other acquisition expenses	647,374	136,793	45,178	829,345
General and administrative expenses	409,045	127,756	55,400	592,201
Other expenses	-	-	22,702	22,702
Finance expenses	20,480	-	-	20,480
Total expenses	13,052,741	264,549	123,280	13,440,570
Group's share of earnings of investees accounted for at equity	43,461	-	-	43,461
Income before taxes on income	192,350	83,440	16,335	292,125
Other comprehensive income before taxes on income	151,443	800	82	152,325
Total comprehensive income for the period before taxes on income	343,793	84,240	16,417	444,450

NOTE 3:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2013			
	Life assurance	Pension funds	Provident funds	Total
	NIS in thousands			
Gross premiums earned	7,546,534	-	-	7,546,534
Premiums earned by reinsurers	173,721	-	-	173,721
Premiums earned on retention	7,372,813	-	-	7,372,813
Net investment income and finance income	8,888,182	8,051	-	8,896,233
Income from management fees	1,115,074	302,377	138,681	1,556,132
Income from commissions	64,031	-	-	64,031
Total income	17,440,100	310,428	138,681	17,889,209
Payments and change in gross liabilities for insurance and investment contracts, gross	15,767,954	-	-	15,767,954
Reinsurers' share in payments and change in liabilities for insurance contracts	122,010	-	-	122,010
Payments and change in liabilities for insurance and investment contracts on retention	15,645,944	-	-	15,645,944
Commissions, marketing expenses and other acquisition expenses	686,481	121,944	46,163	854,588
General and administrative expenses	437,434	118,558	55,444	611,436
Other expenses	-	-	11,570	11,570
Finance expenses	23,541	-	468	24,009
Total expenses	16,793,400	240,502	113,645	17,147,547
Group's share of earnings of investees accounted for at equity	39,577	-	-	39,577
Income before taxes on income	686,277	69,926	25,036	781,239
Other comprehensive income (loss) before taxes on income	122,731	1,974	(60)	124,645
Total comprehensive income for the period before taxes on income	809,008	71,900	24,976	905,884

NOTE 3:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2012			
	Life assurance	Pension funds	Provident funds	Total
	NIS in thousands			
Gross premiums earned	7,356,994	-	-	7,356,994
Premiums earned by reinsurers	158,095	-	-	158,095
Premiums earned on retention	7,198,899	-	-	7,198,899
Net investment income and finance income	7,118,252	5,076	216	7,123,544
Income from management fees	574,216	286,363	139,958	1,000,537
Income from commissions	50,745	-	-	50,745
Other income	46	-	-	46
Total income	14,942,158	291,439	140,174	15,373,771
Payments and change in gross liabilities for insurance and investment contracts, gross	13,936,263	-	-	13,936,263
Reinsurers' share in payments and change in liabilities for insurance contracts	88,570	-	-	88,570
Payments and change in liabilities for insurance and investment contracts on retention	13,847,693	-	-	13,847,693
Commissions, marketing expenses and other acquisition expenses	705,003	105,113	47,423	857,539
General and administrative expenses	404,509	116,495	59,047	580,051
Other expenses	66	-	12,601	12,667
Finance expenses	21,511	-	2,267	23,778
Total expenses	14,978,782	221,608	121,338	15,321,728
Group's share of earnings of investees accounted for at equity	36,368	-	-	36,368
Income (loss) before taxes on income	(256)	69,831	18,836	88,411
Other comprehensive income before taxes on income	118,829	8,096	792	127,717
Total comprehensive income for the period before taxes on income	118,573	77,927	19,628	216,128

NOTE 3:- OPERATING SEGMENTS (Cont.)

d. Additional information regarding the general insurance segment:

	Year ended December 31, 2014				
	Motor act	Motor casco	Property and other branches *)	Other liability branches *)	Total
	NIS in thousands				
Gross premiums	540,042	553,535	571,116	304,218	1,968,911
Reinsurance premiums	11,874	618	318,110	75,865	406,467
Premiums on retention	528,168	552,917	253,006	228,353	1,562,444
Change in unearned premium balance, on retention	4,368	(2,996)	(44,362)	(12,273)	(55,263)
Earned premium on retention	532,536	549,921	208,644	216,080	1,507,181
Net investment income and finance income	90,267	14,239	17,969	58,404	180,879
Income from commissions	-	(26)	66,988	6,713	73,675
Total income	622,803	564,134	293,601	281,197	1,761,735
Payments and change in liabilities for insurance contracts, gross	471,278	400,302	266,227	305,437	1,443,244
Reinsurers' share in payments and in change in liabilities for insurance contracts	11,229	(30)	178,156	60,947	250,302
Payments and change in liabilities for insurance contracts on retention	460,049	400,332	88,071	244,490	1,192,942
Commissions, marketing expenses and other acquisition expenses	61,035	139,134	136,724	61,020	397,913
General and administrative expenses	16,135	9,939	11,472	6,436	43,982
Other expenses	6,035	6,318	2,890	2,608	17,851
Finance expenses	1,603	294	10,981	1,028	13,906
Total expenses	544,857	556,017	250,138	315,582	1,666,594
Share of earnings of investees accounted for at equity	7,018	1,104	553	4,542	13,217
Income (loss) before taxes on income	84,964	9,221	44,016	(29,843)	108,358
Other comprehensive income before taxes on income	4,389	690	346	2,841	8,266
Total comprehensive income (loss) for the period before taxes on income	89,353	9,911	44,362	(27,002)	116,624
Liabilities in respect of gross insurance contracts at December 31, 2014	1,844,918	367,256	532,236	1,636,202	4,380,612
Liabilities in respect of insurance contracts on retention at December 31, 2014	1,793,404	367,071	178,165	1,163,270	3,501,910

*) Property and other branches mainly include the results of comprehensive residential, comprehensive business premises, engineering and cargo in transit insurance branches, whose activities constitute about 95% of the total premiums in these branches.

Other liability branches mainly include the results of employers' liability insurance, third party liability and professional liability branches whose activities constitute about 85% of the total premiums in these branches.

NOTE 3:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2013				
	Motor act	Motor casco	Property and other branches *)	Other liability branches *)	Total
	NIS in thousands				
Gross premiums	538,619	579,875	620,216	282,822	2,021,532
Reinsurance premiums	8,517	951	435,445	67,999	512,912
Premiums on retention	530,102	578,924	184,771	214,823	1,508,620
Change in unearned premium balance, on retention	(130,833)	(86,407)	(2,560)	(11,213)	(231,013)
Earned premium on retention	399,269	492,517	182,211	203,610	1,277,607
Net investment income and finance income	93,703	11,756	1,041	63,849	170,349
Income from commissions	-	11	53,496	5,577	59,084
Total income	492,972	504,284	236,748	273,036	1,507,040
Payments and change in liabilities for insurance contracts, gross	306,071	366,795	224,174	274,004	1,171,044
Reinsurers' share in payments and in change in liabilities for insurance contracts	(439)	(56)	143,212	29,577	172,294
Payments and change in liabilities for insurance contracts on retention	306,510	366,851	80,962	244,427	998,750
Commissions, marketing expenses and other acquisition expenses	45,459	127,189	141,695	57,622	371,965
General and administrative expenses	16,383	10,151	12,500	4,414	43,448
Other expenses	1,601	1,747	559	648	4,555
Finance expenses (income)	889	145	(4,335)	601	(2,700)
Total expenses	370,842	506,083	231,381	307,712	1,416,018
Share of earnings of investees accounted for at equity	7,061	883	408	4,812	13,164
Income (loss) before taxes on income	129,191	(916)	5,775	(29,864)	104,186
Other comprehensive income before taxes on income	26,668	3,336	1,544	18,173	49,721
Total comprehensive income (loss) for the period before taxes on income	155,859	2,420	7,319	(11,691)	153,907
Liabilities in respect of gross insurance contracts at December 31, 2013	1,630,776	352,804	520,375	1,529,271	4,033,226
Liabilities in respect of insurance contracts on retention at December 31, 2013	1,586,246	352,739	133,393	1,091,661	3,164,039

*) Property and other branches mainly include the results of comprehensive residential, comprehensive business premises, engineering and cargo in transit insurance branches, whose activities constitute about 96% of the total premiums in these branches.

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

NOTE 3:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2012				
	Motor act	Motor casco	Property and other branches *)	Other liability branches *)	Total
	NIS in thousands				
Gross premiums	266,234	350,580	535,292	254,237	1,406,343
Reinsurance premiums	5,504	1,030	379,073	68,791	454,398
Premiums on retention	260,730	349,550	156,219	185,446	951,945
Change in unearned premium balance, on retention	(129)	3,064	(4,969)	(4,267)	(6,301)
Earned premium on retention	260,601	352,614	151,250	181,179	945,644
Net investment income and finance income	82,371	9,282	6,753	59,616	158,022
Income from commissions	-	20	57,015	8,867	65,902
Total income	342,972	361,916	215,018	249,662	1,169,568
Payments and change in liabilities for insurance contracts, gross	188,319	271,842	207,208	178,947	846,316
Reinsurers' share in payments and in change in liabilities for insurance contracts	(9,680)	38	149,917	(1,435)	138,840
Payments and change in liabilities for insurance contracts on retention	197,999	271,804	57,291	180,382	707,476
Commissions, marketing expenses and other acquisition expenses General and administrative expenses	34,968	95,908	135,125	54,425	320,426
Other expenses	11,603	7,951	14,661	6,099	40,314
Finance expenses	616	86	1,663	440	2,805
Total expenses	245,186	375,749	208,740	241,346	1,071,021
Share of earnings of investees accounted for at equity	6,003	697	386	4,343	11,429
Income (loss) before taxes on income	103,789	(13,136)	6,664	12,659	109,976
Other comprehensive income before taxes on income	38,628	4,657	3,061	27,852	74,198
Total comprehensive income (loss) for the period before taxes on income	142,417	(8,479)	9,725	40,511	184,174
Liabilities in respect of gross insurance contracts at December 31, 2012	1,427,354	230,493	577,745	1,473,418	3,709,010
Liabilities in respect of insurance contracts on retention at December 31, 2012	1,378,871	230,366	121,025	1,034,567	2,764,829

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

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

NOTE 3:- OPERATING SEGMENTS (Cont.)

e. Details on segment assets and liabilities:

	December 31, 2014							
	Life assurance and long-term savings	Health	General insurance	Financial services	Other operating segments	Unallocated to operating segments	Adjustments and offsets	Total
	NIS in thousands							
Assets								
Intangible assets	364,388	-	237,594	379,775	110,442	269,316	(1,620)	1,359,895
Deferred acquisition costs	1,301,707	356,067	171,734	-	-	-	(60,192)	1,769,316
Investments in affiliates	371,438	-	134,959	-	10,347	127,722	-	644,466
Investment property for yield dependent contracts	4,795,995	102,062	-	-	-	-	-	4,898,057
Investment property - other	476,950	10,476	141,763	-	-	1,701	-	630,890
Reinsurance assets	113,620	21,385	878,702	-	-	-	-	1,013,707
Outstanding premiums	213,053	25,951	340,331	-	-	-	-	579,335
Financial investments for yield dependent contracts	68,170,751	1,412,248	-	-	-	-	-	69,582,999
Other financial investments:								
Quoted debt assets	2,702,109	40,779	1,602,266	3,900	18,287	1,772,901	-	6,140,242
Unquoted debt assets	20,930,116	335,533	529,340	213,990	3,130	201,260	(159,733)	22,053,636
Shares	656,143	10,347	256,503	19,517	1	170,841	-	1,113,352
Other	1,499,541	23,610	474,100	6,556	7,680	373,716	-	2,385,203
Total other financial investments	25,787,909	410,269	2,862,209	243,963	29,098	2,518,718	(159,733)	31,692,433
Cash and cash equivalents for yield dependent contracts	3,221,415	68,554	-	-	-	-	-	3,289,969
Cash and cash equivalents – other	703,791	13,345	130,112	107,810	66,220	621,373	-	1,642,651
Other assets	1,220,781	124,422	79,748	57,695	174,632	1,313,107	(1,022,145)	1,948,240
Total assets	106,741,798	2,544,779	4,977,152	789,243	390,739	4,851,937	(1,243,690)	119,051,958
Total assets for yield dependent contracts	77,207,168	1,500,896	-	-	-	-	-	78,708,064
Liabilities								
Liability due to non-yield dependent insurance and investment contracts	26,500,404	522,715	4,380,612	-	-	-	-	31,403,731
Liability due to yield dependent insurance and investment contracts	76,419,773	1,626,443	-	-	-	-	-	78,046,216
Financial liabilities	646,290	15,456	12,463	40,867	161,256	871,001	(159,733)	1,587,600
Other liabilities	1,610,935	24,098	584,077	212,088	229,483	1,118,894	(1,043,237)	2,736,338
Total liabilities	105,177,402	2,188,712	4,977,152	252,955	390,739	1,989,895	(1,202,970)	113,773,885

NOTE 3:- OPERATING SEGMENTS (Cont.)

	December 31, 2013							
	Life assurance and long-term savings	Health	General insurance	Financial services	Other operating segments	Unallocated to operating segments	Adjustments and offsets	Total
	NIS in thousands							
Assets								
Intangible assets	387,094	-	255,445	388,512	112,702	311,222	(1,390)	1,453,585
Deferred acquisition costs	1,325,079	303,759	167,361	-	-	-	(59,990)	1,736,209
Investments in affiliates	373,024	-	131,492	-	9,580	140,101	-	654,197
Investment property for yield dependent contracts	4,598,640	99,244	-	-	-	-	-	4,697,884
Investment property - other	466,094	8,826	133,582	-	-	1,702	-	610,204
Reinsurance assets	103,163	18,768	869,187	-	-	-	-	991,118
Outstanding premiums	167,204	17,064	324,123	-	8,131	-	-	516,522
Financial investments for yield dependent contracts	59,709,572	1,280,607	-	-	-	-	-	60,990,179
Other financial investments:								
Quoted debt assets	2,667,074	34,849	1,479,198	122,160	28,537	1,508,184	-	5,840,002
Unquoted debt assets	20,574,358	282,504	543,868	163,472	3,970	198,595	(150,268)	21,616,499
Shares	616,180	8,344	250,949	1,137	490	157,707	-	1,034,807
Other	1,265,376	17,077	373,167	1,788	9,106	288,206	-	1,954,720
Total other financial investments	25,122,988	342,774	2,647,182	288,557	42,103	2,152,692	(150,268)	30,446,028
Cash and cash equivalents for yield dependent contracts	4,803,353	103,662	-	-	-	-	-	4,907,015
Cash and cash equivalents – other	652,263	10,313	110,905	91,914	72,109	612,763	-	1,550,267
Other assets	552,125	67,471	122,388	113,581	111,113	1,181,861	(967,697)	1,180,842
Total assets	98,260,599	2,252,488	4,761,665	882,564	355,738	4,400,341	(1,179,345)	109,734,050
Total assets for yield dependent contracts	69,429,931	1,387,896	-	-	-	-	-	70,817,827
Liabilities								
Liability due to non-yield dependent insurance and investment contracts	25,658,200	436,133	4,033,226	-	-	-	-	30,127,559
Liability due to yield dependent insurance and investment contracts	69,067,670	1,490,738	-	-	-	-	-	70,558,408
Financial liabilities	141,154	2,373	5,156	153,197	152,649	916,172	(150,268)	1,220,433
Other liabilities	1,791,312	19,485	723,283	187,339	203,089	751,459	(988,718)	2,687,249
Total liabilities	96,658,336	1,948,729	4,761,665	340,536	355,738	1,667,631	(1,138,986)	104,593,649

NOTE 4:- INTANGIBLE ASSETS

a. Composition:

	Goodwill	Initial difference attributed to value of insurance portfolios	Future management fees	Brand name	Computer software	Customer relations	Other	Total
	NIS in thousands							
Cost								
Balance at January 1, 2013	900,150	742,718	213,623	11,739	1,029,057	-	12,414	2,909,701
Acquisitions in business combinations	169,059	-	-	1,967	2,105	81,115	10,415	264,661
Acquisitions and internal development (1)	-	-	-	-	96,874	-	-	96,874
Disposals during the year	-	(1,252)	-	(2,767)	(1,932)	-	-	(5,951)
Balance at December 31, 2013	1,069,209	741,466	213,623	10,939	1,126,104	81,115	22,829	3,265,285
Acquisitions in business combinations	-	-	-	-	-	-	-	-
Acquisitions and internal development (1)	-	-	-	-	107,461	-	-	107,461
Disposals during the year	-	-	-	-	(3,306)	-	-	(3,306)
Balance at December 31, 2014	1,069,209	741,466	213,623	10,939	1,230,259	81,115	22,829	3,369,440
Accumulated amortization and impairment losses								
Balance at January 1, 2013	107,036	697,295	143,794	7,183	682,762	-	3,948	1,642,018
Amortization during the year	-	9,268	11,408	3,231	140,430	3,687	3,352	171,376
Impairment	3,181	-	-	-	-	-	-	3,181
Disposals during the year	-	(176)	-	(2,767)	(1,932)	-	-	(4,875)
Balance at December 31, 2013	110,217	706,387	155,202	7,647	821,260	3,687	7,300	1,811,700
Amortization during the year	-	8,900	9,388	1,008	137,341	14,379	5,657	176,673
Impairment	22,897	-	-	732	849	-	-	24,478
Disposals during the year	-	-	-	-	(3,306)	-	-	(3,306)
Balance at December 31, 2014	133,114	715,287	164,590	9,387	956,144	18,066	12,957	2,009,545
Net book value								
At December 31, 2014	¤ 936,095	26,179	49,033	1,552	274,115	63,049	9,872	1,359,895
	¤							
At December 31, 2013	¤ 958,992	35,079	58,421	3,292	304,844	77,428	15,529	1,453,585

(1) Computer software includes internal development costs in 2014 and 2013 of approximately NIS 68 million and NIS 71 million, respectively.

NOTE 4:- INTANGIBLE ASSETS (Cont.)

b. Examination of recoverability of intangible assets with an indefinite life:

In order to examine the impairment of goodwill as of December 31, 2014, the goodwill was allocated to the following cash generating units: pension funds, provident funds, general insurance, financial services and other (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, 2014	December 31, 2013
	NIS in thousands	
Pension funds	190,866	190,866
Provident funds	125,758	139,949
Financial services	375,696	382,482
General insurance	168,470	168,470
Other	75,305	77,225
	936,095	958,992

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 the calculation of the embedded value of the unit. The recoverable amount is higher than the carrying amount of the unit.

The recoverable amount of the provident fund and financial services units is based on its fair value less realization costs and is mainly determined on the basis of the estimated future cash flows deriving from the activities of each of the units.

As of December 31, 2014, we found that the carrying amount of the unit of provident funds exceeded its recoverable amount which is NIS 214,987 thousand and therefore an impairment loss of NIS 14,191 thousand was recognized. The impairment loss was fully allocated to goodwill. The units of financial services include mutual and hedge funds. The recoverable amount of the unit of mutual funds exceeds its carrying amount. In 2014, an impairment loss in the amount of NIS 6,786 thousand was recognized in respect of the balance of the goodwill in respect of the hedge fund. 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) above.

NOTE 4:- INTANGIBLE ASSETS (Cont.)

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 are allocated to the activity of the Group's insurance agencies and activities not allocated to operating segments.

The recoverable amount of each of the other units is based on their value in use and determined based on the estimated future cash flows of each unit.

The recoverable amount exceeds the carrying amount of each of the other units, except for impairment in an amount which is not material.

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

The key assumptions used for the calculation of the recoverable amount

The calculation of the recoverable amount of the unit of provident funds is based on the following main assumptions:

Pre-tax discount interest rate of 15.52% and post-tax discount rate of 10.2% (2013 - pre-tax discount interest rate of 16.45% and post-tax discount rate of 10.5%). This rate was determined using the WACC model, on the basis of parameters characteristic of this type of activity.
Long-term growth rate – 1.75% (2013 – 1.75%). The rate was determined on the basis of the average long-term growth rate for this type of activity.

The calculation of the recoverable amount of the unit of mutual funds is based on the following main assumptions:

Pre-tax real discount interest rate of 16% and post-tax real discount rate of 11% (2013 - pre-tax nominal discount interest rate of 19% and post-tax nominal discount rate of 12%). This rate was determined using the WACC model, on the basis of parameters characteristic of this type of activity.
Long-term growth rate – 2% (2013 – nominal long-term growth rate of 2.5%). The rate was determined on the basis of the average long-term growth rate for this type of activity.

Average management fees in mutual funds in the long term – about 0.56% (2013 – about 0.56%).

The calculation of the recoverable amount of the general insurance unit is based on the following main assumptions:

Pre-tax discount interest rate of about 12.6% and post-tax discount rate of 8%; overall damage ratio in the various general insurance lines of 92%-100%; long-term premium growth rate in the motor act line of 1.5% and long-term premium growth rate in the other lines of about 3.3%.

NOTE 4:- INTANGIBLE ASSETS (Cont.)

At the end of 2013, Migdal Insurance signed an agreement for acquiring a new general insurance business of Eliahu Insurance. The acquisition created goodwill totaling NIS 168,470 thousand, see Note 38e(2) below.

The calculation of the recoverable amount of the insurance agencies is based on the following main assumptions:

Pre-tax discount interest rate of about 16% and post-tax discount rate of about 12% and long-term growth rate of about 2.5%. In 2013, the average pre-tax discount interest rate was about 16% and the post-tax discount rate was about 12%. These rates were determined on the basis of parameters characteristic of this type of activity.

NOTE 5:- DEFERRED ACQUISITION COSTS

a. Composition:

	December 31,	
	2014	2013
	NIS in thousands	
Life assurance and long-term savings:		
Life assurance	1,047,849	1,099,828
Pension and provident funds	198,563	165,261
	1,246,412	1,265,089
Health insurance	351,170	303,759
General insurance	171,734	167,361
	1,769,316	1,736,209

NOTE 5:- DEFERRED ACQUISITION COSTS (Cont.)

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, 2013	1,103,463	128,554	1,232,017	277,979	1,509,996
Additions:					
Acquisition commissions	117,422	53,040	170,462	72,180	242,642
Other acquisition expenses	93,906	7,028	100,934	21,654	122,588
Total additions	211,328	60,068	271,396	93,834	365,230
Current amortization	135,735	12,398	148,133	60,211	208,344
Amortization due to cancellations	79,228	10,963	90,191	7,843	98,034
Balance at December 31, 2013	1,099,828	165,261	1,265,089	303,759	1,568,848
Additions:					
Acquisition commissions	75,311	55,880	131,191	108,791	239,982
Other acquisition expenses	81,136	7,686	88,822	34,111	122,933
Total additions	156,447	63,566	220,013	142,902	362,915
Current amortization	133,346	14,302	147,648	65,729	213,377
Amortization due to cancellations	75,080	15,962	91,042	29,762	120,804
Balance at December 31, 2014	1,047,849	198,563	1,246,412	351,170	1,597,582

NOTE 6:- FIXED ASSETS

a. Composition and movement:

2014

	Land and office buildings	Computers and software	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
	NIS in thousands					
Cost						
Balance at January 1, 2014	745,281	244,795	4,502	201,207	29,468	1,225,253
Additions during the year	7,086	13,081	400	6,965	507	28,039
Disposals during the year	-	(25,747)	(3,036)	(1,649)	(1,041)	(31,473)
Balance at December 31, 2014	752,367	232,129	1,866	206,523	28,934	1,221,819
Accumulated depreciation						
Balance at January 1, 2014	138,932	180,913	2,101	123,269	21,173	466,388
Additions during the year	25,685	29,627	384	10,808	1,387	67,891
Disposals during the year	-	(25,737)	(1,562)	(1,576)	(1,041)	(29,916)
Balance at December 31, 2014	164,617	184,803	923	132,501	21,519	504,363
Balance of depreciated cost at December 31, 2014	587,750	47,326	943	74,022	7,415	717,456
Annual depreciation rates	4%	17%-33%	15%	6%-15%	10%-17%	

2013

	Land and office buildings	Computers and software	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
	NIS in thousands					
Cost						
Balance at January 1, 2013	742,598	268,734	20,423	185,898	38,155	1,255,808
Additions during the year	21,537	16,634	94	16,033	1,587	55,885
Newly consolidated company	-	-	-	53	-	53
Disposals during the year	-	(40,573)	(16,015)	(777)	(10,274)	(67,639)
Amounts transferred to investment property	(18,854)	-	-	-	-	(18,854)
Balance at December 31, 2013	745,281	244,795	4,502	201,207	29,468	1,225,253
Accumulated depreciation						
Balance at January 1, 2013	127,120	193,372	9,389	113,023	26,690	469,594
Additions during the year	24,527	28,109	1,303	10,954	4,757	69,650
Newly consolidated company	-	-	-	28	-	28
Disposals during the year	-	(40,568)	(8,591)	(736)	(10,274)	(60,169)
Amounts transferred to investment property	(12,715)	-	-	-	-	(12,715)
Balance at December 31, 2013	138,932	180,913	2,101	123,269	21,173	466,388
Balance of depreciated cost at December 31, 2013	606,349	63,882	2,401	77,938	8,295	758,865
Annual depreciation rates	4%	17%-33%	15%	6%-15%	10%-17%	

NOTE 6:- FIXED ASSETS (Cont.)

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

	December 31,	
	2014	2013
	NIS in thousands	
Freehold	546,478	561,753
Capitalized leased *)	41,272	44,596
	587,750	606,349

*) Assets under capitalized lease amount to NIS 36,362 thousand (2013 - NIS 39,238 thousand) with a remaining leasehold period of up to 16 years.

Assets under capitalized lease in the amount of NIS 4,910 thousand (2013 - NIS 5,358 thousand) with a remaining leasehold period of over 45 years.

c. Construction of office building:

The Company constructed an office building in an area of about 17,956 square meters adjacent to the Group's office buildings in Petach-Tikva, which concentrates most of the Group's activities in one central site (including some or the house agencies). Part of the building was occupied during the years 2012-2014 by the Group's employees.

The total investment as of December 31, 2014 amounted to approximately NIS 432 million.

d. Additional information:

The Group has fully depreciated assets which are still operating. The original cost of these assets as of December 31, 2014 is approximately NIS 154 million (December 31, 2013 - approximately NIS 165 million).

In 2014, the Company derecognized fully depreciated fixed assets that are not utilized by the Company with an original cost of approximately NIS 25 million (December 31, 2013 - approximately NIS 40 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, 2014	2013
		%	
Migdal Insurance Company Ltd.	Israel	100	100
Migdal Makefet Pension and Provident Funds Ltd.	Israel	100	100
Yozma Pension Fund For the Self Employed Ltd.	Israel	100	100
Migdal Holdings and Insurance Agency Management Ltd.	Israel	100	100
Mivtach Simon Insurance Agencies Ltd.	Israel	100	100
Sagi Yoav Insurance Agencies (1988) Ltd.	Israel	100	100
Shacham Insurance Agencies (1977) Ltd.	Israel	100	100
Peltours Insurance Agencies Ltd.	Israel	73.28	73.28
Migdal Health and Quality of Life Ltd.	Israel	100	100
Infomed Medical Sites Ltd.	Israel	71	71
B-Well Quality of Life Solutions Ltd.	Israel	71	71
Migdal Capital Markets (1965) Ltd.	Israel	100	100
Migdal Management Services Ltd. (1)	Israel	100	100

(1) On May 27, 2013, the company's name was hanged from Mivtach Simon Agency Management Ltd. to Migdal Management Services Ltd.

b. Details of affiliates:

1. Composition of affiliates:

	December 31, 2014				
	Main place of operation	Company's equity and voting rights	Loans and capital notes provided by the Company to affiliates (3)	Scope of investment in affiliates	Total
		%	NIS in thousands		
Ramat Aviv Mall Ltd.	Israel	26.60	(2) 13,547	212,179	225,726
Amot Investments Ltd.	Israel	13.34 (1)	-	397,589	397,589
			13,547	609,768	623,315
Other affiliates			6,451	14,700	21,151
Total affiliates			19,998	624,468	644,466

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

	December 31, 2013				
	Main place of operation	Company's equity and voting rights	Loans and capital notes provided by the Company to affiliates (3)	Scope of investment in affiliates	Total
		%	NIS in thousands		
Ramat Aviv Mall Ltd.	Israel	26.60	(2) 68,711	179,087	247,798
Amot Investments Ltd.	Israel	(1) 14	-	388,209	388,209
			68,711	567,296	636,007
Other affiliates			6,747	11,443	18,190
Total affiliates			75,458	578,739	654,197

(1) Migdal Insurance has the right to appoint two directors in Amot. Therefore, the potential voting power in the board of directors of Amot, which includes the aforementioned right, is 20%.

The fair value of these shares on the TASE as of December 31, 2014 is approximately NIS 425 million (2013 - NIS 387 million).

(2) In June 2009, capital notes in the amount of NIS 75,840 thousand were issued for a minimum period of five years, bearing no interest or linkage. In June 2014, capital notes in the amount of NIS 60,648 thousand were repaid. The capital notes are presented in the financial statements at their present value.

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

2. Composition of investment in affiliates:

	December 31, 2014	December 31, 2013
	NIS in thousands	
Cost of shares	423,781	423,914
Company's share of post-acquisition earnings and accrued capital reserves, less dividends	200,687	154,825
Other investments - capital notes and loans	19,998	75,458
	644,466	654,197
Goodwill included in the investment	12,382	12,382

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

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,		
	2014	2013	2012
	NIS in thousands		
Group's share of net income *)	80,112	70,774	64,452
Group's share of other comprehensive income (loss)	(282)	2,402	(51)

*) Including amortization of original differences.

c. Capital management and requirements in the Group companies:

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

   Pursuant to the policy, as stated, it was resolved in the board of directors of Migdal Insurance Company Ltd. ("Migdal Insurance"), among others, that Migdal Insurance will strive to maintain existing capital in accordance with the capital requirements, which will not be less than 110% of the capital required based on the capital requirement regulations.

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

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

2. Hereunder are details with respect to the required and existing capital of Migdal Insurance pursuant to the Control of Financial Services (Insurance) Law (Minimum Shareholders' Equity required from an Insurer), 1998, as amended, ("the Capital Regulations"), and the Commissioner's directives.

	December 31, 2014	December 31, 2013
	NIS in thousands	
Amount required as per the Capital Regulations and the Commissioner's directives (a)	4,145,381	3,903,210
Total existing amount calculated as per the Capital Regulations:		
First tier capital - basic	4,720,001	4,569,182
Complex second tier capital (b)	844,247	844,454
Total existing capital calculated as per the Capital Regulations	5,564,248	5,413,636
Surplus as of the reporting date	1,418,867	1,510,426
Dividend declared after the reporting date (see 5 below)	(204,006)	(200,000)
Surplus taking into consideration events after the reporting date	1,214,861	1,310,426
Apart from the general requirements in the Companies Law, the distribution of dividends from surplus capital in insurance companies is also subject to liquidity requirements and compliance with the investment regulations. In this respect, investments that should be provided against surplus capital in accordance with the Commissioner's directives, and hence comprise non-distributable surplus (see 4 below)	120,390	70,866
(a) The required amount includes capital requirements in respect of:		
Activity in general insurance/required first tier capital	386,018	349,093
Long-term care insurance activity	30,849	27,202
Extraordinary risks in life assurance	425,604	398,636
Deferred acquisition costs in life assurance and insurance for diseases and hospitalization	1,458,193	1,460,173
Requirements in respect of yield-guaranteed plans	10,772	24,193
Inadmissible assets as defined in the Capital Regulations	8,531	7,634
Investment in insurance subsidiaries and consolidated managing companies *)	248,003	240,795
Investment assets and other assets	913,277	832,651
Catastrophe risks in general insurance (see 7 below)	380,758	274,559
Operating risks	281,803	286,699
Guarantees	1,573	1,575
Total amount required according to the Capital Regulations and the Commissioner's directives	4,145,381	3,903,210
*) A decrease of the required capital due to the initial difference attributed to the managing company (this reduction is not recognized for the purpose of dividend distribution). See also 3 below.	63,929	63,929

(b) As for bonds whose proceeds serve as complex own capital of Migdal Insurance, see Note 24e below.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

3. According to the Capital Regulations, the Commissioner will be entitled to approve, subject to his conditions, a reduction in the capital requirements of up to 35% of the initial difference, for the acquisition of provident fund activities or a management company of a provident fund, in the event that the insurer's shareholders' equity as at the reporting date is not less than the minimum shareholders equity required from him, less 35% of the initial difference from the acquisition of provident fund activity or a provident fund management company.

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

   This approval will be cancelled when the first tier capital requirements in the Solvency II Directive take effect and replace the Capital Regulations, and does not testify as to the control policy for implementing said requirements, see 8 below.

4. Migdal Insurance has investments which according to the Control of Financial Services Regulations (Provident Funds) (Rules of Investment applicable to Institutional Entities), 2012 will gradually stand against recognized surplus capital. Accordingly, as of December 31, 2014, the investments which must be held against surplus capital in accordance with the Commissioner's instructions increased by approximately NIS 50 million. In addition, Migdal Insurance has provided loans to subsidiaries totaling approximately NIS 150 million which as of January 1, 2015 will be placed against the insurer's recognized capital.

5. In 2014, Migdal Insurance distributed a dividend in a total of NIS 403,273 thousand.

   On January 18, 2015, Migdal Insurance distributed a dividend in-kind in a total of approximately NIS 4 million and on March 4, 2015, the board of directors of Migdal Insurance approved the distribution of a dividend of approximately NIS 200 million. The dividend distribution date was set for April 20, 2015.

6. As of the date of the financial statements, Migdal Makefet and Yozma both comply with the minimum required capital requirements.

7. The increase in respect of catastrophe risks in general insurance in the capital requirements arises mainly from the increase in the deductible in catastrophe insurance in respect of earthquakes.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

8. In November 2014, the Commissioner issued a letter to the directors of insurance companies ("the letter") regarding the outline of the adoption of the Solvency II Directive. In the letter, the Commissioner states that the European Parliament has decided to adopt the Directive in Europe in early 2016 and has also established schedules for the adoption of the final guidelines. In view of the intention to issue final guidelines in Europe by June 2015, the Commissioner announced that she intends to issue guidelines that will replace the existing guidelines on the adaptation of the first pillar of the Directive to the local market, requiring insurance companies to meet these guidelines from the annual financial statements for 2016. As part of the process of preparing for the model's adoption, the State Treasury has been guiding insurance companies to carry out exercise for customizing the model. In this context, two additional IQIS exercises are expected to be required (simulations of the effect of the Directive on an insurer's capital under the existing business mix and balance sheet) for 2014 and 2015. Thereafter, starting from 2016 and before the new regime comes into force, the new outline will introduce a quarterly reporting framework simultaneously with the reports of capital requirements according to the existing regulations. A change in the capital requirements is subject, among others, to a change in the Control of Financial Services Regulations (Insurance) (Minimum Shareholders' Equity required from an Insurer), 1998.

   The Commissioner also intends to issue guidelines regarding capital management, setting internal capital targets, requiring companies to conduct a gap survey with respect to the risk management system, controls and corporate governance and a consultation paper for promoting Own Risk and Solvency Assessment (ORSA).

   According to the IQIS exercises performed by Migdal Insurance, the capital requirements derived from the mix of its current insurance liabilities and investments will require it to conduct major changes in its asset portfolio or alternatively execute significant hedges against the risks defined in the Solvency model and simultaneously act to hedge the insurance risks such as the purchase of reinsurances in substantial volumes and/or the sale of insurance portfolios and/or the increase of tariffs and the cancellation of discounts.

   These steps, if taken, might have a critical impact on Migdal Insurance's future earnings concurrently with the minimization of financial and insurance risks.

   Migdal Insurance's Board has instructed Migdal Insurance to examine the plans for minimizing the exposures under different scenarios and with respect to different periods of the deployment and act to expand the capital basis by raising second tier and third tier capital.

   In should be noted that failure to properly prepare for the new model could lead to a major capital deficiency, including in first tier capital, if and when the Solvency regime is adopted in its present format, as opposed to the surplus capital according to the existing Capital Regulations.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

It should be emphasized that the model, in its present format, is highly sensitive to changes in market and other variables and therefore the resulting capital requirements might be extremely volatile.

There are material issues involving the adoption of the model which are currently being discussed with the Commissioner as well as uncertainty regarding their adoption. Moreover, no rules regarding the format of adjusting the capital, if and to the extent needed, have been formulated, including transition provisions and the period of supplementation to the new capital level, if applicable.

At this stage, it is impossible to assess the model adjustments that will be introduced by the State Treasury for its adaptation to the Israeli market or the requirements resulting from the applicable interest and capital market environment upon the model's adoption.

Migdal Insurance is closely monitoring any developments in order to prepare for the new framework, if and when established.

9. On December 29, 2014, the Company's and Migdal Insurance's Board resolved to take steps to raise debt at a scope of up to NIS 1 billion by Migdal Capital Raising Ltd. ("Migdal Capital Raising"), a special purpose subsidiary of Migdal Insurance, through bonds that meet the definition of "complex second tier capital", pursuant to the provisions of applicable laws and the Commissioner's directives. The proceeds from the bonds will be deposited in Migdal Insurance.

   In January 2015, Midroog Ltd. ("Midroog") announced an Aa2 rating with a stable outlook for subordinated deeds (complex second tier capital) in an amount of up to NIS 1,000 million par value (up to NIS 1 billion) which Migdal Insurance will act to raise through Migdal Capital Raising.

   In addition, Midroog maintained the insurance financial strength rating (IFSR) of Migdal Insurance at Aaa with a stable outlook and the rating of the subordinated deeds (complex second tier capital) at Aa2 with a stable outlook.

   On January 21, 2015, Migdal Capital Raising held a tender for obtaining offers from classified investors for the private placement of a new series of bonds designed to serve as complex second tier capital for Migdal Insurance ("the classified investors' tender") in which it received offers for the purchase of the bonds but ultimately decided not to execute a private placement and review other capital raising alternatives.

   On February 25, 2015, Migdal Capital Raising submitted a notification to the ISA regarding its intention to file an application for the ISA's permit to issue a prospectus for offering bonds based on Migdal Insurance's financial statements as of December 31, 2014.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

On March 24, 2015, Migdal Insurance's Board approved submitting an application for the ISA's permit to issue a prospectus as discussed above. It should be emphasized that there is no certainty that Migdal Insurance will indeed issue such a prospectus or will issue any securities by virtue thereof, if and when issued.

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

The financial stability model of non-bank stock exchange members ("NBSEM") sets forth capital requirements, liquidity requirements and principles for granting consumer credit to customers by the NBSEM.

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

NOTE 8:- INVESTMENT PROPERTY

a. Composition and movement:

	For yield dependent contracts					
	Leased for retail use		Leased for office and other use		Total	
	2014	2013	2014	2013	2014	2013
	NIS in thousands					
Balance at January 1,	1,318,235	839,982	3,379,649	3,076,504	4,697,884	3,916,486
Additions during the year:						
Purchases	32,927	498,207	89,101	196,184	122,028	694,391
Capitalized costs and expenses	240	128	2,620	750	2,860	878
Total additions	33,167	498,335	91,721	196,934	124,888	695,269
Disposals during the year:						
Disposals	-	-	-	-	-	-
Total disposals	-	-	-	-	-	-
Changes in fair value (unrealized)	(6,858)	(20,082)	82,143	106,211	75,285	86,129
Balance at December 31,	1,344,544	1,318,235	3,553,513	3,379,649	4,898,057	4,697,884

NOTE 8:- INVESTMENT PROPERTY (Cont.)

	Investment property - other					
	Leased for retail use		Leased for office and other use		Total	
	2014	2013	2014	2013	2014	2013
	NIS in thousands					
Balance at January 1,	142,608	102,294	467,596	435,910	610,204	538,204
Additions during the year:						
Purchases	2,666	40,733	5,765	15,543	8,431	56,276
Capitalized costs and expenses	11	17	859	107	870	124
Amounts transferred from fixed assets	-	-	-	10,700	-	10,700
Total additions	2,677	40,750	6,624	26,350	9,301	67,100
Disposals during the year:						
Disposals	-	-	(2,414)	-	(2,414)	-
Total disposals	-	-	(2,414)	-	(2,414)	-
Changes in fair value (unrealized)	305	(436)	13,389	5,336	13,694	4,900
Changes in fair value (realized)	-	-	105	-	105	-
Balance at December 31,	145,590	142,608	485,300	467,596	630,890	610,204

b. Investment property is measured at fair value and classified as Level 3 in the fair value hierarchy.

NOTE 8:- INVESTMENT PROPERTY (Cont.)

c. Data regarding fair value measurements of investment property:

Type of asset	Valuation techniques to determine fair value	Significant non-observable data	Interactions between unobservable significant data and the fair value measurement
Assets for rent for commercial / office use	The fair value is estimated using the discounted income technique: The valuation model is based on the estimated present value of the NOI resulting therefrom. Real estate valuation is based on the net annual cash flows discounted using a discount rate that reflects the specific risks inherent in them. When actual lease agreements are signed, which have payments which are unreasonable when compared to market rates; adjustments are made to reflect the actual rental payments during the contract period. The valuations take into account the type of tenants actually leased or responsible for meeting lease commitments or likely to be in occupation after letting vacant premises and a general assessment regarding the quality of the tenants and the remaining economic life of the asset, in those places where these parameters are relevant. Sometimes the fair value is determined based on a comparison to recent transactions in similar properties in the real estate market in relation to similar real estate and similar location of the real estate owned by the Group, if there are any such transactions, and sometimes by performing a combination of comparing transactions of similar properties and the discounted income valuation technique.	• The market value of the lease payments. • Discount rate of cash flows (6% to 15 %, weighted average 7.14%)	Estimated fair value will increase if: • The market value of the lease payments increases. • The discount rate of the cash flows decreases.

NOTE 8:- INVESTMENT PROPERTY (Cont.)

Type of asset	Valuation techniques to determine fair value	Significant non-observable data	Interactions between unobservable significant data and the fair value measurement
Investment property under construction	The valuation is based on estimating the fair value of investment property after completion, less the present value of the estimated construction costs for the completion and less reasonable entrepreneurial profit when relevant, taking into account discount rate adjusted for the relevant risks and characteristics of the property.	• Market value of the lease payments. • NIS construction costs per square meter (NIS 3,200 to NIS 7,000 depending on the location, weighted average cost NIS 5,200). • Entrepreneurial profit margin (20%). • Discount rate of cash flows (8.25% to 8.75%, weighted average 8.35%).	Estimated fair value will increase if: • The market value of lease payments increases. • Construction costs per square meter decrease. • Profit margins on construction activity and development decrease. • The discount rate of the cash flows decreases.

NOTE 8:- INVESTMENT PROPERTY (Cont.)

d. Sensitivity analysis:

The discount rate represents a major estimate in determining fair value since any changes therein materially affect the fair value of investment property. Nevertheless, it should be noted that a change in the fair value of investment property for yield dependent contracts does not completely affect the Group's profit or loss.

The following sensitivity analysis presents the effect of a change in the discount rate:

	Increase (decrease) in fair value at December 31, 2014	Increase (decrease) in profit and loss before tax for 2014
	NIS in thousands	
0.5% increase	(270,312)	(70,608)
0.5% decrease	299,250	75,189

e. Evaluation processes adopted by the Company:

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

f. Regarding transactions for the acquisition of investment property, see Note 39(2)(c) below.

g. For details of operating lease agreements in which the Group serves as lessor that are classified as investment property, see Note 39(c)(h)(2) below regarding leases.

h. Amounts recognized in profit or loss:

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Rental income from investment property	370,082	348,794	312,025
Direct operating expenses arising from rental income producing investment property in the period	(39,234)	(36,433)	(35,010)
Direct operating expenses arising from non-rental income producing investment property in the period	(286)	(72)	(238)
	330,562	312,289	276,778

NOTE 8:- INVESTMENT PROPERTY (Cont.)

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

	December 31, 2014	December 31, 2013
	NIS in thousands	
Freehold (a)	3,023,194	2,901,834
Capitalized leases (b)	2,505,753	2,406,254
	5,528,947	5,308,088

(a) Assets owned in the total amount of NIS 1,378,529 thousand have not yet been registered in the name of the Group companies with the Land Registry Office mainly due to incomplete registration procedures and registration of rights in condominiums or technical problems, but for which a caveat has been registered in the Land Registry Office in favor of the Company.

(b) Capitalized leases:

	December 31, 2014	December 31, 2013
	NIS in thousands	
Lease of up to 15 years	179,830	177,582
Lease of 15-50 years	848,800	817,030
Lease of over 50 years	1,477,123	1,411,642
Total leases	2,505,753	2,406,254

NOTE 9: - DEBTORS AND RECEIVABLES

a. Composition:

	December 31, 2014	December 31, 2013
	NIS in thousands	
Government authorities and institutions	8,534	7,272
Accrued income	41,604	32,485
Prepaid expenses	14,218	23,568
Employees	28,995	28,014
Advances to suppliers	12,009	25,561
Receivables for the TASE Securities and Clearing House	707,395	50,466
Advances on account of commissions to insurance agents	9,960	19,153
Insurance companies and insurance brokers	42,121	45,153
Other	123,767	83,545
Less - allowance for doubtful accounts	(95)	(115)
	988,508	315,102

NOTE 9: - DEBTORS AND RECEIVABLES (Cont.)

b. Movement in allowance for doubtful accounts:

	2014	2013
	NIS in thousands	
Balance at January 1,	(115)	(134)
Change in allowance in the period	20	19
Balance at December 31,	(95)	(115)

NOTE 10: - OUTSTANDING PREMIUMS

a. Composition:

	December 31,	
	2014	2013
	NIS in thousands	
Outstanding premiums *)	587,320	520,790
Less - allowance for doubtful accounts	(7,985)	(4,268)
Total outstanding premiums	579,335	516,522
*) Including checks receivable and standing orders	173,748	208,462

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

b. Aging:

	December 31,	
	2014	2013
	NIS in thousands	
Unimpaired outstanding premiums:		
Without arrears	333,465	323,172
In arrears *):		
Less than 90 days	99,721	76,826
Between 90 – 180 days	37,259	41,761
Over 180 days	105,960	72,015
Total unimpaired outstanding premiums	576,405	513,774
Impaired outstanding premiums	2,930	2,748
Total outstanding premiums	579,335	516,522

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

NOTE 10: - OUTSTANDING PREMIUMS (Cont.)

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

	2014	2013
	NIS in thousands	
Balance at January 1,	(4,268)	(4,549)
Change in allowance in the period	(3,717)	281
Balance at December 31,	(7,985)	(4,268)

NOTE 11:- ASSETS FOR YIELD DEPENDENT CONTRACTS

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

	December 31,	
	2014	2013
	NIS in thousands	
Investment property	4,898,057	4,697,884
Financial investments:		
Quoted debt assets	23,462,098	19,207,628
Unquoted debt assets *)	7,675,768	7,997,220
Shares	14,807,965	12,076,621
Other financial investments	23,637,168	21,708,710
Total financial investments	69,582,999	60,990,179
Cash and cash equivalents	3,289,969	4,907,015
Other	937,039	222,749
Total assets for yield dependent contracts	78,708,064	70,817,827

*) Including unquoted debt assets totaling NIS 917,619 thousand measured at amortized cost and classified to the category of "loans and receivables" (in 2013 - NIS 914,460 thousand) whose fair value is NIS 1,175,898 thousand (2013 - NIS 1,187,778 thousand).

Regarding exposure in respect of yield dependent policy assets see Note 37b(1) below.
Regarding details of interest and linkage of debt assets see Note 37d(2) 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:

The table below analyses assets held against insurance contracts and investment contracts that are presented at fair value through profit or loss.

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Financial investments:				
Quoted debt assets	23,462,098	-	-	23,462,098
Unquoted debt assets	-	6,708,901	49,248	6,758,149
Shares	13,611,226	-	1,196,739	14,807,965
Other financial investments	19,573,221	389,931	3,674,016	23,637,168
Total financial investments	56,646,545	7,098,832	4,920,003	68,665,380
Unquoted debt assets for which disclosure of fair value is provided (11a above)	-	1,175,898	-	1,175,898

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Financial investments:				
Quoted debt assets	19,207,628	-	-	19,207,628
Unquoted debt assets	-	7,010,000	72,760	7,082,760
Shares	10,994,658	-	1,081,963	12,076,621
Other financial investments	17,990,658	370,598	3,347,454	21,708,710
Total financial investments	48,192,944	7,380,598	4,502,177	60,075,719
Unquoted debt assets for which disclosure of fair value is provided (11a above)	-	1,187,778	-	1,187,778

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

c. Level 3 assets measured at fair value:

	Fair value measurement on the reporting date				
	Financial assets at fair value through profit or loss				
	Quoted debt assets	Unquoted debt assets	Shares	Other financial investments	Total
	NIS in thousands				
Balance as January 1, 2014	-	72,760	1,081,963	3,347,454	4,502,177
Total gains recognized in profit and loss	-	4,659	267,663	317,939	590,261
Investments	-	29,944	158,767	775,811	964,522
Disposals	-	(52,090)	(180,001)	(767,188)	(999,279)
Surrenders	-	(6,025)	-	-	(6,025)
Transfers to Level 3	-	-	-	-	-
Transfers from Level 3	-	-	(131,653)	-	(131,653)
Balance at December 31, 2014	-	49,248	1,196,739	3,674,016	4,920,003
Total earnings in the period included in profit and loss for assets held at December 31, 2014	-	653	151,304	253,052	405,009

The transition from Level 3 derives from securities issued for the first time.

	Fair value measurement on the reporting date				
	Financial assets at fair value through profit or loss				
	Quoted debt assets	Unquoted debt assets	Shares	Other financial investments	Total
	NIS in thousands				
Balance as January 1, 2013	-	143,422	988,314	2,984,097	4,115,833
Total gains (losses) recognized in profit and loss	-	4,365	35,012	(179,664)	(140,287)
Investments	-	-	178,937	894,653	1,073,590
Disposals	-	-	(120,300)	(351,632)	(471,932)
Surrenders	-	(6,902)	-	-	(6,902)
Transfers to Level 3	-	-	-	-	-
Transfers from Level 3	-	(68,125)	-	-	(68,125)
Balance at December 31, 2013	-	72,760	1,081,963	3,347,454	4,502,177
Total earnings in the period included in profit and loss for assets held at December 31, 2013	-	(9,150)	49,845	(183,364)	(142,669)

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

NOTE 12:- DETAILS OF OTHER FINANCIAL INVESTMENTS

	December 31, 2014			
	Presented in fair value through profit or loss	Available for sale	Loans and receivables	Total
	NIS in thousands			
Quoted debt assets (a)	3,900	6,136,342	-	6,140,242
Unquoted debt assets (b)	1,750	-	22,051,886	22,053,636
Shares (d)	19,517	1,093,835	-	1,113,352
Other (e)	33,212	2,351,991	-	2,385,203
Total	58,379	9,582,168	22,051,886	31,692,433

	December 31, 2013			
	Presented in fair value through profit or loss	Available for sale	Loans and receivables	Total
	NIS in thousands			
Quoted debt assets (a)	122,160	5,717,842	-	5,840,002
Unquoted debt assets (b)	3,293	-	21,613,206	21,616,499
Shares (d)	1,137	1,033,670	-	1,034,807
Other (e)	60,663	1,894,057	-	1,954,720
Total	187,253	8,645,569	21,613,206	30,446,028

a. Quoted debt assets:

	December 31,	
	2014	2013
	NIS in thousands	
Government bonds:		
Presented at fair value through profit and loss - held for trade	3,122	122,160
Available for sale	3,751,890	3,505,117
Total government bonds	3,755,012	3,627,277
Other debt assets:		
Unconvertible:		
Presented at fair value through profit and loss - held for trade	778	-
Available for sale	2,384,452	2,212,725
Total other unconvertible debt assets	2,385,230	2,212,725
Convertible debt assets designated to fair value through profit and loss upon initial recognition	-	-
Total quoted debt assets	6,140,242	5,840,002
Impairment allocated to profit and loss (accumulated)	1,802	1,833

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

b. Unquoted debt assets:

	December 31,			
	Carrying amount		Fair value	
	2014	2013	2014	2013
	NIS in thousands			
Government bonds - designated bonds *)	19,481,929	18,793,306	24,861,366	23,144,403
Other unconvertible debt assets:				
Presented as loans and receivables, excluding bank deposits	1,706,015	1,792,234	1,948,328	2,075,245
Bank deposits	865,692	1,030,959	1,120,340	1,274,627
Total unquoted debt assets	22,053,636	21,616,499	27,930,034	26,494,275
Impairment allocated to profit and loss (accumulated)	21,398	51,782		

*) 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,	
	2014	2013
	%	
Quoted debt assets:		
Linkage basis:		
Linked to the CPI	1.6	1.0
In NIS	1.8	2.3
Linked to foreign currency	4.3	3.7
Unquoted debt assets:		
Linkage basis:		
Linked to the CPI	5.1	5.2
In NIS	2.2	1.8
Linked to foreign currency	5.8	5.6

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

d. Shares:

	December 31, 2014	December 31, 2013
	NIS in thousands	
Quoted:		
Presented at fair value through profit and loss - held for trade	18,129	-
Available for sale	1,024,261	982,978
Total quoted shares	1,042,390	982,978
Unquoted:		
Presented at fair value through profit and loss	1,388	1,137
Available for sale	69,574	50,692
Total unquoted shares	70,962	51,829
Total shares	1,113,352	1,034,807
Impairment allocated to profit and loss (accumulated)	109,330	97,630

e. Other financial investments:

Other financial investments mainly include investments in ETFs, mutual fund participation certificates, investment funds, hedge funds, financial derivatives, futures contracts, options, structured products and amounts receivable in respect of exercise of an option.

	December 31, 2014	December 31, 2013
	NIS in thousands	
Quoted:		
Presented at fair value through profit and loss - held for trade	6,122	-
Available for sale	1,971,626	1,582,118
Derivative instruments (e1)	2,516	6,459
Total quoted financial investments	1,980,264	1,588,577
Unquoted:		
Presented at fair value through profit and loss - held for trade	-	32,224
Available for sale	380,365	311,939
Derivative instruments (e1)	24,574	21,980
Total unquoted financial investments	404,939	366,143
Total other financial investments	2,385,203	1,954,720
Impairment allocated to profit and loss (accumulated)	214,190	169,355

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,	
	2014	2013
	NIS in thousands	
Shares	(7,583)	59,823
CPI	-	99,994
Commodities	20,066	10,947
Foreign currency	(1,715,830)	(1,036,402)
Interest	(16,284)	(6,287)

f. The interest rates used for determining fair value:

The fair value of the unquoted debt assets that are measured at fair value through profit or loss and the unquoted financial debt assets for which information regarding the fair value is given for disclosure purposes only is determined by discounting their estimated anticipated cash flows. The discount rates are based on yields of government bonds and the spreads of corporate bonds, as measured on the TASE. The price quotations and interest rates used for discounting are determined by the company which won the tender published by the Ministry of Finance for the construction and operation of price quotations and discount rates pool for institutional entities. Beginning from March 20, 2011, Fair Spread Ltd. ("Fair Spread") provides price quotations and discount rates to institutional entities for revaluation of unquoted debt assets. The fair spread model is primarily based on the division of the market to deciles by yield to maturity and placing the unquoted asset in those deciles, in accordance with the risk premium derived from transaction/issue prices in the unquoted market ("the fair spread model").

Following a letter issued by the Ministry of Finance in September 2014, the Tenders Committee decided to announce Fair Spread as the winner of the new tender. The letter also stated that the schedules for assimilating the adjusted fair spread model will be published separately. At this stage, the Company is unable to estimate the effect of the expected update in methodology, on the fair value of unquoted debt assets, if and to the extent there is any update.

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

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

	December 31, 2014	December 31, 2013
	%	
AA and above	0.7	0.8
A	2.7	2.6
BBB	-	3.7
Lower than BBB	-	45.5
Not rated	8.5	7.7

(*) The sources for the level of rating in Israel are the rating companies of Maalot 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) below.

g. Fair value levels of financial assets:

The table below analyses assets that are presented at fair value.

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

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Quoted debt assets	6,140,242	-	-	6,140,242
Unquoted debt assets	-	-	1,750	1,750
Shares	1,042,390	-	70,962	1,113,352
Other	1,980,264	24,574	380,365	2,385,203
Total	9,162,896	24,574	453,077	9,640,547
Unquoted debt assets for which disclosure of fair value is provided (12b above)	-	27,909,830	20,204	27,930,034

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

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Quoted debt assets	5,840,002	-	-	5,840,002
Unquoted debt assets	-	-	3,293	3,293
Shares	982,978	-	51,829	1,034,807
Other	1,588,577	20,950	345,193	1,954,720
Total	8,411,557	20,950	400,315	8,832,822
Unquoted debt assets for which disclosure of fair value is provided (12b above)	-	26,461,330	32,945	26,494,275

Assets measured at fair value at level 3

	Fair value measurement on the reporting date				
	Financial assets at fair value through profit or loss and available-for-sale financial assets				
	Quoted debt assets	Unquoted debt assets	Shares	Other financial investments	Total
	NIS in thousands				
Balance as January 1, 2014	-	3,293	51,829	345,193	400,315
Total gains (losses) recognized:					
In profit and loss	-	(388)	4,498	(40,532)	(36,422)
In other comprehensive income	-	-	27,149	76,583	103,732
Investments	-	-	45,960	40,443	86,403
Disposals	-	(9)	(24,203)	(41,322)	(65,534)
Surrenders	-	(1,146)	-	-	(1,146)
Transfers from Level 3	-	-	(34,271)	-	(34,271)
Balance at December 31, 2014	-	1,750	70,962	380,365	453,077
Total losses in the period included in profit and loss for assets held at December 31, 2014	-	(57)	(7,370)	(48,390)	(55,817)

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

	Fair value measurement on the reporting date				
	Financial assets at fair value through profit or loss and available-for-sale financial assets				
	Quoted debt assets	Unquoted debt assets	Shares	Other financial investments	Total
	NIS in thousands				
Balance as January 1, 2014	-	-	31,519	389,338	420,857
Total gains (losses) recognized:					
In profit and loss	-	(84)	(134)	(69,152)	(69,370)
In other comprehensive income	-	-	2,681	(2,467)	214
Investments	-	-	20,823	73,342	94,165
Disposals	-	-	(3,060)	(14,212)	(17,272)
Financial assets at fair value in newly consolidated subsidiary	-	3,377	-	11	3,388
Consolidation of company recognized as investment	-	-	-	(31,667)	(31,667)
Balance at December 31, 2014	-	3,293	51,829	345,193	400,315
Total losses in the period included in profit and loss for assets held at December 31, 2014	-	(84)	(1,377)	(69,682)	(71,143)

h. Aging of investments in unquoted financial assets:

	December 31,	
	2014	2013
	NIS in thousands	
Unimpaired debt assets: Without arrears	21,862,195	21,483,425
In arrears *):		
Less than 90 days	5,943	8,728
Between 90 – 180 days	1,433	4,425
Over 180 days	32,163	35,663
Total unimpaired debt assets	21,901,734	21,532,241
Impaired assets, gross	173,300	136,040
Impairment allocated to profit and loss (accumulated)	(21,398)	(51,782)
Total unquoted debt assets	22,053,636	21,616,499

It should be noted that the amounts presented above do not represent the actual amount in arrears but rather the outstanding debt in arrears.

*) Mainly loans on policies against which there are full surrender values and/or mortgages.

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

	December 31, 2014	December 31, 2013
	NIS in thousands	
Cash and deposits for immediate withdrawal	1,364,530	2,523,538
Short-term deposits	1,925,439	2,383,477
Cash and cash equivalents	3,289,969	4,907,015

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 0.2% - (2013- about 0.9%).

Short-term deposits deposited in banking corporations are for periods of one to three months. The deposits bear an average interest rate of about 0.2% (2013 - about 1%).

Regarding the linkage terms of the cash and short-term deposits, see Note 37d(1) below.

NOTE 13a:- OTHER CASH AND CASH EQUIVALENTS

	December 31, 2014	December 31, 2013
	NIS in thousands	
Cash and deposits for immediate withdrawal	793,404	1,004,692
Short-term deposits	849,247	545,575
Cash and cash equivalents	1,642,651	1,550,267

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 0.2% - (2013 - about 0.9%).

Short term deposits deposited in banking corporations are for periods of one to three months. The deposits bear an average interest rate of about 0.2% (2013 - about 1%).

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, 2014		December 31, 2013		December 31, 2012	
	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	10,538	15,000	10,516

*) In nominal values.

b. Movement in share capital:

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

2. The issued and paid up share capital:

	Number of shares	NIS in thousands par value
Balance at January 1, 2012	1,051,656,093	10,516
Exercise of employees options into shares	10,109	*) -
Balance at December 31, 2012	1,051,666,202	10,516
Exercise of employees options into shares	2,144,852	22
Balance at December 31, 2013	1,053,811,054	10,538
Exercise of employees options into shares	97,180	1
Balance at December 31, 2014	1,053,908,234	10,539

*) Less than NIS 1 thousand.

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. Dividend distributions:

The following dividends were distributed by the Company:

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
In 2014 and 2013: NIS 0.38 per share (distributed on two dates each year, on each date - NIS 0.19 per share), in 2012: NIS 0.14 per share	400,000	400,000	150,000

Regarding details of a dividend declared after the reporting date, see Note 40e below.

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

	December 31,					
	2014	2013	2014	2013	2014	2013
	Gross		Reinsurance		On retention	
	NIS in thousands					
Life assurance and long-term savings:						
Insurance contracts	26,403,968	25,486,051	109,459	99,173	26,294,509	25,386,878
Investment contracts	161,892	242,070	-	-	161,892	242,070
	26,565,860	25,728,121	109,459	99,173	26,456,401	25,628,948
Less - amounts deposited in the Group under defined benefit plan for the Group's employees	65,456	69,921	-	-	65,456	69,921
Total life assurance and long-term savings	26,500,404	25,658,200	109,459	99,173	26,390,945	25,559,027
Insurance contracts included in the health insurance segment	522,715	436,133	21,163	17,909	501,552	418,224
Insurance contracts included in the general insurance segment	4,380,612	4,033,226	878,702	869,187	3,501,910	3,164,039
Total liabilities in respect of non-yield dependent insurance and investment contracts	31,403,731	30,127,559	1,009,324	986,269	30,394,407	29,141,290

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

	December 31,					
	2014	2013	2014	2013	2014	2013
	Gross		Reinsurance		On retention	
	NIS in thousands					
Life assurance and long-term savings:						
Insurance contracts	74,794,742	68,450,464	4,161	3,990	74,790,581	68,446,474
Investment contracts	1,744,130	737,341	-	-	1,744,130	737,341
	76,538,872	69,187,805	4,161	3,990	76,534,711	69,183,815
Less - amounts deposited in the Group under defined benefit plan for the Group's employees	119,099	120,135	-	-	119,099	120,135
Total life assurance and long-term savings	76,419,773	69,067,670	4,161	3,990	76,415,612	69,063,680
Insurance contracts included in the health insurance segment	1,626,443	1,490,738	222	859	1,626,221	1,489,879
Total liabilities in respect of yield dependent insurance and investment contracts	78,046,216	70,558,408	4,383	4,849	78,041,833	70,553,559

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,					
	2014	2013	2014	2013	2014	2013
	Gross		Reinsurance		On retention	
	NIS in thousands					
Motor act and liability branches *):						
Provision for unearned premium	367,291	350,669	35,205	26,487	332,086	324,182
Excess of income over expenses (accumulation)	157,042	162,301	101,427	105,156	55,615	57,145
Outstanding claims and provision for premium deficiency	2,956,787	2,647,077	387,813	350,497	2,568,974	2,296,580
Total motor act and liability branches (see b1 below)	3,481,120	3,160,047	524,445	482,140	2,956,675	2,677,907
Of which: liabilities in respect of the motor act branch (see c3 and c4 below)	1,844,918	1,630,776	51,514	44,530	1,793,404	1,586,246
Property and other branches:						
Provision for unearned premium	477,664	465,293	150,364	185,352	327,300	279,941
Provision for premium deficiency	-	3,899	-	-	-	3,899
Outstanding claims	421,828	403,987	203,893	201,695	217,935	202,292
Total property and other branches (see b2 below)	899,492	873,179	354,257	387,047	545,235	486,132
Total liabilities in respect of insurance contracts included in the general insurance segment	4,380,612	4,033,226	878,702	869,187	3,501,910	3,164,039
Deferred acquisition costs:						
Motor act and liability branches	52,675	52,351	7,167	5,675	45,508	46,676
Property and other branches	119,059	115,010	34,265	43,491	84,794	71,519
Total	171,734	167,361	41,432	49,166	130,302	118,195
Liabilities in respect of general insurance contracts less deferred acquisition costs:						
Motor act	1,818,237	1,601,360	51,514	44,530	1,766,723	1,556,830
Other liabilities branches	1,610,208	1,506,336	465,764	431,935	1,144,444	1,074,401
Property and other branches	780,433	758,169	319,992	343,556	460,441	414,613
Total liabilities in respect of general insurance contracts less deferred acquisition costs	4,208,878	3,865,865	837,270	820,021	3,371,608	3,045,844

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

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

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

	December 31,					
	2014	2013	2014	2013	2014	2013
	Gross		Reinsurance		On retention	
	NIS in thousands					
Actuarial valuations:						
Mr. Daniel Israeli - general insurance actuary						
Total actuarial valuations	3,167,149	2,861,701	400,805	383,112	2,766,344	2,478,589
Provisions on the basis of other valuations:						
Claims department valuation in respect of known outstanding claims	205,936	187,750	187,638	165,856	18,298	21,894
Addition to outstanding claims due to claims incurred but not yet reported (IBNR)	5,530	5,512	3,263	3,224	2,267	2,288
Provision for unearned premium	844,955	815,962	185,569	211,839	659,386	604,123
Excess of income over expenses (accumulation)	157,042	162,301	101,427	105,156	55,615	57,145
Total insurance liabilities in respect of insurance contracts included in the general insurance segment	4,380,612	4,033,226	878,702	869,187	3,501,910	3,164,039

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,					
	2014	2013	2014	2013	2014	2013
	Gross		Reinsurance		On retention	
	NIS in thousands					
Balance at the beginning of the year (1)	3,107,696	2,872,336	476,465	482,962	2,631,231	2,389,374
Accumulated claims cost in respect of the current underwriting year (2)	713,792	676,934	44,944	48,095	668,848	628,839
Change in balances at the beginning of the year as a result of linkage to the index	(2,654)	46,807	(343)	6,589	(2,311)	40,218
Change in accumulated claims cost estimate in respect of previous underwriting years (3)	87,136	6,145	38,531	(10,041)	48,605	16,186
Total change in accumulated claims cost	798,274	729,886	83,132	44,643	715,142	685,243
Payments for settlement of claims during the year						
In respect of current underwriting year	6,741	6,696	187	254	6,554	6,442
In respect of previous underwriting years	465,525	458,426	38,404	36,352	427,121	422,074
Total payments for the period (4)	472,266	465,122	38,591	36,606	433,675	428,516
Accumulation in respect of current underwriting year (5)	30,016	40,031	21,668	14,571	8,348	25,460
Accumulation recognized in profit in respect of the released underwriting year (6)	(75,342)	(83,021)	(55,030)	(55,112)	(20,312)	(27,909)
Balance of change in the accumulation (7)	40,067	13,586	29,634	26,007	10,433	(12,421)
Total change in the accumulation for the period	(5,259)	(29,404)	(3,728)	(14,534)	(1,531)	(14,870)
Balance at the end of the year (1)	3,428,445	3,107,696	517,278	476,465	2,911,167	2,631,231

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

Comments:

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

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

(3) The change in the estimate of ultimate claims cost for previous underwriting years in 2014 and 2013 derives mainly from third party branches and employers' liability which were partly offset by a reduction in provisions in the motor act insurance, professional liability and product liability.

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

(5) The accumulation in 2014 in respect of the current underwriting year on retention mainly derives from an increase in the branches: motor act and product liability.

(6) The accumulation recognized in profit or loss in 2014 is in respect of the underwriting year released in the motor act branch.

(7) The balance of change in the accumulation on retention in 2014 is mainly due to the decrease in accumulation in the liability branches.

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

2. Property and other branches:

	December 31,					
	2014	2013	2014	2013	2014	2013
	Gross		Reinsurance		On retention	
	NIS in thousands					
Balance at the beginning of the year (1)	758,169	721,998	343,556	420,237	414,613	301,761
Accumulated claims cost in respect of events during the reporting year (2)	712,702	652,531	211,764	202,328	500,938	450,203
Change in accumulated claims cost in respect of events prior to the reporting year (3)	(42,276)	(59,001)	(33,641)	(59,171)	(8,635)	170
Payment to settle claims during the year						
In respect of events during the reporting year	435,708	431,754	83,001	111,135	352,707	320,619
In respect of events prior to the reporting year	216,877	215,619	92,925	134,203	123,952	81,416
Total payments (4)	652,585	647,373	175,926	245,338	476,659	402,035
Change in provision for unearned premium, net of deferred acquisition costs	8,322	92,576	(25,761)	25,500	34,083	67,076
Change in provision for premium deficiency	(3,899)	(2,562)	-	-	(3,899)	(2,562)
Balance at the end of the year (1)	780,433	758,169	319,992	343,556	460,441	414,613

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

(3) The change in estimated accumulated claims derives from the decline in provisions for claims in which there is high reinsurance coverage, therefore the effect on retained claims is minimal.

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

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

c1. 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, 2014										
	Underwriting year										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
	NIS in thousands adjusted to the CPI of November 2014 **)										
Claims paid (accumulated) at the end of the year:											
After the first year	9,332	11,348	10,861	11,934	9,520	6,617	5,900	5,003	6,711	6,736	
After two years	57,796	67,463	63,391	79,053	48,405	32,384	29,033	29,351	43,078		
After three years	122,389	120,061	130,875	133,942	91,292	78,786	69,208	77,548			
After four years	179,116	176,276	186,772	188,952	140,855	137,488	133,648				
After five years	257,579	223,607	237,744	249,682	204,944	186,533					
After six years	312,236	265,548	295,636	304,211	250,837						
After seven years	356,601	304,419	353,102	362,895							
After eight years	391,038	350,103	388,100								
After nine years	421,777	384,501									
After ten years	450,842										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	617,190	614,548	584,881	585,149	535,647	482,384	468,572	443,266	716,285	743,803	
After two years	656,721	632,729	596,100	605,713	550,246	500,020	483,913	458,923	764,354		
After three years	692,329	643,828	611,230	626,775	564,766	510,946	503,172	476,893			
After four years	558,658	521,328	536,122	560,511	485,468	434,564	462,202				
After five years	548,194	517,206	538,088	538,132	464,675	443,516					
After six years	528,965	498,486	526,275	515,055	448,203						
After seven years	520,353	468,660	517,550	530,122							
After eight years	510,867	468,606	505,314								
After nine years	519,056	473,685									
After ten years	528,610										
Excess (deficiency) after release of accumulation ***)	30,048	47,643	30,808	30,389	37,265	(8,952)					167,201
Deviation rate after release of accumulation in percentage	5.38%	9.14%	5.75%	5.42%	7.68%	(2.06%)					5.40%
Accumulated claims cost as at December 31, 2014	528,610	473,685	505,314	530,122	448,203	443,516	462,202	476,893	764,354	743,803	5,376,702
Accumulated payments up to December 31, 2014	450,842	384,501	388,100	362,895	250,837	186,533	133,648	77,548	43,078	6,736	2,284,718
Outstanding claims balance	77,768	89,184	117,214	167,227	197,366	256,983	328,554	399,345	721,276	737,067	3,091,984
Outstanding claims in respect of the years up to and including the underwriting year 2004											336,461
Total liability in respect of insurance contracts in the motor act and liability branches net of deferred acquisition costs at December 31, 2014											3,428,445

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

c2. 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, 2014										
	Underwriting year										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
	NIS in thousands adjusted to the CPI of November 2014 **)										
Claims paid (accumulated) at the end of the year:											
After the first year	9,216	11,254	10,830	11,130	9,455	6,122	5,753	4,886	6,457	6,549	
After two years	56,341	64,735	60,688	61,954	46,943	30,970	27,432	27,926	41,876		
After three years	120,027	116,817	124,719	115,794	88,716	75,008	65,938	75,055			
After four years	174,802	172,583	179,189	169,562	136,767	130,938	119,558				
After five years	240,784	218,809	229,107	226,445	197,536	178,131					
After six years	292,009	258,502	285,005	278,441	241,356						
After seven years	331,665	295,544	333,928	334,825							
After eight years	364,947	339,813	366,913								
After nine years	394,447	373,705									
After ten years	417,686										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	548,515	508,637	480,236	488,288	453,914	396,847	392,791	391,120	653,680	677,191	
After two years	577,893	516,304	482,996	494,088	458,901	398,580	391,261	396,025	689,296		
After three years	609,796	523,198	495,208	507,700	470,584	406,480	407,113	411,640			
After four years	514,361	473,106	478,017	499,587	441,425	391,746	396,332				
After five years	506,840	469,115	481,358	483,496	424,676	401,835					
After six years	481,301	453,243	476,029	459,406	410,445						
After seven years	480,038	441,983	466,974	473,837							
After eight years	473,412	440,236	455,200								
After nine years	480,370	443,567									
After ten years	484,257										
Excess (deficiency) after release of accumulation ***)	30,104	29,539	22,817	25,750	30,980	(10,089)					129,101
Deviation rate after release of accumulation in percentage	5.85%	6.24%	4.77%	5.15%	7.02%	(2.58%)					4.61%
Accumulated claims cost as at December 31, 2014	484,257	443,567	455,200	473,837	410,445	401,835	396,332	411,640	689,296	677,191	4,843,600
Accumulated payments up to December 31, 2014	417,686	373,705	366,913	334,825	241,356	178,131	119,558	75,055	41,876	6,549	2,155,654
Outstanding claims balance	66,571	69,862	88,287	139,012	169,089	223,704	276,774	336,585	647,420	670,642	2,687,946
Outstanding claims in respect of the years up to and including the underwriting year 2004											223,221
Total liability in respect of insurance contracts in the motor act and liability branches net of deferred acquisition costs at December 31, 2014											2,911,167

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

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

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

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

Comments

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

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

c3. Development in valuation of liabilities in respect of insurance contracts net of deferred acquisition costs, gross in the motor act branch:

	December 31, 2014										
	Underwriting year										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
	NIS in thousands adjusted to the CPI of November 2014 **)										
Claims paid (accumulated) at the end of the year:											
After the first year	7,080	9,503	8,700	8,529	7,046	3,842	3,771	2,942	3,633	3,559	
After two years	45,035	54,326	48,695	42,692	33,795	16,074	13,564	15,628	26,750		
After three years	91,854	93,779	92,113	79,947	61,939	41,654	35,869	44,690			
After four years	129,214	136,126	126,233	111,638	93,788	71,404	60,770				
After five years	170,817	167,982	157,740	146,545	132,474	97,772					
After six years	199,428	188,561	189,569	178,515	163,712						
After seven years	222,982	211,586	214,627	217,877							
After eight years	243,538	237,623	236,766								
After nine years	259,319	254,424									
After ten years	270,762										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	389,859	368,922	331,846	343,196	312,811	254,023	243,928	243,618	485,837	478,692	
After two years	401,914	369,079	328,807	342,807	313,752	250,082	242,551	247,060	502,223		
After three years	419,247	371,888	333,250	349,290	322,850	254,800	248,873	253,615			
After four years	331,149	336,762	317,016	328,742	288,872	233,130	222,375				
After five years	325,786	327,507	308,030	309,030	271,733	225,539					
After six years	317,697	323,614	296,600	287,030	260,823						
After seven years	312,773	306,882	287,300	289,182							
After eight years	303,619	293,236	283,018								
After nine years	299,022	293,521									
After ten years	303,053										
Excess (deficiency) after release of accumulation ***)	28,096	43,241	33,998	39,560	28,049	7,591					180,535
Deviation rate after release of accumulation in percentage	8.48%	12.84%	10.72%	12.03%	9.71%	3.26%					9.83%
Accumulated claims cost as at December 31, 2014	303,053	293,521	283,018	289,182	260,823	225,539	222,375	253,615	502,223	478,692	3,112,041
Accumulated payments up to December 31, 2014	270,762	254,424	236,766	217,877	163,712	97,772	60,770	44,690	26,750	3,559	1,377,082
Outstanding claims balance	32,291	39,097	46,252	71,305	97,111	127,767	161,605	208,925	475,473	475,133	1,734,959
Outstanding claims in respect of the years up to and including the underwriting year 2004											83,278
Total liability in respect of insurance contracts in the motor act net of deferred acquisition costs at December 31, 2014											1,818,237

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

c4. Development in valuation of liabilities in respect of insurance contracts net of deferred acquisition costs on retention in the motor act branch:

	December 31, 2014										
	Underwriting year										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
	NIS in thousands adjusted to the CPI of November 2014 **)										
Claims paid (accumulated) at the end of the year:											
After the first year	7,080	9,503	8,700	8,529	7,046	3,842	3,771	2,942	3,633	3,559	
After two years	45,035	54,326	48,695	42,692	33,795	16,074	13,564	15,628	26,750		
After three years	91,854	93,779	92,113	79,947	61,939	41,654	35,869	44,690			
After four years	129,214	136,126	126,233	111,638	93,788	71,404	60,770				
After five years	170,817	167,982	157,740	146,545	132,474	97,772					
After six years	199,428	188,561	189,569	178,515	163,712						
After seven years	222,982	211,586	214,627	217,877							
After eight years	243,538	237,623	236,766								
After nine years	259,319	254,424									
After ten years	268,380										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	380,373	359,036	323,881	335,929	305,994	248,159	238,847	239,275	479,176	470,758	
After two years	389,229	360,282	321,124	334,390	306,706	244,306	236,900	241,188	491,306		
After three years	408,721	362,828	325,870	340,621	315,593	248,851	243,051	247,567			
After four years	322,323	329,466	310,831	323,507	283,750	229,435	220,782				
After five years	317,750	320,209	302,850	305,189	268,908	223,941					
After six years	310,100	318,210	293,231	283,766	258,914						
After seven years	308,151	303,864	284,677	286,964							
After eight years	301,177	290,416	281,228								
After nine years	297,960	291,419									
After ten years	297,990										
Excess (deficiency) after release of accumulation ***)	24,333	38,047	29,603	36,543	24,836	5,494					158,856
Deviation rate after release of accumulation in percentage	7.55%	11.55%	9.52%	11.30%	8.75%	2.39%					8.83%
Accumulated claims cost as at December 31, 2014	297,990	291,419	281,228	286,964	258,914	223,941	220,782	247,567	491,306	470,758	3,070,869
Accumulated payments up to December 31, 2014	268,380	254,424	236,766	217,877	163,712	97,772	60,770	44,690	26,750	3,559	1,374,700
Outstanding claims balance	29,610	36,995	44,462	69,087	95,202	126,169	160,012	202,877	464,556	467,199	1,696,169
Outstanding claims in respect of the years up to and including the underwriting year 2004											70,554
Total liability in respect of insurance contracts in the motor act and liability branches net of deferred acquisition costs at December 31, 2014											1,766,723

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

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

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

Comments

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

c5. Cumulative data regarding underwriting years in the motor act insurance branches:

	December 31, 2014						
	Underwriting year						
	2014	2013	2012	2011	2010	2009	2008
	NIS in thousands						
Year ended December 31, 2014:							
Gross premiums	534,384	547,237	267,266	255,704	256,056	308,074	324,890
Cumulative comprehensive income on retention in respect of the underwriting year	7,056	15,489	6,607	36,195	48,230	99,866	94,264
Excess of income over expenses on retention	7,093	41,867	20,694	-	-	-	-
Cumulative effect of investment income on cumulative comprehensive income on retention in respect of the underwriting year	14,469	43,524	34,914	46,255	60,091	98,553	105,133

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

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

	December 31, 2014						
	Underwriting year						
	2014	2013	2012	2011	2010	2009	2008
	NIS in thousands						
Year ended December 31, 2014:							
Gross premiums	298,598	282,534	242,523	269,596	268,288	254,505	249,555
Cumulative comprehensive income (loss) on retention in respect of the underwriting year	(24,860)	(26,927)	(6,864)	(9,403)	(8,091)	26,373	(3,963)
Excess of income over expenses on retention	1,255	13,112	8,426	-	-	-	-
Cumulative effect of investment income on cumulative comprehensive income on retention in respect of the underwriting year	6,250	16,398	22,730	30,096	37,890	52,777	53,900

c7. Composition of comprehensive income (loss) on retention in the motor act insurance branch:

	Comprehensive income in respect of open years	Comprehensive income in respect of underwriting year released in the reporting year (1)	Comprehensive income in respect of underwriting years released in previous years	Activity not included in calculation of reserves	Comprehensive income
	NIS in thousands				
Year ended December 31:					
2014	28,317	32,544	36,232	(7,740)	89,353
2013	23,235	29,841	108,963	(6,180)	155,859
2012	29,884	46,864	68,750	(3,081)	142,417

(1) The underwriting years released in the reporting years of 2014, 2013 and 2012 are 2011, 2010 and 2009, respectively.

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

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

	Comprehensive income in respect of open years	Comprehensive income in respect of underwriting year released in the reporting year (1)	Comprehensive income in respect of underwriting years released in previous years	Activity not included in calculation of reserves	Comprehensive income
	NIS in thousands				
Year ended December 31:					
2014	(39,278)	(4,819)	25,742	(8,647)	(27,002)
2013	3,245	2,031	(7,743)	(9,224)	(11,691)
2012	18,048	5,597	22,129	(5,263)	40,511

(1) The underwriting years released in the reporting years of 2014, 2013 and 2012 are 2011, 2010 and 2009, respectively.

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

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

	Data for December 31, 2014						
	Policies with savings component (including riders) according to policy's date of issue				Policies without savings component		Total
			From 2004		Risk sold as separate policy		
	Up to 1990 *)	Up to 2003	Non yield dependent	Yield dependent	Individual	Group	
	NIS in thousands						
(a) According to insurance exposure:							
Liabilities in respect of insurance contracts:							
Annuity without guaranteed coefficients	-	-	-	405,204	-	-	405,204
Annuity with guaranteed coefficients:							
Up to May 2001	21,179,036	40,375,602	-	-	-	-	61,554,638
From June 2001	-	8,828,981	94,614	19,888,473	-	-	28,812,068
Annuity in payment	3,084,915	1,543,019	319,904	271,721	-	-	5,219,559
Lump sum (without annuity option)	1,528,624	1,288,985	-	14,055	-	-	2,831,664
Other risk components	277,884	954,149	-	555,328	420,665	167,551	2,375,577
Total in respect of insurance contracts	26,070,459	52,990,736	414,518	21,134,781	420,665	167,551	101,198,710
Liabilities in respect of investment contracts	-	791	161,101	1,744,130	-	-	1,906,022
Total	26,070,459	52,991,527	575,619	22,878,911	420,665	167,551	103,104,732
(b) According to financial exposure:							
Non yield dependent	25,047,143	285,545	575,619	260,515	229,487	167,551	26,565,860
Yield dependent	1,023,316	52,705,982	-	22,618,396	191,178	-	76,538,872
Total	26,070,459	52,991,527	575,619	22,878,911	420,665	167,551	103,104,732

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

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

	Data for December 31, 2013						
	Policies with savings component (including riders) according to policy's date of issue				Policies without savings component		Total
			From 2004		Risk sold as separate policy		
	Up to 1990 *)	Up to 2003	Non yield dependent	Yield dependent	Individual	Group	
	NIS in thousands						
(a) According to insurance exposure:							
Liabilities in respect of insurance contracts:							
Annuity without guaranteed coefficients	-	-	-	136,429	-	-	136,429
Annuity with guaranteed coefficients:							
Up to May 2001	20,555,756	37,900,951	-	-	-	-	58,456,707
From June 2001	-	8,366,356	113,449	17,415,226	-	-	25,895,031
Annuity in payment	2,566,679	1,110,181	303,762	158,915	-	-	4,139,537
Lump sum (without annuity option)	1,580,827	1,325,935	-	13,302	-	-	2,920,064
Other risk components	316,054	961,851	-	515,910	410,773	184,159	2,388,747
Total in respect of insurance contracts	25,019,316	49,665,274	417,211	18,239,782	410,773	184,159	93,936,515
Liabilities in respect of investment contracts	-	5,500	236,570	737,341	-	-	979,411
Total	25,019,316	49,670,774	653,781	18,977,123	410,773	184,159	94,915,926
(b) According to financial exposure:							
Non yield dependent	24,119,197	286,302	653,781	247,239	237,443	184,159	25,728,121
Yield dependent	900,119	49,384,472	-	18,729,884	173,330	-	69,187,805
Total	25,019,316	49,670,774	653,781	18,977,123	410,773	184,159	94,915,926

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

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

b. Details of results according to types of policies:

	Data for the year ended December 31, 2014						
	Policies with savings component (including riders) according to policy's date of issue				Policies without savings component		Total
			From 2004		Risk sold as separate policy		
	Up to 1990	Up to 2003	Non yield dependent	Yield dependent	Individual	Group	
	NIS in thousands						
Gross premiums:							
Traditional/endowment	57,528	40,399	-	-	-	-	97,927
Savings component	331,052	2,116,175	-	3,274,132	-	-	5,721,359
Other	68,532	316,457	-	466,052	469,486	83,957	1,404,484
Total	457,112	2,473,031	-	3,740,184	469,486	83,957	7,223,770
Receipts in respect of investment contracts credited directly to insurance reserves	-	-	10,459	1,179,651	-	-	1,190,110
Financial margin including management fees	428,565	707,527	32,780	248,451	-	-	1,417,323
Payments and change in liabilities in respect of gross insurance contracts	1,806,630	5,499,777	22,263	4,428,087	195,107	64,190	12,016,054
Payments and change in liabilities in respect of investment contracts	-	5,544	(7,218)	40,748	-	-	39,074
Income (loss) from life assurance business	(142,826)	255,464	15,518	(107,779)	157,074	14,899	192,350
Other comprehensive income from life assurance business	123,400	5,064	11,003	4,496	3,346	4,134	151,443
Total comprehensive income (loss) from life assurance business	(19,426)	260,528	26,521	(103,283)	160,420	19,033	343,793
Profit from pension and provident funds							99,775
Other comprehensive income from pension and provident funds							882
Total comprehensive income from life assurance and long term savings							444,450
Annualized premium in respect of insurance contracts – new business	-	-	-	348,547	109,158	-	457,705
One time premium in respect of insurance contracts	131	16,179	-	449,006	-	-	465,316
Annualized premium in respect of investment contracts – new business	-	-	-	59,283	-	-	59,283
One time premium in respect of investment contracts	-	-	10,459	1,120,462	-	-	1,130,921
Transfers to the Company of insurance and investment contracts	-	-	-	154,365	-	-	154,365
Transfers from the Company of insurance and investment contracts	7,458	133,675	-	242,827	-	-	383,960

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

	Data for the year ended December 31, 2013						
	Policies with savings component (including riders) according to policy's date of issue				Policies without savings component		Total
			From 2004		Risk sold as separate policy		
	Up to 1990	Up to 2003	Non yield dependent	Yield dependent	Individual	Group	
	NIS in thousands						
Gross premiums:							
Traditional/endowment	66,024	46,712	-	-	-	-	112,736
Savings component	336,849	2,094,625	30,455	3,588,116	-	-	6,050,045
Other	75,113	332,238	-	460,701	427,717	86,461	1,382,230
Total	477,986	2,473,575	30,455	4,048,817	427,717	86,461	7,545,011
Receipts in respect of investment contracts credited directly to insurance reserves	-	-	-	524,749	-	-	524,749
Financial margin including management fees	318,914	924,169	9,495	194,532	-	-	1,447,110
Payments and change in liabilities in respect of gross insurance contracts	1,983,503	7,904,353	43,815	5,449,033	231,023	109,654	15,721,381
Payments and change in liabilities in respect of investment contracts	-	(251)	16,572	30,252	-	-	46,573
Income (loss) from life assurance business	41,940	732,023	13,936	(184,266)	109,010	(26,366)	686,277
Other comprehensive income (loss) from life assurance business	111,562	4,350	(2,941)	3,542	3,016	3,202	122,731
Total comprehensive income (loss) from life assurance business	153,502	736,373	10,995	(180,724)	112,026	(23,164)	809,008
Profit from pension and provident funds							94,962
Other comprehensive income from pension and provident funds							1,914
Total comprehensive income from life assurance and long term savings							905,884
Annualized premium in respect of insurance contracts – new business	28	11	-	488,365	92,363	-	580,767
One time premium in respect of insurance contracts	234	13,352	30,455	845,334	-	-	889,375
Annualized premium in respect of investment contracts – new business	-	-	-	-	-	-	-
One time premium in respect of investment contracts	-	-	-	524,749	-	-	524,749
Transfers to the Company of insurance and investment contracts	-	-	-	374,537	-	-	374,537
Transfers from the Company of insurance and investment contracts	7,564	83,918	216	217,677	-	-	309,375

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

	Data for the year ended December 31, 2012						
	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	83,327	54,315	-	-	-	-	137,642
Savings component	339,935	2,087,113	45,032	3,394,998	-	-	5,867,078
Other	80,246	354,341	-	411,984	402,030	104,641	1,353,242
Total	503,508	2,495,769	45,032	3,806,982	402,030	104,641	7,357,962
Receipts in respect of investment contracts credited directly to insurance reserves	-	-	233	272,237	-	-	272,470
Financial margin including management fees	314,887	437,190	26,459	147,558	-	-	926,094
Payments and change in liabilities in respect of gross insurance contracts	2,428,349	6,367,489	61,272	4,733,335	180,506	126,063	13,897,014
Payments and change in liabilities in respect of investment contracts	-	14,855	21,049	3,345	-	-	39,249
Income (loss) from life assurance business	(114,831)	232,377	4,753	(238,833)	142,110	(25,832)	(256)
Other comprehensive income from life assurance business	89,089	8,899	10,699	5,387	2,647	2,108	118,829
Total comprehensive income (loss) from life assurance business	(25,742)	241,276	15,452	(233,446)	144,757	(23,724)	118,573
Profit from pension and provident funds							88,667
Other comprehensive income from pension and provident funds							8,888
Total comprehensive income from life assurance and long term savings							216,128
Annualized premium in respect of insurance contracts – new business	72	52	-	780,966	74,474	-	855,564
One time premium in respect of insurance contracts	48	15,843	45,032	1,030,981	-	-	1,091,904
Annualized premium in respect of investment contracts – new business	-	-	-	-	-	-	-
One time premium in respect of investment contracts	-	-	233	272,237	-	-	272,470
Transfers to the Company of insurance and investment contracts	-	-	-	409,329	-	-	409,329
Transfers from the Company of insurance and investment contracts	6,508	86,802	232	179,391	-	-	272,933

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

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. The change in the distribution of supplementary annuity on the basis of two K values, as described in Note 37b(3)(b)(5)(b) below was done on December 31, 2012 and therefore did not affect the above results.

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

	Annual gross nominal yield					Annual average nominal yield 5 years		Management fees for the year ended December 31, 2014
	2014	2013	2012	2011	2010	Before management fees	After management fees	
	In percentage							NIS in thousands
"Yud" Fund (Fund No. 10)	5.77	12.44	11.25	(3.01)	11.38	7.40	6.00	678,457
General track for policies beginning from the year 2004	5.13	11.71	10.64	(4.03)	11.02	6.72	5.41	182,950
Other								84,674
Total								946,081

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

d. Details of transfer of funds:

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Transfer to the Company from other entities			
Transfers from other insurance companies	70,997	167,698	172,446
Transfers from pension funds	12,824	92,839	81,491
Transfers from provident funds	70,544	114,000	155,392
Total transfers to the Company	154,365	374,537	409,329
Transfers from the Company to other entities			
Transfers to other insurance companies	126,355	132,182	110,492
Transfers to pension funds	109,210	79,688	91,501
Transfers to provident funds	148,395	97,505	70,940
Total transfers from the Company	383,960	309,375	272,933
Transfers, net	(229,595)	65,162	136,396

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, 2014				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Yield dependent	1,429,689	-	196,754	-	1,626,443
Other	92,320	20,052	405,912	4,431	522,715
Total	1,522,009	20,052	602,666	4,431	2,149,158

	Data as at December 31, 2013				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Yield dependent	1,287,973	-	202,765	-	1,490,738
Other	60,315	21,372	353,097	1,349	436,133
Total	1,348,288	21,372	555,862	1,349	1,926,871

*) 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, 2014				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Annuity being paid	88,616	13,670	2,018	-	104,304
Other risk components	1,433,393	6,382	600,648	4,431	2,044,854
Total	1,522,009	20,052	602,666	4,431	2,149,158

	Data as at December 31, 2013				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Annuity being paid	83,885	16,263	968	-	101,116
Other risk components	1,264,403	5,109	554,894	1,349	1,825,755
Total	1,348,288	21,372	555,862	1,349	1,926,871

*) 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, 2014				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Gross premiums	235,031	9,706	*) 622,946	*) 13,214	880,897
Profit (loss) from health insurance business	20,502	921	54,766	(919)	75,270
Other comprehensive income from health insurance business	1,054	376	5,584	14	7,028
Total comprehensive income (loss) from health insurance business	21,556	1,297	60,350	(905)	82,298
Annualized premium - new ***)	50,760	-	158,110	-	208,870

*) Of this, individual premiums in the amount of NIS 574,901 thousand and group premiums in the amount of NIS 61,259 thousand.

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

***) Including policy riders.

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

	Data for the year ended December 31, 2013				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Gross premiums	205,749	9,625	*) 551,162	*) 3,628	770,164
Profit from health insurance business	7,754	2,006	61,292	217	71,269
Other comprehensive income from health insurance business	582	389	4,959	3	5,933
Total comprehensive income (loss) from health insurance business	8,336	2,395	66,251	220	77,202
Annualized premium - new ***)	29,606	-	122,767	-	152,373

*) Of this, individual premiums in the amount of NIS 500,171 thousand and group premiums in the amount of NIS 54,619 thousand.

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

***) Including policy riders.

	Data for the year ended December 31, 2012				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Gross premiums	189,318	12,020	*) 487,662	*) 3,480	692,480
Profit (loss) from health insurance business	3,158	(388)	91,796	1,661	96,227
Other comprehensive income from health insurance business	596	362	5,098	1	6,057
Total comprehensive income (loss) from health insurance business	3,754	(26)	96,894	1,662	102,284
Annualized premium - new ***)	24,473	-	78,681	-	103,154

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

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

***) Including policy riders.

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

	Life assurance and long term savings			
	Insurance contracts	Investment contracts	Total	Health insurance
	NIS in thousands			
Balance as at January 1, 2013	82,880,683	601,041	83,481,724	1,615,917
Interest, linkage differences and investment income (1)	7,136,857	46,078	7,182,935	162,748
Increase in respect of premiums and deposits credited to liabilities (2)	6,031,808	524,749	6,556,557	116,625
Decrease in respect of claims, surrenders and maturities	(2,540,881)	(188,056)	(2,728,937)	(23,560)
Other changes (3)	428,048	(4,401)	423,647	55,141
Balance as at December 31, 2013	93,936,515	979,411	94,915,926	1,926,871
Interest, linkage differences and investment income (1)	3,640,670	26,496	3,667,166	59,750
Increase in respect of premiums and deposits credited to liabilities (2)	5,742,698	1,190,110	6,932,808	178,910
Decrease in respect of claims, surrenders and maturities	(2,664,767)	(290,632)	(2,955,399)	(30,059)
Other changes (3)	543,594	637	544,231	13,686
Balance as at December 31, 2014	101,198,710	1,906,022	103,104,732	2,149,158

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

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

3. Other changes – the item includes changes in reserve in respect of outstanding claims, reserve for future claims, IBNR, annuities in payment, etc. (according to assumptions used at the end of the previous year). In addition, the paragraph includes the interest effect, linkage differences and investment income not included in the "interest, linkage differences and investment income" item, such as: interest, linkage differences and investment income for claims payment and non-savings premiums. In 2014 and 2013, immediate provisions were recorded following a due diligence study of the life assurance reserves including the supplementary reserve for annuity in the amount of approximately NIS 466 million and NIS 63 million, respectively (see Note 37b(3)(b)(5) below).

NOTE 21:- TAXES ON INCOME

a. Tax laws applicable to the Group's companies:

1. General:

The income of the Company and all other Group companies 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.

2. Tax arrangements that are unique to the insurance industry:

An industry agreement was signed between the life assurance companies association and the Tax Authorities that arranges the unique issues of the insurance business, as described below.

The industry agreement was in effect through 2012. The tax provision and deferred taxes in the financial statements for 2013 and 2014 is prepared in accordance with the principles of said agreement.

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

b) <u>Allocation of expenses to preferred income</u> – 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.

c) <u>Taxation of income from assets held as investments overlapping yield-dependent liabilities</u> – 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.

NOTE 21:- TAXES ON INCOME (Cont.)

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

b. Amortization of cost of acquisition of intangible assets:

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

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

c. The tax rates:

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

As a result of the aforesaid change, the statutory tax rate applicable to Group companies including financial institutions will be as detailed below:

Year	Corporate tax rate	Profit tax rate	Comprehensive tax rate in financial institutions
		%	
2012	25.0	*) 16.33	*) 35.53
2013	25.0	*) 17.58	*) 36.21
2014 and thereafter	26.5	18.00	37.71

*) Weighted average rate.

NOTE 21:- TAXES ON INCOME (Cont.)

On August 5, 2013, the "Knesset" passed the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013, which stipulates, among others, raising the corporate tax rate by 1.5% from 25% to 26.5% from 2014 and thereafter.

On June 2, 2013, the Value Added Tax Decree (Tax Rate applicable to Non-profit Organizations and Financial Institutions) (Amendment), 2013 was issued, which updates the salary and profit tax rate to 18% effective from June 2, 2013.

In 2013, the change in the tax rates as described above led to an increase in the deferred tax balance in the amount of approximately NIS 31 million against an increase in current tax expenses in the amount of approximately NIS 22 million and against a decrease in other comprehensive income in the amount of approximately NIS 9 million. In addition, the change in the corporate tax rate resulted in a reduction of the Company's share of earnings of companies accounted for at equity in the amount of approximately NIS 11 thousand.

d. Tax assessments:

<u>Corporate tax assessments</u>

1. Migdal Insurance has received final tax assessments through 2010. In July 2014, Migdal Insurance was issued tax assessments in agreement for 2011 and 2011 for the majority of the items that were in dispute. With respect to two items which were not agreed upon, the Company was issued tax assessments to the best of judgment. The main item in dispute relates to accrued indirect expenses for settling claims in general insurance which the tax assessing officer argues are not deductible for tax purposes as they accrue but rather when they are paid.

   The tax liability arising from these tax assessments (including interest and linkage differences as of the financial statement date) amounts to approximately NIS 31 million. The Company has filed an objection to these tax assessments to the tax assessing officer. The tax assessments are not expected to have a material effect on Migdal Insurance's income or capital since the assessments involve temporary differences.

2. In the course of 2014, Migdal Makefet Pension and Provident Funds Ltd. ("Migdal Makefet") was issued final tax assessments in agreement for 2008 through 2010 which settled the issue of the amortization of DAC for tax purposes, including the determination of agreed principles for the 2011 and 2012 tax years. In addition, Migdal Gemel Platinum Ltd. (which was merged into Migdal Makefet on January 1, 2011) was issued a final tax assessment for 2010 which settles the amortization of cost of acquisition the activity of the Kahal study funds management and the track fund. The tax assessment agreement stipulates the principles and amounts of the future amortization of the cost of acquisition from 2011 until the end of the amortization period in 2019 in Migdal Makefet's tax return. These tax assessments did not have a material impact on the Company's income or capital.

NOTE 21:- TAXES ON INCOME (Cont.)

3. In November 2012 Migdal Real Estate Holdings Ltd., a wholly owned subsidiary of Migdal Insurance ("Migdal Real Estate Holdings"), received tax assessments according to best judgment for 2007, 2009 and 2010 claiming that the income from dividends it received from its affiliate, which are derived from revaluation gains of real estate assets, are subject to tax. The tax liability resulting from these tax assessments (including linkage differences and interest as at the date of publication of the financial statements) amounts to approximately NIS 66 million.

   The objection to these assessments filed by Migdal Real Estate Holdings was dismissed by the tax assessing officer. Migdal Real Estate Holdings filed an appeal to the tax assessing officer's decision with the Tel-Aviv District Court.

   The management of Migdal Real Estate Holdings, based on the opinion of legal counsel, estimates that it is more likely than not its defense arguments will be accepted and therefore no additional provision is needed in the financial statements.

4. The Company's other subsidiaries received final tax assessments through 2010 by virtue of an agreement or the statute of limitation, excluding several subsidiaries which received final tax assessments in agreement through 2011 or 2012.

e. Carryforward losses for tax purposes and other temporary differences:

The Group's carryforward operating tax losses total approximately NIS 247 million as of December 31, 2014 (December 31, 2013 - approximately NIS 190 million) in respect of which deferred tax assets of approximately NIS 65 million (December 31, 2013 - approximately NIS 50 million) were recognized in the financial statements.

Deferred tax assets relating to carryforward business losses of approximately NIS 79 million and capital losses for tax purposes of approximately NIS 56 million (December 31, 2013 - approximately NIS 95 million and NIS 55 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,		
	2014	2013	2012
	NIS in thousands		
Current taxes	163,038	360,042	71,391
Deferred taxes relating to the creation and reversal of temporary difference, also see g below	31,625	(11,295)	35,353
Taxes in respect of previous years, including reversal of tax reserve	(9,169)	(4,791)	1,174
Effect of change in tax rates	-	22,550	9,558
Taxes on income	185,494	366,506	117,476

NOTE 21:- TAXES ON INCOME (Cont.)

g. Deferred taxes:

Composition:

	Deferred acquisition costs in life assurance and in health insurance	Available for sale financial assets	Fixed assets and investment property	Investments in affiliates	Intangible assets	Losses for tax purposes	Others	Total
	NIS in thousands							
Balance of deferred tax asset (liability) as at January 1, 2013	(318,270)	(88,842)	(58,774)	(40,180)	(100,419)	27,736	59,646	(519,103)
Changes recognized in profit and loss	10,654	(9,308)	(14,136)	1,758	(28,139)	*) 22,715	*) 27,751	11,295
Changes recognized in other comprehensive income	-	**) (80,688)	(1,209)	-	-	-	(289)	(82,186)
Effect of change in tax rates	(16,422)	2,774	(4,076)	(3,551)	(2,117)	20	822	(22,550)
Balance of deferred tax asset (liability) as at December 31, 2013	(324,038)	(176,064)	(78,195)	(41,973)	(130,675)	50,471	87,930	(612,544)
Changes recognized in profit and loss	1,107	13,362	(1,570)	(3,379)	(4,653)	14,619	(33,290)	(13,804)
Changes recognized in other comprehensive income	-	(68,208)	-	(501)	-	-	(911)	(69,620)
Balance of deferred tax asset (liability) as at December 31, 2014	(322,931)	(230,910)	(79,765)	(45,853)	(135,328)	65,090	53,729	(695,968)

*) Reclassified, see details in Note 2d above.

**) Includes the effect of change in tax rate in the amount of NIS 8,588 thousand.

NOTE 21:- TAXES ON INCOME (Cont.)

The deferred taxes are reflected in the statement of financial position as follows:

	December 31, 2014	December 31, 2013
	NIS in thousands	
Deferred tax assets	27,017	19,630
Liabilities in respect of deferred taxes	(722,985)	(632,174)
	(695,968)	(612,544)

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, 2014	2013	2012
	NIS in thousands		
Income before taxes on income	608,329	983,219	335,606
Overall statutory tax rate applicable to financial institutions (see c above)	37.71%	36.21%	35.53%
Tax computed at the overall statutory tax rate	229,401	356,024	119,241
Deduction in respect of companies that are not financial institutions	(8,846)	(4,675)	(4,602)
Increase (decrease) in taxes on income resulting from the following factors:			
Non-deductible expenses	7,155	16,013	14,972
Exempt dividend income	(15,496)	(14,006)	(12,331)
Group's share of earnings of affiliates	(17,738)	(10,995)	(9,018)
Differences in measurement basis	(3,384)	(1,796)	(5,527)
Effect of increase in tax rates on deferred taxes	-	22,550	9,558
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	708	12,309	3,126
Taxes in respect of previous years	(9,169)	(4,791)	1,174
Other	2,863	(4,127)	883
Taxes on income	185,494	366,506	117,476
Average effective tax rate	30.49%	37.28%	35.00%

NOTE 22:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES

Employee benefits include short term benefits, post-employment benefits, other long term benefits, termination benefits, as defined in IAS 19, and share based payments.

For additional details on accounting policy for these benefits see Note 2r above. See Note 33 below regarding share-based payments.

Regarding benefits for those who hold key management positions see Note 38j below, in respect of related and interested parties.

As for engagement in a collective agreement after the reporting date, see Note 40a below regarding material events after the reporting period.

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

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

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

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 2014, 2013 and 2012, the expenses in respect of the defined contribution plans amounted to NIS 54,761 thousand, NIS 54,055 thousand and NIS 50,186 thousand, respectively, and were included under general and administrative expenses.

As for the cancellation of the Section 14 arrangement in Migdal Insurance and Migdal Makefet based on a collective agreement signed after the reporting date, see Note 40a below regarding material events after the reporting period.

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

Plan assets comprise assets held by a long-term employee benefit fund (provident fund for hired employees and pension funds) and qualifying insurance policies.

a. Composition of employee benefit liabilities, net:

	December 31,	
	2014	2013
	NIS in thousands	
Liabilities in respect of defined benefit plan which is not financed	13,334	10,280
Liability in respect of financed defined benefit plan	257,472	263,768
Total liability in respect of defined benefit plan – see b1 below	270,806	274,048
Less - fair value of the plan's assets – see b1 below	72,321	72,286
Total net liability in respect of defined benefit plans	198,485	201,762
Short term benefits – provision for vacation	40,904	41,782
Other long term benefits – see c below	9,220	9,497
Share based payment settled in cash	495	720
Total liabilities for employee benefits, net	249,104	253,761

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) carried to profit or loss					Gain (loss) from re-measurement in other comprehensive income					
	Balance at January 1, 2014	Current service cost	Interest expenses, net	Past service cost	Total expenses in profit or loss in the period	Payments from the plan	Yield on plan assets (other than amounts recognized in interest expenses, net)	Actuarial loss (gain) from changes in financial assumptions	Other actuarial loss (gain)	Total effect on other compre-hensive income (loss) in the period	Employer contri-butions to plan	Balance at December 31, 2014
	NIS in thousands											
Defined benefit liabilities	274,048	22,157	11,715	1,993	35,865	(34,394)	-	(3,998)	(715)	(4,713)	-	270,806
Fair value of plan assets	(72,286)	-	(3,122)	-	(3,122)	9,975	(2,970)	-	4,024	1,054	(7,942)	(72,321)
Net liability (asset) from defined benefit	201,762	22,157	8,593	1,993	*) 32,743	(24,419)	(2,970)	(3,998)	3,309	(3,659)	(7,942)	198,485

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

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

		Expenses (income) carried to profit or loss				Gain (loss) from re-measurement in other comprehensive income					
	Balance at January 1, 2013	Current service cost	Interest expenses, net	Total expenses in profit or loss in the period	Payments from the plan	Yield on plan assets (other than amounts recognized in interest expenses, net)	Actuarial loss (gain) from changes in financial assumptions	Other actuarial loss (gain)	Total effect on other comprehensive income (loss) in the period	Employer contri-butions to plan	Balance at December 31, 2014
	NIS in thousands										
Defined benefit liabilities	283,094	22,094	11,973	34,067	(44,892)	-	(282)	2,061	1,779	-	274,048
Fair value of plan assets	(72,884)	-	(3,237)	(3,237)	9,508	(6,371)	-	2,918	(3,453)	(2,220)	(72,286)
Net liability (asset) from defined benefit	210,210	22,094	8,736	*) 30,830	(35,384)	(6,371)	(282)	4,979	(1,674)	(2,220)	201,762

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

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

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

	2014	2013	2012
		%	
Discount rate on December 31*)	4.25	4.37	4.33
Anticipated real salary increase	3.04	3.74	3.90

*) As for a change in the discount rate, see Note 2c regarding the significant judgments, estimates and assumptions.

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, 2014		December 31, 2013	
	+1%	-1%	+1%	-1%
	NIS in thousands			
Future increase in salary costs	9,236	(7,924)	11,873	(6,664)
Discount rate	(7,446)	8,643	(8,765)	11,953

3. Actual yield:

	Year ended December 31,		
	2014	2013	2012
		%	
Actual yield on plan assets	8.43	9.22	8.73

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

- The Group estimates the expected deposits in plan assets in 2015 to fund the defined benefit plan to amount to approximately NIS 16,174 thousand.
- The Group estimates that the weighted average life of the plan as at the end of the reporting period to be 10 years (in 2013 - 10.5 years).

c. Other long-term benefits:

	December 31,	
	2014	2013
	NIS in thousands	
Liability for sick pay	3,722	3,558
Anniversary grant and others	5,498	5,939
	9,220	9,497

NOTE 23:- CREDITORS AND PAYABLES

	December 31,	
	2014	2013
	NIS in thousands	
Stock Exchange Clearinghouse and securities	169,043	148,717
Employees and other salary-related liabilities	126,722	176,774
Expenses payable	162,609	176,855
Suppliers and service providers	111,710	108,266
Government authorities and institutions	29,440	28,138
Deferred acquisition costs in respect of reinsurance	41,449	49,179
Insurance companies and brokers:		
Deposits by reinsurers	54,141	81,640
Other accounts	129,779	125,075
Total insurance companies and brokers	183,920	206,715
Insurance agents	403,864	420,349
Policyholders and members	284,503	243,632
Provision for profit participation of policyholders	15,379	10,757
Prepaid premium	64,303	65,962
Others *)	130,471	137,565
Total creditors and payables	1,723,413	1,772,909

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

*) As for a transaction with a controlling shareholder, see Note 38c below regarding non-irregular and non-negligible transactions with controlling shareholders.

NOTE 24:- FINANCIAL LIABILITIES

This Note provides information regarding the contractual conditions of financial liabilities. Additional information regarding the Group's exposure to interest risks, foreign currency and liquidity risks is provided in Note 37b(1) below.

a. Details of financial liabilities:

	December 31,			
	Carrying amount		Fair value	
	2014	2013	2014	2013
	NIS in thousands			
1. Financial liabilities at amortized cost:				
Loans from banking institutions *)	38,886	25,285	38,886	25,285
Loans from non-banking institutions **)	7,326	103,658	7,430	104,773
Bonds constituting second tier capital ***)				
Bonds (series A)	514,885	515,045	565,450	571,550
Bonds (series B)	329,362	329,409	328,844	338,389
Total financial liabilities reported at amortized cost	890,459	973,397	940,610	1,039,997
2. Financial liabilities at fair value through profit or loss:				
Derivatives	684,180	112,764	684,180	112,764
Short sales	12,961	134,272	12,961	134,272
Total financial liabilities reported at fair value through profit and loss ****)	697,141	247,036	697,141	247,036
Total financial liabilities	1,587,600	1,220,433	1,637,751	1,287,033
*) Includes loans from a bank which is a related party	26,804	12,150	26,804	12,150
**) Includes loans from an affiliate, see Note 38h(3)	5,081	101,653	5,185	102,768

***) The fair value of the bonds is provided for disclosure purposes only based on the data of Fair Spread, see Note 12f above.

****) The carrying amount includes financial liabilities in respect of yield dependent policies in the amount of approximately NIS 641 million (2013 - approximately NIS 97 million).

b. Financial liabilities at amortized cost:

1. Details of interest and linkage:

	Effective interest	
	December 31,	
	2014	2013
	%	
Linkage basis		
Linked to CPI	3.2	3.2
In NIS	3.4	3.0
Linked to foreign currency	0.7	1.8

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

2. Maturity dates:

	December 31, 2014	December 31, 2013
	NIS in thousands	
First year	39,475	108,175
Second year	1,415	19,551
Third year	1,320	182
Fourth year	845,390	30
Fifth year and thereafter	2,859	845,459
Total	890,459	973,397

See details of maturity dates of non-capitalized financial liabilities in Note 37b(2) below.

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

The table below analyses financial liabilities that are presented at fair value.
The carrying amount of creditors and payables approximates their fair value.

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Derivatives	78,495	604,240	1,445	684,180
Short sales	12,961	-	-	12,961
Total financial liabilities	91,456	604,240	1,445	697,141
Financial liabilities which are unquoted and whose fair value is disclosed (Note 24a above)	-	940,610	-	940,610

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Derivatives	7,558	103,833	1,373	112,764
Short sales	134,272	-	-	134,272
Total financial liabilities	141,830	103,833	1,373	247,036
Financial liabilities which are unquoted and whose fair value is disclosed (Note 24a above)	-	1,039,997	-	1,039,997

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

d. Interest rates used in determining fair value:

	December 31, 2014	December 31, 2013
	%	
Loans	1.6	2.4
Bonds constituting second tier capital	1.6	1.5
Other financial liabilities	0.0	0.7

e. Issue of bonds (complex second tier capital at Migdal Insurance):

In 2012, a sub-subsidiary of the Company, Migdal Insurance Capital Raising Ltd. ("Migdal Capital Raising") completed two private placements to classified investors as detailed in the table below:

	Series A bonds	Series B bonds
Date of issue	1.2012	12.2012
Amount of issue (NIS in thousands) NIS 1 par value	500,000	324,656
Issue proceeds	497,529	322,942
Nominal interest rate	3.5%	2.35%
Effective interest rate	3.61%	2.46%
Linkage to CPI	Capital and interest	Capital and interest
Maturity date	12.2021	12.2024
Interest payment dates	2 semi annual payments beginning from June 30, 2012	2 semi annual payments beginning from June 30, 2013
Midroog Ltd. rating	Aa2	Aa2
First early repayment date	7 years after issue	6 years after issue
Possibility of listing for trade on the Stock Exchange	Exists. Reduction of 0.2% in the interest rate	Exists. Reduction of 0.2% in the interest rate
Pledge of bonds	Not secured under any pledge	Not secured under any pledge
Balance of deferred issue expenses as at December 31, 2014 (NIS in thousands) *)	1,505	1,169
December 31, 2013	1,851	1,446

*) Deferred issue expenses are amortized according to the effective interest method.

Migdal Insurance has undertaken towards Migdal Capital Raising to bear any expenses incurred by the latter, including current operating expenses and reimbursement of remuneration expenses to directors.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

The bonds were listed in the trading system for institutional investors.

The issue proceeds were deposited in Migdal Insurance and it serves as complex second tier capital, in accordance with the Commissioner's approvals. Migdal Insurance undertook to bear all the amounts required to settle the bonds of Series A and Series B holders. This commitment is subordinated until after the payment of Migdal Insurance's remaining liabilities to its creditors and it has preference over liabilities towards creditors in respect of components and instruments included in the first tier capital of Migdal Insurance.

The terms of Series A and Series B bonds determine mechanisms for the deferral of the payment of the interest and/or the principal if on their maturity date there will be certain "suspending circumstances", as defined below. The payment of the principal and/or the interest will be deferred until such suspending circumstances no longer exist or up to three years from the date of repayment of the initially determined principal and/or the interest, at the earlier of the two, unless the Commissioner approved the payment of the interest at an earlier date.

"Suspending circumstances" are implied when one or more of the following occur:

1. With respect to the 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").

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

    (1) According to the Migdal Insurance's latest financial statements that were published prior to the relevant date of settlement of the interest and/or principal, the amount of the recognized equity of Migdal Insurance is lower than the minimum equity required from it (according to the Capital Regulations), and Migdal Insurance did not perform an equity supplementation as at the date of publication of the financial statements.

    (2) Migdal Insurance's Board of Directors instructed to defer the payment of the interest or the principal, if it thought that there is an actual concern regarding Migdal Insurance's ability to meet the minimum shareholders' equity required from it (pursuant to the Capital Regulations), or to repay on time the liabilities whose priority is higher than that of the bonds, provided that a prior approval is received from the Commissioner of Insurance.

    (3) 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).

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

The suspending circumstances as defined above have not been met since the date of issue of the bonds.

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, 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" ("the composition of shareholders' equity circular").

Migdal Capital Raising will be entitled to redeem the bonds at an early redemption fully or partially, on condition that the first early redemption date will be at the end of six/seven years from the date of issue (Series A/Series B, respectively). In the event that this right for early redemption will not be exercised, there will be a payment of an additional interest over the interest that the bonds will bear at that time, for the balance of the period at the rate of 50% of the initial risk margin that was determined for the issue. The early redemption will be possible in one of the following cases: a) the issue of a capital instrument (as implied in the capital composition circular) which has the same or higher quality, or; b) receipt of the Commissioner's approval at the conditions that will be set-forth.

It was determined that the bonds may be redeemed immediately under certain circumstances, such as a delay in the repayment of any amount of money regarding the bonds, beyond the determined period, the liquidation of Migdal Capital Raising, the appointment of a liquidator or an official receiver, etc. The deferral of the payments of the capital and interest in relation to the bonds, due to suspending circumstances as mentioned, does not grant the right for an immediate repayment of the bonds. The trustee will not be permitted to place the unpaid bonds for immediate redemption, without the prior written approval of the Commissioner.

As for Migdal Insurance's decision to raise debt, see Note 7c(9) below.

f. The rating of Migdal Insurance:

As of December 31, 2014, Migdal Insurance's ISFR received from Midroog is Aaa (December 31, 2013 - same).

NOTE 25:- PREMIUM EARNED ON RETENTION

	Year ended December 31, 2014		
	Gross	Reinsurance	On retention
	NIS in thousands		
Premiums in life assurance	7,223,770	190,767	7,033,003
Premiums in health insurance	880,897	64,175	816,722
Premiums in general insurance	1,968,911	406,467	1,562,444
Total premiums	10,073,578	661,409	9,412,169
Less - change in the unearned premium balance *)	(30,182)	26,264	(56,446)
Total premiums earned	10,043,396	687,673	9,355,723

	Year ended December 31, 2013		
	Gross	Reinsurance	On retention
	NIS in thousands		
Premiums in life assurance	7,545,011	173,721	7,371,290
Premiums in health insurance	770,164	65,352	704,812
Premiums in general insurance	2,021,532	512,912	1,508,620
Total premiums	10,336,707	751,985	9,584,722
Less - change in the unearned premium balance *)	(264,133)	(34,648)	(229,485)
Total premiums earned	10,072,574	717,337	9,355,237

	Year ended December 31, 2012		
	Gross	Reinsurance	On retention
	NIS in thousands		
Premiums in life assurance	7,357,962	158,095	7,199,867
Premiums in health insurance	692,480	62,595	629,885
Premiums in general insurance	1,406,343	454,398	951,945
Total premiums	9,456,785	675,088	8,781,697
Less - change in the unearned premium balance *)	19,243	26,493	(7,250)
Total premiums earned	9,476,028	701,581	8,774,447

*) Mainly in general insurance, see Note 17.

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

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Profits (losses) from assets held against yield dependent liabilities			
Investment property	368,615	365,449	336,198
Financial investments:			
Quoted debt assets	1,100,785	960,483	1,436,366
Unquoted debt assets	292,882	622,167	1,264,472
Shares	1,185,279	1,802,668	824,008
Other financial investments	946,229	3,707,565	1,847,318
Cash and cash equivalents	54,312	(74,709)	11,821
Total profits from assets held against yield dependent liabilities, net	3,948,102	7,383,623	5,720,183
Profits (losses) from assets held against non-yield dependent liabilities, capital and others			
Income from investment property:			
Revaluation of investment property	13,799	4,900	4,631
Current income in respect of investment property	37,230	32,977	27,539
Total income from investment property	51,029	37,877	32,170
Profits (losses) from financial investments, except for interest and linkage differences rate differences and dividend in respect of:			
Available for sale assets (a)	345,820	121,943	90,138
Assets reported at fair value through profit and loss (b)	(164,822)	46,925	(20,456)
Assets reported as loans and debtors (c)	6,095	(4,927)	5,333
Interest income *) and linkage differences from financial assets not at fair value through profit and loss	1,231,638	1,714,524	1,581,519
Interest income and linkage differences from financial assets at fair value through profit and loss	2,215	654	479
Profit (losses) from exchange rate differences in respect of investments not measured at fair value through profit and loss and other assets **)	53,427	(23,922)	223
Income from dividend	140,778	108,730	114,591
Total profits from net investments and finance income	5,614,282	9,385,427	7,524,180
*) The above income includes interest in respect of financial assets not reported at fair value through profit and losses whose value was impaired	4,865	6,184	13,516

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

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

a. Net gains (losses) from investments in respect of available for sale assets:

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Net gains from realized securities	448,933	209,219	200,516
Net impairment recognized in profit and loss	(103,113)	(87,276)	(110,378)
Total gains from investments in respect of available for sale assets	345,820	121,943	90,138

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

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Net changes in fair value, including realization profit:			
In respect of assets designated upon initial recognition	(2)	1	(439)
In respect of assets held for trade	(164,820)	46,924	(20,017)
Total gains (losses) from investments in respect of assets reported at fair value through profit and loss	(164,822)	46,925	(20,456)

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

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Net gains (losses) from the realization of assets reported as loans and receivables	9,325	(746)	-
Net increase (decrease) in value recognized in profit and loss	(3,230)	(4,181)	5,333
Total gains (losses) from investments in respect of assets reported as loans and receivables	6,095	(4,927)	5,333

NOTE 27:- INCOME FROM MANAGEMENT FEES

Composition:

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Management fees in the pension and provident branches	478,700	441,058	426,321
Variable management fees in respect of life assurance contracts	383,954	636,600	*) 171,600
Fixed management fees in respect of life assurance contracts	550,186	473,578	402,143
Management fees in respect of investment contracts	11,941	4,896	473
Total income from management fees from members and policyholders	1,424,781	1,556,132	1,000,537
Other management fees	144,287	140,666	136,961
Total management fees	1,569,068	1,696,798	1,137,498

*) In 2012, the Company collected variable management fees in yield dependent policies issued between the years 1991 – 2003 in the amount of about NIS 172 million before tax, after it had not collected variable management fees in the amount of about NIS 357 million before tax in the year 2011.

NOTE 28:- INCOME FROM COMMISSIONS

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Insurance agencies' commissions	172,256	177,684	176,364
Reinsurance commissions, net of change in deferred acquisition costs in respect of reinsurance	152,740	145,349	133,947
Other commissions	43,533	37,077	40,199
Total income from commissions	368,529	360,110	350,510

NOTE 29:- OTHER INCOME

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Income from other non-insurance activities	42,956	35,446	16,325
Capital gain from sale of fixed assets	-	-	200
Other capital gains	-	-	500
Total other income	42,956	35,446	17,025

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

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
In respect of life assurance contracts:			
Death, disability and others	931,711	953,753	868,304
Less reinsurance	76,021	*) 116,463	76,177
	855,690	837,290	792,127
Surrenders	1,781,196	1,755,741	1,778,361
Maturities	1,122,964	848,464	793,309
Annuities	371,438	287,100	224,255
Total claims	4,131,288	3,728,595	3,588,052
Increase in liabilities in respect of life assurance contracts (except for change in outstanding) on retention	7,805,480	11,870,776	10,220,392
Increase in liabilities in respect of investment contracts for yield component	39,074	46,573	39,249
Total payments and change in liabilities in respect of insurance contracts and investments contracts on retention, in respect of life assurance contracts	11,975,842	15,645,944	13,847,693
Total payments and change in liabilities in respect of general insurance contracts:			
Gross	1,443,244	1,171,044	846,316
Reinsurance	250,302	172,294	138,840
On retention	1,192,942	998,750	707,476
Total payments and change in liabilities in respect of health insurance contracts:			
Gross	615,375	638,091	519,805
Reinsurance	54,149	40,365	29,068
On retention	561,226	597,726	490,737
Total payments and change in liabilities in respect of insurance contracts and investment contracts on retention	13,730,010	17,242,420	15,045,906

*) Includes gain in the amount of approximately NIS 52 million from a transaction of purchase of an old reinsurance portfolio in occupational disability from Generali and its sale to Swiss Re. See Note 38g(3) below.

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

	Year ended December 31, 2014	2013	2012
	NIS in thousands		
Acquisition expenses:			
Acquisition commissions	499,764	509,636	442,402
Other acquisition expenses	459,160	481,879	437,955
Change in deferred acquisition costs	(33,107)	(111,537)	(85,009)
Total acquisition expenses	925,817	879,978	795,348
Other current commissions	564,662	552,215	539,727
Other marketing expenses	32,576	48,646	46,038
Total commission, marketing expenses and other acquisition expenses	1,523,055	1,480,839	1,381,113

NOTE 32:- GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31, 2014	2013	2012
	NIS in thousands		
Salaries and related expenses	966,828	1,074,238	983,883
Depreciation and amortization	205,232	210,080	178,595
Maintenance of office premises and communications	152,568	149,463	157,912
Marketing and advertising	82,856	75,461	88,256
Professional and legal counseling	59,992	45,835	47,889
Others	195,922	206,958	194,936
Total *)	1,663,398	**)1,762,035	1,651,471
Less:			
Amounts classified under change in liabilities and payments in respect of insurance contract item	(103,097)	(115,213)	(109,218)
Amounts classified in commissions, marketing expenses and other acquisition expenses	(519,132)	(552,503)	(508,853)
General and administrative expenses	1,041,169	1,094,319	1,033,400
*) General and administrative include expenses in respect of IT	345,263	366,832	323,772

**) In 2013, includes expenses of approximately NIS 97 million in respect of a special grant given primarily to Group employees (see in this context an Immediate Report of the Company from November 25, 2013, reference no.: 2013-01-202638).

NOTE 33:- SHARE-BASED PAYMENT

a. Expenses recognized in the financial statements:

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

	Year ended December 31, 2014	2013	2012
	NIS in thousands		
In respect of grants settled in cash	(225)	658	4,879
In respect of capital grants	128	403	3,885
	(97)	1,061	8,764

Share-based payment transactions granted by the Company to its employees are described below. During 2012 through 2014 no changes or cancellations were made in the said employee benefit plans.

b. Additional information regarding share-based payment plans:

	2010 plan (2)	2009 plan (1)
Number of options issued to the former Chairman	679,997	650,000
Number of options issued to the former CEO	1,131,684	1,000,000
Number of options issued to the other employees included in the plan	13,552,606	9,698,875
Total options issued	15,364,287	11,348,875
Balance of unrealized options as at the balance sheet date	1,106,550	-
Conversion ratio	1	1
Adjusted realization price as at December 31, 2014 (3)	0.01	5.55
Date of grant to former Chairman of the Board of Directors and former CEO	10/2010	9/2009
Date of grant to other employees included in the plan	08/2010	8/2009
Vesting date *)	01/2013	1/2012
Expiration date *)	-	12/2014
Fair value (NIS in millions) as at the date of grant **)		
To the Chairman of the former Board of Directors and the former CEO	3.6	3.3
To other employees included in the plan	29.5	18.6

*) According to the 2010 plan, the vesting period of the warrants is 3 years, except for options whose vesting depends on the Company's results as compared with its main competitors, whose vesting period is 6 years. The options will be converted into shares at the end of the vesting period. Accordingly, there is no exercise period beyond the vesting period (see (2) below).

**) All the options that were granted in the aforementioned plans were deposited with a trustee in a capital track pursuant to Section 102 to the Income Tax Ordinance.

NOTE 33:- SHARE-BASED PAYMENT (Cont.)

(1) The 2009 plan:

On August 17, 2009, the Company's Board approved a share-based payment plan for officers and managers in the Group.

The plan includes the allocation of 12,000,000 options that are not listed for trade on the TASE granting the participant who holds them the right to receive, by allocation, up to 12,000,000 Ordinary shares of NIS 0.01 par value each.

The vesting period of the 2009 Plan ended on December 31, 2011 and the exercise period ended on December 31, 2014.

(2) The 2010 plan:

On August 24, 2010, the Company's Board approved a long-term remuneration plan, in respect of the Group's officers and managers. The plan includes cash grants and a private placement of up to 16,445,413 eligibility deeds ("the eligibility deeds" and/or "options"), which are not listed for trade on the TASE and which grant the participants who hold them the right to receive by allocation up to 16,445,413 Ordinary shares of NIS 0.01 par value each of the Company. The shares are allocated in two stages when the conditions for their allocation are met, as detailed below, and in return for the payment of their par value. The Company has actually allocated 15,364,287 eligibility deeds.

On October 21, 2010, the Company's general meeting approved the allocation of the eligibility deeds to the Company's Chairman of the Board.

The long-term remuneration plan for 2010 is for a period of 6 years and includes two consecutive stages of three years each ("stage I" and "stage II"). Unlike the previous remuneration plans, the share price on the date of grant and the change therein during the first 3 years (up to the end of stage I) does not affect the value of the benefit. At the end of stage I, which ended on December 31, 2012, each participant was entitled to a grant which is determined as a number of monthly salaries ("the target grant"), which is paid to them upon compliance with the targets as detailed below ("stage I grant"). The amount of the stage I grant was calculated and determined in accordance with compliance with two targets: compliance with profit targets ("the profitability element") and the continuation of employment in the Company until that date ("the persistency element"). The total persistency element was paid in shares and the profitability element was paid partly in shares and partly in cash, as chosen by the participant. At the end of stage 1 and at the employees' choice, eligibility deeds were converted to 1,912,474 shares of NIS 0.01 par value each which were placed with a trustee until the end of stage 11. The number of shares that were issued was calculated according to the value of the share on the stock exchange at the end of stage I.

NOTE 33:- SHARE-BASED PAYMENT (Cont.)

At the end of stage II, which ends on December 31, 2015, any participant who was allocated shares in respect of the profitability element at the end of stage I will be entitled to additional shares of the Company (stage II shares), without any additional payment (except for an insignificant payment of their par value). The number of shares will be determined on the basis of the Group's rating compared to four other groups in the same area of activity, according to parameters that were set forth in the plan.

(3) In the 2009 plan, the exercise price of each option is determined by the multiplication of the conversion ratio which will be determined by the basic exercise price, with the addition of linkage difference to the CPI and adjusted for dividend distribution in accordance with the rules prescribed in the option program. In the 2010 plan, the exercise price for each option is the par value of NIS 0.01 per share.

(4) In the framework of the acquisition of the subsidiary Infomed - Medical Internet Portal Ltd., on September 26, 2011, a put option was given to one of the shareholders according to which he will be entitled to exercise his shares in the acquired company subject to continuing to provide the subsidiary management services for a period of 60 months. The exercise price of the option is a multiplier of 5 on the company's average annual net income for the two years preceding the exercise of the option. This option is accounted for as a cash-settled share-based payment. The liability in respect of the said option is immaterial.

c. Movement during the year:

The following table lists the number of share options, the weighted average realization prices of share options and the movement in the number of options during the current year:

	2014		2013		2012	
	Number of options	**Weighted average realization price**	**Number of options**	**Weighted average realization price**	**Number of options**	**Weighted average realization price**
Share options:						
As at beginning of year	6,886,057	4.30	21,496,407	2.31	26,797,902	2.75
Forfeited during the year	(3,962,757)	4.70	(9,515,001)	0.14	(5,102,870)	4.50
Realized during the year *)	(1,816,750)	5.41	(5,095,349)	5.57	(198,625)	5.97
As at the end of the year	1,106,550	0.01	6,886,057	4.30	21,496,407	2.31
Realizable as at the end of the year	-	-	5,333,625	5.55	8,763,750	5.66

*) The weighted average share price in respect of the options exercised in 2014 was NIS 5.52, in 2013 - NIS 6.06 and in 2012 - NIS 5.97.

d. The weighted average remaining contractual life for the share options outstanding as of December 31, 2014 is one year (in 2013 – 1.23 years and in 2012 – 2.59 years). The contractual term of these plans ranges between one to four years for each of the three years presented above.

NOTE 33:- SHARE-BASED PAYMENT (Cont.)

e. The range of exercise prices of options in respect of the 2009 plan that are exercisable in 2014 is NIS 5.34–NIS 5.55 per option (in 2013 – NIS 5.55–NIS 5.65 per option, in 2012 – NIS 5.66-NIS 5.97 per option). The exercise price of eligibility deeds in respect of the 2010 plan that are exercisable into shares in 2014 is NIS 0.01.

f. Measurement of the fair value of equity-settled share options:

In the 2009 plan, the Company used the binomial model for measuring the fair value of equity-settled share options. In the 2010 plan, according to its economic nature which is derived from the new policy that the Company outlined, the Company used a model for pricing shares for the measurement of the fair value of the benefit which is partly settled by capital instruments. The measurement is made on the date of grant of the options to the Company's employees.

The following table lists the inputs to the binomial model used for the fair value measurement of the benefit granted to the employees of the Company.

	2010 plan (2)	2009 plan (1)
Dividend yield in respect of the share (%)	3.69	1.33
Expected volatility of share prices (%) *)	-	33.78
Historical volatility of share prices (%)	-	33.78
Risk-free interest rate (%)	2.99	1.49
Exercise price (NIS)	0.01	5.74
Life of the options (years)	3-6	6
Price of share at time of grant (NIS) **)	6.98	5.91

*) The anticipated volatility of the share price reflects the assumption that the historical volatility of the share price is a reasonable indication of the anticipated future trends.

**) In accordance with the 2010 plan, the share price at the time of grant is not used for determining the value of the benefit, as mentioned in b(2) above.

NOTE 34:- OTHER EXPENSES

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Amortization of intangible assets (except for computer software) *)	39,332	30,946	25,644
Impairment	24,478	3,181	1,037
Expenses from other non-insurance activities	12,561	16,224	6,030
Capital loss from sale of fixed assets	257	321	400
Total other expenses	76,628	50,672	33,111

*) For additional details see Note 4a above.

NOTE 35:- FINANCE EXPENSES

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Interest expenses and linkage differences in respect of:			
Liabilities to banks and affiliate *)	2,564	6,118	5,321
Finance expenses in respect of bonds	25,621	41,994	25,205
Interest expenses to reinsurers	652	755	765
Exchange rate differences, net in respect of liabilities **)	10,127	(4,970)	734
Commissions and other finance expenses	12,515	8,426	6,951
Total finance expenses	51,479	52,323	38,976

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

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

NOTE 36:- EARNING PER SHARE

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Basic and diluted earnings per NIS 1 share attributed to the Company's shareholders (in NIS)	0.40	0.59	0.20

a. Basic earnings per share:

The calculation of the basic earnings per share for 2014 was based on the net income attributable to holders of Ordinary shares in the amount of NIS 422,031 thousand (2013 - net income of NIS 617,770 thousand, 2012 - net income of NIS 217,236 thousand), divided by the weighted average number of Ordinary shares outstanding as detailed below:

NOTE 36:- EARNING PER SHARE (Cont.)

Weighted average number of Ordinary shares

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Balance at January 1	1,053,811	1,051,666	1,051,656
Effect of options exercised into shares	61	1,387	*) -
Weighted average number of ordinary shares used for calculation of basic earnings per share at December 31	1,053,872	1,053,053	1,051,656

*) Less than NIS 1 thousand.

b. Diluted earnings per share:

The calculation of the diluted earnings per share for 2014 was based on the net income attributable to holders of Ordinary shares in the amount of NIS 422,031 thousand (2013 - net income of NIS 617,770 thousand, 2012 - net income of NIS 217,236 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,		
	2014	2013	2012
	NIS in thousands		
Weighted average number of ordinary shares used for calculation of basic earnings per share	1,053,872	1,053,053	1,051,656
Effect of dilutive potential ordinary shares	809	1,688	13,219
Weighted average number of ordinary shares used for calculation of diluted earnings per share at December 31	1,054,681	1,054,741	1,064,875

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.

In 2012, in calculating the diluted earnings per share, 8,236,250 convertible securities were not included since their inclusion has an anti-dilutive effect. See Note 33 regarding expired options in each of these years.

NOTE 37:- RISK MANAGEMENT

a. General:

1. The principal risks:

The Group operates in the insurance and long-term savings and financial services areas of activity. The insurance activities focus on life assurance and long-term savings (life assurance, pension funds and provident funds), health insurance and general insurance. Financial services activity focuses on the rendering of financial asset management services and the marketing of investments, transaction services on the TASE and in regulated markets and custodian services and 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.

<u>Market risks</u> – 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.

<u>Liquidity risks</u> – the risk that the Group will have difficulties in fulfilling obligations related to its liabilities on time.

<u>Insurance risks</u>
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, 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.

<u>Credit risks</u> – 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.)

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, addressing a comprehensive risk exposure level based on the adjustment of the various risks, approving risk measurement tools and controls and defining ways of managing and dealing with risks and their realization.

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.)

Credit management – directives were set in order to make sure that there will be appropriate management, supervision and control mechanisms for management of credit risks while carrying out investment activities, including regarding the establishment of a credit committee and its roles; setting a policy for providing credit as well as ways of supervision, control and reporting to the various investment committees and to the Board of Directors.

Reinsurers – directives regarding management of exposure to reinsurers ("reinsurers' exposure") were prescribed.

Capital requirements – directives were determined regarding the minimum capital requirements, for further details see Note 7c above.

Risk management

- In January 2014, the Commissioner of the Insurance issued Chapter 10 in a complied circular regarding the risk management function in an institutional entity. The circular consists of general guidelines that specify the adequacy criteria for risk management officers and require setting up a risk management unit that is distinct from the business lines whose current operations is examines. In addition, the circular specifies the risk management officer's authorities in obtaining information and access to the data needed for performing the risk management unit's functions and the relevant resources. The circular also elaborates on the roles and methodologies of the risk management officer that consist, among others, of identifying the material risks, quantifying and assessing the identified material risks and reporting them to the relevant entities.

- Adoption of Solvency II ("the Directive")

  See Note 7c(8) above.

  Operating risks – in addition to the above arrangements, the Commissioner published directives regarding the management of specific exposures of which the main ones are: embezzlement and fraud ("the Embezzlement Circular") and data protection risks management ("data protection") and of IT risk management.

NOTE 37:- RISK MANAGEMENT (Cont.)

The effectiveness of the internal control over financial reporting and disclosure (SOX) - additionally, according to the Securities Regulations. The Company applies the relevant procedures pertaining to the review of the effectiveness of the internal control over the Company's disclosure and financial reporting, and includes the necessary reports and certification in connection with them in its financial statements. At the same time, the Group's institutional entities apply the provisions of the Commissioner of Insurance regarding the effectiveness of the internal control over disclosure and financial reporting in these institutional entities (that are based on Sections 302 and 404 of the Sarbanes-Oxley Law and the provisions of the SEC).

In the financial services activity

Migdal Capital Markets and its subsidiaries operate in accordance with the directives of various regulators including the ISA and the TASE which have set guideline rules and limitations on the activities of Group companies including rules for giving loans to customers and managing credit, managing security, and instructions regarding customer activities with respect to derivative financial instruments and instructions regarding the management of customer funds, and the management of mutual funds etc.

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, 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.)

In the financial services activity

The person responsible for managing risks in Migdal Capital Markets entities is the CEO of each entity. In addition, a risk management department is engaged in adopting new regulation and monitoring and enforcing regulatory requirements and internal management instructions. This department is not dependent on the CEOs of the subsidiaries and it operates independently within Group companies 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.

The risk management department reports to the Board 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.

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.

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.

NOTE 37:- RISK MANAGEMENT (Cont.)

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 managed by the heads of the divisions and 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 combines in his 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 or the updating of existing products in respect of the creation of a new risk in existing activity is executed according to a procedure for launching a new product that complies with, inter alia, regulatory instructions on this matter. The risks 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 and at various probabilities.

Market risks – in products involving any kind of guaranteed yield, the exposure to market risk is measured using stochastic tools that measure both the expected loss in respect of market risks (which is the basis for pricing the product) and the expected potential loss at a given level of certainty, in respect of such risks.

NOTE 37:- RISK MANAGEMENT (Cont.)

Market and liquidity risks

Market risks are managed by the investment managers in accordance with the law and the overall policy of the Board of Directors and of the investment committees of the asset portfolios of the members' funds: the profit participating policies, pension funds and provident funds (in which the risk is borne by the members), and that of the Nostro assets portfolios: the insurance businesses and Migdal Holdings ("the Investment Committees").

These bodies receive reports regarding exposure of the Group's various investment portfolios to changes in the money and capital markets which include, as mentioned, interest rates, foreign currency exchange rates and inflation, including management of the assets versus the liabilities, and with reference to this, they define the exposure levels to the various investment vehicles as a framework for investments made by the Group's investment division, subject to the Ways of Investment Regulations.

For information regarding the exposure to the linkage bases of the managed portfolios see paragraph c hereunder.

Liquidity risk is managed by the investment managers by regularly monitoring the average duration of assets compared to the average duration of liabilities in the various investment portfolios and by quantifying the anticipated loss in an extreme scenario of the immediate disposal of assets. The matter is discussed in the Board of Directors and in the investment committees of the managed portfolios, both the Nostro portfolios and the members' portfolios, the profit participating portfolios and the pension and provident funds portfolios. The exposure limits to risk factors of the assets in the managed portfolios is determined in accordance with this data.

The exposure of the investment portfolios to market risks is quantified by measuring the value at risk (VaR), which measures the maximum potential damage at a given probability over a given period of time, and also by examining the damage expected for the Group under various extreme scenarios. The exposure to interest risk is examined by comparing the average duration and internal rate of return of assets and liabilities (ALM) and by examining the effect of changes in interest curves on their fair value. The average duration gap serves as an indication of the liquidity risk in the portfolios (negative gap – a longer average duration of liabilities than of assets – low liquidity risk, and exposure to decline in interest rates and vice versa).

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.

NOTE 37:- RISK MANAGEMENT (Cont.)

In addition, in respect of the managed portfolios (the Nostro portfolios and the asset portfolios of the members' funds: the profit participating policies, pension funds and provident funds) various performance indices are calculated with respect to the relation between the return that is obtained and the level of risk in the portfolio.

The exposures of the Group's various asset portfolios are measured monthly and include the risk indices described in paragraph 3.c above, as well as the situation of the exposures to risk factors compared to limitations that were determined by the Board of Directors and the various investment committees.

The exposure to interest risk which is measured by means of the average duration gap between assets and liabilities is performed once a quarter.

Exposure reports are provided regularly to the respective investment committees of the various asset portfolios. A summary of the asset portfolios' risk indices is reported by the CEO to the management and Board of Directors in the framework of the CEO's monthly report to the Board of Directors.

Insurance risks

Insurance risks are managed by the insurance field managers and the actuaries of the various branches including the pension funds (in which the risks are borne by the members). The Board of Directors receives the exposure valuation of the maximum loss that is expected from the significant insurance risks, at the confidence level prescribed, based on the following risk components:

- The extent of the maximum anticipated loss as a result of the exposure to a single large damage, or an accumulation of damages in respect of an extremely large event (catastrophic event), as well as the exposure to an unexpected change of the risk factors that are covered in policies sold by the Company, at a given level of certainty during the period of one year.

- 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.

NOTE 37:- RISK MANAGEMENT (Cont.)

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.

Ongoing control is exercised over developments in exposures to insurance/actuarial risks such as death, life expectancy, occupational disability, portfolio preservation, expenses etc. and their effect on both the insurance reserves and the value of the long-term savings portfolio and on the profitability of products and the value of the Group's new sales.

In general insurance - the exposure to major deterioration in risk factors that are covered by policies and to a single large damage or accumulation of damages in respect of a catastrophe such as an earthquake and the effect of reinsurance arrangements on the Company's potential loss is quantified by examining scenarios of the central risk factors to which the Company is exposed within the determined degree of certainty. The Company carries out profitability tests for operating segments, reserve deficiencies and the exposure to earthquakes using international models.

A calculation is also made of the exposure to deterioration in future payments for outstanding claims in excess of the reserves existing for such claims.

There is ongoing control over the developments and trends in exposures to insurance risks of the various insurance branches, which mainly derive from changes in the frequency of the claims and their severity as well as in expenses and in other costs, and their effect on both the profitability of the products and on the insurance reserves.

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.

NOTE 37:- RISK MANAGEMENT (Cont.)

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.

Reinsurers' credit risks – managed by the head of the reinsurance field who presents the Board of Directors with the exposure to credit risks in respect of reinsurers. The Board of Directors determines the exposure limitations to the reinsurers' credit risk rating, among others, in relation to the type of insurance branch (long/short tail), to the individual reinsurer and taking into account the limitations prescribed by the legislative arrangements. For information regarding the rating of reinsurers' balances, see b(1)(4) below.

The estimate of the exposure to credit risks from reinsurers is mainly based on the probability of a loss at a given level of certainty that derives from the credit rating of the reinsurers.

Starting from 2014, the rating is mainly determined by AMBest.

The reinsurance area examines the rating of reinsurers that are planned to participate in reinsurance arrangements before they are renewed. The quality of the reinsurers is also examined by the "underwriting office" when entering into facultative agreements in policies for large enterprises.

The rating of reinsurers standing against the insurance reserves, the outstanding claims as well as to the exposure to earthquakes of reinsurers is examined regularly.

The collection from reinsurers is also regularly monitored.

NOTE 37:- RISK MANAGEMENT (Cont.)

Operating risks

Main operating risks – managed by the department heads and supported by various units including the control units, organization and methods unit, compliance officer, SOX administrator, manager of information security, operating risk manager, fraud and embezzlement officer, IT governance manager and internal audit. Policy documents taking the existing regulatory directives into account, in connection with the management of operating risks have been approved by the Company's Board of Directors and the Company acts according to them.

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.

In 2014, Migdal Insurance completed a risk survey for profiling the Company's operating risks, including embezzlement and fraud risks. The Company maintains the operating risk profile on an ongoing basis.

Quantification of the loss arising from operating risks is included in the calculation of the economic capital by means of accepted parameters that relate to the volume of the Group's activity in the various branches of insurance.

Data security and cyber risks - in recent years, there has been real escalation in cyber threats worldwide. Various cyberattacks 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 cyberattack risks.

NOTE 37:- RISK MANAGEMENT (Cont.)

As a leading financial organization, the Company represents a target for various cyberattacks. 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 cyberattacks, viruses, malware, phishing and other attempts that are aimed at harming service and data and committing theft. The Company makes the necessary preparations for dealing with cyber threats and invests a great deal of resources in this field.

Prevention of fraud and embezzlement - as part of its risk management array, the Company has an officer in charge of preventing fraud and embezzlement who collaborates with other control systems and functions.

Preparation for disaster - the Company has a plan of action in the event of a disaster which includes, inter alia, a backup site for information about policyholders and members. During 2013, the Company set up an additional backup site in Israel (instead of the site abroad) which facilitates RPO (Return Point Objective) and RTO (Return to Operations) within a predetermined timespan. Parallel to this decision, the Company adopted additional emergency reference scenarios for which it will provide a response. Furthermore, during 2014, the Company performed a test of disaster recovery readiness which included transfers between sites.

As per the Commissioner's guidelines, a site in Jerusalem was converted into a data recovery disaster site which maintains an additional backup of information in the event that the two backup sites mentioned above shut down. Backup is performed on an ongoing basis in the mainframe room. The equipment will be assigned to the new site which is expected to begin regular operation in the first half of 2015.

b. Details of the risks:

1. Market risks:

A market risk is the risk that the fair value or future cash flows of financial assets, financial liabilities or insurance liabilities will change as a result of changes in market prices. Market risks include, among others, risks resulting from changes in interest rates, stock exchange rates, the CPI and foreign currency exchange rates. Regarding the effect of the sensitivity analysis of these variables on the profit (loss) for the period and on comprehensive income, see paragraph b(1)(a) below.

<u>Interest risk</u> – 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.

NOTE 37:- RISK MANAGEMENT (Cont.)

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.

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.

NOTE 37:- RISK MANAGEMENT (Cont.)

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, excluding the deployment of the supplementation for annuity policies as described in b(1)(a)(2) below.

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, 2014 is approximately NIS 55 billion (previous year - approximately NIS 52 billion), will affect the management fees by an amount of approximately NIS 82 million (previous year - approximately NIS 78 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. For additional information, see Note 27 above.

The effect of this change on policies that were issued from 2004 onwards is immaterial.

In non-yield dependent life assurance (in respect of the portion of the life assurance portfolio that is not backed by designated bonds), in general insurance and in equity there is no full correlation between the linkage basis of the assets and the linkage basis of the liabilities. In non-yield dependent life assurance - the major part of the life assurance portfolio is in respect of yield guaranteed policies, mainly backed by designated bonds (Hetz – life linked bonds) issued by the Bank of Israel for the duration of the policy's entire term. Therefore, the Company has financial coverage overlapping the main liabilities regarding interest and linkage over the policy's term. As of December 31, 2014, the designated bonds covered about 70% of all the insurance liabilities in life assurance in these programs (similarly to 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.

NOTE 37:- RISK MANAGEMENT (Cont.)

a) Sensitivity tests relating to market risks:

Hereunder is a sensitivity analysis of the effect of a change in these variables on the profit (loss) for the period and on the comprehensive income (loss) (equity). The sensitivity analysis relates to the carrying amount of the financial assets, the financial liabilities and liabilities in respect of insurance contracts and investment contracts in respect of the relevant risk variable as at each reporting date, and assumes that there is no change in all the other variables. Thus, for example, the change in interest is under the assumption that all the other parameters have not changed. The sensitivity analysis does not include, as mentioned, the effects of the yield dependent contracts as detailed above. In addition, it is assumed that the said changes do not reflect an impairment of assets reported at amortized cost or of available for sale assets and therefore, the above sensitivity test did not include impairment losses in respect of these assets.

The sensitivity analysis only reflects the direct effects and does not reflect the ancillary effects.

It should also be noted that the sensitivity is not necessarily linear. Hence, larger or smaller changes in relation to the changes described below are not necessarily a simple extrapolation of the effect of those changes.

NOTE 37:- RISK MANAGEMENT (Cont.)

December 31, 2014

	The interest rate (1) (2)		Investments in capital instruments (3)		Rate of change in the CPI		Rate of change in the foreign currency exchange rate (5)	
	+1%	-1%	+10%	-10%	+1%	-1%	+10%	-10%
	NIS in thousands							
Profit (loss)	19,373	(20,656)	2,241	(1,967)	(28,484)	28,484	(73,237)	73,237
Comprehensive income (loss) (4)	(226,910)	273,783	216,270	(215,996)	(28,484)	28,484	94,840	(94,840)

December 31, 2013:

	The interest rate (1) (2)		Investments in capital instruments (3)		Rate of change in the CPI		Rate of change in the foreign currency exchange rate (5)	
	+1%	-1%	+10%	-10%	+1%	-1%	+10%	-10%
	NIS in thousands							
Profit (loss)	5,543	(20,774)	4,465	(5,738)	(24,369)	24,369	(54,229)	47,607
Comprehensive income (loss) (4)	(198,690)	218,035	191,313	(192,586)	(24,369)	24,369	91,521	(98,142)

NOTE 37:- RISK MANAGEMENT (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, unquoted financial liabilities and liabilities in respect of insurance contracts and investment contracts. The assets underlying the sensitivity analysis in 2014 account for about 15% of total assets for non-yield dependent contracts.

(2) The sensitivity analysis does not include the effect on insurance liabilities since in life insurance and health insurance the discount rate is usually derived from the tariff interest and in general insurance the liabilities are not discounted. Nevertheless, the Company performs adequacy tests of the insurance liabilities. In these tests, the life assurance liabilities, including the deployment of the supplementation for annuity, are capitalized based on risk-free interest rates with the addition of negative liquidity premium, see Note 2j(1)(g) above. A 1% decrease in interest will lead to an increase in these reserves and a decrease in income and comprehensive income by approximately NIS 1,300 million before taxes and approximately NIS 800 million after taxes (previous year - approximately NIS 600 million before taxes and approximately NIS 400 million after taxes). These amounts are presented after taking into account assumptions regarding the eligibility component of the purchase of designated bonds.

(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 1.5 billion.

b) Direct interest risk:

Direct interest risk is the risk that the change in the market interest will cause a change in the fair value or in the cash flows deriving from the asset or the liability. This risk relates to assets settled in cash. The addition of the word "direct" emphasizes the fact that the interest change can also affect other types of assets but not directly, such as the effect of the interest change on the share rates.

NOTE 37:- RISK MANAGEMENT (Cont.)

Hereunder are details of assets and liabilities according to exposure to interest risks:

	December 31, 2014		
	Non-yield dependent	Yield dependent	Total
	NIS in thousands		
Assets with direct interest risk:			
Quoted debt assets	6,140,242	23,462,098	29,602,340
Unquoted debt assets:			
"Hetz" bonds	19,481,929	785,956	20,267,885
Other	2,571,707	6,889,812	9,461,519
Other financial investments	-	-	-
Cash and cash equivalents	1,642,651	3,289,969	4,932,620
Reinsurance assets	1,009,324	4,383	1,013,707
Total assets with direct interest risk	30,845,853	34,432,218	65,278,071
Assets without direct interest risk *)	9,498,041	44,275,846	53,773,887
Total assets	40,343,894	78,708,064	119,051,958
Liabilities with direct interest risk:			
Financial liabilities	906,752	8,409	915,161
Liabilities in respect of insurance contracts and investment contracts	31,403,731	78,046,216	109,449,947
Others	129,901	119,099	249,000
Total liabilities with direct interest risk	32,440,384	78,173,724	110,614,108
Liabilities without direct interest risk **)	2,376,551	783,226	3,159,777
Total liabilities	34,816,935	78,956,950	113,773,885
Total assets net of liabilities	5,526,959	(248,886)	5,278,073
Off balance sheet risk (liabilities to grant credit)	111,622	859,766	971,388

*) Assets without direct interest risk – include shares, fixed assets and investment property, deferred acquisition costs and other assets, as well as balance sheet groups of financial assets (outstanding premiums, insurance companies' current balances and debtors and receivables) whose average duration is up to six months and therefore the interest risk is relatively low in their respect.

**) Liabilities without direct interest risk include: tax reserves, various credit balances, etc.

NOTE 37:- RISK MANAGEMENT (Cont.)

	Year ended December 31, 2013		
	Non-yield dependent	Yield dependent	Total
	NIS in thousands		
Assets with direct interest risk:			
Quoted debt assets	5,840,002	19,207,628	25,047,630
Unquoted debt assets:			
"Hetz" bonds	18,793,306	750,360	19,543,666
Other	2,823,193	7,246,860	10,070,053
Other financial investments	2,615	-	2,615
Cash and cash equivalents	1,550,267	4,907,015	6,457,282
Reinsurance assets	986,269	4,849	991,118
Total assets with direct interest risk	29,995,652	32,116,712	62,112,364
Assets without direct interest risk *)	8,920,571	38,701,115	47,621,686
Total assets	38,916,223	70,817,827	109,734,050
Liabilities with direct interest risk:			
Financial liabilities	1,116,572	-	1,116,572
Liabilities in respect of insurance contracts and investment contracts	30,127,559	70,558,408	100,685,967
Others	133,626	120,135	253,761
Total liabilities with direct interest risk	31,377,757	70,678,543	102,056,300
Liabilities without direct interest risk **)	2,379,576	157,773	2,537,349
Total liabilities	33,757,333	70,836,316	104,593,649
Total assets net of liabilities	5,158,890	(18,489)	5,140,401
Off balance sheet risk (liabilities to grant credit)	76,375	471,907	548,282

*) Assets without direct interest risk – include shares, fixed assets and investment property, deferred acquisition costs and other assets, as well as balance sheet groups of financial assets (outstanding premiums, insurance companies' current balances and debtors and receivables) whose average duration is up to six months and therefore the interest risk is relatively low in their respect.

**) Liabilities without direct interest risk include: tax reserves, various credit balances, etc.

Comment:

With regard to the discount interest rate used to calculate insurance liabilities in life assurance and health insurance see b(3)(b)(3)(a) below. The Company does not discount insurance liabilities in general insurance. For additional details - see b(3)(c) below.

NOTE 37:- RISK MANAGEMENT (Cont.)

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

	December 31, 2014					
	Listed in Tel-Aviv 100 Index	Listed in other index	Not listed in Israel	Abroad	Total	% of Total
	NIS in thousands					
Sector:						
Industry	301,071	64,269	-	154,520	519,860	46.8
Construction and real estate	64,266	6,304	3,961	22,163	96,694	8.7
Commercial	3,049	2,106	-	24,755	29,910	2.7
Communication and computer services	65,577	10,892	-	95,088	171,557	15.4
Banks	111,866	-	-	626	112,492	10.1
Financial services	21,188	-	-	33,919	55,107	4.9
Other business services	4,944	6,913	13,270	949	26,076	2.3
Holding companies	62,586	-	-	39,070	101,656	9.1
Total	634,547	90,484	17,231	371,090	1,113,352	100.0

	December 31, 2013					
	Listed in Tel-Aviv 100 Index	Listed in other index	Not listed in Israel	Abroad	Total	% of Total
	NIS in thousands					
Sector:						
Industry	229,706	65,616	8,915	155,655	459,892	44.5
Construction and real estate	36,433	9,894	2,570	32,221	81,118	7.8
Commercial	17,159	2,384	-	17,011	36,554	3.5
Communication and computer services	61,346	14,561	-	113,504	189,411	18.3
Banks	110,324	-	-	-	110,324	10.7
Financial services	25,441	-	-	57,682	83,123	8.0
Other business services	6,636	7,310	1,137	-	15,083	1.5
Holding companies	39,879	123	-	19,300	59,302	5.7
Total	526,924	99,888	12,622	395,373	1,034,807	100

*) Not including investments in affiliates. See Note 7b(1) above.

2. Liquidity risks:

Liquidity risk is the risk that the Group will have difficulties in fulfilling obligations related to its liabilities on time.

The Group is exposed to risks resulting from uncertainty regarding the date the Group will be required to pay claims and other benefits to policyholders in relation to the scope of the monies that will be available for that purpose at that same date. However, a significant part of its insurance liabilities in the life assurance segment are not exposed to the liquidity risks due to the nature of the insurance contracts as described below.

Yield dependent contracts, in life assurance – according to the terms of the contracts, the owners are entitled to receive only the value of the said investments. Hence, if the investment value increases there will be a corresponding increase in the Company's liabilities, net of the management fees that the Company collects.

NOTE 37:- RISK MANAGEMENT (Cont.)

Non-yield dependent contracts in life assurance in the sum of approximately NIS 28 billion, which account for about 26% of the insurance liabilities in life assurance at December 31, 2014 (previous year, approximately NIS 27 billion and 27%, 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, 2014, these assets constitute about 11% of the Group's total assets (approximately NIS 13 billion). As of December 31, 2013, these assets constituted about 12% of the Group's total assets (approximately NIS 13 billion).

Of said asset balance as of December 31, 2014, approximately NIS 7 billion (similarly to the previous 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.

<u>Management of assets and liabilities</u>

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.

NOTE 37:- RISK MANAGEMENT (Cont.)

Outstanding claims and risk reserves – reported under the column "without a defined settlement date".

b) The estimated settlement dates of the liabilities in respect of general insurance contracts were included in the tables as follows:

Liabilities in statistical insurance branches, estimated by an actuary are reported based on an actuarial estimate, according to past claims payments experience.
Insurance liabilities in non-statistical liability insurance branches and excess of income over expenses (accrual) are reported in the column - "without a defined settlement date".
Insurance liabilities in property and other insurance branches, which are not statistical, and in branches on which the actuary does not sign on a valuation - are included in the column of settlement up to 3 years.

c) The settlement dates of the financial liabilities and liabilities in respect of investment contracts were included on the basis of the settlement dates of the contracts. In contracts in which the opposing party is entitled to choose the time of payment, the liability is included on the basis of the earliest date that the Company can be required to pay the liability.

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 15 years	Without a defined settlement date	Total
	NIS in thousands						
December 31, 2014	4,556,003	8,219,446	8,942,559	8,107,805	3,407,269	207,381	33,440,463
December 31, 2013	4,067,229	7,638,859	8,522,115	8,087,008	4,395,643	237,700	32,948,554

*) 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, 2014	2,350,852	704,062	992,666	161,298	4,208,878
December 31, 2013	2,142,787	619,290	940,025	163,763	3,865,865

NOTE 37:- RISK MANAGEMENT (Cont.)

Financial liabilities and liabilities in respect of investment contracts:

	Up to 1 year *)	Over 1 year and up to 5 Years	Over 5 years and up to 10 years	Over 10 years and up to 15 years	Over 15 years	Without a defined settlement date	Total
	NIS in thousands						
December 31, 2014:							
Financial liabilities **)	763,128	930,626	1,800	-	-	-	1,695,554
Liabilities in respect of non-yield dependent investment contracts	30,000	54,709	69,428	1,052	378	-	155,567
Liabilities in respect of yield dependent investment contracts	-	-	-	-	-	1,744,130	1,744,130
December 31, 2013:							
Financial liabilities **)	383,571	970,981	1,800	-	-	-	1,356,352
Liabilities in respect of non-yield dependent investment contracts	89,878	73,503	68,818	5,795	378	-	238,372
Liabilities in respect of yield dependent investment contracts	-	-	-	-	-	737,341	737,341

*) Financial liabilities of up to one year include an amount of approximately NIS 33 million (2013 - approximately NIS 20 million) to be settled upon demand. These liabilities were classified for settlement of up to one year even though the actual settlement date is likely to be in later years.

**) Including financial liabilities in respect of yield-dependent policies in the amount of approximately NIS 641 million at December 31, 2014 (2013 - approximately NIS 97 million).

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. Changes in the risk factors, incidence of events and in their severity, and the legal and regulatory situation can affect the business results of the Group.

NOTE 37:- RISK MANAGEMENT (Cont.)

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.

Insurance risks

Life assurance and health insurance risks

Life assurance and health insurance risks mainly result from uncertainty in the anticipated future claims payment in relation to the assumptions relating to the mortality/longevity rates, morbidity/disability rates, expenses, cancellation or surrenders.

General insurance risks

Pricing risk –the exposure to deterioration in the risk factors covered by the policy beyond the actuarial valuation according to which this premium was determined for covering these risks. The gaps may be due to random changes in the business results and to changes in the average claim cost and/or the frequency of the claims as a result of various reasons.

Valuation of the insurance liabilities (reserve for outstanding claims) risk – the exposure to deterioration in future payments of the outstanding claims above the estimate of the Company's liability for these claims.

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.

NOTE 37:- RISK MANAGEMENT (Cont.)

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 1.80% (*) of the amount at risk, is approximately NIS 4,404 million, gross, of which approximately NIS 329 million on retention (excluding one transaction in which there is maximum risk exposure covered entirely by reinsurance.)

(*) Excluding exposure in respect of motor casco that is not covered by reinsurance which is subject to MPL at a rate of about 5%.

In life assurance business there is a requirement to hold capital against loss in respect of a particularly large-scale event with low probability at a rate of 0.17% of the amount at risk in respect of death (formerly the reserve for extraordinary risks). In addition, there is a CAT type reinsurance agreement which covers death claims and disability resulting from a catastrophe (such as an earthquake or war of any kind, including nuclear, biological or chemical war). The cover in this type of reinsurance agreement is USD 150 million after a deductible of USD 40 million in the event of an earthquake, and USD 80 million in the event of war.

For further information on various insurance branches for which the insurer is exposed to insurance risk, see details of insurance liabilities according to insurance risks in Notes 3d, 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.

NOTE 37:- RISK MANAGEMENT (Cont.)

Preservation of life assurance and long term savings portfolio

The life assurance and long term savings portfolio of the Company is exposed to policy cancellations and surrenders as well as to movement of accumulated savings between entities. The degree of preservation of the portfolio is affected primarily by the growth of the economy and the level of employment, by the regulatory pronouncements, by public interests, by the competition between various long term savings products as well as the competition between all the entities in the sector, which is increasing over time. The preservation level of the life assurance portfolio, including movement between different long term savings products (life assurance, pension funds, and provident funds), which have different profitability margins, has a significant effect on the profitability of insurance companies and on the embedded value of the long term insurance business of the companies. In view of the discontinuation of the marketing of new insurance products which have guaranteed annuity coefficients, as described in b(3)(b)(6) below, the Company estimates that life assurance plans until December 31, 2012, which include guaranteed annuity coefficients, will be less exposed to the risk of cancellation and surrender. Regarding sensitivity analysis with respect to changes in cancellation rates see b(3)(b)(4) below.

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:

NOTE 37:- RISK MANAGEMENT (Cont.)

- Principal linked to investment portfolio yield (yield dependent contracts)

- Principal linked to the CPI plus a fixed guaranteed interest or credited by a guaranteed yield against adjusted assets (yield guaranteed contracts).

In respect of insurance components that are attached to these policies (occupational disability, death, long term care, etc.), the insurance liability is calculated separately as mentioned below.

"Endowment" type policies (traditional) and others:

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 updated 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.)

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 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.

Beginning from December 31, 2012, following a circular published by the Commissioner, the Company has begun to set two K rates. One in respect of policies in which the savings component is yield dependent (yield dependent policies) and the second in respect of policies in which the savings component receives a guaranteed yield (non-yield dependent policies) as compared to the previous calculation where a single K rate was set. The calculation of two K rates, as opposed to a single rate, enables a better allocation of the supplementary provision for annuity between the various insurance contracts.

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. The LTC insurance reserve also includes reserve deficiencies.

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 based on the net premium reserve. 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.)

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 long-term interest rate may increase the insurance reserves in respect of the free component (which is not backed be designated bonds) of policies in which the savings component includes a guaranteed yield which is higher than the discount interest rate, due to the need to provide an additional reserve within the framework of a liability adequacy test (LAT). See Note 2j(1)(g) above.

NOTE 37:- RISK MANAGEMENT (Cont.)

(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 updated mortality tables of recipients of old age pension.

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.

It should be noted that in the last decades there is an opposite trend of increase in the life expectancy rate and a decrease in mortality rates. The mortality assumption that is used for calculating the liability for annuity, takes into consideration an assumption in respect of a future increase in life expectancy.

(3) The morbidity rates relate to the frequency of claims in respect of dread disease, occupational disability, long term care, surgery and hospitalization, disability from accidents, etc. These rates are determined on the basis of the Company's experience or reinsurers' research. In the long term care and occupational disability branches the period for payment of claims is determined in accordance with the Company's experience or reinsurers' research.

If the assumption regarding the morbidity rate will increase, also the insurance liability in respect of illnesses due to dread disease, occupational disability, long term care, surgery and hospitalization and disability from accidents, will increase.

NOTE 37:- RISK MANAGEMENT (Cont.)

(c) Annuity take-up rates:

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 according to the control directives and adjusted to the Company's experience. Beginning from 2008 all the savings premiums that were deposited in the framework of executive insurance are designated for annuity.

(d) Cancellation rates:

The cancellation rates affect the insurance liabilities in respect of deferred annuity and in respect of part of the health insurances. The cancellation of insurance contracts can be due to the cancellation of policies initiated by the Company due to discontinuation of the premium payments or surrenders of policies at the policyholders' request. The assumptions regarding the cancellation rates are based on the Company's experience and they are based on the type of cancellation, type of product and the seniority of the coverage period.

(e) Continuity rates:

In group health insurances and long term care insurances the policyholders are entitled to continue to be insured under the same conditions, even if the group contract is not renewed. In respect of this option of the policyholders, the Company has a liability that is based on assumptions regarding the continuity rates of the group insurances and the continuity rates of the contracts with the policyholders after the group contract expires.

The higher the probability that the group contract will not be renewed (a higher continuity rate), the higher the insurance liability for continuity of insurance coverage under the previous conditions without the underwriting being adjusted for the change in the policyholders' state of health.

NOTE 37:- RISK MANAGEMENT (Cont.)

(4) Sensitivity analyses:

	December 31, 2014					
	Morbidity rate		Rate of cancellations (surrenders, settlements and reductions)		Mortality rate	
	+10%	-10%	+10%	-10%	+10%	*) -10%
	NIS in thousands					
Profit (loss)	(6,061)	6,056	5,381	(4,974)	97,515	(463,784)

	December 31, 2013					
	Morbidity rate		Rate of cancellations (surrenders, settlements and reductions)		Mortality rate	
	+10%	-10%	+10%	-10%	+10%	*) -10%
	NIS in thousands					
Profit (loss)	-	-	(966)	1,219	53,288	(426,250)

*) Mainly due to the supplementary reserve for annuities.

(5) Changes in the estimates and main assumptions used for calculating life assurance reserve:

(a) Update of additional assumptions:

The Company reviews the adequacy of the life assurance reserves, including the supplementary annuity reserve based, among others, on the update of the annuity realization rates both in respect of the active policy period and in respect of the annuity payment period.

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 realization rates and morbidity and are determined by an actuary based on tests, past experience and other applicable research.

As a result of these tests, in 2014, an incremental provision was recorded in the amount of approximately NIS 466 million before taxes and approximately NIS 290 million after taxes (including approximately NIS 60 million before taxes in respect of a supplement arising from the liability adequacy test (LAT) (2013 - approximately NIS 63 million before taxes and approximately NIS 40 million after taxes).

NOTE 37:- RISK MANAGEMENT (Cont.)

The provision was recorded in respect of life assurance plans, including riders, which have been marketed in the past and mainly arises from the decrease in the market interest curve and the update of assumptions underlying annuity realization rates owing to accumulated experience.

After the reporting date, the decrease in the interest curve continued, which is expected to require an additional increase in the liabilities in respect of insurance contracts. This decrease is part of the macroeconomic effects whose overall effect on the financial results cannot be assessed at this stage, see Note 40c below.

(b) The move to two K factors:

In 2012 the Company began to determine two K rates for the purpose of the gradual building of the supplementary reserve for annuity as mentioned in b3(b)(2) above.

The transition instructions included in the Commissioner's Circular determine that on the transition date the total reserve that is calculated on the basis of the two K rates will not be less than the total reserve that would have been calculated using a single K rate.

(c) The supplementary reserve for annuity included in the Company's books approximates NIS 3,245 million and NIS 2,513 million as of December 31, 2014 and 2013, 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 approximately NIS 2,606 thousand as of December 31, 2014.

It should be noted that the figures listed above, in connection with the supplementary reserve for annuity and in connection with the balance of the provisions to be recognized in the future, relate to funds already accumulated in the policies at the end of the reporting periods and do not include provisions in respect of amounts accumulated in the future.

NOTE 37:- RISK MANAGEMENT (Cont.)

(6) Change in the provisions relating to the sale of life assurance plans that are combined with savings that include annuity coefficients with imputed guaranteed life expectancy ("guaranteed annuity coefficients"):

In November 2012, the circular, "Annuity Factors with Embedded Guaranteed Life Expectancy", was issued. According to the circular it was determined, among others, that starting from January 1, 2013, an insurance company will not market life assurance plans combined with savings that include guaranteed annuity coefficients, except for: (1) whoever is at least 60 years old on the date of sale; (2) whoever has a life assurance contract with guaranteed annuity coefficients and wishes to cancel it altogether and transfer his money to a new insurance contract with guaranteed annuity coefficients, subject to additional rules set out in the circular that was published in this regard.

According to a letter that was published following the aforementioned circular, the marketing of insurance plans with guaranteed annuity coefficients in the year 2013 will be on condition that the Commissioner will approve the business plan that will be submitted to him. Furthermore, the volume of life assurance contract with guaranteed coefficients that will be sold in the year 2013, by virtue of the aforementioned permit, will not exceed NIS 75 million and the number of insurance contracts that will be sold will not be more than 6,000 contracts. Consequently, in 2013 there was a change in the product mix sold by the Group from January 1, 2013, with a significant decline in the weight of new sales of life insurance out of total sales of the Group's pension savings products, and an increase in the weight of new sales of pension funds.

The permit was in effect in 2013 only and was not renewed in 2014.

The discontinuation of marketing policies which include guaranteed annuity coefficients as mentioned above, might improve the preservation rate of policies marketed up to the year 2012, inclusive.

NOTE 37:- RISK MANAGEMENT (Cont.)

c) General insurance contract insurance risks:

(1) Condensed description of the main insurance branches in which the Group operates:

The Group's activities focus on the branches of motor act, motor casco, property insurance and liability insurance.

Motor act insurance covers, pursuant to the motor insurance ordinance, the owner of the vehicle and the driver for any liability they may be liable to pursuant to the Road Accident Victims Compensation Law, 1975, due to bodily damage caused to the driver of the vehicle, the passengers in the vehicle, or pedestrians injured by the vehicle, as a result of the use of the motor vehicle. The claims in this branch are characterized by a long tail, namely, sometimes a long time passes from the date of the event to the time the claim is finally settled.

Motor casco insurance is a voluntary insurance and it is the most common voluntary insurance in the framework of general insurance. Motor casco insurance includes damage coverage for the insured vehicle and property damages that the insured vehicle will cause to a third party.

The coverage is usually limited to the value of the damaged vehicle and/or to the limit of liability for third party specified in the policy.

The tariff for motor casco insurance requires an approval, as well as an approval of the entire policy, by the Commissioner of Insurance and it is a differential actuarial tariff (which is not uniform for all the policyholders and adjusted to risk). The said tariff is based on a number of parameters, those related to the vehicle insured by the policy (such as type of vehicle, production year, etc.), as well as those relating to the characteristics of the policyholders (number of drivers of the vehicle, age of the drivers, previous claims experience, etc.).

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

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

NOTE 37:- RISK MANAGEMENT (Cont.)

Liability insurance is designed to cover the policyholders' liability by law in respect of damage that he may cause to any third party. The main types of insurance are: liability insurance towards a third party, employers' liability insurance and other liability insurance such as professional liability, product liability and directors' and officeholders' liability. The policies in liability insurances are usually issued for the period of one year. However, the time it takes to handle the claims in this branch is longer and might take a number of years, due to several reasons: the damage covered by the policy was caused to a third party who is not the policyholder, the time that passes between the date of the event which is the subject of the claim and the time the liability and the damage are determined and the claim is filed, is relatively long.

In many cases it involves relatively complicated factual and legal inquiries, both, regarding the policyholders' liability, as well as the scope of the damage, the period of limitation in respect of the cause of the claim is longer than the period of limitation which is generally accepted in property insurance. The claims in this branch are characterized by a "long tail", namely, a long time passes from the date of the event until the final settlement date of the claim.

Property insurances are designated to grant the policyholder coverage against physical damage to his property. The main risks covered by property policies are fire risks, explosions, theft, earthquake and natural disasters. The property insurances sometimes include coverage for consequential damage (loss of profits) due to the physical damage to the property. Property insurances constitute an important factor in comprehensive residential insurance, business premises insurances, engineering insurances, freight in transit (marine, cargo, aviation) etc.

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

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

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

- Provision for unearned premium
- Excess of income over expenses (accumulation)
- Outstanding claims and provision for premium deficiency
- Less deferred acquisition costs

NOTE 37:- RISK MANAGEMENT (Cont.)

The provision for unearned premium reflects the premium component relating to the period after the balance sheet date, according to generally accepted accounting principles. These reserves do not reflect the actuarial liabilities of unexpired risks and therefore they do not depend on any special assumptions.

Excess of income over expenses (accumulation) – in branches were the time required to give notification of the damage and/or for determining the damage and compensation for the damage, takes a long time and might take a number of years, for example: in the liability and motor act branches, the excess of income over expenses reserve is calculated on a three year funded basis ("the excess") which is comprised of the insurance fees and the income from investments computed at the rate of 3%, in real terms, net of claims and expenses, net of the reinsurers' share, separately for each branch and underwriting year. The accumulated excess until the end of the third year from the date of the beginning of the insurance, net of the unexpired risks reserve ("the accumulation") is included under the outstanding claims item. Losses, if any, are included in the current results.

Regarding the proposed changes for calculating insurance reserves in general insurance, including the cancellation of the excess, see b(3)(c)(6) below.

The outstanding claims, including the reinsurers' share therein, in the statistical branches (the liabilities, motor act, motor casco, comprehensive residential and personal accidents branches), were calculated by the appointed actuary in general insurance Mr. Daniel Israeli, who stated, inter alia, that the valuations were performed in accordance with generally accepted actuarial principles, and the assumptions and methods of valuation of the provisions were determined by him, according to his best professional judgment, and in accordance with the relevant guidelines, directives and principles.

The actuarial valuations are mainly based on data bases in respect of the paid claims that also include direct expenses for the settlement of claims and the deductible. Subrogations and salvage recoveries are taken into consideration in the data base that serves for calculating the actuarial estimates of the outstanding claims. In accordance with the directives of the Commissioner of Insurance, the valuations also included indirect costs for settlement of claims in respect of all the branches in which the Company operates in general insurance.

NOTE 37:- RISK MANAGEMENT (Cont.)

In addition, according to the Commissioner's directives, provisions for premiums that do not cover the anticipated cost of the claims ("premium deficiency"), are included, if necessary, in the motor act, motor casco and comprehensive residential branches. This provision, if made, is reported under outstanding claims.

(b) In accordance with the Commissioner's directives, the outstanding claims are calculated by the actuary, according to the generally accepted actuarial methods, consistently with the previous year. The choice of actuarial method suitable for each insurance branch is determined by the actuary, according to the compatibility of the method to the branch. The valuation of outstanding claims in the Group is based, in most of the branches, on actual claims payments 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). 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.

(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.

NOTE 37:- RISK MANAGEMENT (Cont.)

(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) The actuarial calculations do 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. The Company carried out a test to confirm that the erosion of the margins arising from the non-discount of the reserves against other margins did not cause a situation that necessitates an increment to the reserve.

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

(k) The outstanding claims are calculated on a gross level and the reinsurers' share in the outstanding claims is estimated taking the type of agreement into consideration (proportional/non-proportional).

(3) Details of the actuarial methods in the main insurance branches:

The following actuarial models were utilized in order to estimate the outstanding claims, in a combination with the various assumptions:

(a) Link Ratio - this statistical method is based on the claims development (payment development and/or total claims development, development of the number of claims, etc.), in order to estimate the anticipated development of existing and future claims. This method is mainly suitable after a sufficient period of time has passed from an event or the underwriting of the policy, and there is enough information from the existing claims in order to estimate the total anticipated claims. The Sherman Power Curve method provides an appropriate curve for the Link Ratio.

NOTE 37:- RISK MANAGEMENT (Cont.)

(b) Bornhuetter-Ferguson - this method combines early estimates (apriori) that is known to the company or in the branch, and an additional estimate based on the claims themselves. The early estimate utilizes premiums and loss ratio for evaluating the total claims. The second estimate utilizes the actual claims experience based on other methods (such as Link Ratios). The combined claims valuation weighs the two estimates, and a larger weight is given to the valuation based on the claims experience as time passes and additional information is accumulated for the claims. The use of this method is mainly suitable for the recent period where there is not enough information from the claims or for a new business, or a business with insufficient historical information.

(c) Averages - in certain cases, like in the 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).

(4) Hereunder is a description of the actuarial methods that were applied in the main insurance lines:

(a) Motor act and liability lines:

The basic models used by the Company are the Link Ratio, which is based on the actual data and the adjustment of the Sherman Power Curve if necessary. The model is at the level of the underwriting year and is calculated at the level of the gross claims.

NOTE 37:- RISK MANAGEMENT (Cont.)

In the recent underwriting years, the Company uses the Bornhuetter Ferguson method, which is based on claims per policy in the motor act line and on the Loss Ratio basis in the liability branches.

Since the valuation of the outstanding claims is calculated, as mentioned, at a gross level, there is a model for estimating the reinsurance outstanding claims.

In non-proportional reinsurance (excess of loss), the model for the old underwriting years is based on the treatment of individual claims, whereas in the recent underwriting years it is based on the risk rate derived from the reinsurance premium. In proportional reinsurance, including facultative, it is based on the estimate of individual outstanding claims for old years and recent years according to the loss ratio rate.

(b) Motor casco:

The Company uses the Link Ratio model which is based on actual payments at the level of monthly damages. There are separate models for accident damages and theft damages for private and commercial vehicles up to 3.5 tons and for other kinds of vehicles. The data is at a gross level.

In the recent damage months, the Company uses the Bornhuetter Ferguson method, which is based on claims per policy.

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

(c) Comprehensive residential:

The Company uses the Link Ratio model which is based on the cumulative cost of the claims (claim payments plus individual estimates). The model is applied at the level of monthly damages and the data is at the level of gross claims.

In the last damage month, the Bornhuetter Ferguson method was used. This model is based on claims per policy.

In this line of business, the reinsurance is proportional and the retention is calculated based on the actual reinsurance rates in each damage year.

NOTE 37:- RISK MANAGEMENT (Cont.)

(d) Personal accidents:

The Company uses the Link Ratio model based on the cumulative cost of claims (claim payments plus individual estimates). The model is applied at the underwriting year level and the data used is at the level of the gross claims.

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

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

(e) Lines of business in which non-actuarial provisions were set-up:

Based on the directives of the Commissioner of Insurance, the Group examined the possible calculation of the actuarial reserves also in the other main lines: comprehensive business premises insurance, engineering insurance, contractors insurance, marine insurance, aircraft insurance and insurance of goods in transit.

Due to a lack of statistically significant information, an actuarial model was not applied for these lines.

The outstanding claims with respect to these lines were included based on estimates that included the following components:

- Known outstanding claims that include an appropriate provision for handling expenses up to the end of the period, but were not yet paid as at the financial statements date. This provision is mainly based, on an individual valuation of each claim, based on the opinion received from the Company's attorneys and experts handling the claims. Most of the claims are backed by reinsurance and therefore the effect of the deductible collected from the policyholder is immaterial.

- A provision for claims incurred but not yet reported (IBNR) based on past experience.

NOTE 37:- RISK MANAGEMENT (Cont.)

(5) There were no significant changes in assumptions and actuarial methods as compared with actuarial estimations in the previous year, including with respect to the interest discount method – see b(3)(c)(2)(i) above. However, the estimates regarding the claims ratio in relation to the Loss Ratio premiums in the employers' liability and third party liability branches were updated in view of accumulated experience and enhanced studies. In 2014, two main trends were observed, the first - aggravation of the damage ratio in the liability branches beyond those observed in the previous year as opposed to the continued improvement in the damage ratio in the motor act, professional liability and product liability branches. As a result of enhanced studies and actuarial tests conducted in the current year, the actuary concluded that these trends must be expressed by increasing the claims in the liability branches and reducing the claims in the motor act branch so that the provisions will accurately reflect the updated estimate based on available information. Consequently, there was a negative effect on reserves in the amount of approximately NIS 49 million and on the liability branches in the amount of approximately NIS 66 million compared to a positive effect in the motor act branch of approximately NIS 17 million. It should be noted that these trends were already reflected in the results of the previous year and the actuarial valuations performed on the basis of the best judgment took into consideration this trend in a manner that affected the negative development in the reserves in the amount of approximately NIS 16 million and a negative development in the liability branches of approximately NIS 86 million as opposed to a positive development in the motor act branch of approximately NIS 70 million.

(6) Proposed changes for calculating insurance reserves in general insurance:

In February 2013, the Control of Financial Services Regulations (Insurance) (Insurance Reserve Calculation in General Insurance), 2013 ("the new regulations") and a circular which was updated in January 2015 (collectively – "the Amendment") were published regarding an update of the existing legal provisions underlying the calculation of insurance reserves in general insurance.

NOTE 37:- RISK MANAGEMENT (Cont.)

The Amendment cancels the Control of Insurance Business Regulations (Methods of Calculating Provisions for Future Claims in General Insurance), 1984, and the new regulations will supersede them. The main change that will take place when the regulations come into force will be the cancellation, beginning from the financial statements as of December 31, 2015, of excess income over expenses reserve ("the excess reserve"). Presently, Migdal Insurance calculates the excess reserve for the period of 3 years in general insurance branches with long tail claims (mainly motor act and liability), for which an actuarial valuation is calculated.

In addition, as a supplement for the proposed change, in January 2015, the Commissioner published a position regarding the best practice for actuaries when calculating the insurance reserves in general insurance for the purpose of the financial statements to adequately and properly reflect the insurance liabilities. The Commissioner's position includes, among others, the following determinations:

(a) "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%.

(b) Reference to the cash flow discount rate.

(c) Grouping – for the purpose of adopting the caution principle in ungrouped branches (as defined in the circular - statistical branches), each branch should be treated separately, but the risks (or damage) from all the underwriting years in the branch can be grouped together. In grouped (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.

Migdal Insurance is examining the overall effect of the Amendment on the financial statements, together with the Commissioner's position. At this stage it is not possible to evaluate the effect, since the initial adoption of the Commissioner's position is expected in December 2015 and requires extended preparations.

NOTE 37:- RISK MANAGEMENT (Cont.)

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

Credit risk is, as mentioned, the risk of loss if a borrower fails to meet its obligations, or if there is a change in the credit margins in the capital market. The failure of a counterparty to meet its obligations due to a deterioration of its repayment ability, including insolvency, may affect the Group's business results. Credit assets that are given from members' monies and quotable credit assets in the Nostro portfolios, calculated according to fair value, are also influenced by changes in the credit margins as reflected in the capital market or from a downgrading of the debtor's credit rating.

With respect to the rating sources, see d(2) below.

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

a) Debt assets credit risks:

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

	December 31, 2014		
	Quoted *)	Unquoted	Total
	NIS in thousands		
In Israel	5,623,044	22,053,636	27,676,680
Abroad	517,198	-	517,198
Total debt assets	6,140,242	22,053,636	28,193,878

	December 31, 2013		
	Quoted *)	Unquoted	Total
	NIS in thousands		
In Israel	5,553,451	21,616,499	27,169,950
Abroad	286,551	-	286,551
Total debt assets	5,840,002	21,616,499	27,456,501

*) 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.)

(2) Details of assets divided into ratings:

(a) Debt assets:

	Local rating *)				
	December 31, 2014				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets in Israel					
Quoted debt assets:					
Government bonds	3,693,794	-	-	-	3,693,794
Corporate bonds	1,101,689	779,058	13,783	34,720	1,929,250
Total quoted debt assets in Israel	4,795,483	779,058	13,783	34,720	5,623,044
Unquoted debt assets:					
Government bonds	19,481,929	-	-	-	19,481,929
Corporate bonds	291,814	396,925	2,154	16,430	707,323
Deposits in banks and financial institutions	865,692	-	-	-	865,692
Other debt assets according to security:					
Mortgages	-	-	-	25,337	25,337
Loans on policies	-	-	-	105,528	105,528
Other securities	285,797	293,057	-	265,573	844,427
Not secured	-	-	-	23,400	23,400
Total unquoted debt assets in Israel	20,925,232	689,982	2,154	436,268	22,053,636
Total debt assets in Israel	25,720,715	1,469,040	15,937	470,988	27,676,680
Of which debt assets according to internal rating	279,814	342,987	-	-	622,801
Includes debt assets in internal rating whose rating was reduced by the Company	69,853	60,544	-	-	130,397

	International rating *)				
	December 31, 2014				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets abroad					
Quoted debt assets					
Government bonds	61,218	-	-	-	61,218
Corporate bonds	22,592	256,924	176,464	-	455,980
Total quoted debt assets abroad	83,810	256,924	176,464	-	517,198
Unquoted debt assets:					
Deposits in banks and financial institutions	-	-	-	-	-
Total unquoted debt assets abroad	-	-	-	-	-
Total debt assets abroad	83,810	256,924	176,464	-	517,198

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

NOTE 37:- RISK MANAGEMENT (Cont.)

	Local rating *)				
	December 31, 2013				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets in Israel					
Quoted debt assets:					
Government bonds	3,569,025	-	-	-	3,569,025
Corporate bonds	1,045,899	873,617	23,242	41,668	1,984,426
Total quoted debt assets in Israel	4,614,924	873,617	23,242	41,668	5,553,451
Unquoted debt assets:					
Government bonds	18,793,306	-	-	-	18,793,306
Corporate bonds	298,586	428,801	29,470	3,294	760,151
Deposits in banks and financial institutions	1,030,959	-	-	-	1,030,959
Other debt assets according to security:					
Mortgages	-	-	-	39,315	39,315
Loans on policies	-	-	-	127,442	127,442
Other security	291,665	311,666	-	222,915	826,246
Not secured	5,021	22,549	-	11,510	39,080
Total unquoted debt assets in Israel	20,419,537	763,016	29,470	404,476	21,616,499
Total debt assets in Israel	25,034,461	1,636,633	52,712	446,144	27,169,950
Of which debt assets according to internal rating	167,449	306,121	-	-	473,570
Includes debt assets in internal rating whose rating was reduced by the Company	72,434	56,096	-	-	128,530

	International rating *)				
	December 31, 2013				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets abroad					
Quoted debt assets					
Government bonds	58,252	-	-	-	58,252
Corporate bonds	42,111	182,331	3,857	-	228,299
Total quoted debt assets abroad	100,363	182,331	3,857	-	286,551
Unquoted debt assets:					
Deposits in banks and financial institutions	-	-	-	-	-
Total unquoted debt assets abroad	-	-	-	-	-
Total debt assets abroad	100,363	182,331	3,857	-	286,551

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

NOTE 37:- RISK MANAGEMENT (Cont.)

(b) Credit risks in respect of other assets (In Israel):

Additional information

	Local rating *)				
	December 31, 2014				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debtors and receivables, excluding balances of reinsurers	-	-	-	214,463	214,463
Deferred tax assets	27,017	-	-	-	27,017
Other financial investments	-	-	-	235,007	235,007
Cash and cash equivalents	1,550,771	14,607	-	-	1,565,378

	Local rating *)				
	December 31, 2014				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debtors and receivables, excluding balances of reinsurers	-	-	-	269,949	269,949
Deferred tax assets	19,630	-	-	-	19,630
Other financial investments	-	-	-	226,609	226,609
Cash and cash equivalents	1,480,867	15,257	-	-	1,496,124

(c) Credit risks in respect of off-balance sheet instruments (in Israel):

	Local rating *)				
	December 31, 2014				
	AA	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Unutilized credit facilities	49,856	61,766	-	-	111,622

	Local rating *)				
	December 31, 2013				
	AA and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Unutilized credit facilities	26,324	50,051	-	-	76,375

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

NOTE 37:- RISK MANAGEMENT (Cont.)

(d) Credit risks in respect of other assets (abroad):

	Local rating *)				
	December 31, 2014				
	AA and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debtors and receivables, excluding balances of reinsurers	-	15,112	-	316	15,428
Other financial investments	-	-	-	2,150,196	2,150,196
Cash and cash equivalents	41,049	36,224	-	-	77,273

	Local rating *)				
	December 31, 2013				
	AA and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Other financial investments	-	-	-	1,728,111	1,728,111
Cash and cash equivalents	54,051	92	-	-	54,143

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

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.

NOTE 37:- RISK MANAGEMENT (Cont.)

(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.

(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 579,335 thousand (2013 – NIS 516,522 thousand) see Note 10 above.

NOTE 37:- RISK MANAGEMENT (Cont.)

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

	December 31, 2014		
	Balance sheet credit risk		Off-balance sheet risk
	Amount	%	
	NIS in thousands	of the total	NIS in thousands
Economic sector:			
Industry	451,415	1.6	-
Construction and real estate	794,489	2.8	33,826
Electricity and water	164,582	0.6	77,796
Commercial	47,560	0.2	-
Transportation and storage	130,251	0.5	-
Communication and computer services	67,670	0.2	-
Banks	2,509,658	8.9	-
Financial services	194,531	0.7	-
Other business services	20,313	0.1	-
Holding companies	156,630	0.6	-
Private individuals	419,838	1.5	-
Other	-	-	-
Government bonds	23,236,941	82.3	-
Total	28,193,878	100.0	111,622

	December 31, 2013		
	Balance sheet credit risk		Off-balance sheet risk
	Amount	%	
	NIS in thousands	of the total	NIS in thousands
Economic sector			
Industry	332,033	1.2	-
Construction and real estate	774,707	2.8	21,466
Electricity and water	124,376	0.5	43,509
Commercial	38,591	0.1	-
Transportation and storage	105,349	0.4	11,400
Communication and computer services	187,457	0.7	-
Banks	2,564,107	9.3	-
Financial services	202,856	0.7	-
Other business services	13,990	0.1	-
Holding companies	287,977	1.0	-
Private individuals	401,182	1.5	-
Other	3,293	-	-
Government bonds	22,420,583	81.7	-
Total	27,456,501	100	76,375

NOTE 37:- RISK MANAGEMENT (Cont.)

4.1 Reinsurers' credit risks:

Migdal Insurance insures part of its business by reinsurance, most of which is done through reinsurers abroad. However, the reinsurance does not release the direct insurers from their commitment towards their policyholders according to the insurance policies.

Migdal Insurance is exposed to risks resulting from uncertainty regarding the reinsurers' ability to pay their share in the liabilities in respect of insurance contracts (reinsurance assets). Therefore, the financial stability of reinsurers and their ability to meet their financial obligations may affect the business results of the Company. This exposure is managed by a current follow-up of the reinsurers rating in the international market and their following through on monetary liabilities.

The Company is exposed to concentrated credit risk to an individual reinsurer, due to the reinsurance market structure and the limited amount of reinsurers with sufficient rating.

In accordance with the Commissioner's directives, once a year the Company's Board of Directors determines the limits of the maximum exposure to the reinsurers with whom the Company has engaged and/or will engage, which is mainly based on their international rating. These exposures are managed in the Company by individual valuation of each of the reinsurers separately.

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

NOTE 37:- RISK MANAGEMENT (Cont.)

	December 31, 2014										
			Reinsurance assets							Debts in arrears (b)	
	Total reinsurance premiums for 2014	Balances in debit (credit) net	In life assurance	In health insurance	In property insurance	In Liability insurance	Deposits by reinsurers	Amount of letters of credit received from reinsurers	Total exposure (a) (c)	Between half a year and one year	Over one year
	NIS in thousands										
Rating group (d):											
AA and above											
Swiss Reinsurance Co	207,351	(49,047)	7,209	7,100	44,654	36,458	10,732	-	35,642	-	-
Munich Reinsurance Co.AG	49,975	(12,282)	5,224	1,890	12,556	77,819	-	-	85,207	-	-
Others	138,148	(11,047)	96,425	12,129	58,950	111,739	9,187	6,702	252,307	6	2
	395,474	(72,376)	108,858	21,119	116,160	226,016	19,919	6,702	373,156	6	2
A											
Assicurazioni Generali SpA (e)	128,665	(20,157)	2,685	222	146,976	205,900	5,673	837	329,116	-	-
Others (g)	131,438	(18,234)	1,867	44	88,747	64,472	28,225	317	108,354	3	2
	260,103	(38,391)	4,552	266	235,723	270,372	33,898	1,154	437,470	3	2
BBB (g)	1,045	(278)	-	-	889	-	324	-	287	-	-
Lower than BBB – or unrated (f)	4,787	(4,026)	210	-	1,484	28,058	-	-	25,726	188	175
Total	661,409	(115,071)	113,620	21,385	354,256	524,446	54,141	7,856	836,639	197	179

Comments:

1. (a) The total exposure to reinsurers is: debit (credit) balances, net, reinsurance assets, net of the deposits and net of the amount of letters of credit received from reinsurers as a guarantee for their liabilities.
   (b) After deduction of the allowance for doubtful accounts in an amount of approximately NIS 1,512 thousand.
   (c) The total allowance for doubtful accounts, plus the reduction in the reinsurers' share in outstanding claims and in reserves amounts to about NIS 2,240 thousand which constitutes about 0.3% of the exposure at December 31, 2014.
   (d) Starting from 2014, the rating was mainly determined by AMBest and was converted for reporting purposes to S&P's rating in accordance with a conversion scale as determined pursuant to the Ways of Investment Regulations. Each rating includes all the ranges, for example: A includes A- through A+. If the rating in 2013 had been determined by AMBest, it would not materially change the disclosure provided for 2013.
   (e) The total premiums of the Company's former controlling shareholder include premiums in facultative reinsurance at the rate of 100% in the amount of about NIS 35 million in respect of one policyholder.
   (f) The non-rated group includes balances for outstanding claims through brokers from business that was received up to and including 2003 in the amount of about NIS 3,532 thousand.
   (g) Including an insignificant balance in respect of a reinsurer from the Generali Group which is the Company's former controlling shareholder.
2. The total exposure of the reinsurers in the event of an earthquake at the maximum probability of damage of about 1.80% (MPL according to model used by the Company) is about NIS 4,075 million. The most significant reinsurer is Swiss Re, whose share in this exposure is about NIS 1,025 million.
3. There are no other reinsurers apart from those detailed above in respect of which the exposure exceeds 10% of the overall exposure of reinsurers or in respect of which premium exceeds 10% of the total premiums for reinsurance for 2014. There is an exposure of approximately NIS 93 million to an Israeli insurance company with respect to life assurance reinsurance.

NOTE 37:- RISK MANAGEMENT (Cont.)

	December 31, 2013										
			Reinsurance assets							Debts in arrears (b)	
	Total reinsurance premiums for 2013	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										
Rating group (d):											
AA and above											
Swiss Reinsurance Co	120,635	(31,379)	5,172	4,924	31,505	36,903	4,020	-	43,105	-	-
Munich Reinsurance Co.AG	51,407	(8,553)	3,139	3,994	18,484	69,641	-	-	86,705	-	-
Others	132,410	(13,053)	90,391	9,359	54,478	42,928	15,234	5,673	163,196	1	1
	304,452	(52,985)	98,702	18,277	104,467	149,472	19,254	5,673	293,006	1	1
A											
Assicurazioni Generali SpA (e)	216,668	(11,921)	2,181	452	124,362	190,132	11,533	747	292,926	-	-
Others (g)	225,371	(28,065)	2,076	39	154,010	107,133	50,853	592	183,748	25	34
	442,039	(39,986)	4,257	491	278,372	297,265	62,386	1,339	476,674	25	34
BBB (g)	-	(21)	-	-	494	-	-	-	473	-	-
Lower than BBB – or unrated (f)	5,494	(3,920)	204	-	3,714	35,403	-	-	35,401	275	7
Total	751,985	(96,912)	103,163	18,768	387,047	482,140	81,640	7,012	805,554	301	42

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 allowance for doubtful accounts in an amount of approximately NIS 1,290 thousand.
   (c) The total allowance for doubtful accounts, plus the reduction in the reinsurers' share in outstanding claims and in reserves amounts to about NIS 2,095 thousand which constitutes about 0.3% of the exposure at December 31, 2013.
   (d) The rating was mainly determined by S&P. In cases where S&P did not provide a rating, the rating was determined by another rating company whose rating was converted in accordance with a conversion scale as determined pursuant to the Ways of Investment Regulations. Each rating includes all the ranges, for example: A includes A- through A+. If the rating in 2013 had been determined by AMBest, it would not materially change the disclosure provided for 2013.
   (e) The total premiums of the Company's former controlling shareholder include premiums in facultative reinsurance at the rate of 100% in the amount of about NIS 58 million in respect of one policyholder. Includes premiums of NIS 39 million in life assurance transferred to Swiss Re following transfer of occupational disability policies - see Note 38g(3) below.
   (f) The non-rated group includes balances for outstanding claims through brokers from business that was received up to and including 2003 in the amount of about NIS 7,497 thousand.
   (g) Including an insignificant balance in respect of a reinsurer from the Generali Group which is the Company's former controlling shareholder.
2. The total exposure of the reinsurers in the event of an earthquake at the maximum probability of damage of about 1.80% (MPL according to model used by the Company) is about NIS 4,287 million (see also Note 37b(3)(a) below). The most significant reinsurer is Generali Group, the former controlling shareholders in the Company and its share of the exposure is approximately NIS 933 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 premium exceeds 10% of the total premiums for reinsurance for 2013. There is an exposure of approximately NIS 88 million to an Israeli insurance company with respect to life assurance reinsurance.

NOTE 37:- RISK MANAGEMENT (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.

b) Changes in regulation and compliance:

The Group companies are subject to widespread regulation is their activities. Changes in the law and in regulatory guidelines affect the substance of the activities of the companies and the profitability of the sale of various products sold by them and also on the financial reporting of the companies. Noncompliance with regulatory requirements, including unintentional, could lead to sanctions such as cancelling licenses and permits and levying monetary fines on the Group and might form the basis for potential claims against it.

The regulation in the insurance and long term savings has a significant impact on the prices and management fee rates collected on various products, sales processes 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.

In 2012, the reform in management fees affected the pension fund savings and their profitability.

In addition, the insurance companies are subject to capital requirements. Changes in regulations in capital requirements may affect the activities and profitability of Group companies.

NOTE 37:- RISK MANAGEMENT (Cont.)

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.

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, both by way of the level of product alternatives and by way of the level and structure of 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.

e) Legal precedents and authority of the Commissioner to issue master decisions:

The Group companies are exposed to judicial decisions, including class action suits which are filed against other entities in the industry and against the Group companies, and quasi-judicial decisions given by the Commissioner within the framework of its powers to discuss policyholder complaints and/or conduct an audit, which constitute a binding legal precedent in relation to the Group's activities affecting the Group's operations in a manner that could result in a change of obligations and/or the bearing of costs that were not anticipated at the date of the transaction.

f) Legal proceedings:

The Group's financial institutions are party to legal proceedings, including class actions and decisions of the Commissioner within the framework of its powers to handle complaints and/or conduct audits, which can lead to their being charged significant sums and/or to require the Group to treat insurance/pension/provident plans in a manner different than in the past, including the imposing of financial sanctions.

g) Damage to reputation:

The Group's reputation and good name are an important factor in the conducting of transactions with new customers and retaining existing customers. Damage to the Group's reputation may significantly harm the Group's business.

NOTE 37:- RISK MANAGEMENT (Cont.)

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

	December 31, 2014					
	In unlinked NIS	In NIS linked to the CPI	Stated in foreign currency or linked thereto *)	Non-monetary items and others	Assets in respect of yield dependent contracts	Total
	NIS in thousands					
Assets						
Intangible assets	-	-	-	1,359,895	-	1,359,895
Deferred tax assets	-	-	-	27,017	-	27,017
Deferred acquisition costs	-	-	-	1,769,245	71	1,769,316
Fixed assets	-	-	-	717,456	-	717,456
Investments in affiliates	13,547	337	6,114	624,468	-	644,466
Investment property for yield dependent contracts	-	-	-	-	4,898,057	4,898,057
Other investment property	-	-	-	630,890	-	630,890
Reinsurance assets	150,363	836,450	22,511	-	4,383	1,013,707
Current tax assets	-	188,403	16,032	-	10,824	215,259
Debtors and receivables	172,974	7,423	77,397	14,218	716,496	988,508
Outstanding premiums	48,890	285,190	39,990	-	205,265	579,335
Financial investments for yield contracts dependent	-	-	-	-	69,582,999	69,582,999
Other financial investments:						
Quoted debt assets	1,764,305	3,858,739	517,198	-	-	6,140,242
Unquoted debt assets	346,729	21,577,135	129,772	-	-	22,053,636
Shares	-	-	-	1,113,352	-	1,113,352
Others	10,395	-	14,598	2,360,210	-	2,385,203
Total other financial investments	2,121,429	25,435,874	661,568	3,473,562	-	31,692,433
Cash and cash equivalents for yield dependent contracts	-	-	-	-	3,289,969	3,289,969
Other cash and cash equivalents	1,512,005	-	130,646	-	-	1,642,651
Total assets	4,019,208	26,753,677	954,258	8,616,751	78,708,064	119,051,958

*) Exposure to the foreign currency exchange rates mainly arises from the exposure to the dollar and the Euro.

NOTE 37:- RISK MANAGEMENT (Cont.)

	December 31, 2014					
	In unlinked NIS	In NIS linked to the CPI	Stated in foreign currency or linked thereto *)	Non-monetary items and others	Assets in respect of yield dependent contracts	Total
	NIS in thousands					
Total equity	-	-	-	5,278,073	-	5,278,073
Liabilities	-	-	-	-	-	-
Liabilities in respect of non-yield dependent insurance and investment contracts	695,896	30,658,197	49,638	-	-	31,403,731
Liabilities in respect of yield dependent insurance and investment contracts	-	-	-	-	78,046,216	78,046,216
Deferred tax liabilities	-	-	-	722,985	-	722,985
Liabilities for employee benefits, net	50,619	-	-	79,386	119,099	249,104
Liabilities in respect of current taxes	-	40,836	-	-	-	40,836
Creditors and payables	809,279	464,466	233,660	65,754	150,254	1,723,413
Financial liabilities	18,392	845,428	49,680	32,719	641,381	1,587,600
Total liabilities	1,574,186	32,008,927	332,978	900,844	78,956,950	113,773,885
Total equity and liabilities	1,574,186	32,008,927	332,978	6,178,917	78,956,950	119,051,958
Total balance sheet exposure	2,445,022	(5,255,250)	621,280	2,437,834	(248,886)	-
Exposure to base assets through derivative instruments in Delta terms	1,734,098	-	(1,746,581)	12,483	-	-
Total exposure	4,179,120	(5,255,250)	(1,125,301)	2,450,317	(248,886)	-

*) Exposure to the foreign currency exchange rates mainly arises from the exposure to the dollar and the Euro.

NOTE 37:- RISK MANAGEMENT (Cont.)

	December 31, 2013					
	In unlinked NIS	In NIS linked to the CPI	Stated in foreign currency or linked thereto *)	Non-monetary items and others	Assets in respect of yield dependent contracts	Total
	NIS in thousands					
Assets						
Intangible assets	-	-	-	1,453,585	-	1,453,585
Deferred tax assets	-	-	-	19,630	-	19,630
Deferred acquisition costs	-	-	-	1,736,124	85	1,736,209
Fixed assets	-	-	-	758,865	-	758,865
Investments in affiliates	68,711	633	-	584,853	-	654,197
Investment property for yield dependent contracts	-	-	-	-	4,697,884	4,697,884
Other investment property	-	-	-	610,204	-	610,204
Reinsurance assets	185,475	780,562	20,232	-	4,849	991,118
	-	75,773	1,101	-	10,371	87,245
Debtors and receivables	237,399	1,145	14,042	23,568	38,948	315,102
Outstanding premiums	54,555	258,784	34,687	-	168,496	516,522
Financial investments for yield contracts dependent	-	-	-	-	60,990,179	60,990,179
Other financial investments:						
Quoted debt assets	1,825,200	3,728,251	286,551	-	-	5,840,002
Unquoted debt assets	179,198	21,423,083	14,218	-	-	21,616,499
Shares	-	-	-	1,034,807	-	1,034,807
Others	-	1,763	20,833	1,932,124	-	1,954,720
Total other financial investments	2,004,398	25,153,097	321,602	2,966,931	-	30,446,028
Cash and cash equivalents for yield dependent contracts	-	-	-	-	4,907,015	4,907,015
Other cash and cash equivalents	1,428,220	-	122,047	-	-	1,550,267
Total assets	3,978,758	26,269,994	513,711	8,153,760	70,817,827	109,734,050

*) Exposure to the foreign currency exchange rates mainly arises from the exposure to the dollar and the Euro.

NOTE 37:- RISK MANAGEMENT (Cont.)

	December 31, 2013					
	In unlinked NIS	In NIS linked to the CPI	Stated in foreign currency or linked thereto *)	Non-monetary items and others	Assets in respect of yield dependent contracts	Total
	NIS in thousands					
Total equity	-	-	-	5,140,401	-	5,140,401
Liabilities						
Liabilities in respect of non-yield dependent insurance and investment contracts	688,728	29,394,008	44,823	-	-	30,127,559
Liabilities in respect of yield dependent insurance and investment contracts	-	-	-	-	70,558,408	70,558,408
Deferred tax liabilities	-	-	-	632,174	-	632,174
Liabilities for employee benefits, net	51,999	-	-	81,627	120,135	253,761
Liabilities in respect of current taxes	-	28,405	-	-	-	28,405
Creditors and payables	1,011,690	466,184	167,147	67,358	60,530	1,772,909
Financial liabilities	194,507	903,533	11,728	13,422	97,243	1,220,433
Total liabilities	1,946,924	30,792,130	223,698	794,581	70,836,316	104,593,649
Total capital and liabilities	1,946,924	30,792,130	223,698	5,934,982	70,836,316	109,734,050
Total balance sheet exposure	2,031,834	(4,522,136)	290,013	2,218,778	(18,489)	-
Exposure to base assets through derivative instruments in Delta terms	976,391	(99,994)	(917,137)	40,740	-	-
Total exposure	3,008,225	(4,622,130)	(627,124)	2,259,518	(18,489)	-

*) Exposure to the foreign currency exchange rates mainly arises from the exposure to the dollar and the Euro.

NOTE 37:- RISK MANAGEMENT (Cont.)

d. Information regarding financial investments for yield dependent contracts:

1. Composition of investments according to linkage basis:

	December 31, 2014				
	In unlinked NIS	In NIS linked to the CPI	Stated in foreign currency or linked thereto *)	Non-monetary items and others	Assets in respect of yield dependent contracts
	NIS in thousands				
Cash and cash equivalents	2,371,339	-	918,630	-	3,289,969
Quoted assets	8,397,957	11,500,647	3,565,229	33,196,925	56,660,758
Unquoted assets	603,954	7,244,180	1,154,533	9,754,670	18,757,337
Total assets	11,373,250	18,744,827	5,638,392	42,951,595	78,708,064
Exposure to the base asset through derivative instruments in Delta terms	18,548,993	-	(22,775,937)	4,226,944	-

	December 31, 2013				
	In unlinked NIS	In NIS linked to the CPI	Stated in foreign currency or linked thereto *)	Non-monetary items and others	Assets in respect of yield dependent contracts
	NIS in thousands				
Cash and cash equivalents	2,726,177	-	2,180,838	-	4,907,015
Quoted assets	7,411,199	11,074,001	722,428	28,985,316	48,192,944
Unquoted assets	317,640	7,830,829	442,013	9,127,386	17,717,868
Total assets	10,455,016	18,904,830	3,345,279	38,112,702	70,817,827
Exposure to the base asset through derivative instruments in Delta terms	19,141,482	-	(23,623,818)	4,482,336	-

NOTE 37:- RISK MANAGEMENT (Cont.)

2. Credit risk for assets in Israel:

	Local rating *) December 31, 2014				
	AA and above	BBB to A	Lower than BBB	Not rated	Total **)
	NIS in thousands				
Debt assets in Israel:					
Government bonds	12,279,981	-	-	-	12,279,981
Other debt assets - quoted	4,788,544	3,469,233	71,663	75,139	8,404,579
Other debt assets - unquoted	3,008,439	3,451,262	-	430,111	6,889,812
Total debt assets in Israel	20,076,964	6,920,495	71,663	505,250	27,574,372
Of which debt assets at internal rating	1,177,256	2,284,848	-	-	3,462,104
Includes debt assets at internal rating whose rating was reduced by the Company	319,205	963,596	-	-	1,282,801

	Local rating *) December 31, 2013				
	AA and above	BBB to A	Lower than BBB	Not rated	Total **)
	NIS in thousands				
Debt assets in Israel:					
Government bonds	10,931,593	-	-	-	10,931,593
Other debt assets - quoted	3,802,825	4,343,096	78,537	79,509	8,303,967
Other debt assets - unquoted	3,252,527	3,476,046	59,699	458,588	7,246,860
Total debt assets in Israel	17,986,945	7,819,142	138,236	538,097	26,482,420
Of which debt assets at internal rating	733,613	2,113,201	7,966	-	2,854,780
Includes debt assets at internal rating whose rating was reduced by the Company	331,563	915,696	-	-	1,247,259

*) The sources for the rating level in Israel are Ma'alot and Midroog. The rating company's data were converted into rating signs according to generally accepted conversion coefficients. Each rating includes all the ranges, for example: A includes A- through A+.

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

NOTE 37:- RISK MANAGEMENT (Cont.)

3. Credit risk for assets abroad:

	December 31, 2014				
	AA and above	BBB	Lower than BBB	Not rated	Total **)
	NIS in thousands				
Total debt assets abroad	271,048	1,579,843	1,712,603	-	3,563,494

	December 31, 2013				
	AA and above	BBB	Lower than BBB	Not rated	Total **)
	NIS in thousands				
Total debt assets abroad	167,149	313,460	241,819	-	722,428

*) The sources for the rating level aboard are S&P, Moody's and Fitch, which were approved by the Commissioner of Insurance. Each rating includes all the ranges, for example: A includes A- through A+.

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

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

a. General:

1. Effective from October 29, 2012 ("the date of acquisition of control"), the Company's controlling shareholders are Mr. and Mrs. Shlomo and Haya Eliahu, who jointly hold shares in the Company directly and indirectly through Eliahu Insurance (collectively - "the controlling shareholder"). See details of the controlling shareholder's holdings in the Company in Note 1 above. See also details and data of transactions with the controlling shareholder, his relatives or companies controlled by it or of third party transactions in which the controlling shareholder has a personal interest ("controlling shareholder transactions") in c-e below.

2. As of the reporting date, Mr. Shlomo Eliahu directly and indirectly holds about 27% of the issued and paid-up share capital of Union Bank Ltd. ("Union Bank"). Accordingly, from the date of acquisition of control, the transactions of the Company and/or its subsidiaries with Union Bank and/or companies controlled by it are classified as transactions in which the Company's controlling shareholder has a personal interest (this is in addition to being engagements in which a senior officer in the Company has a personal interest, starting from the date on which Mr. Shlomo Eliahu began serving as a director in the Company).

   Until January 2013, Bank Leumi was an interested party in the Company. In addition, on the date of acquisition of control in the Company and until October 2013, Mr. Shlomo Eliahu directly and indirectly held over 5% of the share capital in Bank Leumi (in addition to the holdings of Migdal Group in Bank Leumi, as they were at that time). Accordingly, from the date of acquisition of control, the transactions of the Company and/or its subsidiaries with Bank Leumi and/or companies controlled by it were classified as transactions in which the Company's controlling shareholder has a personal interest as well as engagements in which a senior officer in the Company has a personal interest. Starting from October 2013 and as of the reporting date, Bank Leumi is no longer classified as an entity whose engagements with the Company and/or its subsidiaries represent controlling shareholder transactions.

   According to the directives of the Antitrust Commissioner in an approval granted by him in connection with the acquisition of control, effective from the date of consummation of the transaction for the acquisition of control, the Company will not enter into any agreements (directly and indirectly) with trading companies in which the controlling shareholder holds at least 5% of the share capital, directly or indirectly[1], for conducting transactions in members' assets for which the consideration is paid from the members' assets but rather only through a competitive tender in which every trading company has a fair chance of participating under the terms set forth by the Antitrust Commissioner.

   On the date of acquisition of control, this directive applied to both Bank Leumi and Union Bank. As of the financial statement date, the directive is only applicable to Union Bank. See details and data of transactions with Bank Leumi and Union Bank ("other related parties") in c-d and f below.

[1] Excluding trading companies 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.)

3. Before the date of acquisition of control, the controlling shareholder in the Company was Generali. In the context of the sale of control, Generali undertook towards the Company to allow Migdal Insurance to continue renewing its reinsurance contracts, at Migdal Insurance's discretion, for a period of five years, up to Generali's existing exposure threshold (as detailed in a report of October 29, 2012, reference no.: 2012-01-266412). In view of the transfer of control, Migdal Insurance's engagements with Generali no longer represent controlling shareholder transactions and therefore no longer require special approval for controlling shareholder transactions. However, in view of the ISA's position regarding other contexts according to which transactions with former controlling shareholders are viewed as transactions in which the new controlling shareholder has a personal interest, the Company decided, on the basis of a legal opinion received, that although Generali is no longer the controlling shareholder of the Company and although there is no reason to consider Mr. Shlomo Eliahu as having a personal interest in the transactions with Generali, and for caution sale only, to approve transactions with Generali through legal procedures applied to controlling shareholder transactions until the end of 2014 (two calendar years from the date of acquisition), all as detailed in a report of May 28, 2013 and a revised report of June 23, 2013 (references no.: 2013-01-075304 and 2013-01-071268, respectively).

   See details and data of transactions and engagements with Generali in c, d and g below.

4. Details and data of engagements with affiliates are presented in c, d and h below.

   This Note does not include a description of controlling shareholder transactions and/or transactions with other related parties which occurred before they became related parties. Financial data regarding these transactions in the reporting period are included in the data in c and d below. Balances and transactions between the Company and interested and related parties which occurred when those parties were related and/or interested and in the reporting period ceased being related and/or interested parties, including in this context Bank Leumi, as described in a(2) above, are disclosed in this Note in comparative figures presenting previous periods.

b. The Company's policy on immaterial transactions:

1. In its ordinary course of business, the Group performs or is likely to conduct transactions with interested parties and/or controlling shareholder transactions, including, but not limited to, the following types of transactions: reinsurance contracts and facultative agreements, purchase of assets, rental of real estate properties, purchase of products and services through the controlling shareholder, joint ventures, including joint investments and receipt of financial or economic services. Please note that the above transactions do not constitute a closed list.

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

2. As detailed in 4 below, the Company's Board has adopted certain guidelines and rules for classifying the transactions of any of the Group companies pursuant to Regulation 41(a)(6) to the Securities Regulations (Preparation of Annual Financial Statements), 2010 ("the immaterial transactions procedure"). These guidelines and rules serve in examining the scope of disclosure and reporting required from public companies in connection with transactions with interested parties and/or controlling shareholder transactions according to the Securities Regulations (Periodic and Immediate Reports), 1970 ("the Reporting Regulations"), including the reporting framework in interim financial statements (as stated in Regulation 22 to the Reporting Regulations) and examining the need for immediate reporting of such transactions, according to Regulation 37(a)(6) to the Reporting Regulations.

3. The financial data included in c and d below consist of immaterial transactions. The details of transactions with other related parties and/or controlling shareholder transactions do not include a description of transactions that are classified as immaterial according to the Board's immaterial transactions test.

4. On March 26, 2012, the Company's Board decided to update the guidelines and rules for classifying transactions as immaterial. According to this decision, which was readopted by the Board on March 24, 2015, a transaction will be viewed as immaterial if it meets all the following conditions:

   a) It is not an irregular transaction (as defined in the Companies Law).

   b) In the absence of any special qualitative considerations that arise from the relevant circumstances, a transaction will be viewed as immaterial if:

      - The scope of the individual transaction does not exceed NIS 8 million and in a reinsurance transaction (the scope of premiums transferred to the insurer less the commissions paid to the Company) - the controlling shareholder's share does not exceed NIS 4 million, adjusted to the rate of increase in the CPI in relation to the known CPI for January 2012).

      And

      - The result of measuring the transaction against the relevant benchmark(s) as discussed below is less than 0.5%. The relevant benchmarks for classifying a certain transaction with the controlling shareholder as an immaterial transactions are:

        - In the sale of insurance or purchase of reinsurance - premium ratio.
        - In the purchase of an asset - asset ratio; in the sale of an asset - profit ratio, asset ratio.
        - In the purchase/sale of products or other services - expense ratio or service income ratio, as applicable.
        - In assuming a financial liability - liability ratio.

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

In this context:

Premium ratio:	The premium underlying the event divided by the total annual premiums in the relevant operating segment (life assurance and long-term savings, health insurance, general insurance), calculated on the basis of the last four quarters for which reviewed or audited financial statements have been issued.
Asset ratio:	The scope of the assets underlying the event (purchased or sold assets) divided by the total assets; the ratio is measured separately for the members' funds that are managed by the Group and for Nostro funds. In the event of a joint venture of the members' funds and Nostro funds, the relevant ratio of each type of assets will be measured separately according to the amount of the portion of the members' funds/Nostro funds, as applicable, in the transaction against the total amount of the assets - members' funds/Nostro funds are measured according to the latest known reviewed/audited financial statements.
Profit ratio:	The profits or losses attributable to the event divided by the average annual comprehensive income or loss (including changes in capital reserves) in the three last calendar years.
Liability ratio:	The liability underlying the event divided by the total liabilities according to the latest known reviewed/audited financial statements.
Equity ratio:	The increase or decrease in equity divided by the equity according to the latest known reviewed/audited financial statements.
Service income ratio:	The scope of income underlying the event divided by the total average annual income in the last three years that is not from premiums, calculated on the basis of the last four quarters for which reviewed or audited financial statements have been issued.
Service expense ratio:	The scope of expenses underlying the event divided by the annual general and administrative expenses calculated on the basis of the last four quarters for which reviewed or audited financial statements have been issued.

5. Regarding multiannual transactions, the scope of the transaction is calculated on an annual basis for the purpose of testing immateriality, thus, for example in a multiannual insurance transaction, the scope of the transaction will be viewed as the annual insurance fees that are paid or collected.

6. In cases in which, at the Company's discretion, all the quantitative benchmarks mentioned above do not apply to testing the immateriality of a controlling shareholder transaction, the transaction will be viewed as immaterial based on another applicable benchmark determined by the Company provided that this benchmark is at a rate of at least 0.5% and the scope of the transaction does not exceed NIS 8 million, linked to the CPI as discussed above.

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

7. The examination of the qualitative considerations of a controlling shareholder transaction may lead to the classification of the transaction as material despite the above mentioned. So for instance, and only for example, a controlling shareholder transaction will not generally be considered immaterial if it is regarded as a significant event by the Company's management and serves as the basis for making management decisions or if in the framework of a controlling shareholder transaction the controlling shareholders are expected to receive benefits which must be reported to the public.

8. A transaction that was classified by an investee of the Company as immaterial will also be considered as immaterial for the Company. Such a transaction which was classified by the investee as immaterial will be examined against the relevant benchmarks at the Company's level.

9. The Company's Board will review the need to update this procedure from time to time, considering the controlling shareholder transactions entered into by the Company and changes in the applicable legal provisions.

c. Balances with interested and related parties (except for key management personnel):

	December 31, 2014			
	Eliahu Group	Union Bank and other related parties *)	Generali	Affiliates
	NIS in thousands			
Reinsurance assets	-	-	355,832	-
Debtors and receivables	-	-	2	1,285
Debt assets **)	-	463,913	149,958	207,191
Shares	-	3,947	-	67,710
Creditors and payables	(37,996)	(102)	(25,828)	(1)
Financial liabilities	-	(26,804)	-	(5,137)

*) The highest balance of debt assets of an interested party during the year amounted to NIS 618,221 thousand.

**) In the context of their current investment activity, the Company and its subsidiaries purchase bonds of various companies and conduct trading activities in the bonds of Generali and Amot. 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 financial statement date they do not purchase any securities of Union Bank but occasionally sell their holdings in the ordinary trading activity.

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

	December 31, 2013			
	Eliahu Group	Union Bank and other related parties *)	Generali	Affiliates
	NIS in thousands			
Reinsurance assets	-	-	317,182	-
Debtors and receivables	-	-	-	-
Debt assets **)	-	166,107	86,833	179,615
Shares	-	4,921	-	-
Acquisition of general insurance portfolio from Eliahu Insurance	260,000	-	-	-
Creditors and payables	-	-	(23,464)	-
Financial liabilities	-	(12,150)	-	(101,653)

*) The highest balance of debt assets of an interested party during the year amounted to NIS 4,308,421 thousand.

**) In the context of their current investment activity, the Company and its subsidiaries purchase bonds of various companies and conduct trading activities in the bonds of Generali and Amot. 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 financial statement date they do not purchase any securities of Union Bank but occasionally sell their holdings in the ordinary trading activity.

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

d. Transactions with interested and related parties (except for key management personnel):

	December 31, 2014			
	Eliahu Group	Union Bank and other related parties	Generali	Affiliates
	NIS in thousands			
Premiums earned - reinsurance	-	-	133,538	-
Reinsurance commissions	-	-	18,722	-
Reinsurance claims and outstanding claims	-	-	128,481	-
Premiums received	-	-	13,675	-
Commissions and profit participating in group insurances	-	225	-	-
Distribution and operating agreements	-	1,217	-	-
Agent commission and other commissions	-	501	-	9,099
Leasing fees/usage fees	-	-	-	168
Transaction costs	975	-	-	-
Other	3,088	722	-	36

	December 31, 2013			
	Eliahu Group	Union Bank and other related parties	Generali	Affiliates
	NIS in thousands			
Premiums earned - reinsurance	-	-	208,390	-
Reinsurance commissions	-	-	34,562	-
Reinsurance claims and outstanding claims	-	-	63,857	-
Premiums received	-	-	9,994	-
Commissions and profit participating in group insurances	-	10,518	-	-
Distribution and operating agreements	-	21,274	-	-
Agent commission and other commissions	-	7,641	-	7,073
Leasing fees/usage fees	-	2,518	126	260
Transaction costs	-	836	-	-
Other	-	286	-	-

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

	December 31, 2012			
	Eliahu Group	Bank Leumi Group, Union Bank and other related parties	Generali	Affiliates
	NIS in thousands			
Premiums earned - reinsurance	-	-	245,180	-
Reinsurance commissions	-	-	43,816	-
Reinsurance claims and outstanding claims	-	-	72,917	-
Premiums received	-	-	9,052	-
Eliahu Insurance's share of premiums	9	-	-	-
Eliahu Insurance's share of payments and change in liabilities in respect of gross insurance contracts	185	-	-	-
Commissions and profit participating in group insurances	-	14,911	-	-
Distribution and operating agreements	-	23,897	-	-
Agent commission and other commissions	-	3,507	-	7,448
Leasing fees/usage fees	-	3,229	274	-
Transaction costs	-	-	-	1,200
Other	-	505	-	-

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[2]**	**Nature and description of the transaction**
1	Mr. Eliahu Eliahu	March 6, 2013 - approval of the Company's general meeting	Terms of employment of the central region's director of the general insurance business, Mr. Eliahu Eliahu, the brother of Mr. Shlomo Eliahu, who began working at Migdal Insurance on January 1, 2013 as central region's director of the general insurance business for a monthly salary of NIS 50 thousand and related benefits such as recreation, vacation and sick pay, vehicle maintenance, reimbursement of expenses, social benefits, occupational disability insurance and advanced study fund. The overall remuneration paid to Mr. Eliahu Eliahu in 2014 approximated NIS 975 thousand (cost to employer and before salary tax effect). The legal approval is in effect until January 1, 2016. See more details of the terms of Mr. Eliahu Eliahu's tenure in immediate reports of February 19, 2013 and February 28, 2013 (references no.: 2013-01-042837 and 2013-01-050631, respectively).
2		October 27, 2014 - approval of the Company's general meeting	Bonuses for 2013-2016 - approval of an annual bonus for 2013 totaling NIS 150 thousand and approval of a normative annual bonus to Mr. Eliahu Eliahu for each of the years 2014-2016 based on the remuneration policy which is performance dependent. The amount of the bonus in each calendar year will be determined based on a normative bonus of NIS 200 thousand, according to a performance scale of 70% to 140%. At a scale of 100%, the bonus will be equivalent to the normative bonus; at a scale below 70%, the director will not be entitled to any bonus; at a scale of 140% and above, the director will be entitled to a maximum bonus of NIS 280 thousand a year. See more details of the annual and normative bonuses in an immediate report of September 22, 2014 (reference no.: 2014-01-161913).

2 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. In the event of transactions approved in the general shareholders' meeting that were previously approved by the Company's Audit Committee and Board where an update and/or change is made to a previous transaction, the description of the entire transaction will be made at the earlier date of the two abovementioned dates.

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

Extraordinary controlling shareholder transactions			
#	**Party to the transaction with the Company**	**Date of approval/approving entity**	**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, 2014 amounts to approximately NIS 238 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 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's customers whose grounds precede the date of preparation of a new policy in Migdal Insurance; any liability or duty towards Eliahu's agents that is not related to new policies or in connection with Midgal Insurance's activities with these agents regarding new policies; claims of any of Elihau's employees who were not relocated to Migdal Insurance, or rights of Eliahu's employees who were relocated to Migdal Insurance arising in the period preceding 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's past or future activities. A report of summoning a general meeting for approving this transaction (final version) was issued on September 25, 2013 (reference no.: 2013-01-150849) and a report of the results of the general meeting was issued on September 30, 2013 (reference no.: 2013-01-152673).
3	Israel Eliahu	November 19, 2013 - approval of the Company's general meeting	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. In respect of his service in the Company and in Migdal Insurance, Mr. Israel Eliahu is entitled to annual remuneration of NIS 123 thousand and a fee of NIS 4,740 for participating in each Board and/or committee meeting, which is identical to the fee paid to other directors, including external directors (not including the Chairman of the Board). Mr. Israel Eliahu does not receive any other remuneration for his service as Chairman of the Board of Migdal Capital Markets. VAT as required by law is added to the above amounts and the amounts are updated twice a year based on the increase in the CPI. These terms were approved in accordance with Regulation 1b(3) to the Companies Regulations (Exemptions in Transactions with Interested Parties), 2000 ("the Exemption Regulations"). The overall remuneration paid to Mr. Israel Eliahu for his service in the Company and in Migdal Insurance in 2014 and 2013 amounted to approximately NIS 257 thousand and NIS 41 thousand, respectively (overall cost). See details in an immediate report of November 19, 2013 (reference no.: 2013-01-196653).

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

Extraordinary controlling shareholder transactions			
#	**Party to the transaction with the Company**	**Date of approval/approving entity**	**Nature and description of the transaction**
4	Ofer Eliahu	April 13, 2014 - approval of the Company's general meeting	Terms of service - Mr. Ofer Eliahu, the son of Mr. Shlomo Eliahu, serves as CEO of Migdal Insurance and Chairman of Makefet and Yozma. See details of the terms of employment of Mr. Ofer Eliahu in these capacities in j(4)(d) below.
5	Mr. Yossi Ben Baruch (former officer in Eliahu Insurance)	May 27, 2014 - approval of the Company's Board	Terms of service - Mr. Yossi Ben Baruch served as Acting CEO, comptroller, legal consultant and director of the investment division in Eliahu Insurance until June 30, 2014. In addition, from February 1, 2014 through June 30, 2014, Mr. Ben Baruch served as director in Migdal Capital Markets. In respect of his service as director, Mr. Ben Baruch received in 2014 overall remuneration of approximately NIS 62 thousand. These terms were approved in accordance with Regulation 1b(3) to the Exemption Regulations, see an immediate report of May 27, 2014 (reference no.: 2014-01-074892). On July 1, 2014, Mr. Ben Baruch began serving as CEO of Migdal Capital Markets, see an immediate report of June 20, 2014 (reference no.: 2014-01-103440). Starting from the date of termination of Mr. Ben Baruch's tenure in Eliahu Insurance (June 30, 2014), his service as CEO of Migdal Capital Markets or as director in any of its subsidiaries does not represent a controlling shareholder transaction.
6	The controlling shareholder and his relatives serving as officers in the Company	January 27, 2015 and February 24, 2015 - approval of the Company's Board	Officers' insurance - see details of the Company's and its subsidiaries' officers' insurance policy and of Migdal Capital Markets' officers' insurance policy, including in respect of officers who are the controlling shareholder or his relatives, see j(4)(g) below. This insurance coverage for the controlling shareholder and/or his relatives was approved in accordance with Regulation 1b to the Exemption Regulations. As of the financial statement date, the controlling shareholder and/or his relatives who serve as officers have not received a letter of indemnification from the Company. See details of letters of indemnification granted to officers who are the controlling shareholder or any entity in which the controlling shareholder has a personal interest in Note 39(2)(d) below.

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

Controlling shareholder transactions that are neither extraordinary nor immaterial			
#	**Party to the transaction with the Company**	**Date of approval/approving entity**	**Nature and description of the transaction**
1	Eliahu Insurance	May 7, 2014 - approval of the Company's Audit Committee	Monetary investment in a limited partnership, MGT Hedge Fund, L.P., a hedge fund founded on January 1, 2014 ("the Fund") by Migdal 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 Migdal Capital Markets and Eliahu Insurance. As of the financial statement date, each of the partners in the Fund has 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. Migdal Capital Markets and Eliahu Insurance have not entered into a mutual undertaking to invest in the Fund. Eliahu Insurance notified Migdal Capital Markets that its investment will be limited to up to 50% of the Fund's assets. Eliahu Insurance's outstanding investment as of December 31, 2014 approximates NIS 38 million. In the first quarter of 2015, Eliahu Insurance and Migdal Capital Markets filed applications for withdrawal of their entire investments in the Fund. As of the financial statement date, the withdrawals were not actually executed. A report of 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 other related parties classified as extraordinary and non-extraordinary transactions pursuant to Section 270(4) to the Companies Law:

Extraordinary transactions with other related parties			
#	**Party to the transaction with the Company**	**Date of approval/approving entity**	**Nature and description of the transaction**
1	Bank Leumi	January 14, 2013 - approval of the Company's Board	Operation of provident funds - an agreement for receiving operating services for all the provident and study funds managed by Makefet (including funds managed by other operators) from Leumi Capital Markets Ltd., a company controlled by Bank Leumi ("Leumi Capital Markets") in return for a commission calculated as a function of the scope of the operated assets which will not exceed 0.07% of Makefet's assets operated by Leumi Capital Markets. The agreement is for a period of three years from the date of approval. For caution sake, the transaction was recognized as an "extraordinary transaction" in view of the materiality of the transaction and was approved in accordance with Regulation 1(5) to the Exemption Regulations. The overall amount paid to Bank Leumi for the operating services, including operating services rendered in 2012 before the extension of the agreement, in 2013 and 2012 is approximately NIS 7,504 thousand and NIS 8,460 thousand, respectively. See more details in an immediate report of January 15, 2013 (reference no.: 2013-01-013635).
2	Bank Leumi Union Bank	January 29, 2013 - approval of the Company's Board for the Company, Migdal Insurance and Migdal Insurance's subsidiaries April 25, 2013 - approval of the Company's Board for Migdal Capital Markets and its subsidiaries	Current banking activity - engagements with Union Bank and with Bank Leumi and their related parties in the context of the current treasury and investment activities of the Group companies in the ordinary course of business and at arm's length. The approval stipulates various conditions for securing market terms that do not deviate from standard terms underlying similar transactions with other banks. For caution sake, due to the scope of the assets being managed and/or deposited in the Banks and/or the scope of activity in unquoted derivatives performed through them, the Company decided to classify the engagement for managing the bank account, placing deposits, receiving security custodian services and OTC unquoted derivative transactions as extraordinary transactions (in view of their materiality). In addition, for caution sake, engagements between the Banks and funds that only manage a single bank account were classified as material transactions. The transactions were approved in accordance with Regulation 1(5) to the Exemption Regulations. The engagements are reapproved every three years. See details in immediate reports of January 30, 2013 and April 28, 2013 (references no.: 2013-01-025002 and 2013-01-046258, respectively). The scope of payments made by the Group companies to Union Bank for brokerage and custodian services in 2014 and 2013 totaled approximately NIS 9 thousand and NIS 4 thousand, respectively. The scope of payments made by the Group companies to Bank Leumi for brokerage and custodian services in 2013 and 2012 totaled approximately NIS 430 thousand and NIS 907 thousand, respectively

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

Transactions with other related parties that are neither extraordinary nor immaterial

#	Party to the transaction with the Company	Date of approval/approving entity	Nature and description of the transaction
1	Bank Leumi	January 10, 2013 - approval of the Company's Audit Committee	Insuring the assets of Bank Leumi's borrowers - Migdal Insurance entered into a transaction for insuring the assets of Bank Leumi's borrowers. The insurance period is for 12 months starting from January 1, 2013. The premium approximates NIS 10,518 thousand in respect of which Migdal Insurance will pay Bank Leumi the maximum commission prescribed in the law in this respect. The transaction premium does not exceed 2% of Migdal Insurance's total general insurance premiums, in this context, the total annual premiums for 2012 and for September 2013, calculated on an annual basis. See additional information in an immediate report of January 13, 2013 (reference no.: 2013-01-011751).

g. Description of transactions with Generali:

Following is a description of controlling shareholder transactions with Generali classified as extraordinary and non-extraordinary transactions pursuant to Section 270(4) to the Companies Law:

Extraordinary transactions with Generali

#	Date of approval/approving entity	Nature and description of the transaction
1	January 23, 2014 - approval of the Company's Board for engaging in reinsurance treaties for 2014	Reinsurance treaties - annual approval for signing all reinsurance treaties in the Company's various operating segments: life assurance, health insurance and general insurance (property and liability insurance) for 2014. These transactions were classified as extraordinary transactions due to their material cumulative scope. In the context of this approval, the Company and Migdal Insurance have set forth criteria and standards according to which Migdal Insurance will verify that all the reinsurance treaties entered into with the Generali Group based on the annual approval are at arm's length. These transactions were approved in accordance with Regulation 1(5) to the Exemption Regulations, see additional information and the criteria for 2013 and 2014 see immediate reports of January 14, 2013 and January 23, 2014 (references no.: 2013-01-013173 and 2014-01-023344, respectively). The total reinsurance premiums paid to the Generali Group in 2014 in connection with the reinsurance coverage is comprised as follows: general insurance - approximately NIS 14 million, representing about 8% of total reinsurance premiums to all reinsurers; total exposure to earthquakes of approximately NIS 91 million in MPL terms, representing about 4% of total exposure to earthquakes for to reinsurers as of December 31, 2014; life assurance and health insurance, including LTC - approximately NIS 11 million, representing about 4% of total reinsurance premiums to all reinsurers in connection with assurance and health insurance, including LTC, in 2014.

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

Extraordinary transactions with Generali		
#	**Date of approval/approving entity**	**Nature and description of the transaction**
2	July 2, 2013 - approval of the Company's general meeting	Master approval - facultative reinsurance agreements with Generali for 2013-2014 - master approval for engaging in facultative reinsurance agreements in general insurance ("the master approval"). The master approval consists of parameters for examining market terms and materiality as the general and cumulative master conditions underlying all engagements. In addition, the master approval prescribes various conditions and limitations, including with respect to transferred premiums and the overall scope of facultative transactions each year; insurance amounts transferred to the Generali Group (exposure); and a single transaction in property and liability insurance policies. Each facultative agreement with the Generali Group which meets the general master conditions and the market and materiality conditions set forth in the master approval will be viewed as an ordinary transaction that does not require additional approval of the Audit Committee and Board. In any event that the general master conditions are met but due to circumstances the market terms or materiality tests in the master approval are not met, the transaction will be viewed as an extraordinary transaction and will be submitted for approval pursuant to Regulation 1(3) to the Exemption Regulations. The master approval forms a continued approval for the master approval for 2010-2012 and replaces the monthly approvals that were needed for entering into facultative reinsurance agreements based on the master agreement for 2010-2012. The period of the master approval also represents the end of the period in which the Company will take steps with respect to transactions with Generali as transactions that require approvals as controlling shareholder transactions. See details in a report on summoning a general meeting of June 23, 2013 (reference no.: 2013-01-071268). The total amount of reinsurance premiums paid to the Generali Group in connection with reinsurance coverage in respect of facultative reinsurance agreements in general insurance that are included in the approval for 2013 approximates NIS 125 million, representing about 53% of total reinsurance premiums in that year and in 2014 - approximately NIS 102 million, representing about 45% of total reinsurance premiums in that year. The total insurance amount in respect of the exposure to earthquakes paid to the Generali Group in insurance coverage in respect of facultative agreements in general insurance as of December 31, 2013 is approximately NIS 34 billion, representing about 40% of total exposure to earthquakes in connection with reinsurance coverage in respect of facultative agreements in general insurance as of December 31, 2013 and approximately NIS 34 billion, representing about 35% of total exposure to earthquakes in connection with reinsurance coverage in respect of facultative agreements in general insurance as of December 31, 2014.

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

Extraordinary transactions with Generali		
#	**Date of approval/approving entity**	**Nature and description of the transaction**
3	November 25, 2013 - approval of the Company's Board	A transaction for the purchase of an old reinsurance portfolio of occupational disability from Generali and the sale of the portfolio to Swiss Re - an agreement according to which starting from January 1, 2013, Generali will cease being the reinsurer of occupational disability policies for Migdal Insurance from 1970 through 2012 ("the reinsurance treaty") and the parties will release each other of any liability and/or warranty towards the other party according to the reinsurance treaty. The mutual release also includes Generali waiving its rights in connection with all the reserves held by Migdal Insurance, including reserves held against Generali's obligations with respect to existing and outstanding claims (IBNRs). Simultaneously and on the same date, Migdal Insurance signed a reinsurance treaty with another reinsurer, Swiss Re, according to which Swiss Re will pay Migdal Insurance an amount of approximately NIS82 million for assuming all of Generali's obligations, as is, for the reinsurance portfolio. After the exit agreement with Generali and the alternative engagement with Swiss Re were adopted, Generali's insurance liability for the sold portfolio was fully assigned to Swiss Re back-to-back with no change in the reinsurance coverage terms. As a result of these transactions, Migdal Insurance derived a pre-tax gain of approximately NIS 52 million in the income statement for the year ended December 31, 2013. The transactions were approved pursuant to Regulations 1(2) and 1(5) to the Exemption Regulations. See details in immediate reports of November 26, 2013 (references no.: 2013-01-203196 and 2013-01-203211).
4	November 29, 2011 - approval of the Company's Audit Committee	Limitation of liability exemption and indemnification obligation - the Audit Committee decided to limit the term of the Company's existing exemption and indemnification arrangements until November 30, 2020 (a period of another nine years from the date of making the decision by the Audit Committee and in total about 14 years from the date of the original decision regarding the exemption and indemnification arrangements), to the extent that the existing arrangements are not replaced with different arrangements, as well as the letters of exemption or indemnification granted from time to time by the Company pursuant to the existing exemption and indemnification arrangements regarding officers in the Company when the Company's controlling shareholder may be viewed as having a personal interest in granting those officers who serve in the Company or will serve in it from time to time letters of exemption and indemnification. See additional information in an immediate report of November 29, 2011 (reference no.: 2011-01-344328).

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

Extraordinary transactions with Generali		
#	**Date of approval/approving entity**	**Nature and description of the transaction**
5	February 7, 2012 - approval of the Company's general meeting	Letters of indemnification to officers in the Company when Generali may be viewed as having a personal interest in granting those officers letters of indemnification - updating and approving the letters of indemnification granted to officers in the Company which the controlling shareholder in the Company may have a personal interest in granting. The relevant officers are two directors - Alessandro Corsi and Sergio Balbinot - and an officer - Livio Steindler. See additional information in a report of summoning a meeting for the approval of the letters of indemnification of February 2, 2012 (reference no.: 2012-01-032109) and Note 39(2)(d) below.

Transactions with Generali that are neither extraordinary nor immaterial	
Date of approval/approving entity	**Nature and description of the transaction**
September 22, 2008 - approval of the Company's Audit Committee January 19, 2012 - reexamination (for caution sake) and approval of the Company's Audit Committee	Lease contract in Aachen, Germany - extension of the lease contract between Migdal Insurance and AMB Generali, a subsidiary of Generali in Aachen, Germany, regarding the backup site in Aachen which provided Migdal Insurance services for its computing unit. The engagement ended at the end of 2013. Migdal Insurance paid lease fees in 2013 and 2012 in an amount of approximately NIS 126 thousand and NIS 274 thousand, respectively.

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

h. Affiliates:

1. Regarding investments in affiliates and dividends distributed by affiliates see Note 7 above on investment in investees and Note 40 below on events after the reporting date.

2. During June 2009, Migdal Real Estate Holdings Ltd. ("Real Estate Holdings") was issued capital notes by an affiliate, Ramat Aviv Mall Ltd. ("Ramat Aviv") totaling NIS 76 million par value for a period of at least 5 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 approximately NIS 61 million, see c) below. The outstanding capital notes are presented in the financial statements at their present value of approximately NIS 14 million.

3. a) In November 2010, Ramat Aviv granted a loan to its shareholders pro rata to their holdings. Real Estate Holdings' share is approximately NIS 64 million. This amount is linked to the CPI and bears annual interest at a rate of 4.2%. The principal and interest will be repaid in five equal annual installments beginning from November 2011. On July 1, 2014, the entire outstanding loan was repaid, including interest and linkage, see c) below.

   b) In January 2013, Ramat Aviv provided additional loans to its shareholders pro rata to their holdings. Real Estate Holdings' share is approximately NIS 75 million. The loans bear annual interest at a rate of Prime + 0.6% and are intended to be repaid in a lump sum on June 30, 2014. Under the loan agreement there is an option for early repayment under certain conditions specified in the agreement.

   c) In the first quarter of 2014, part of the loan mentioned in b) above was repaid in the amount of approximately NIS 45 million. On July 1, 2014, the entire balance of the loans received from Ramat Aviv in 2010 and 2013, as detailed in a) and b) above, were repaid against the repayment of some of the capital notes held by Real Estate Holdings. The total loans repaid amounted to approximately NIS 59 million, including interest and linkage.

   d) In the second half of 2014, Ramat Aviv granted a loan to its shareholders pro rata to their holdings. Real Estate Holdings' share is approximately NIS 5 million. The loan is not linked to the CPI and bears fixed nominal interest of 3.23%. The loan will be repaid in a lump sum at the end of 2015 with possibility of early repayment. As of December 31, 2014, the outstanding loan amounts to approximately NIS 5.1 million.

   e) In respect of the loans received from Ramat Aviv, finance expenses were recorded in 2014, 2013 and 2012 totaling approximately NIS 1.6 million, NIS 4.4 million and NIS 3 million, respectively.

   f) In respect of the capital notes issued by Ramat Aviv, finance expenses were recorded in 2014, 2013 and 2012 totaling approximately NIS 2.2 million, NIS 3.4 million and NIS 3.1 million, respectively.

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

4. Migdal Insurance paid an affiliate, Reshef Insurance Agency (2004) Ltd., commissions for marketing insurance products and pension products in 2014, 2013 and 2012 in the amount of approximately NIS 4,706 thousand, NIS 3,263 thousand and NIS 3,063 thousand, respectively.

5. Migdal Insurance paid an affiliate, Orlan Insurance Agencies (1994) Ltd., commissions for marketing insurance products and pension products in 2014, 2013 and 2012 in the amount of approximately NIS 3,980 thousand, NIS 3,370 thousand and NIS 2,278 thousand, respectively.

6. In July 2012, Migdal Holding and Management of Insurance Agencies Ltd. ("Migdal Agencies"), a subsidiary of the Company, provided Orlan Insurance Agencies (1994) Ltd., an affiliate, a loan of NIS 1 million, linked to the CPI and bearing annual interest of 3.5%. The loan will be repaid in equal annual installments until January 2016. The balance of the loan as of December 31, 2014 and 2013 approximates NIS 341 thousand and NIS 633 thousand, respectively. Finance income was recorded in respect of the loan in 2014, 2013 and 2012 in the amount of approximately NIS 17 thousand, NIS 40 thousand and NIS 18 thousand, respectively.

7. In August 2013, Migdal Insurance provided a loan to foreign affiliates in the amount of approximately NIS 5,958 thousand to be repaid in a lump sum at the end of five years. The balance of the loan as of December 31, 2014 and 2013 approximates NIS 6,497 thousand and NIS 6,114 thousand, respectively. Finance income was recorded in respect of the loan in 2014 and 2013 in the amount of approximately NIS 455 thousand and NIS 158 thousand, respectively.

8. 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.

i. Remuneration and benefits to key management personnel (including directors):

1. 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.

2. Key management personnel in the Company and/or in companies in which they serve as officers, including the controlling shareholder and/or his relatives who serve as officers, may purchase from time to time, insurance contracts, investment contracts or other financial products issued by the Group and/or sold by the Group companies at arm's length and in the ordinary course of business. Details of these transactions are not provided in this Note.

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

j. Data of the remuneration and benefits to key management personnel:

1. Benefits to key management personnel:

	Year ended December 31,					
	2014		2013		2012	
	Number of persons	Amount	Number of persons	Amount	Number of persons	Amount
		NIS in thousands		NIS in thousands		NIS in thousands
Short-term benefits *)	12	18,234	9	20,379	12	21,057
Post-employment benefits	12	4,150	9	957	12	3,241
Other long-term benefits	10	26	7	460	10	408
Share-based payment (see Note 33)	5	61	7	117	12	2,950
		22,471		21,913		27,656

*) For officers serving in Migdal Insurance, the amount of short-term benefits includes a provision for an annual bonus for 2014 to acting officers in Migdal Insurance whose grant is subject to the approval of the Company's authorized entities.

2. Benefits to directors not employed by the Company:

	Year ended December 31,					
	2014		2013		2012	
	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	9	5,775	14	8,454	16	6,838
Share-based payment (see Note 33)		-	1	2	1	488
		5,775		8,456		7,326

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

3. The remuneration policy for the Company's officers in 2014-2016:

a) On June 30, 2014, the boards of the institutional entities approved an institutional remuneration policy for 2014-2016, in keeping with the Commissioner of the Capital Market's circular of April 10, 2014 ("the Commissioner's circular") ("the institutional remuneration policy").The institutional remuneration policy sets forth specific provisions regarding the salary components of "key officers" identified as such in the Commissioner's circular, including, among others, all the officers in institutional entities pursuant to the Companies Law, officers defined as such in the Commissioner's circular, relatives of the controlling shareholder, investment entities and officers identified by the institutional entities as key officers, if the officer's function is liable to have a material impact on the risk profile of the institutional entities or if that officer manages a group of employees who are subject to the same remuneration arrangement whereby the variable component of the remuneration, when measured on a cumulative basis, may expose the institutional entity or the savings funds retained therein to material risk. In the context of the adoption of the institutional remuneration policy, it was decided to adopt the Commissioner's position of June 9, 2014 and the law memorandum regarding the remuneration of officers in financial institutions (special approval and limitation of expenses due to irregular remuneration), 2014 and accordingly, remuneration will not be paid in excess of the ceiling proposed in the law memorandum ("the Commissioner's position"), unless in special and irregular cases. According to the Commissioner's position, the governing bodies must examine the policy on an annual basis and such examination and an update were carried out in the institutional entities as of December 31, 2014. See details of the institutional remuneration policy in an immediate report of June 30, 2014 (reference no.: 2014-01-103386).

b) On October 27, 2014, the Company's general meeting approved the change and update of the Company's remuneration policy for 2013-2014 which had been approved by the Company's general meeting on September 2, 2013 ("the original policy") by adopting the a new remuneration policy that is adjusted to the institutional remuneration policy for 2014-2016 and that will supersede the original policy for all intents and purposes ("the remuneration policy"). The remuneration policy applies to all officers in the Company excluding the Chairman of the Board. All the Company's officers also serve as officers in the institutional entities. The Company's remuneration policy was adapted to the institutional remuneration policy. See details of the Company's remuneration policy in immediate reports of June 30, 2014, September 22, 2014 and October 27, 2014 (references no.: 2014-01-103386, 2014-01-161913 and 2014-01-181653, respectively).

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

c) The main arrangements prescribed in the institutional remuneration policy and in the Company's remuneration policy with respect to officers are as follows:

The ratio of fixed salary components to variable salary components: limitations have been placed on the ratio of the variable salary component out of the total remuneration and the measurement of this ratio with respect to the other variable salary components to a maximum rate of 50% for the CEO and Chairman of the Board, 40% for dual position officers and non-control related officers and 30% for control related officers. In addition, according to the remuneration policy, the maximum rate for officers other than the CEO and Chairman of the Board may be increased provided that it does not exceed 66.6% of the annual remuneration, as specified in the Commissioner's circular and in the remuneration policy.

Fixed component (limitations on monthly salary, related benefits, linkage, perseverance etc.): the monthly salary limit was set at NIS 170 thousand for the CEO, NIS 160 thousand for the Chairman of the Board, NIS 100 thousand for senior executives and NIS 70 thousand for other officers (subject to possible modifications, as explained below). The remuneration policy provides for a perseverance bonus of up to six (6) times the monthly salary under special circumstances and certain limitations as well as linkage to the CPI, salary updates, related benefits, current salary etc.

Variable component/annual bonus:

1) Excluding the transition period as defined below, the annual bonus will be measured on the basis of three years in such a manner that the last year in the measurement will account for 50%, the year before that 30% and the year before that 20%. For a period of three years from the date of adoption of the remuneration policy for 2014-2016 ("the transition period") and excluding with respect to investment entities for which the past measurement period was also three years, the bonus for 2014 will be measured on the basis of 2014 only and the 2015 bonus will be measured on the basis of 2014 and 2015 at 30%/70%.

2) At least half of the annual bonus will be paid in 36 installments from the year of grant based on the level of seniority of the officers. According to the remuneration policy, the deferred installments cannot be accelerated or affected by employee retirement during the payment period.

3) Minimum conditions were prescribed for the receipt of the annual bonus that consist of a 7% return on capital, compliance with a safety cushion established by the board of Migdal Insurance and compliance with a liquidity ratio and lateral reduction or cancellation criteria that are related to the rating of the debentures of the institutional entities in the Group.

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

4) The variable component of the salary of control officers (risk management, control, compliance and enforcement, actuary, internal audit) will not be affected by the performances of the entities which they audit or control. Moreover, the variable component of the salary of dual officers (control officers who also serve in administrative, professional, organizational or other positions (HQ, legal counseling, finance) and have been defined as such prior to the adoption of the remuneration policy) will not be directly affected by the performances of the entities which they audit or control.

5) The remuneration policy establishes the Company's targets as follows: (1) comprehensive income before taxes in general insurance, (2) comprehensive income before taxes not in general insurance, and (3) NBV (new business value) at the same weight as that accorded to each of these targets in the original policy of 20%, 40% and 40%, respectively. The Company's targets were determined as relative/comparative targets which measure the Company's relative share in the results of said parameters out of the results of the five largest insurance groups in Israel in each of the years 2014 through 2016. These relative/comparative targets substantiate dynamic targets through predefined business parameters while expressing the results of the other companies and mitigating the effect of exogenous factors in the national insurance market which might not have been observed when the work plans were formulated.

6) In addition to the Company's targets component, the bonus includes a component of personal targets and a component of overall evaluation and judgment. The maximum weight of the judgment component is 20%. The personal targets component accounts for 20% to 50% (excluding control officers and dual officers for whom the personal targets component accounts for 60% to 80%). With respect to the investment entities that are also included as key officers in the institutional remuneration policy, in addition to the Company's targets component, the personal targets component and the personal evaluation component, a divisional target component was established which is defined as a weighted average result based on each investment portfolio's total assets, including negative yields compared to the benchmark targets.

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

7) Each of the parameters included in each of the bonus components defines a performance range, namely a minimum performance score of 70% below which no bonus is awarded and which is marked as zero for the relevant target and component; a performance score of 100% ("the normative target") for the relevant target and component; and a maximum performance score of 140% for the relevant target and component. With respect to all of the Company's targets, the performance range between the minimum score and the maximum score is 25% above or below the normative target. Accordingly, the actual performance score regarding the Company's targets component between the minimum score and the 100% score varies at a 1:1.2 ratio (30%/25%) and between the 100% score and the maximum score at a 1:1.6 ratio (40%/25%). The actual performance score between the minimum score and the maximum score regarding the personal/divisional targets component and the personal evaluation component ranges between 40% above the normative target or 30% below the normative target. Accordingly, the actual performance score in the personal/divisional targets component and the personal evaluation component varies at a 1:1 ratio.

   In addition to the relative targets measured as described above, the Company's targets component also prescribes absolute targets according to which meeting a capital return target of 13% or above earns an overall performance score of at least 90 in the Company's targets component (eve if the overall performance score in the relative targets based on the weighted ratios of the other parameters is lower) and meeting a capital return target of 17% earns a maximum performance score of 140%.

8) The performance score of all the parameters in each component is weighted according to their relative weight in that component and represents the weighted score for that component. The score obtained as above in all the bonus components is weighted based on the relative weight of each component and represents the overall performance score ("the overall performance score"). Once the overall performance score is obtained, it is multiplied by the normative target and represents the "calculated bonus amount". An overall performance score of 100% earns a calculated bonus amount that is identical to the normative bonus. An overall performance score that is lower than 70% earns a calculated bonus amount of zero. An overall performance score of 140% earns a calculated bonus amount that is at a rate of 140% of the normative bonus but in any event the maximum calculated bonus amount (even when the overall performance score exceeds 140%) will not be higher than 140% of the normative bonus ("the maximum bonus").

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

Based on the aforementioned, a normative bonus maximum was prescribed in the amount of NIS 714 thousand for senior executives, other than the CEO or the Chairman of the Board and of NIS 321 thousand for other officers. Accordingly, the maximum calculated bonus amount for an overall performance score of 140% in the Company's targets component, the personal/divisional targets component (if any) and the personal evaluation component is NIS 1,000 thousand for a senior executive and NIS 450 thousand for other officers.

9) The grant of a variable component is not included in the employment agreement but rather in the remuneration policy, subject to the advance approval of the eligibility for a normative bonus by the governing bodies. In addition, even after approval is granted for the eligibility for the normative bonus, each grant awarded in accordance with the policy is subject to obtaining the approval of the governing bodies and the calculated bonus amount constitutes the maximum bonus that may be awarded by the governing bodies.

10) Furthermore, a signing bonus may be granted in the amount of up to three (3) times the monthly salary as well as a special bonus of up to three (3) times the monthly salary per officer (excluding the CEO or Chairman of the Board).

Provisions regarding the termination of employment - maximum advance notice periods of up to six months were determined for the CEO and the Chairman of the Board and up to three months for the other officers. The policy allows granting an adjustment bonus of up to nine (9) times the monthly salary whereby half of this amount will be deferred for a period of 42 calendar months from the date of termination of employment for the CEO and the Chairman of the Board and 36 months for the other officers. The deferred portion of the adjustment bonus is performance contingent and in some cases event in the absence of alternative employment on the date of payment of the deferred bonus.

Any deviation of up to 10% of the amounts specified in the remuneration policy will not constitute a violation of the policy.

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

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

   a) Mr. Shlomo Eliahu served as Chairman of the Company's Board from October 1, 2013 through February 18, 2015. On February 24, 2014, Mr. Shlomo Eliahu reported to the Board of Directors of the Company and to the Board of Migdal Insurance that he waives any salary in connection with his service as Chairman of the Board and as a director of Migdal Insurance and will not demand remuneration for these positions. The Company's remuneration policy provides the details of the remuneration payable to the Chairman of the Board including a fixed monthly salary, social and other related benefits and a variable component of the annual bonus, subject to the approval of the governing bodies of the Company. According to the remuneration policy, the maximum annual bonus to which the Chairman of the Company's Board, Mr. Shlomo Eliahu, is entitled could reach up to NIS 4.3 million, before salary tax. As mentioned above, Mr. Shlomo Eliahu decided to waive his remuneration in connection with his tenure or the termination of his tenure. See an immediate report of February 24, 2014 (reference no.: 2014-01-046135).

   b) Prof. Oded Sarig has been serving as director in the Company since January 27, 2015 and as of February 18, 2015 also serves as Chairman of the Company's Board. Prof. Sarig is employed by and receives a salary from Eliahu Insurance. At this stage and as long as it not decided otherwise, Prof. Sarig will not receive a salary from the Company. It should be noted that according to the decision of the Company's Board and based on the limitation accepted by Prof. Sarig, for caution sake, until August 2016, Prof. Sarig will not be involved in or handle matters pertaining to the governing bodies in the Group, including the subsidiaries Migdal insurance and Makefet, other than as legally required in his capacity in the Company.

      The limitation was stipulated as a master principle and will be individually adopted after examining the specific circumstances of each case. Since the Company is a holding company, the Board of each Group member and the Board of the governing bodies in the Group is in charge of the entity-level policies and controls in their respective companies. However, as part of the group's policies and controls and the Group's Board's procedures, certain issues require approval and/or discussion also in the Company. In addition, the subsidiaries' transactions regarding the controlling shareholders or that involve potential conflicts of interests legally require the Company's approval.

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

Therefore, Prof. Sarig's service as Chairman of the Company's Board and on the boards of the Company's subsidiaries is within the framework described above. In addition, since he serves as the Chairman of the Company's Board, Prof. Sarig will perform his duties relating to coordinating the Board's functions and governing the Company's compliance with the reporting duties pursuant to the Securities Law and the regulations enacted thereunder or any legally imposed reporting and control duties (such as the approval of the consolidated financial statements) but will not take any actions in issues that require the Company to make business decisions involving the Group's institutional entities whose approval by the Company as the parent company is required by virtue of applicable law or the Company's and the Board's procedures (such as material transactions in institutional entities).

Regarding appointments in the institutional entities which according to the Company's Board's procedures require the approval of the Company, the limitation described above will not apply unless they are intertwined with organizational and/or business restructuring. See details in a report on summoning a meeting of February 2, 2015 (reference no.: 2015-01-023161).

c) Mr. Amos Sapir has served as Chairman of the Board of Migdal Insurance since December 10, 2014. For his service, Mr. Sapir is entitled to monthly management fees of NIS 125 thousand, linked to the CPI and updated annually. The management fees will represent the full remuneration for all of Mr. Sapir's other positions in the Group and he will not be entitled to any other remuneration for his service or any other position filled by him in the Group in the future. In addition to the management fees, Mr. Sapir will be entitled to reimbursement of expenses and vehicle maintenance. These amounts will be paid to Mr. Sapir with the addition of VAT as required by law. The overall remuneration paid to Mr. Amos Sapir in 2014 approximated NIS 91 thousand (employer's cost and before VAT). See an immediate report of December 9, 2014 (reference no.: 2014-01-218406).

d) Mr. Ofer Eliahu, the son of Mr. Shlomo Eliahu, has served as an officer in Migdal Insurance since January 29, 2013. Effective from February 11, 2014 he serves as CEO of Migdal Insurance (he served as acting CEO from January 1, 2014). Before that he served as Deputy CEO in Migdal Insurance from January 29, 2013, first as director of the general and reinsurance insurance business division and later as director of the customer, distribution channel and service division of the Migdal Group. In 2013, Mr. Ofer Eliahu did not receive any remuneration from the Company and/or Migdal Insurance for his service in Migdal Insurance. According to Mr. Ofer Eliahu's employment terms as CEO of Migdal Insurance, starting from January 1, 2014, he is entitled to a monthly salary of NIS 170 thousand, linked to the CPI and updated annually. In addition, his remuneration includes social and related benefits, occupational disability insurance in the context of a group insurance policy of Migdal Insurance's employees, vacation and recreation days, reimbursement of telephone expenses, subsistence, a vehicle as specified below, daily newspapers etc. According to his employment agreement, Mr. Ofer Eliahu is not entitled to an adjustment bonus.

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

The monthly salary will represent the entire remuneration for Mr. Ofer Eliahu's entire positions in the Group and he will not be entitled to any other remuneration for his service or any other position filled by him in the Group in the future. Migdal Insurance will provide Mr. Ofer Eliahu an executive car for the purpose of his work. Migdal Insurance will bear the entire costs of the vehicle's use and maintenance, including the income tax imposed in respect of the vehicle and its use. Each party may terminate the agreement at any time by providing an advance notice of three months under the conditions stipulated between the parties. Migdal Insurance will be entitled to demand that Mr. Ofer Eliahu terminate his service before the end of the early notice period and sever all employer-employee relations with him effective immediately, for whatever reason, without paying for the early notice period. Mr. Ofer Eliahu has affirmed that he has no and will have no claims, arguments or demands towards Migdal Insurance relating to the period of his service as CEO in Eliahu Insurance prior to his employment by Migdal Insurance and has no and will have no rights, cumulative or based on seniority, arising from his service in Eliahu Insurance. The terms of Mr. Ofer Eliahu's employment comply with the Commissioner's circular of April 10, 2014 regarding the remuneration policy in institutional entities. The overall remuneration paid to Mr. Ofer Eliahu in 2014 approximated NIS 2,723 thousand (employer's cost). No annual bonus to Mr. Ofer Eliahu was approved by the governing bodies. See a report of summoning a general meeting of March 31, 2014 (reference no.: 2014-01-032985).

e) Mr. Eran Czerninski has served as the Company's CFO and as Migdal Insurance's director of the finance and actuary division since April 1, 2009. Mr. Eran Czerninski has served as acting CEO of the Company since November 1, 2014 and since March 24, 2015 serves as the Company's CEO.

Mr. Eran Czerninski is employed by Migdal Insurance for an indefinite term based on an employment agreement signed on September 19, 2002, an amendment to the agreement of December 31, 2013 and an addendum to the agreement of December 31, 2014. Each of the parties may terminate the employment agreement at any time for whatever reason by providing an early notice of 60 days.

Effective from June 1, 2014, Mr. Czerninski's monthly salary is NIS 89,000, linked to the CPI with the linkage updated once a year. Mr. Czerninski's monthly salary in the period from January 2014 until the latest salary update was NIS 79,417. In addition, his employment terms include social and related benefits, occupational disability insurance in the context of a group insurance policy, study fund (which is deducted from the salary and not in addition to the salary), vacation and recreation days, reimbursement of subsistence expenses, a vehicle (90% included), daily newspaper, medical insurance etc.

In any event of termination of the agreement, Mr. Czerninski will be entitled to an adjustment bonus in the amount of nine times his monthly salary. The adjustment bonus will be paid based on the terms and arrangements specified in the general comments above.

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

The provision for the annual bonus for 2014 amounted to approximately NIS 317 thousand, comprised of an amount of NIS 536 thousand which is the estimated bonus for 2014 less an amount of NIS 264 thousand for the gap between the estimate and actual amount paid as the annual bonus for 2013 with the addition of the deferred bonus for 2013 in the amount of NIS 45 thousand.

The overall bonus paid to Mr. Czerninski in 2014 approximated NIS 2,150 thousand. It should be emphasized that the provision for the bonus to officer, including Mr. Czerninski, was recorded based on an estimate only and the actual bonus that will be paid, if at all, may vary as a result of the data of the Company's results compared to rival companies based on several parameters and subject to the approval of the Company's governing bodies and the Group's institutional entities.

As mentioned above, on March 24, 2015, Mr. Czerninski was appointed as the Company's CEO. Mr. Czerninski's salary and bonus are subject to the approval of the governing bodies. In the context of a long-term remuneration plan for 2010, Mr. Czerninski was allocated 89,238 eligibility deeds and 69,616 shares, see Note 33 above.

f) Mrs Anat Levin served as the Company's CEO and Chairwoman of the Board of Migdal Insurance from February 1, 2014 and February 11, 2014, respectively. She also served as Chairwoman of the Board or director in other Group companies. On October 31, 2014, Mrs. Anat Levin retired from all her positions in the Group. The overall remuneration received by Mrs. Levin in 2014 for her service in the Group amounted to NIS 3,532 thousand. See more information in an immediate report of November 25, 2013 (reference no.: 2013-01-202662).

g) Officers' liability insurance policy, including for officers who are the controlling shareholder or his relatives:

The Company's directors and officers, including the controlling shareholder and his relatives, are insured under the Group's D&O liability insurance policies for a period of 17 months starting from February 1, 2015 until June 30, 2016 ("the new policy"), after having approved the extension of the policy which was in effect until January 31, 2015. The new policy's liability limit is US$ 100 million per event and for the period with an annual premium that does not exceed US$ 270,000.

The D&O liability insurance policy of Migdal Capital Markets and its subsidiaries (collectively - "the Capital Markets Group") covers the controlling shareholder and his relatives who serve as officers in the Capital Markets Group for a period of 17 months starting from January 1, 2015 until May 30, 2016 with a liability limit of US$ 50 million per event and for the period and for an annual premium that does not exceed US$ 112,000.

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

According to the remuneration policy, signing D&O liability insurance policies by the Company and by the Migdal Holdings Group for the directors and officers, including the controlling shareholder and his relatives who serve as officers in the Group, will not exceed an insurance limit of US$ 120 million. The approval of such insurance coverage states that the overall insurance amount which directors who serve and/or have served as directors both in the Capital Markets Group and in the Company and/or its subsidiaries (excluding the Capital Markets Group) will be entitled to receive on an aggregate basis in respect of all said policies will not exceed US$ 120 million. This insurance coverage was approved in accordance with Regulation 1b to the Exemption Regulations. See more details of the Company's and the Capital Markets Group's approval for entering into said insurance policies in immediate reports of January 27, 2015 and February 24, 2015 (references no.: 2015-01-020140 and 2015-01-037816, respectively).

h) See above 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).

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 initiated against the Company and/or subsidiaries which are not in the ordinary course of their business ("the proceedings"). In the framework of the proceedings, in paragraph b below there is a description of outstanding motions to approve claims as class actions, including claims that were approved to be filed as class actions. Paragraph c below includes class actions that have ended during the reporting period, paragraph d below includes other material claims and paragraph f below includes additional legal and other proceedings.

In recent years there has been a significant increase in the scope of motions filed for the approval of class actions against the Company and/or subsidiaries and in the number of claims filed against subsidiaries which were recognized as class actions. This is partly due to the general increase in the number of motions filed for approval of class actions, including against companies operating in the lines of business of the subsidiaries. This trend has materially enhanced the potential exposure facing the Company and/or subsidiaries to losses arising from class actions. The motions for approval of claims as class actions detailed below are in different stages of legal proceedings, some in appeal proceedings. Filing a class action in Israel does not involve paying any fee derived from the amount of the claim. Therefore, the amounts claimed in these class actions could be significantly higher than the actual exposure to the claim.

In respect of proceedings which management believes, based, among others, on the legal opinion it received, it is more likely than not that the defense arguments of the Company and/or the subsidiaries will be accepted and the proceeding will be rejected (if there is a request for a class action, the court will reject the approval as a class action) and in respect of proceedings which are in early stages and whose chances cannot be assessed, no provision was included in the financial statements. In proceedings in which it is more likely than not that the defense arguments of the Company and/or the subsidiaries, as a whole or in part will be rejected, provisions for covering the exposure estimated by the Company and/or the subsidiaries were included in the financial statements. In the event of the parties' willingness to settle in any of the proceedings, a provision in the amount of the settlement to be reached is included in the financial statements, even if it is more likely than not that the defense arguments of the Company and/or the subsidiaries will be accepted or the proceedings are at a preliminary stage in which it is not possible to estimate the chances of the proceedings. In cases in which a settlement was approved, a provision was included in the financial statements in the amount of the Company's and/or the subsidiaries' estimated cost of settlement.

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

In respect of motions to approve claims as class actions as described in items 3, 8 and 13 below, which were approved as class actions by a court of law, the financial statements do not include provisions for covering the exposure estimated by the Company and/or the subsidiaries, since management believes, based, among others, on the opinion of legal advisors, that it is more likely than not that the defense arguments of the Company and/or the subsidiaries regarding the claim itself will be accepted and the claim, even if it is held as a class action, will be dismissed.

At this preliminary stage, it is difficult to assess the chances of the motions for approval of class actions detailed in items 25 and 26 below to be approved and therefore no provision was recorded in their respect in the financial statements.

In management's estimation, based, among others, on the opinions of legal counsel, adequate provisions were included in the financial statements, where necessary, to cover the exposure estimated by the Company and/or its subsidiaries, or in respect of the amount the Company and/or the subsidiaries are prepared to pay to come to a settlement, as the case may be.

b. Class actions - motions to approve claims as class actions and claims that were approved as class actions:

Following are details of the motions to approve claims as class actions and claims that were approved as class actions pending against the Company and/or its subsidiaries:

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

#	Date and instance[3]	The parties[4]	Main arguments, causes and remedies[5]	The group[6]	Details	Claim amount[7]
1	9/1999 Central District Court	Life assurance policyholder v. Migdal Insurance	Use of an outdated mortality table to determine the life assurance premium which is not adjusted to life expectancy. The sought remedies include a declaration that the petitioner is entitled to cancel the insurance agreements and/or to receive remedies due to breach of contract.	Anyone who purchased a life assurance 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 the statute of limitation and accordingly the group was narrowed down to anyone who purchased policies that include a risk component from August 1997 until the date of updating the mortality tables in June 2001 only; (b) limiting the grounds of the claim to deception and exploitation. The District Court's decision was appealed to the Supreme Court which dismissed the appeal on July 15, 2013. The case is in the summation stage after which the District Court will decide on the motion for approval of class action.	-

3 The date of filing the claims and the motions is the date of filing the claim and the original motion and the instance to which the proceeding was originally filed.

4 Based on the definitions in Note 1 above. The mentions of Migdal Capital Markets refer to Migdal Capital Markets (1965) Ltd.

5 The laws are referred to by their full name but not by the year of legislation.

6 The group which the plaintiff wishes to represent which is the basis of the estimated amount claimed in the letter of claim.

7 The amount of personal damage forms the basis for the estimated claim amounts. The amount of the alleged personal damage is generally negligible and therefore not mentioned below. The amount of the claim is the amount stated/estimated by the plaintiff if the motion for class action is accepted. The amounts stated in the claims are mostly assessed by the plaintiff based on various estimates of the group which the plaintiff wishes to represent. Not all cases state the amount of the claim but the details provided below include any amounts stated. The amounts are calculated for the variable period underlying the plaintiff's arguments with respect to the grounds for the claim, taking into consideration the statute of limitation and other aspects and therefore are not based on a uniform period for all claims specified herein. The amounts attributed to the Company out of the entire estimated amounts claimed from all the defendants are specifically stated. Amounts that are stated but do not state whether they are attributed to the Company or to all of the defendants collectively address all the defendants. The amounts of the claims are stated in the amounts stipulated as of the date of their filing, unless otherwise stated, and are rounded up to the nearest million in NIS.

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

#	Date and instance	The parties	Main arguments, causes and remedies	The group	Details	Claim amount
2	4/2006 Tel-Aviv District Court	Occupational disability insurance policyholder v. Migdal Insurance and other insurance companies	Collection of insurance fees in occupational disability insurance policies for the last three months of the insurance period although during this period the policyholders cannot receive any insurance payments even if an insurance event has occurred. The sought remedies are a request to obligate the respondents to cease collecting insurance fees for the last three months of the insurance period and recover all the insurance fees collected from the group members for said period plus interest and linkage differences.	Anyone who paid insurance fees in the context of occupational disability insurance policies for the last three months of the insurance period	On February 3, 2009, the District Court rendered a decision that approves the class action. On April 11, 2013, the Supreme Court rendered a decision in the permission for appeal filed by the insurers that orders the reassignment of the hearing in the motion for approval of a class action to the District Court for verifying whether the deployment of installments is a result of an actuarial calculation and the issue of the duty of disclosure and the statute of limitation. The District Court is currently debating the motion for approval of a class action.	NIS 48 million, of which NIS 19 million attributed to Migdal Insurance.
3	5/2006 Central District Court	Accident disability insurance policyholder v. Migdal Insurance and other insurance companies	Payment of reduced compensation for an accident disability insurance policyholder in respect of partial disability while relatively adjusting the payment to the disability rights granted by the National Insurance Institute without proper disclosure in the policy.	Anyone who received and/or will receive partial compensation for accident disability due to the adjustment of the compensation to the disability rights granted by the National Insurance Institute in the last seven years.	On February 27, 2014, the District Court accepted the plaintiff's position and ordered the supplementation of the insurance compensation difference to policyholders with perpetual partial disability to the insurance amount stipulated in the policy to full disability for anyone who was involved in an insurance event in the three years preceding the date of filing the claim (excluding irregular cases). The plaintiffs filed an appeal on the decision not to allow the statute of limitation of seven years, on the ruling that the remedy does not include payment of special interest and on the award demanded from them and their representatives with the Supreme Court. On August 29, 2013, the Commissioner issued a draft resolution in the matter discussed in the claim.	Not estimated

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

#	Date and instance	The parties	Main arguments, causes and remedies	The group	Details	Claim amount
4	4/2007 Tel-Aviv District Court	Owners of participation units in mutual funds v. Migdal Stock Exchange Services, banks and TASE members	Collection of securities brokerage commissions at rates that exceed rates charged from other customers and agreeing on illegal collection of commissions in violation of the provision of Section 69 to the Joint Investments in Trust Law in the context of transactions for the purchase of mutual funds from banks as agents. The sought remedies include a petition for obligating the respondents to repay the amounts that had been allegedly illegally collected and issuing a mandatory injunction ordering the respondents to change their method of operation and cease collecting these amounts illegally.	Anyone who purchased, holds, and/or held participation units in mutual funds managed and/or controlled by the respondents during the relevant period.	The Attorney General announced that he does not see a need to express a position in this case since the claim is based on a past legal situation in view of the changes in the Joint Investments in Trust Law. The motion for approval of the claim of a class action is in the summation stage.	NIS 386 million, of which NIS 49 million attributed to Migdal Capital Markets from January 1, 2014[8].
5	8/2007 Tel-Aviv District Court	Motor insurance policyholder v. Migdal Insurance and other insurance companies	Violating the Commissioner's directives that require insurance companies to present full written disclosure of the special variables in the pricelist that might affect the value of the insured vehicle in the calculation of insurance reward in the event of total loss during the insurance offer stage. The absence of such disclosure causes illegal depreciation of the insurance reward paid from the total value of the vehicle. The sought remedies include issuing a mandatory injunction ordering to repay the entire amounts depreciated from the insurance reward to the policyholders.	Anyone who purchased motor insurance from January 2001 and was involved in a total loss insurance event and received insurance compensation based on the vehicle's value adjusted to the special variables.	The Attorney General announced that the Commissioner has decided not to instruct a systematic refund in the context of an administrative proceeding based on a master resolution draft from April 30, 2012 and believes that there is no justification for his continued involvement in the claim. The case is in hearing for approving the settlement agreement submitted.	NIS 122 million attributed to Migdal Insurance

8 Part of the amounts that is attributed to Migdal Capital Markets is severally and jointly attributed with First International Bank of Israel Ltd.

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

#	Date and instance	The parties	Main arguments, causes and remedies	The group	Details	Claim amount
6	1/2008 Tel-Aviv District Court	Life assurance policyholder v. Migdal Insurance and other insurance companies	Collecting a premium component known as "sub-annual" in life assurance policies in an amount that exceeds the allowed amount. The sought remedies include a request for ordering the recovery of the amounts illegally collected from the group members as sub-annual fees and issuing a mandatory injunction to cease this collection.	Anyone who was charged for a "sub-annual" component at illegal circumstances and amounts.	The motion for approval of a class action is in the summation stage.	NIS 2,300 million, of which NIS 827 million attributed to Migdal Insurance.
7	1/2008 Tel-Aviv District Court	Life assurance policyholder v. Migdal Insurance and other insurance companies	Collecting management fees in a "profit-participating" insurance policy at a rate that exceeds the maximum allowed rate in violation of the Control of Insurance Business Regulations (Insurance Contract Terms) and in violation of the Commissioner's circulars regarding the collection of fixed management fees at a rate that is higher than allowed and variable management fees on a monthly basis instead of at year end in a manner that denies the return on the management fees collected during the year from policyholders. The sought remedies include a refund of the entire amounts illegally collected and a mandatory injunction to cease this collection.	Anyone who holds or held a risk combined "profit-participating" life insurance policy issued between 1992 and 2003 (inclusive).	On March 18, 2015, the Court approved a settlement agreement in the case whereby Migdal Insurance will repay the holders of "profit-participating" life insurance policies issued from early 1992 until the end of 2003 from whom variable management fees had been collected 53% of the difference between the calculation as per the plaintiffs and the calculation made in practice and compensation for the plaintiff and legal fees for their representatives. The amount of the refund to the policyholders, plus interest and linkage differences, approximates NIS 15.8 million, including compensation and legal fees. The financial statements include an adequate provision.	NIS 244 million, of which approximately NIS 101 million attributed to Migdal Insurance.

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

#	Date and instance	The parties	Main arguments, causes and remedies	The group	Details	Claim amount
8	4/2008 Jerusalem Regional Labor Court	Life assurance policyholders v. Migdal Insurance and other insurance companies	Paying a monthly annuity that is lower than the one received by a male policyholder who reached the age of retirement with the same profile as the female policyholders under the premise that women's life expectancy is longer when the premium collected from female policyholders for the death risk is identical to the once collected from the male policyholders although women's mortality rates are lower. The sought remedies include issuing a declaratory relief by the Court that this discrimination is wrong and that the female policyholders will have the choice between the following alternatives: (a) matching the annuity coefficients to those practiced for male policyholders, or (b) reducing the risk amounts collected and adapting them to the risk amounts appropriate for female policyholders.	All women who purchased executive insurance policies that distinguish between male and female in the payment of annuities without distinguishing between the risk premiums.	In its decision of August 17, 2014, the Regional Labor Court approved the claim as a class action. A request for permission to appeal was filed with the National Labor Court. On December 3, 2014, a decision was rendered whereby the request for permission to appeal requires the respondents' response.	Hundreds of millions of NIS.
9	2/2010 Tel-Aviv District Court	Motor assurance policyholder v. Migdal Insurance and other insurance companies	Failure to indemnify the policyholders for damage caused to the vehicle's protection gear installed at the demand of the respondents in the event of total loss, practical loss or theft and having policyholders allegedly illegally sign letters of waiver. The sought remedies include a request for paying damages caused to all group members whether directly or through public compensation.	All policyholders who received insurance rewards from February 2, 2007 which did not include compensation for damage to protection gear installed at the respondents' demand.	The Court's decisions of December 22, 2014 and February 11, 2015 granted an approval in principle to the settlement agreement according to which the depreciation rate on the protection gear will be 14% (over seven years), the value of the protection gear will be determined using the vehicle importer's or the protection gear importer's pricelist, the minimum compensation for the group will be 90% of the theoretical amount as calculated by the examiner, a mechanism will be prescribed for future notification of policyholders of their entitlement to compensation for the protection gear.	NIS 82 million attributed to Migdal Insurance.

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

#	Date and instance	The parties	Main arguments, causes and remedies	The group	Details	Claim amount
10	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 allowed amounts and unjust enrichment from the yields on the unrequested funds. The sought remedies include a request to obligate the respondents to transfer the funds to the holders of rights, transfer unrequested funds to the Administrator General, require the recovery of management fees and yields and set up a fund for managing unrequested funds in a separate account for each policy.	All holders of policies who did not receive notification from the respondents of their entitlement to funds.	A regulatory change has been enacted by the Commissioner in this issue. The Attorney General did not express his position in the case but stated that some of the remedies contradict the new law. The parties are holding a mediation proceeding that has not yet matured into a settlement.	-
11	4/2010 Central District Court	Life assurance policyholders v. Migdal Insurance and other insurance companies	Failure to refund premiums after discontinuance of insurance policies during the month since the premium is collected in advance at the beginning of the month and/or failure to refund premiums in nominal values (without interest and linkage differences). The sought remedies include a request for refunding the excess premiums illegally collected from the policyholders and issuing a mandatory injunction ordering the respondents to cease the collection and refund policyholders for insurance fees from the first day that the entitlement to a refund is established with interest and linkage differences.	All the respondents' policyholders (excluding holders of property insurance policies) whose policies were discontinued due to cancellation or upon the occurrence of an insurance event.	The proof hearing stage has been concluded in which the Commissioner's position was submitted ordering an actuarial demonstration of the monthly premium pricing. The parties filed their summations in the motion for approval of a class action.	NIS 225 million (for a period of ten years)
12	4/2011 Central District Court	Life assurance policyholder v. Migdal Insurance and other insurance companies	Charging for a "policy factor" without having contractual consent and without providing proper disclosure thereof. The sought remedies consist of payment of compensation for/recovery of the "policy factor" funds actually charge from the group members with the addition of the return on those amounts that was denied of them and issuing a mandatory injunction ordering the cessation of these charges.	Anyone who holds and/or held the respondents' insurance policy and was charged for any amount categorized as "other management fees" and/or "policy factors".	The evidentiary hearing and summation stages in the motion for approval of a class action have been concluded. The parties are holding a mediation proceeding.	NIS 2,325 million (for a period of seven years)

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

#	Date and instance	The parties	Main arguments, causes and remedies	The group	Details	Claim amount
13	6/2011 Central District Court	Motor assurance policyholder v. Migdal Insurance and other companies	Payment of funds withheld by the respondents as repossession at nominal value without interest and linkage differences for the withholding period. The grounds for the claim rely on the benefit derived to the respondents during the withholding period pursuant to Section 1 to the Unjust Enrichment Law and/or Section 28 to the Insurance Contract Law. The sought remedy is payment of interest and linkage differences reflecting the benefit derived to the respondents during the withholding period.	Anyone who received insurance rewards after June 1, 2008 after withholding of funds due to third party repossession and did not receive the yields on the withheld funds.	On December 2, 2012, the District Court approved an inquiry of the claim as a class action. The parties held a mediation proceeding that was concluded on November 6, 2014. The case is in class action inquiry stages.	NIS 350 million
14	2/2012 Tel-Aviv District Court	Owner of a securities account v. Migdal Stock Exchange Services	Charging customers for a commission for foreign correspondent services in excess of the commission actually paid by the respondent and/or delivered to the foreign correspondents. The sought remedy is compensation for and/or indemnification of the group for the excessive commissions and/or surcharges.	The respondent's mutual funds and anyone for which the respondent conducts foreign brokerage services for correspondent commissions.	On February 6, 2012, the Court decided that the motion for approval of a class action will only address customers whose investments are managed by the respondent based on the agreement attached to the motion. The proceeding is in the class action inquiry stage.	NIS 43 million
15	5/2012 Jerusalem District Court	Potential policyholders who requested an insurance offer and were rejected v. Migdal Insurance and other insurance companies	Discrimination and refusal to sell various insurance policies to people with different medical disabilities. The sought remedies include issuing a declaratory relief that the respondents have violated the Law of Equal Rights for People with Disabilities, issuing a mandatory injunction ordering an underwriting process to examine each application based on personal data, explain each rejection on the basis of predetermined procedures, grant retroactive coverage to those found fit and compensation for personal injury to feelings as well as non-pecuniary damage.	Anyone who applied to respondents for an individual insurance policy and were denied due to medical condition or disability and people with disabilities who refrained from applying to the respondents for fear of rejection.	The proceeding is in the class action inquiry stage. The parties are holding a mediation proceeding. It should be noted that in February 2014, the Commissioner issued guidelines regarding the delivery of written explanations to policyholders with disabilities who were treated differently as defined in the Law of Equal Rights for People with Disabilities.	NIS 934 million[9]

[9] For personal injury to feelings and compensation for damage without proof of damage.

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

#	Date and instance	The parties	Main arguments, causes and remedies	The group	Details	Claim amount
16	8/2012 Central District Court	Life assurance policyholder v. Migdal Insurance and other companies	Management fees charged by Migdal from the premium for combined savings and life assurance policies issued from 2004 although the Commissioner had allowed the collection of management fees from premiums (the petitioners argue that the Commissioner's approval was rendered in contrast to regulations and is therefore invalid). The sough remedies include reimbursement of management fees allegedly charged illegally and issuing a mandatory injunction ordering the cessation of collection of management fees from premiums.	Anyone who holds and/or held a life assurance policy of one or more of the respondents issued from 2004.	The proceeding is in the class action inquiry stage.	NIS 570 million[10]
17	1/2013 10/2014 Central District Court	Motor act insurance policyholders v. Migdal Insurance, the Pool and other motor act insurance companies	Surcharge of premiums in motor act insurance when the insurance certificate is paid by the policyholder on a later date than that stated on the insurance certificate. The sought remedy consists of reimbursement of illegal surcharges of premiums with interest and linkage differences.	The holders of motor act insurance policies of the respondents in the seven years before the date of filing the claim who paid premiums after the date stated on the insurance certificate.	Two motions for approval of a class action on the same grounds were consolidated into a single motion which is in the class action inquiry stage. The Commissioner's position was submitted whereby the Court's proposal for changing the format of the insurance certificates is inappropriate. The motion for approval of a class action is in the summation stage.	NIS 34 million, of which NIS 9 million attributed to Migdal Insurance.
18	5/2013 Tel-Aviv District Court	Health insurance policyholders v. Migdal Insurance and other insurance companies	Failure to pay linkage differences on insurance rewards from the date of occurrence of the insurance event until the date of payment and failure to pat interest differences on insurance rewards within 30 days from the date of filing of the claim. The sought remedy is payment of interest and linkage differences as required by law.	Anyone who received in the seven years preceding the date of filing of the claim or will receive by the date of the issuance of the verdict insurance rewards without interest and linkage differences as required by law.	The motion for approval of a class action is in the summation stage. The parties are examining the possibility of mediation.	NIS 807 million attributed to Migdal Insurance.

[10] Alternatively, NIS 65 million for the upward calculation and NIS 132 million for the risk components.

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

#	Date and instance	The parties	Main arguments, causes and remedies	The group	Details	Claim amount
19	10/2013 Central District Court	Life assurance policyholder v. Migdal Insurance and other insurance companies	Updating the insurance premium due to a change in age and in the CPI on the first of each calendar month and not on the policyholder's birthday in that month (in age changes) or on the day of the policyholder's application for an insurance policy instead of on the actual day of receipt (in CPI updates). The sought remedy is refund of the excess premiums charged.	Anyone who joined a plan where the premium update date is earlier than the date on which the premiums should be updated.	The proceeding is in the class action inquiry stage.	NIS 399 million
20	3/2014 Tel-Aviv District Court	Motor insurance policyholder v. Migdal Insurance	Renewing an insurance policy without notifying policyholders and/or getting their consent against the Insurance Contract Law and unlicensed use of policyholders' credit card information. The sought remedies are: monetary compensation for the group members, declaratory relief and mandatory injunction whereby the insurance agreements and websites will disclose the fact policies are not renewed without consent and monetary compensation for the premiums charged.	Anyone whose insurance period was extended or renewed in the seven years before the date of filing the claim without their consent or knowledge.	The proceeding is in the class action inquiry stage.	NIS 36 million
21	5/2014 Tel-Aviv District Court	Holder of motor insurance policy that includes substitute vehicle coverage v. Migdal Insurance and other insurance companies	Failure to provide a young driver a substitute vehicle without disclosure in the list/specs against the duty of disclosure imposed on insurers. The sought remedies include issuing a declaratory relief on the plaintiffs' negligence and breach of duties, obligating the respondents to provide such coverage and ordering them to provide proper disclosure and compensation.	Anyone who purchased young driver and substitute vehicle coverage in the seven years preceding the date of claim and was not provided such coverage.	The proceeding is in the class action inquiry stage.	NIS 28 million, of which NIS 8 million attributed to Migdal Insurance.

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

#	Date and instance	The parties	Main arguments, causes and remedies	The group	Details	Claim amount
22	6/2014 Jerusalem District Court	Mortgage life assurance policyholder v. Migdal Insurance and other insurance companies	Setting an insurance fee in mortgage life assurance policies that exceeds the loan balance at the bank causing policyholders to pay higher premiums. The sought remedies include, among others, paying the difference between the premiums paid and the premiums that should have been paid based on the bank loan balance plus compensation for distress, obligating the respondents to cease this activity and update the insurance fee based on the accurate bank loan data.	Policyholders who purchased mortgage life assurance policies in the seven years preceding the date of claim where the insurance fee for the calculation of the premium exceeds the loan balance at the bank.	The proceeding is in the class action inquiry stage.	NIS 1,182 million, of which NIS 523 million attributed to Migdal Insurance.
23	7/2014 Central District Court	Associations and organizations acting to benefit senior citizens v. Migdal Makefet and another four pension fund management companies	Misuse of the right prescribed in the articles of association to raise the management fees to the maximum allowed rate when members retire. The sought remedies are obligating the respondents to refund the excess management fees that were and/or will be illegally collected from the retired members to them and/or to the pension fund or alternatively return all the management fees collected from the retired members to the pension fund and redistribute the funds fairly and equally among all the retired members, forbidding the respondents from raising the management fees on the date of retirement, deciding that the condition in the articles of association that allows the defendants to raise the management fees from time to time is (allegedly) a depriving condition in a uniform contract and ordering the cancellation or change of the alleged depriving condition.	Any member in the respondents' new and comprehensive pension fund who is and/or will be entitled to old age pension	The proceeding is in the class action inquiry stage. A pre-trial hearing was scheduled for April 16, 2014.	At least NIS 48 million, without quantifying the other remedies at this stage.
24	12/2014 Kfar Saba Magistrate Court	Motor act insurance policyholder v. Migdal Insurance	False advertising of the insurance calculator on the Commissioner's website compared to the actual motor insurance price charged by the respondent. The sought remedies include compensation for all the monetary damages caused by the denial of the offered benefit and/or compensation for distress, deception etc. and a mandatory injunction for correcting the false advertising.	Anyone who wanted to purchase motor act insurance from the respondent based on the price offered on the Commissioner's website but encountered a gap from the actual price.	A response for the motion for approval of a class action has not yet been filed.	NIS 2.5 million

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

#	Date and instance	The parties	Main arguments, causes and remedies	The group	Details	Claim amount
25	12/2014 Central District Court	LTC insurance policyholder v. Migdal Insurance and Financial Holdings	Failure to pay redemption value in the event of death and/or cancellation of LTC policies initiated by the policyholders against the Commissioner's explicit directives. The sought remedies include declaring that the respondent is not entitled to hold the redemption fees and must provide the Court and the petitioner the redemption calculation formula and advertise to all the relevant policyholders that certain clauses in the policy are depriving conditions and should be cancelled and Migdal Insurance must return the redemption values to the group members with interest and linkage differences.	The holders of the respondent's LTC insurance policies under fixed premiums	A response for the motion for approval of a class action has not yet been filed.	NIS 28.5 million
26	1/2015 Tel-Aviv District Court	Holders of units of mutual funds v. Migdal Mutual Funds et al	Charging excessive brokerage commissions and/or trustee fees at "inflated" costs without making a real effort of reducing these costs and raising the performance costs for free operation or reduced prices. The sough remedies include recovery of the excess funds by February 27, 2011 (the effective date of Amendment 14 to the Joint Investments in Trust Law).	All the holders of units in the respondents' mutual funds (no statute of limitation)	A response for the motion for approval of a class action has not yet been filed.	NIS 220 million, of which NIS 22 million is attributed to Migdal.

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

c. Motions to approve claims as class actions and claims that were approved as class actions which were concluded in 2014:

#	Date and instance	The parties	Main arguments, causes and remedies	Details	Claim amount
1	5/2012 Tel-Aviv District Court	Potential policyholders v. Migdal Insurance and Ihud Insurance Agencies Network	Discrimination of people with disabilities regarding comprehensive motor insurance rates for disabled vehicles	On March 24, 2014, the Court's verdict approved the plaintiffs' request to dismiss the claim without issuing an order for expenses.	NIS 120 million
2	1/2013 Central District Court	Health insurance policyholder v. Migdal Insurance	Alleged payment of partial insurance rewards in respect of indemnification for standard lens transplant instead of premium lenses.	On May 12, 2014, a settlement agreement was approved whereby the policyholders who form part of the group as defined in the settlement agreement received an immaterial amount.	NIS 10 million
3	4/2011	Policyholders v. Migdal Insurance	Illegally registering foreclosures and releasing insurance rewards/accumulated funds due to said foreclosures without interest and linkage differences.	On June 24, 2014, the Court's verdict dismissed the claim, ordered implementing a mediation award which consists of an outline for dealing with invalid foreclosures and an enforcement, control and update mechanism.	NIS 13,427 million
4	4/2012 Haifa District Court	Third party who filed a claim against a comprehensive motor insurance policyholder v. Migdal Insurance and another company	Arguing against the practice of indemnifying third parties for the impairment of a vehicle according to the date of filing the claim for insurance rewards and not according to the accident date.	On June 26, 2014, the settlement agreement was approved which consisted of an undertaking to calculate the vehicle impairment at its value on the accident date and Migdal Insurance's consent to indemnify policyholders for past accidents under the terms detailed in the settlement in immaterial amounts.	NIS 34 million
5	2/2014 Tel-Aviv District Court	Policyholder v. Migdal Insurance	Request for extending the date for filing a petition for cancellation of a verdict of September 7, 2010 which approved a settlement in a class action that had been filed in December 2006 on behalf of the policyholder and other policyholders.	On July 2, 2014, a verdict was rendered which dismisses the petition for cancellation of the verdict in the class action without issuing an order for expenses.	NIS 150 million
6	7/2011 Central District Court	Comprehensive motor insurance policyholder v. Migdal Insurance and other companies	Alleged charging of credit feed in general insurance in excess of the maximum interest limit. The sought remedy is refund of the credit fees.	On July 24, 2014, a settlement agreement was approved consisting of an undertaking to provide a credit fee discount to the group members for general insurance policies that will be purchased in an immaterial amount which has been provided in the financial statements.	NIS 868 million
7	6/2012 Tel-Aviv District Court	Comprehensive motor insurance policyholder v. Migdal Insurance	Illegal and excess deduction of license fee from the insurance rewards. On May 20, 2014, the Commissioner ordered refunding policyholders whose license fee was offset plus interest and linkage and ceasing this offset in future claims.	On August 13, 2014, a verdict was issued for dismissal for payment of legal fees and compensation.	NIS 4.5 million
8	9/2013 Petach-Tikva Magistrate Court	Health insurance policyholder v. Migdal Insurance	Discrimination of citizens residing in Judea and Samaria and in the Golan Heights who purchased insurance coverage which they argue does not apply where they live. The sought remedy is refund of the insurance fees and an order obligating Migdal Insurance to provide this service.	On November 25, 2014, a verdict was rendered which dismisses the motion for approval of a class action.	NIS 1.8 million

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

d. Other material claims:

Following is a description of other material claims. The amount of the claims is presented as of the date of filing.

Date and instance	The parties	Main arguments, causes and remedies	Sought remedy	Claim amount
5/2/14 8/4/14 Tel-Aviv District Court	The entire members of Clalit Healthcare Services and Maccabi Healthcare Services v. Migdal Insurance, other insurance companies, Clalit Healthcare Services and Maccabi Healthcare Services	Derivative claims on behalf of the policyholders of Clalit Healthcare Services and Maccabi Healthcare Services who purchased private health insurance policies for the Funds' participation in expenses incurred in the context of Additional Health Services programs and surgeries performed by them in the basic or supplementary basket which were covered by the private health insurance (overlapping liabilities).	The Sick Funds participated in 60% of the cost of surgeries performed in the context of Additional Health Services programs, 33.3% in the basic basket and 50% for all other cases regarding overlapping liabilities.	Clalit Healthcare Services - NIS 3,518 million and Maccabi Healthcare Services - NIS 1,714 million - the case is in the proof hearing stage

e. Summary of legal claims:

1) Hereunder is a summary table of the amounts that are demanded under pending motions to approve claims as class actions, claims that were approved as class actions and other material claims against the subsidiaries, as stated by the plaintiffs in the statements of claims that were filed on their behalf. It should be noted that the claimed amount does not necessarily comprise a quantification of the amount of exposure that is estimated by the Company and/or the subsidiaries, since these estimates were made by the plaintiffs and they will be deliberated under legal proceedings. It should also be noted that the table below does not include proceedings that have ended.

Type	Number of claims	Claimed amount in NIS in thousands (1)
Claims approved as class actions (2) (3)	3	350,491
Stated amount attributed to the Group	0	-
The claim relates to a number of companies and no specific amount was attributed to the Group	1	350,491
The claim amount was not stated	2	-
Pending motions to approve claims as class actions (4) (5) (6) (7)	23	7,179,105
Stated amount attributed to the Group	15	2,677,600
The claim relates to a number of companies and no specific amount was attributed to the Group	6	4,501,505
The claim amount was not stated	2	-
Other material claims	1	5,232,000
The claim relates to a number of companies and no specific amount was attributed to the Group	1	5,232,000

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

(1) All the amounts are in NIS in thousands and at the date of filing the motions or the claims, as the case may be.

(2) Including a claim approved as a class action. A verdict was issued which requires compensating the policyholders and an appeal on the verdict was filed (line 3 in the table in b above).

(3) Including a claim which does not state the exact amount (line 8 in the table in be above) which estimates the amount of the claim at hundreds of millions of NIS without stating the amount of the claim.

(4) Including a claim approved as a class action. An appeal was filed and the Appeals Court decided to reassign the claim for a hearing in the motion for approval in the District Court (line 2 in the table in b above).

(5) Whenever various alternative amounts of claims were stated in the motions to approve claims as class actions, the highest amount from among the amounts that were stated was taken into account (line 16 in the table in b above).

(6) In places where the amount which is attributed to the Group is specified, the amount is in respect of the Group and not of the entire defendants.

(7) Including motions to approve claims as class actions whose hearing was consolidated. The amount taken into consideration is the amount attributed to the Group in one of the claims (line 17 in the table in b above).

2) The total amount of the provision in respect of the class actions and other material claims, that were filed against the Group, as detailed in the summary table in e) above, is approximately NIS 69 million (as of December 31, 2013 - approximately NIS 29 million).

3) The total provisions in respect of all the proceedings against the Group, including class actions and other material claims, including in respect of the proceedings detailed in f) above is approximately NIS 93 million (as of December 31, 2013 - approximately NIS 101 million).

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

f. Additional legal and other proceedings:

Below is a description of additional legal and other proceedings pending against the Company and/or the subsidiaries.

1) In keeping with the Company's immediate report of November 3, 2013 (reference no.: 2013-01-181320) in which the New Histadrut General Federation of Laborers in Israel ("the Histadrut") announced that it was the organization that represents Migdal Insurance's employees, and in keeping with the Company's immediate report of January 30, 2014 (reference no.: 2014-01-028051) in which Migdal Insurance announced that it agrees to enter negotiations with the workers' union towards signing a collective agreement and that it recognizes the Histadrut as the organization that represents Migdal Insurance's employees, on February 17, 2015, a collective agreement was signed between Migdal Insurance, Makefet and the Histadrut ("the collective agreement"), see details in an immediate report of February 17, 2015 (reference no.: 2015-01-033544) and Note 40a below.

Migdal Insurance and the Histadrut held legal proceedings for recognizing the Histadrut as the organization that represents Migdal Insurance's employees and regarding the Histadrut's argument of Migdal Insurance's alleged attempts to sabotage the employees' organization as well as proceedings in connection with payment of salaries during periods of shutdown and sanctions. In the context of said legal proceedings, on January 20, 2014, in view of a previous finding of the violation of a temporary injunction that forbids Migdal Insurance from approaching its employees in connection with their organization, the Tel-Aviv Regional Labor Court issued a contingent injunction against Migdal Insurance pursuant to Section 38 to the Labor Court Law, 1969 and Section 6 to the Contempt of Court Ordinance that forbids Migdal Insurance and the Chairman of the Company's Board and the controlling shareholder therein, Mr. Shlomo Eliahu, from approaching Migdal Insurance's employees in the issue of their self-organization or from denying them their right of self-organization. The Court stated that in any event of another violation of the injunction Migdal Insurance and Mr. Shlomo Eliahu will personally pay a fine of NIS 200 thousand each ("the Court's decision based on the Contempt of Court Ordinance"). Migdal Insurance and the Chairman of the Company's Board, Mr. Shlomo Eliahu, appealed the Court's decision based on the Contempt of Court Ordinance with the National Labor Court.

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

According to understandings reached between the parties, it was agreed to dismiss the Court's decision based on the Contempt of Court Ordinance and strike all the pending legal proceedings at the Labor Court without issuing an order for expenses. The National Labor Court overturned the Court's decision based on the Contempt of Court Ordinance issued against Migdal Insurance and Mr. Shlomo Eliahu (see an immediate report of February 19, 2015 (reference no.: 2015-01-034951)) and the regional labor Court approved the parties' consent to strike all pending proceedings without expenses.

2) On February 11, 2015, the Tel-Aviv Central District Attorney's Office (Taxation and Economics) filed an indictment against a former employee in the Group's institutional entities' capital market trading division ("the former employee") and against another defendant who collaborated with the former employee according to the indictment ("the other defendant") and together exploited the former employee's knowledge and control in his capacity and position in the institutional entities for insider trading, consisting of buying shares after obtaining the institutional entities' sale orders and/or before issuing purchase orders for the institutional entities and/or a combination of both. According to the indictment, the former employee and the other defendant fraudulently traded in dozens of different securities by delivering information from the former employee to the other defendant and making advance stock transactions at lower selling and buying quotes.

According to the indictment, the former employee committed fraud and breach of fiduciary duty and also accepted bribery for actions pertaining to his office as public employee and 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' fraud involved stock transactions in the amount of some NIS 59 million and fraudulent receipt of profits totaling approximately NIS 11.5 million under aggravating circumstances. Given that the Company is not a party to the allegations and/or litigation, it is difficult to assess whether the indictment will lead to conviction or whether it will have any implications on the Company.

3) In the issue of tax assessments for the 2007, 2009 and 2010 tax years totaling approximately NIS 66 million and the Company's appeal filed with the Tel-Aviv District Court on the taxation of dividends received by the Company from an investee from revaluation gains, see Note 21d(3) above regarding taxes on income. The provision in respect of the taxation is not included in the provision detailed in e(3) above.

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

4) The Company and/or its subsidiaries are party to additional claims which do not involve insurance coverage based on policies filed by customers, former customers and various third parties in immaterial amounts aggregating to NIS 76 million (as of December 31, 2013 - approximately NIS 84 million). The grounds of the claims filed against the Company and/or its subsidiaries in the context of these proceedings vary.

5) From time to time complaints are filed against the Group, including complaints to the Commissioner of the Insurance with respect to rights of policyholders according to insurance policies and/or the law. These complaints are handled regularly by the Group's public complaints departments. At times, the Commissioner's decisions on these complaints are rendered as across the board decisions relating to a group of policyholders.

   Furthermore, from time to time, and also following policyholders' complaints, the Commissioner conducts inspections on his/her behalf at the Group's institutional entities and/or requests to receive information in different issues of management of the institutional entities, management of the institutional entities' policyholders' and members' rights and inspections for implementing regulations and/or lessons from previous inspections wherein, among others, there are requests to make changes in various products, provide guidelines for implementing circulars and guidelines and/or instructions regarding rectifying deficiencies or taking actions by the institutional entities, including refunding policyholders and members. On the basis of the findings of the inspections or the information that was provided, the Commissioner sometimes imposes financial sanctions pursuant to the Enforcement Authority Law.

6) In August 2013, the Commissioner published a decision in principle on the subject of raising fees without notice. According to the decision management companies are required to check all accounts in which management fees were raised during the period from January 1, 2006 through December 31, 2009 and to refund to all members management fees collected during this period (and to whom one of the exceptions listed in the draft decision do not apply) not in accordance with Regulation 53b to Tax Regulations Income (Rules for Approval and Management of Provident Funds). Amounts credited to a member under this decision will bear interest at the interest rate of the average shekel interest rate in the refund period, published by the Accountant General under the Adjudication of Interest and Linkage Law (a rate of about 5.1%) from the date when excess management fees were collected through the date of payment under the decision. Also stated in the decision are cases in which exemption will be given for individual examinations and from refunds.

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

The decision also sets general guidelines for refunds. On December 18, 2014, the Commissioner issued a directive for deferring the dates for implementing the refunds according to the above decision to August 31, 2015 instead of January 1, 2015. The reporting date of the internal auditor was also deferred to the end of 2016. The managing company has begun implementing the provisions of the decision.

7) In December 2012, a draft decision was issued against Migdal Insurance's one-time deposits in yield guaranteeing policies. According to the draft decision, the Commissioner is of the opinion that the insurance companies should have informed and/or obtained consent to crediting one-time deposits made in yield guaranteed policies with the yields for profit participating policies. According to the Commissioner's draft decision, certain actions must be performed for dividing the policyholders into two groups - one group consists of policyholders whose one-time deposits bore equal or higher yield than the guaranteed yield, and the other group consists of policyholders whose one-time deposits bore yields that were lower than the guaranteed yield. Migdal Insurance filed 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.

8) On August 29, 2013, the Commissioner issued a draft decision concerning accident disability insurance policy. According to the draft decision, in the event of partial disability from an accident, Migdal Insurance applies a formula which reduces the rate of compensation to the insured ("the adjustment"). In the event of disability of a number of organs, Migdal Insurance weighs the disabilities in accordance with the National Insurance regulations, without there being an appropriate provision in the policy ("the weighting"). The draft decision informs Migdal Insurance that the Commissioner intends to order the reimbursement of funds at the rate of the disability compensation reduction performed to policyholders who filed a claim against Migdal Insurance from May 17, 2006 onwards. It should be noted that as regards the adjustment a verdict was granted against Migdal Insurance in a class action that requires it to compensate policyholders. In addition, an appeal was filed on the verdict by the class action plaintiff (see b(3) above). It should be noted that the draft decision relates to the period from the providing of a similar ruling against another insurance company on the same issue and after the date of the filing of the above class action. Migdal Insurance submitted its position in relation to the two subjects of the draft decision. In relation to the subject of the adjustment and for purposes of investigation of its position, Migdal Insurance was requested to provide additional data and plan for performing the reimbursement of the adjustment. Migdal Insurance is awaiting the Commissioner's response relative to his position on the weighting subject.

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

9) There is a general exposure which cannot be estimated and/or quantified, due to, among others, the complexity of the services granted by the Group to its policyholders. The complexity of these arrangements entails, among others, a potential for interpretation and other arguments resulting from differences in information between the Group and the third parties to the insurance contracts that relate to a long list of commercial and regulatory conditions.

   This exposure is expressed mainly in the areas of pension and long term insurance savings, including health insurance, in which the Group operates. In these areas the policies are managed over the years in which there are changes in policies, regulations and legal trends, including court rulings.

   These changes are made by EDP systems that undergo frequent changes and adaptations. The complexity of these changes and application of change with respect to many years, creates increased operating exposure. Receipt of a new interpretation to insurance policies and long term pension products may, at times, affect the Group's future profitability with respect to the existing portfolio, in addition to the exposure involved in the demands to compensate customers for past activities. It is not possible to anticipate the kind of arguments that will be raised in this area and the exposure resulting from any arguments that are raised in respect of the insurance contract, among others, by the procedural apparatus pursuant to the Class Actions Law.

10) The Commissioner takes steps to outline principles for drafting insurance plans and in this context on July 10, 2013, a document (Sh. 2013-30527) was posted containing a list of guiding principles and guidelines for the formulation of insurance plans which includes a list of improper practices which should not be included in an insurance plan and proper practices which should be included in insurance plans. On January 4, 2015, the Commissioner issued a circular (2014-122) that includes an update for the practices that should/should not be included in the insurance plans. It is not possible to predict whether and to what extent insurers are exposed to claims regarding the interpretation of provisions in insurance plans and the proper application of the said principles and practices that can arise in part through the hearings mechanism set forth in the Class Action Law.

11) The long-term savings products are characterized by a prolonged lifespan and are extremely complex, particularly in view of the various regulations relating both to management of the products and to taxation, attribution of the deposits, investment management, the insured's employment status, his deposit payments, etc. As part of the changes in regulations and legal trends, in December 2011, Circular no. 2011-9-10 was published for institutional entities - "Improvement of data on the rights of members in the institutional entities". This circular was replaced by circular No. 2012-9-16.

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

The circular prescribes the operations that an institutional entity must perform in relation to the members' rights - the data specified in the holdings interface, within the context of the circular on a uniform structure for the transfer of information and data in the pension savings market (institutional entity circular 2014-9-13), and it obligates the institutional entity to improve the data that confer rights to members to assure that registering the members' rights in the information systems is as reliable, complete, available and retrievable as possible. With respect to members who joined before 1997, the data must be improved at least from 1997, and for provident funds that are not insurance funds or provident funds that pay an annuity, the information on deposits, transfers and withdrawals will be improved at the very least as of January 1, 2005 and thereafter. The circular contains instructions for the gradual implementation of the guidelines during the period from December 31, 2012 through June 30, 2016.

The Group's institutional entities are studying and continuously dealing with improvement of the data on policyholders' rights, in connection with management of the products by the institutional entities, based on the gaps that emerge from time to time. The financial institutions have completed the gap survey required by the circular and have begun to perform improvements under an approved work plan. The institutional entities are unable to estimate and quantify the scope and costs of the aforementioned improvement processes, and the implications also with respect to past activity. Financial institutions have made provisions as necessary. At this stage, it is impossible to fully assess whether additional provisions must be made in connection with the process of improving data on members’ rights as required in the circular.

2. Commitments:

a. For details regarding the commitment for the absorption the new business of Eliahu Insurance in general insurance, see Note 38e(2) above.

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, 2014 approximates NIS 978 million, of which an amount of approximately NIS 751 million in respect of yield-dependent contracts (in 2013 - approximately NIS 664 million, of which an amount of approximately NIS 473 million in respect of yield-dependent contracts).

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

2) The balance of Migdal Insurance's commitments for additional investments in acquired corporations as of December 31, 2014 amounts to approximately NIS 112 million, of which an amount of approximately NIS 101 million in respect of yield dependent contracts (in 2013 - approximately NIS 128 million, of which an amount of approximately NIS 115 million in respect of yield-dependent contracts).

3) The balance of Migdal Insurance's commitments to provide credit upon demand as of December 31, 2014 amounts to approximately NIS 971 million, of which an amount of approximately NIS 860 million in respect of yield dependent contracts (in 2013 - approximately NIS 548 million, of which an amount of approximately NIS 472 million in respect of yield-dependent contracts).

c. Commitments for acquisition of real estate assets:

The balance of Migdal Insurance's commitments for investments in real estate as of December 31, 2014 amounts to approximately NIS 407 million, of which an amount of approximately NIS 342 million in respect of yield dependent contracts (in 2013 - approximately NIS 187 million, of which an amount of approximately NIS 178 million in respect of yield-dependent contracts). Some of the above amounts are based on the calculation mechanism prescribed in the agreement.

d. Indemnity and waiver letters to officers:

1) Indemnity letters granted up to 2006:

a) The Company granted indemnity letters to officers in investees and other corporations in which they serve by virtue of their capacity as officers in a subsidiary as well as to a number of the Group employees, whereby Migdal will indemnify them under the circumstances and reservations as detailed in the indemnity letter in respect of a monetary liability that will be imposed on them as a result of actions they will carry out by virtue of their post as officers in the aforementioned corporations, or in respect of activities as detailed in the indemnity letter.

b) The Company granted waiver letters to officers in investees and other corporations in which they serve by virtue of their capacity as officers in Migdal and its subsidiaries, whereby the Company, under the circumstances and reservations as detailed in the waiver letter, had waived any claims against officers with respect to any action and/or omission that they will perform as officers in the aforementioned corporations.

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

c) The Company granted indemnity letters to officers in Migdal, its subsidiaries and investees whereby they will be indemnified, in the amount, circumstances and reservations as detailed in the indemnity letters, in respect of any monetary liability that will be imposed on them with respect to the following issues:

(1) Prospectus of the Company from the year 1996.

(2) Liabilities that will be applicable to the Company and/or the Migdal Group companies due to the fact that the Company is a company whose shares are held by the public and are listed for trade on the stock exchange, provided that the liability for indemnification will be applicable only to liabilities deriving from operations that were performed during the period of up to one year from the date of the prospectus.

d) The Company rendered waiver letters and an undertaking to dismiss claims regarding officers in corporations that belong to the Migdal Group, whereby under the circumstances and reservations as detailed in the waiver letters and the undertaking, it waived the claims against the officers with respect to any action and/or omission that will be performed by them in their capacity 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 that will be applicable to the corporation due to the fact that the Company is a company whose shares are held by the public and are listed for trade on the stock exchange.

The Company also undertook, under the circumstances and reservations as detailed in the waiver letters and the undertaking, to dismiss any claim that will be filed against the corporations or any one of them, if as a result of the claim, as mentioned, the officers will be sued by any of the corporations by a claim that will not be dismissed in limine.

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

2) Letters of release and indemnity granted in 2006:

In November 2006, a special general meeting of the Company's shareholders approved the granting of a commitment to exempt and indemnify officers of the Company.

Accordingly, the Company informed its officers as follows:

Commitment for release - the Company releases its officers from any responsibility towards it, to the extent that this is permitted by law, for any damage that is and/or may be caused to it and/or may be caused due to a breach of the duty of caution that applies to the officers in their bona fide activity by virtue of their capacity as the Company's 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.

Undertaking for indemnity - the Company undertakes in advance to indemnify the Company's officers, including officers of the Other Company based on the text of the waiver and indemnity letter given to the senior officers. Based on the letter of indemnity and subject to the provisions of the law, the Company undertook to indemnify the officers for any liability or expense specified in the letter of indemnity that is imposed on them or any expense they may incur due to activity they undertook (including activity before the date of the letter of indemnity) and/or that they may undertake in their capacity as officers of the Company and/or of the Other Company, provided that the activity relates, directly or indirectly, to one or more of the categories of event listed in the addendum to the letter of indemnity, and provided that the maximum amount of indemnity in respect of Section 2.1.1 of the letter of indemnity, inclusive and in aggregate, payable by the Company to each officer does not exceed 25% of an aggregate amount equal to the Company's (consolidated) equity according to the last consolidated annual financial statements before actually giving the indemnity, and this for each of the officers, severally and together, for a single event and in aggregate, and in addition to amounts that may be received from an insurance company, if they are received, as part of the insurance purchased by the Company.

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

3) Limit to letters of release and indemnity granted in 2011:

In November 2011, the Company's Audit Committee decided to limit until November 30, 2020, the period during which the release and indemnification arrangements of the Company will apply, as long as they will not be replaced by other arrangements, as well as the release or indemnification certificates which will be granted from time to time by the Company according to the Company's release and indemnification arrangements, regarding officers of the Company in whom the controlling shareholder might be considered to have a personal interest to grant these officers who are serving or will serve the Company from time to time release and indemnification certificates.

See the Company's immediate report dated November 29, 2011 (reference no.: 2011-01-344238).

4) Updated indemnity granted in 201s:

On February 7, 2012, the general meeting of the Company approved the following:

- To grant updated indemnity letters to directors serving on the date of approval and as shall be appointed from time to time. The update of the existing letters of indemnity includes, among other things, a reference to the main issues, as follows:

  a) A prior undertaking to indemnify in respect of a financial liability imposed on an officer for payment to victims in respect of a violation of an administrative proceeding, and expenses incurred by the officers in connection with an administrative proceeding conducted against them, including reasonable litigation expenses, including attorney's fees, in accordance with the entry into force of the Law of Administrative Enforcement and Amendment of the Securities Law, 1968 ("Securities Act") and in accordance with the Law for Enhanced Enforcement in the Capital Market (Legislative amendment) - 2011.

  b) The maximum indemnification amount to be paid to officers in Migdal as a whole, under any indemnity letters issued and to be issued from time to time, has not changed, but has been amended such that it shall not exceed an amount equal to 25% of its equity (consolidated) according to the latest financial statements published by the Company prior to the actual indemnification (instead of being determined in accordance with the last annual financial statements published by the Company prior to the actual indemnification).

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

c) Clarification was given that the undertaking to indemnify also applies to other positions filled by the holder of a letter of indemnity in Migdal Group companies and/or other companies in which he serves on behalf of the Migdal Group.

d) Clarification was given that the undertaking to indemnify applies both in respect of an event held in Israel and an event held outside of Israel.

In addition, in view of recent developments in the business environment in which the Company operates and in the regulations applicable to the Company, the list of events in respect of which the Company is entitled to grant an indemnity letter was updated to also include the following events: risk management, investment policy, SOC controls and procedures, preparation of financial statements and other reports and customer fund management. The updated provisions of the indemnity letters will apply subject to the provisions of applicable law also to actions committed prior to the amendment.

- The grant of updated indemnity letters to officers of the Company in whom the controlling shareholder of the Company may be considered as having a personal interest in granting letters of indemnity to certain offices and as appointed from time to time ("certain officers"). The updated letters of indemnity granted to certain officers are identical to letters of indemnity to be granted directors and are in the form attached. The provisions of the updated indemnification letters to be granted certain officers shall, subject to law, apply also in relation to actions taken prior to their amendment.

- It should be noted that the letters of indemnity granted officers serving at the time of the report and who are the controlling shareholder and/or other officers in which the controlling shareholder has a personal interest (Shlomo Eliahu and relatives serving as officers in the Company, Ofer Eliahu and Israel Eliahu) have not yet been brought for approval and therefore, as at reporting date, they did not have a letter of indemnity from the Company.

For more information about these letters of indemnity, see immediate report published on December 28, 2011 (reference no.: 2011-01-378141), immediate report dated February 2, 2012 (reference no.: 2012-01-032109) and immediate report of February 7, 2012 (reference no.: 2012-01-036555).

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

5) Officers insurance:

a) On August 13, 2013, the Board of Directors of the Company decided, pursuant to the Companies Regulations (Relief with Interested Parties) Regulations, 2000, to approve the renewal of the directors and officers professional liability policy including in respect of the controlling shareholder and his relatives who serve as officers of the Company for a period of seventeen months from August 1, 2013 and until December 31, 2014 at a liability limit of US$ 100 million per event and for the period in consideration of an annual premium of US$ 731,413 subject to the approval of the Company's remuneration policy, see details in the immediate report dated August 13, 2013 (reference no.: 2013-01-116520).

b) On January 27, 2015, following the approval of the Company's Remuneration Committee from January 25, 2015, the Board of Directors of the Company decided to extend the policy mentioned in a) above by 30 days to December 31, 2015 in return for a premium to be paid pro rata to the period. See details in the Company's immediate report of January 27, 2015 (reference no.: 2015-01-020140).

c) On January 27, 2015, the Board of Directors of the Company decided, pursuant to the Companies Regulations (Relief with Interested Parties) Regulations, 2000, to renew the Group's directors' and officers' liability insurance policy, including for the controlling shareholder and his relatives who serve as officers in the Company, for a period of seventeen (17) months from February 1, 2015 to June 30, 2016 with a liability limit of US$ 100 million per event and for the period and in return for an annual premium that does not exceed US$ 270,000. See details in the Company's immediate report of January 27, 2015 (reference no.: 2015-01-020140). The engagement is in conformity with the Company's remuneration policy as approved in a general meeting of October 27, 2014. See details in the Company's immediate report of October 27, 2014 (reference no.: 2014-01-181653).

6) Within the framework of an agreement dated December 1, 2004 that was signed in respect of the acquisition of Makefet shares, the purchasers undertook that the letters of indemnity given by Makefet to its officers, will not be cancelled or changed to the extent they relate to events that have occurred up to the acquisition date.

In addition, the purchasers have given an undertaking within the acquisition agreement, that if any claim or allegation whatsoever will be filed in connection with Makefet, against the seller or a party acting on its behalf or for it, whether it relates to the period before the acquisition date or to the period after the acquisition date, they will compensate the seller or the party acting on its behalf or for it for the said claim.

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

7) Migdal Insurance granted Old Yozma a letter of indemnity unlimited by time, whereby a subsidiary will indemnify Old Yozma under the circumstances as determined in the letter of indemnity, in respect of any monetary liability that Old Yozma will be charged for, with respect to the transfer of shares of Migdal Pension Funds Management Ltd. ("Migdal Pension") to the direct ownership of Migdal (Migdal Pension was merged within Makefet and the determining date for the merger was December 31, 2005). The undertaking to indemnify includes an undertaking to indemnify in connection with any debt or expense that Old Yozma will be charged for by virtue of the letter of indemnity that will be issued by Old Yozma to its officers.

e. Other commitments:

1) With respect to an agreement signed between Makefet and Leumi Capital Services Ltd. to receive operating services, see Note 38f(1) above regarding extraordinary transactions with other related parties.

2) With respect to investments in the Group companies, see Note 7 above.

3) A subsidiary of Migdal Capital Markets (1965) Ltd. ("the subsidiary") signed an agreement with FMR Computers and Software Ltd. ("FMR") pursuant to which FMR provides the subsidiary with the software, through which the subsidiary gives orders for transactions in securities and financial derivatives to the stock exchange, and by which the subsidiary performs its back office management. In addition, under the agreement FMR provides the subsidiary software used to control and to revalue the funds of Migdal Funds, managed by a subsidiary. The Capital Markets Group is dependent on FMR since having to replace FMR without advance preparation could materially harm the operations of the Capital Markets Group. On December 31, 2013, the subsidiary and FMR signed a new agreement, effective from September 30, 2012 through March 31, 2015, which was extended until May 15, 2015. Based on an agreed order signed between the Antitrust Commissioner and FMR in September 2014, the subsidiary announced its intention to terminate the agreement on a later date, on November 10, 2015. The subsidiary began transferring the mutual funds operated through FMR's software to other operators in the banking system.

4) Migdal insurance signed agreements with Femi Premium Ltd. ("Femi") which provides it assistance services for policyholders based on customer service manifestos/riders sold mainly in in the motor casco insurance line and in the majority of residential and health insurance policies. The scope of purchases from Femi in 2014 totaled approximately NIS 58 million (2013 - approximately NIS 60 million).

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

The engagement with Femi in certain customer service manifestos in the health insurance segment terminates in February 2015 (in 2014 totaled approximately NIS 30 million). From that date, the services will be rendered by B-Well Quality of Life Solutions Ltd. ("B-Well"), a subsidiary of the Company. Consequently, B-Well will become the main supplier of services in the health insurance segment.

f. Guarantees:

1) Within the context of its membership of the TASE Clearing House ("the Clearing House"), a subsidiary of Migdal Capital Markets ("the subsidiary") is responsible, together with the other members of the Clearing House, for any loss caused to the Clearing House due to the non-payment of any amount whatsoever that a TASE member is obliged but failed to pay, or securities that a Clearing House member should have transferred and failed to do so. To guarantee the liabilities of the Clearing House members, as mentioned above, the by-laws of the Clearing House set forth a risk-fund mechanism in which each Clearing House member deposits an amount derived from its relative share of trade on the Stock Exchange. Each Clearing House member's share is calculated according to his average balance versus the Clearing House, compared to the average balance of all the Clearing House members during the six months prior to the calculation.

   Accordingly, the subsidiary deposited its share in the amount of NIS 12,054 in the risk fund at December 31, 2014, in a shekel deposit which is pledged in favor of the TASE Clearing House (December 31, 2013 - NIS 17,576 thousand).

2) The subsidiary makes shekel deposits in a bank which renders Maof clearing services that are pledged to the bank and serve as collateral for the liabilities of the subsidiaries and its customers in respect of derivatives trading. The amount of the deposits varies from time to time, in line with the TASE requirements, which are based, inter alia, on the volume of transactions performed by the subsidiary and its customers, and on TASE scenarios with respect to the Maof index and foreign currency exchange rates. At the reporting date, these deposits amounted to NIS 53,708 thousand (December 31, 2013 - NIS 63,142 thousand).

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

g. Holdings in trust:

A subsidiary of Migdal Capital Markets holds in trust, for its customers (which include, inter alia, mutual funds managed by another subsidiary of Migdal Capital Markets (Migdal Funds)), securities investment portfolios and cash in the value of about NIS 9.1 billion as at December 31, 2014 (December 31, 2013 – about NIS 11.6 billion).

Furthermore, the Capital Markets group manages investment portfolios and mutual funds for customers who are not related parties in the total amount of about NIS 37 billion as at December 31, 2014 (December 31, 2013 – about NIS 30 billion).

h. Leases:

1) Leases under which the Group has operating leases:

The Group has entered 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 the irrevocable operating lease contracts as at December 31 are:

	December 31,	
	2014	2013
	NIS in thousands	
First year	28,796	25,157
Second year up to five years	27,711	19,436
	56,507	44,593

For details about leased land, see Notes 6 and 8 above.

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

2) Leases in which the Group is the operating 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,	
	2014	2013
	NIS in thousands	
First year	370,631	295,143
Second year up to five years	866,812	613,619
More than five years	928,115	472,500
	2,165,558	1,381,262
Of which the minimum future lease fees receivable that relate to assets in which the Group is a financial lessee	1,221,129	670,209

During the year ended December 31, 2014, the Group recognized the sum of NIS 1,931 thousand as income in the statement of profit and loss in respect of contingent leasing fees (in 2013 and 2012 - NIS 3,436 thousand and NIS 3,035 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. After the reporting period, February 17, 2015, a collective agreement was signed between Migdal Insurance and Migdal Makefet Pension and Provident Funds Ltd. ("Migdal Makefet") which will be in effect from January 1, 2015 through December 31, 2017. The agreement was mediated by a mediator whose appointment was approved by Migdal Insurance's Board on December 29, 2014.

The agreement applies to Migdal Insurance's existing employees as of the date of signing the agreement and employees who will be hired by Migdal Insurance from the date of signing the agreement. The agreement does not apply to senior ranking officers such as the CEO, Deputy CEO and VPs, to certain employees who have been identified in the agreement and to employees of other companies in the Migdal Holdings Group other than Migdal Insurance and Midgal Makefet. The agreement consists of the following provisions:

1. The agreement contains provisions regarding hiring employees, implementing a trial period, granting tenure and other provisions regarding the filling of positions and employee mobility. The agreement settles the transition of employees in certain fields who are currently employed through outsourcing and subcontractors to becoming directly employed by Migdal Insurance within a predetermined timeframe (daytime cleaning staff, daytime receptionists, certain maintenance workers and long-term savings scan operators). The agreement also prescribes arrangements regarding the minimization of outsourced services in Migdal Insurance's technological division and the performance of certain projects in Migdal using different employment patterns (subcontractors/outsourcing).

2. The agreement includes provisions that establish the work week and hours in Migdal Insurance, including overtime and global overtime, sick days and other leaves of absence, work arrangements, methodologies and codes of conduct including a disciplinary committee, dismissal, resignation and early notice procedures.

3. The agreement states provisions regarding the cooperation with the employees' representatives, the terms granted to employees in the workers' committee who also serve as employees of Migdal Insurance, including membership fees and handling fees deducted from the employees' salary. It was also determined that Migdal Insurance will make contributions to the workers' committee's budget for 2015-2017 in a total of NIS 400 thousand a year.

4. The gross minimum wage in Migdal effective from January 1, 2015 will be NIS 5,300 a month.

NOTE 40:- MATERIAL EVENTS AFTER THE REPORTING PERIOD (Cont.)

5. In each of the years 2015-2017, Migdal Insurance will pay a salary increment to permanent employees who are subject to the agreement who are employed in Migdal on the date of payment at an aggregate rate of about 10.5% for the entire period of the agreement (employees who complete 18 months of employment on the date of payment of the salary increment will also be included). The salary increment will be paid over the agreement term in a manner agreed upon between the parties and if no agreement is reached, it will be paid in equal installments of 3.5% each year.

6. An annual bonus will be granted subject to the remuneration policy and the approval of Migdal Insurance's Board based on Migdal Insurance's compliance with the targets set forth in the remuneration policy and insofar as it is decided to grant bonuses to officers in Migdal Insurance. Subject to the aforesaid, insofar as it is decided to grant bonuses, the budget for the bonuses to employees who are eligible for a full bonus (100%) will be one salary for employees and two salaries for managers and for all other cases (provided that the bonus is not lower than 80%) the bonus will be calculated proportionately but not more than 140%. The budget for a bonus at a rate of 100% is approximately NIS 30 million.

7. The employer's contributions to pension savings will be raised to 6% (the employee's share is 5.5%).

8. The arrangement applicable to employees according to Section 14 to the Severance Pay Law, 1963 will be cancelled for employees to which the agreement applies both retrospectively and prospectively and the current payments on the yields will be on account of and not instead of severance pay (the arrangement will not apply to sales personnel as long as they are employed in this position).

   Employees who are dismissed or who retire or resign will be entitled to have the severance pay accumulated in their name released to their credit in the provident and/or insurance funds as well as supplementation of the severance pay owed to them by law, unless their eligibility to severance pay is denied by law, and as for employees who resign, subject to providing early notice as required by law and an organized assignment of duties.

9. Each permanent employee is entitled to contributions to a study fund up to the maximum amount allowed for tax purposes as follows: 7.5% by the employer and 2.5% by the employee. During the trial period, reduced contribution rates will be made. A transition provision has been set forth for contributions to employees who as of the date of signing the agreement will be employed as permanent employees with respect to the required contributions and/or supplementations.

NOTE 40:- MATERIAL EVENTS AFTER THE REPORTING PERIOD (Cont.)

10. The agreement includes arrangements regarding various employee welfare terms such as gift for special family occasions, lunch subsidizing, medical screening tests, discounts on products and services offered by the Company, recreation pay at 150% of the rates established in the expansion order, vacation days, reimbursement of personal expenses and on-the-job travel expenses, loans to employees etc. as well as arrangement regarding recreational activities organized for the employees.

11. The agreement includes an arrangement regarding the entitlement to seniority grants to employees who complete 20, 30 and 40 years of employment.

12. The agreement includes provisions regarding certain efficiency measures which Migdal Insurance intends to carry out during the period of the agreement in the context of which 240 Migdal employees in the various units will be laid off in accordance with a consultation proceeding prescribed in the agreement.

13. Shortly after signing the agreement, the employees to whom the agreement applies who were employed by the Company before December 31, 2013 will be paid a one-time signing bonus of NIS 2,000 per employee.

14. In the context of the agreements between the parties, it was agreed to cancel the Court's decision based on the Contempt of Court Ordinance on January 20, 2014. It was also agreed to strike all pending litigations in the Labor Court without an order for expenses. The parties' agreement in this respect is subject to the Court's approval.

    The cost of implementing the collective agreement with respect to all the employees to whom it applies is expected to increase the Company's salary expenses during the agreement term by NIS 60-75 million a year.

NOTE 40:- MATERIAL EVENTS AFTER THE REPORTING PERIOD (Cont.)

b. See details of the Company's decision to raise debt in Note 7c(9) above.

c. After the reporting date there was another significant decrease in the risk-free interest curve which is expected to lead to a material increase in the insurance liabilities. See Note 37b(1)(a) above regarding the sensitivity of the insurance liabilities to the decrease in interest.

Moreover, and also as a result of the decrease in the risk-free interest curve as above, there was a significant increase in the value of the Company's financial investments whose effect on the financial results is in similar amounts.

It is still early to assess the overall effect of these developments on the Company's financial results, particularly in view of the high sensitivity of the results to such changes.

d. As for the distribution of a dividend by Migdal Insurance after the reporting date, see Note 7c(5) above.

e. On March 24, 2015, the Company's Board approved the distribution of a dividend of NIS 200 million, subject to the approval of the general meeting. On the same date, Migdal Insurance's Board approved the distribution of a dividend of NIS 200 million. The dividend distribution date in the Company and in Migdal was scheduled for April 20, 2015.

f. On January 27, 2015, the Company's general meeting approved the appointment of Prof. Oded Sarig as director in the Company. Prof. Sarig is employed by the parent company and receives a salary therefrom. At this stage and as long as it is not decided otherwise, he will receive any salary from the Company.

On February 18, 2015, the Company's general meeting approved the appointment of Prof. Oded Sarig as Chairman of the Company's Board.

g. On March 24, 2015, the Company's Board approved the appointment of the CFO, Mr. Eran Czerninski, as the Company's CEO.

APPENDIX - DETAILS OF ASSETS OF OTHER FINANCIAL INVESTMENTS OF AN INSURANCE SUBSIDIARY IN ACCORDANCE WITH THE DIRECTIVES OF THE COMMISSIONER OF INSURANCE

a. Quoted debt assets

Composition:

	December 31,			
	Carrying amount		Amortized cost	
	2014	2013	2014	2013
	NIS in thousands			
Government bonds – available- for-sale	3,751,890	3,505,117	3,665,660	3,445,805
Other debt assets:				
Non-convertible – avalable-for-sale	2,384,452	2,212,725	2,323,163	2,085,981
Convertible and designated on initial investment as fair value through profit or loss	-	-	-	-
Total quoted debt assets	6,136,342	5,717,842	5,988,823	5,531,786
Impairment recognized in profit or loss (on a cumulative basis)	1,802	1,833		

b. Shares

	December 31,			
	Carrying amount		Cost *)	
	2014	2013	2014	2013
	NIS in thousands			
Quoted – available-for-sale	1,023,816	982,713	812,022	773,522
Unquoted – available-for-sale	69,574	50,692	58,363	41,116
Total shares	1,093,390	1,033,405	870,385	814,638
Impairment recognized in profit or loss (on a cumulative basis)	109,196	97,630		

*) 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 and receivables from realization of options.

	December 31,			
	Carrying amount		Cost *)	
	2014	2013	2014	2013
	NIS in thousands			
Quoted:				
Available-for-sale	1,971,626	1,582,118	1,655,416	1,403,916
Derivative instruments	2,082	4,682	1,427	2,531
	1,973,708	1,586,800	1,656,843	1,406,447
Unquoted:				
Presented at fair value through profit or loss	-	32,224	-	48,711
Available-for-sale	380,365	311,939	299,489	307,647
Derivative instruments	24,574	21,749	-	709
	404,939	365,912	299,489	357,067
Total other financial investments	2,378,647	1,952,712	1,956,332	1,763,514
Impairment recognized profit or loss (on a cumulative basis)	214,190	169,355		

*) Net of provisions for impairment.

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SEPARATE FINANCIAL DATA

Sea of Galilee

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

SEPARATE FINANCIAL INFORMATION

AS OF DECEMBER 31, 2014

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To
The Shareholders of Migdal Insurance and Financial Holdings Ltd.

Dear Sirs/Mmes.,

Re: Special auditors' report of the separate financial information in accordance with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have reviewed the separate financial information presented in accordance with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 of Migdal Insurance and Financial Holdings Ltd. ("the Company") as of December 31, 2014 and 2013 and for each of the three years the latest of which ended on December 31, 2014, as disclosed on pages E3 (inclusive) through E16 (inclusive) to the Company's periodic report. The Company's board of directors and management are responsible for the separate financial information. Our responsibility is to express an opinion on the separate financial information based on our audits.

We did not audit the separate financial information taken from the financial statements of investees, whose assets less attributable liabilities, net total approximately NIS 643,162 thousand and NIS 654,175 thousand as of December 31, 2014 and 2013, respectively, and the Company's share of their earnings amounted to approximately NIS 80,009 thousand, NIS 70,752 thousand and NIS 66,463 thousand for the years ended December 31, 2014, 2013 and 2012, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the separate financial information referred to above is prepared, in all material respects, in conformity with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel	SOMEKH CHAIKIN	KOST FORER GABBAY & KASIERER
March 24, 2015	Member of KPMG International	Member of Ernst & Young Global

Joint auditors

DATA OF FINANCIAL POSITION

	Note	December 31, 2014	December 31, 2013
		NIS in thousands	
Assets			
Investments in investees		5,176,071	5,042,709
Capital notes and loans to investees	5a	88,516	88,758
Total non-current assets		5,264,587	5,131,467
Receivables - investees		2,026	550
Other receivables		6	642
Cash and cash equivalents	2	10,874	7,988
Total current assets		12,906	9,180
Total assets		5,277,493	5,140,647
Equity attributable to equity holders of the Company			
Share capital		110,629	110,628
Share premium		273,735	273,735
Capital reserves		489,110	377,170
Retained earnings		4,402,316	4,377,484
Total equity		5,275,790	5,139,017
Liabilities			
Payables - investees		47	-
Other payables	3	1,656	1,630
Total liabilities		1,703	1,630
Total equity and liabilities		5,277,493	5,140,647

The accompanying additional information is an integral part of the separate financial information.

March 24, 2015			
Date of approval of the financial statements	Prof. Oded Sarig Chairman of the Board	Eran Czerninski CEO	Eran Czerninski CFO

DATA OF PROFIT AND LOSS

		Year ended December 31,		
		2014	2013	2012
	Note	NIS in thousands		
Company's share in earnings of investees		422,005	619,549	216,914
General and administrative expenses		2,509	4,496	4,510
Income before finance income and taxes on income		419,496	615,053	212,404
Finance income in respect of investees		2,524	2,411	4,409
Finance income, net		11	306	423
Income before taxes on income		422,031	617,770	217,236
(Tax benefit) taxes on income	4	-	-	-
Income for the period attributable to equity holders of the Company		422,031	617,770	217,236

The accompanying additional information is an integral part of the separate financial information.

DATA OF COMPREHENSIVE INCOME

	Year ended December 31, 2014	2013	2012
	NIS in thousands		
Income for the period attributable to equity holders of the Company	422,031	617,770	217,236
Other comprehensive income:			
Items of other comprehensive income 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 carried to other comprehensive income	-	-	5
Company's share of other comprehensive income of investees accounted for at equity	112,043	117,434	177,526
Total comprehensive income for the period that has been or will be reclassified from comprehensive income to profit and loss after initial recognition, net of tax	112,043	117,434	177,531
Items of other comprehensive income that will not be carried to profit and loss - Company's share of other comprehensive income of investees accounted for at equity	2,691	4,690	8,976
Total other comprehensive income, net	114,734	122,124	186,507
Total comprehensive income for the period	536,765	739,894	403,743

The accompanying additional information is an integral part of the separate financial information.

DATA OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital reserves from available-for-sale assets	Reserve from revaluation of investment after achieving control	Capital reserve from transactions with non-controlling interests	Foreign currency translation adjustment of foreign operation	Revaluation reserve	Retained earnings	Total
	NIS in thousands								
Balance at January 1, 2014	110,628	273,735	367,985	6,989	(1,149)	(7)	3,352	4,377,484	5,139,017
Net income for the period	-	-	-	-	-	-	-	422,031	422,031
Other comprehensive income (loss), net of tax	-	-	112,101	-	-	(58)	-	2,691	114,734
Total comprehensive income (loss)	-	-	112,101	-	-	(58)	-	424,722	536,765
Exercise of employee options into shares	1	-	-	-	-	-	-	-	1
Benefit in respect of employees options	-	-	-	-	-	-	-	110	110
Dividend	-	-	-	-	-	-	-	(400,000)	(400,000)
Transactions with non-controlling interests	-	-	-	-	(103)	-	-	-	(103)
Balance at December 31, 2014	110,629	273,735	480,086	6,989	(1,252)	(65)	3,352	4,402,316	5,275,790

The accompanying additional information is an integral part of the separate financial information.

DATA OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital reserves from available-for-sale assets	Reserve from revaluation of investment after achieving control	Capital reserve from transactions with non-controlling interests	Foreign currency translation adjustment of foreign operation	Revaluation reserve	Retained earnings	Total
	NIS in thousands								
Balance at January 1, 2013	110,607	273,735	250,544	6,989	-	-	-	4,152,835	4,794,710
Net income (loss) for the period	-	-	-	-	-	-	-	617,770	617,770
Other comprehensive income (loss), net of tax	-	-	117,441	-	-	(7)	3,352	1,338	122,124
Total comprehensive income (loss)	-	-	117,441	-	-	(7)	3,352	619,108	739,894
Exercise of employee options into shares	21	-	-	-	-	-	-	-	21
Benefit in respect of employees options	-	-	-	-	-	-	-	311	311
Reclassification of share-based payment from liabilities in respect of employee benefits into equity	-	-	-	-	-	-	-	5,230	5,230
Dividend	-	-	-	-	-	-	-	(400,000)	(400,000)
Transactions with non-controlling interests	-	-	-	-	(1,149)	-	-	-	(1,149)
Balance at December 31, 2013	110,628	273,735	367,985	6,989	(1,149)	(7)	3,352	4,377,484	5,139,017

The accompanying additional information is an integral part of the separate financial information.

DATA OF CHANGES IN EQUITY

	Attributable to equity holders of the Company					
	Share capital	Share premium	Capital reserves from available-for-sale assets	Reserve from revaluation of investment after achieving control	Retained earnings	Total
	NIS in thousands					
Balance at January 1, 2012	110,607	273,735	73,013	6,989	4,073,275	4,537,619
Net income for the period	-	-	-	-	217,236	217,236
Other comprehensive income, net of tax	-	-	177,531	-	8,976	186,507
Total comprehensive income	-	-	177,531	-	226,212	403,743
Exercise of employee options into shares	*) -	-	-	-	-	-
Benefit in respect of employees options	-	-	-	-	3,348	3,348
Dividend	-	-	-	-	(150,000)	(150,000)
Balance at December 31, 2012	110,607	273,735	250,544	6,989	4,152,835	4,794,710

*) Represents an amount lower than NIS 1 thousand.

The accompanying additional information is an integral part of the separate financial information.

DATA OF CASH FLOWS

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Cash flows from current activities			
Net cash provided by (used in) the Company's current activities (Schedule A)	(1,575)	1,304	(703)
Net cash provided (used in) current activities in respect of transactions with investees	20	(334)	14,601
Net cash provided by (used in) current activities	(1,555)	970	13,898
Cash flows from investment activities			
Net cash provided by the Company's investment activities	-	-	3,080
Et investments in investees	1,154	(20,500)	(46,605)
Dividend received from investees	403,273	387,310	242,465
Net cash provided by investment activities in respect of transactions with investees	404,427	366,810	195,860
Net cash provided by investment activities	404,427	366,810	198,940
Cash flows from finance activities			
Exercise of employee options into shares	1	21	*) -
Change in financial liabilities	-	-	(31,428)
Dividend	(400,000)	(400,000)	(150,000)
Net cash used in the Company's finance activities	(399,999)	(399,979)	(181,428)
Net cash provided by finance activities in respect of transactions with investees	-	-	-
Net cash used in finance activities	(399,999)	(399,979)	(181,428)
Effect of exchange rate fluctuations on balances of cash and cash equivalents	13	(83)	(104)
Change in cash and cash equivalents	2,886	(32,282)	31,306
Balance of cash and cash equivalents at beginning of period	7,988	40,270	8,964
Balance of cash and cash equivalents at end of period	10,874	7,988	40,270

*) Represents an amount lower than NIS 1 thousand.

The accompanying additional information is an integral part of the separate financial information.

DATA OF CASH FLOWS

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Schedule A - Cash flows from the Company's current activities			
Net income for the period	422,031	617,770	217,236
Items not involving cash flows of investees:			
Company's share of results of investees, net	(422,005)	(619,549)	(216,914)
Interest income from investees	(2,360)	(2,212)	(3,830)
Net losses from financial investments	-	-	(117)
Taxes on income	-	-	-
Changes in other balance sheet items:			
Debtors and receivables	599	4,920	2,504
Creditors and payables	136	(34)	(354)
Total adjustments required for presenting cash flows from current activities	(423,630)	(616,875)	(218,711)
Cash paid and received during the period for:			
Interest paid	24	409	894
Interest received	-	-	(122)
Taxes paid, net	-	-	-
Net cash provided by (used in) the Company's current activities	(1,575)	1,304	(703)

The accompanying additional information is an integral part of the separate financial information.

NOTE 1:- SIGNIFICANT ACCOUNTING POLICIES APPLIED IN THE SEPARATE FINANCIAL INFORMATION

a. Definitions:

The Company	-	Migdal Insurance and Financial Holdings Ltd.
Investees	-	Subsidiaries and affiliates the Company's investment therein is included, directly or indirectly, in the financial statements using the equity method of accounting.
Reporting date	-	The date of the statement of financial position.

b. Method of preparation of the financial data:

The separate financial information is prepared in accordance with Regulation 9c to the Securities Regulations (Periodic and Immediate Reports), 1970 ("Regulation 9c"), including the details provided in the Tenth Addendum to said Regulations ("the Addendum"), and subject to the clarifications provided in the "Clarification regarding the Separate Financial Information of a Corporation" that was published on the website of the Israeli Securities Authority ("the ISA") on January 24, 2010 and relates to the method of implementing the aforementioned Regulation and Addendum ("the ISA Staff Clarification").

The separate financial information does not constitute financial statements, including separate financial statements, prepared and presented in accordance with International Financial Reporting Standards ("IFRS") in general, and in accordance with the provisions of IAS 27, "Consolidated and Separate Financial Statements", in particular. Nevertheless, the accounting policies detailed in Note 2 to the consolidated financial statements regarding significant accounting policies, and the method of classifying the financial data in the consolidated financial statements, were implemented for the purpose of presenting the separate financial information, with the required changes as stated below.

The notes provided hereunder include disclosures of additional material information, in accordance with the disclosure requirements provided in Regulation 9c and as specified in the Addendum and subject to the ISA Staff Clarification, insofar as the said information was not included in the consolidated financial statements in a manner relating explicitly to the Company itself.

NOTE 1:- SIGNIFICANT ACCOUNTING POLICIES APPLIED IN THE SEPARATE FINANCIAL INFORMATION (Cont.)

1. Assets and liabilities included in the consolidated financial statements that are attributable to the Company itself:

   The separate financial information presents amounts of assets and liabilities included in the consolidated financial statements that are attributable to the Company itself and are specified according to types of assets and liabilities. These data were classified under the same classification as in the consolidated statements of financial position.

   The separate financial information also presents information regarding the net amount of the total assets less total liabilities in respect of investees, including goodwill, which is attributable to equity holders of the Company itself, on the basis of the consolidated financial statements.

   As a result of this method of presentation, the equity attributable to equity holders of the Company, on the basis of the consolidated financial statements, is identical to the equity of the Company according to the separate financial information.

2. Income and expenses included in the consolidated financial statements that are attributable to the Company itself:

   The separate financial information presents the amounts of income and expenses included in the consolidated financial statements that are attributable to the Company itself, broken down according to profit or loss and other comprehensive income and detailed according to types of income and expenses. These data were classified under the same classification as in the consolidated statements of profit and loss and other comprehensive income.

   In addition, information is presented regarding the net amount, on the basis of the consolidated financial statements, that is attributable to equity holders of the Company itself, of the total revenues less the total expenses in respect of the operating results of investees, including goodwill impairment, impairment of an investment in affiliate or its reversal and impairment of an investment accounted for at equity or its reversal.

   As a result of this presentation, the total income for the year that is attributable to equity holders of the Company and the total comprehensive income for the year that is attributable to equity holders of the Company based on the consolidated financial statements, is identical to the total income for the year that is attributable to equity holders of the Company and the total comprehensive income for the year that is attributable to equity holders of the Company, respectively, according to the separate financial information.

NOTE 1:- SIGNIFICANT ACCOUNTING POLICIES APPLIED IN THE SEPARATE FINANCIAL INFORMATION (Cont.)

3. Cash flows included in the consolidated financial statements that are attributable to the Company itself:

   The cash flow amounts included in the consolidated financial statements and attributable to the Company itself are presented based on the consolidated statements of cash flows, classified according to the cash flows from current activities, investment activities and finance activities with details of their composition. This data was classified in the same manner as the consolidated financial statements were classified.

NOTE 2: CASH AND CASH EQUIVALENTS

	Average interest rate	December 31, 2014	December 31, 2013
	%	NIS in thousands	
Cash and deposits for immediate withdrawal	0.20	4,027	703
Unlinked short-term deposit	0.23	6,847	7,285
Total cash and cash equivalents		10,874	7,988

NOTE 3: OTHER PAYABLES

	December 31, 2014	December 31, 2013
	NIS in thousands	
Institutions and government authorities	1,360	1,343
Other	296	287
	1,656	1,630

NOTE 4:- TAXES ON INCOME

a. Corporate tax assessments:

The Company received final tax assessments, by virtue of agreement or by virtue of statute of limitations, up to and including 2010.

b Theoretical tax:

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

	Year ended December 31,		
	2014	**2013**	**2012**
	NIS in thousands		
Income before taxes on income	422,031	617,770	217,236
Statutory tax rate	26.5%	25%	25%
Tax computed at the statutory tax rate	111,838	154,443	54,309
Increase (decrease) in taxes on income resulting from the following factors:			
Increase in losses for tax purposes for which no deferred taxes were allocated	619	968	1,095
Tax-exempt income	(626)	(524)	(1,175)
Company's share of earnings of investees	(111,831)	(154,887)	(54,229)
Taxes on income	-	-	-
Average effective tax rate	-	-	-

NOTE 5:- MATERIAL COMMITMENTS AND TRANSACTIONS WITH INVESTEES

a. Capital notes and loans:

1. Presented hereunder are details of capital notes that were issued to the Company by subsidiaries:

	Par value		Carrying amount	
	December 31,		December 31,	
	2014	2013	2014	2013
Issuer:	NIS in thousands			
Migdal Capital Markets (1965) Ltd. (1)	30,000	30,000	30,000	30,000
Mivtach Simon Agencies Management Ltd. (2)	22,077	22,077	19,533	18,735
Migdal Health and Quality of Life Ltd. (2)	40,472	40,472	36,000	34,436
Total	92,549	92,549	85,533	83,171

(1) In order to meet the capital requirements of a subsidiary of Migdal Capital Markets the Company gave Migdal Capital Markets, against the issue of a capital note by Migdal Capital Markets, an unlinked loan of NIS 30 million which bears no interest, to be repaid on August 31, 2021. During February 2012, the Board of Directors approved recording the capital note as a perpetual capital note.

(2) All capital notes issued for a period of not less than 5 years, are not linked to the CPI and do not bear interest. The capital notes are presented at their present value which is calculated based on the prevailing interest rates on the date of issue of the capital notes for unlinked corporate bonds rated AA with an average life of 5 years.

2. Loan to investee:

The balance of the loan at December 31, 2014 is NIS 2,983 thousand (December 31, 2013 - NIS 5,587 thousand). The loan is linked to the CPI, bears interest of 4% per annum and will be repaid in equal monthly payments beginning from June 2014 until May 2017.

NOTE 5:- MATERIAL COMMITMENTS AND TRANSACTIONS WITH INVESTEES (Cont.)

b. Dividend received from subsidiaries:

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Migdal Insurance Company Ltd.	403,273	367,310	242,465
Midgal Capital Markets (1965) Ltd.	-	20,000	-

NOTE 6:- EQUITY REQUIREMENTS FOR SUBSIDIARIES

Regarding the equity requirements for Migdal Insurance, Migdal Makefet and Migdal Capital Markets, see Note 7e to the consolidated financial statements.

NOTE 7:- SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

a. On March 24, 2015, the Company's Board approved the distribution of a dividend of NIS 200 million, subject to the approval of the general meeting. On the same date, Migdal Insurance's Board approved the distribution of a dividend of NIS 200 million. The dividend distribution date in the Company and in Migdal was scheduled for April 20, 2015.

b. On January 18, 2015, Migdal Insurance distributed a dividend in kind totaling approximately NIS 4 million.

c. For details of Prof. Oded Sarig's appointment as Chairman of the Company's Board of Directors, see Note 40f to the consolidated financial statements.

d. For details of the appointment of the CFO, Mr. Eran Czerninski, as the Company's CEO, see Note 40g to the consolidated financial statements.

e. For additional events that occurred after the reporting date, see Note 40 to the consolidated financial statements.

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ADDITIONAL DATA ON THE CORPORATION

Ramon Crater

CHAPTER 5 – DESCRIPTION OF ADDITIONAL DATA ON THE CORPORATION

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Regulation 9d: Report Regarding Liabilities of the Reporting Corporation and Consolidated Companies in the Financial Statements

The liabilities of consolidated companies of the reporting corporation, except such companies that are themselves a reporting corporation or an insurer are detailed hereinafter:

Credit received by the consolidated companies from banks in Israel.

	Principal payments					Gross interest payments (excl. tax deductions)
	NIS CPI-linked	NIS unlinked	Euro	USD	Other	
	In NIS thousand					
First year	--	6,827	23	26,808	495	486
Second year	--	1,226	--	--	--	226
Third year	--	1,290	--	--	--	156
Fourth year	--	1,143	--	--	--	89
Fifth year and on	--	1,794	--	--	--	29
Total	--	12,282	23	26,808	495	986

For capital issuances carried out by Migdal Capital Raising Ltd., a sub-subsidiary of the Company, see Note 24e to the consolidated Financial Statements.

Regulation 10a: Condensed Quarterly Profit and Loss Statements

Consolidated Profit and Loss Statements of the Company

	1-3/14	4-6/14	7-9/11	10-12/14	Total 2014
	Unaudited in NIS thousands				
Gross premiums earned	2,514,173	2,458,407	2,491,472	2,774,363	10,043,396
Premiums earned by reinsurers	187,691	169,124	166,434	166,424	687,673
Premiums earned in retention	2,330,482	2,289,283	2,326,910	2,409,048	9,355,723
Net investment income, and financing income	1,915,221	1,457,559	1,605,830	635,672	5,614,282
Income from management fees	496,070	331,348	389,699	351,951	1,569,068
Income from commissions	103,131	87,247	91,813	86,338	368,529
Other income	11,502	9,852	6,135	15,467	42,956
Total income	4,856,406	4,175,289	4,420,387	3,498,476	16,950,558
Payments and change in liabilities in respect of insurance contracts and investment contracts, gross	3,849,978	3,538,417	3,768,217	2,957,135	14,113,747
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts	49,473	130,521	71,539	132,204	383,737
Payments and change in liabilities in respect of insurance contracts and investment contracts in retention	3,800,505	3,407,896	3,696,678	2,824,931	13,730,010
Commissions, marketing expenses and other acquisition expenses	386,639	362,249	393,424	380,743	1,523,055
Administrative and general expenses	264,855	241,701	259,162	275,451	1,041,169
Other expenses	13,185	19,334	12,079	32,030	76,628
Financing expenses	4,839	12,750	19,642	14,248	51,479
Total expenses	4,470,023	4,043,930	4,380,985	3,527,403	16,422,341
Group's share in investees income treated according to the equity value method	12,993	24,513	13,898	28,708	80,112
Income (loss) before income tax	399,376	155,872	53,300	(219)	608,329
Income tax (tax benefit)	149,395	52,845	16,614	(33,360)	185,494
Income for the period	249,981	103,027	36,686	33,141	422,835
Attributed to:					
Company's shareholders	249,095	102,830	36,998	33,108	422,031
Non-controlling interests	886	197	(312)	33	804
Income for the period	249,981	103,027	36,686	33,141	422,835

Regulation 10a: Condensed Quarterly Profit and Loss Statements
Company's Statement of Comprehensive Income

	1-3/14	4-6/14	7-9/11	10-12/14	Total 2014
	Unaudited – in NIS thousands				
Income for the period	249,981	103,027	36,686	33,141	422,835
Other comprehensive income (loss)					
Other comprehensive income (loss) items, which after initial recognition were transferred or will be transferred to P&L					
Net change in the fair value of available for sale financial assets credited to capital reserves	178,425	102,032	269,065	37,560	587,082
Net change in the fair value of available for sale financial assets recognized in P&L	(155,183)	(113,991)	(104,377)	(75,382)	(448,933)
Impairment of available for sale financial assets recognized in the P&L	5,595	1,523	5,952	29,805	42,875
Group's share in other comprehensive income (loss) of investees treated according to the equity value method	186	(24)	(502)	157	(183)
Exchange rate differences in respect of foreign activities	52	(212)	(74)	145	(89)
Tax effect	(10,656)	3,720	(64,247)	2,474	(68,709)
Total other comprehensive income (loss) items, which after initial recognition were transferred or will be transferred to P&L, net of tax	18,419	(6,952)	105,817	(5,241)	112,043
Other comprehensive income (loss) items, which will not be transferred to P&L					
Actuarial income (loss) in respect of defined benefit plans	(1,249)	(1,647)	(824)	7,379	3,659
Tax effect	320	363	186	(1,780)	(911)
Total other comprehensive income (loss) for the period, which will not be transferred to P&L, net of tax	(929)	(1,284)	(638)	5,599	2,748
Total other comprehensive income (loss) for the period, net	17,490	(8,236)	105,179	358	114,791
Total comprehensive income for the period	267,471	94,791	141,865	33,499	537,626
Attributed to:					
Company's shareholders	266,585	94,619	142,116	33,445	536,765
Non-controlling interests	886	172	(251)	54	861
Comprehensive income for the period	267,471	94,791	141,865	33,499	537,626

Regulation 10c:	**Use of consideration of securities with reference to consideration designation as per the prospectus**

None

Regulation 11:	**List of investments in subsidiaries and related companies as at the balance sheet date [1]**

[1] The data regarding subsidiaries and related companies in the Periodic Report refer to active corporations only as of December 31st, 2014. These corporations are not traded on the TASE, except as stated in specific footnotes.

* The following companies were deleted from the companies list: Avgad Diamond Management and Services Ltd., and Yevulim Financial and Business Consultants Ltd.

a. In the Company's books [1]

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Migdal Insurance Company Ltd.	185,389,304 [2]	Ordinary NIS 0.1	9,773,357	186,366,639.7 [2]	4,704,736	--	100	100	100	100
Migdal Health and Quality of Life Ltd.		Ordinary NIS 0.1	20,870,000	2,087,000	(23,057)	41,009[3]		100	100	100
Migdal Capital Markets (1965) Ltd.	428,943,676[4]			428,943,676 [4]	499,709	30,000 [5]	100		100	100

[2] Including 105 shares held by subsidiaries of Migdal Insurance Company Ltd., a subsidiary of the Company (henceforth: "Migdal") and 21 shares held by Migdal.

[3] The balance is composed of a loan extended by the Company in the amount of NIS 5,009 thousand (including current maturities in the amount of NIS 2,026 thousand), bearing CPI-linked interest at 4%, to be paid in monthly installment from May 2014 to May 2017, and capital notes issued to the Company in the total amount of NIS 40,472 thousand, unlinked and bearing no interest, the capital notes were discounted as per generally accepted accounting rules, and their balance as of December 31st, 2014 is NIS 36,000 thousand as detailed herewith.

Capital note's par value in NIS thousand	Payment date	Discount rate	Capital note's balance as of December 31st, 2014
13,691	11.2017	4.29%	12,122
13,072	1.2017	5.13%	11,828
2,300	11.2017	4.25%	2,039
1,409	10.2017	4.62%	1,238
10,000	3.2018	4.16%	8,773
Total: 40,472			Total: 36,000

[4] Including 33,000 shares of NIS 1 held by Migdal Trust Funds Ltd. (henceforth: "Migdal Funds") that is a sub-subsidiary of Migdal Capital Markets (1965) Ltd. (henceforth: "Migdal Capital Markets").

[5] The balance is composed of a perpetual capital note issued to the Company.

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Migdal Management Services Ltd.	200			200	(5,317)	19,533[6]	100		100	100

[6] The balance is composed of capital notes issued to the Company in the total amount of NIS 22,077 thousand, unlinked and bearing no interest, the capital notes were discounted as per generally accepted accounting rules. Their balance as of December 31st, 2014 is NIS 19,533 thousand, as detailed herewith:

Capital note's par value in NIS thousand	Payment date	Discount rate	Capital note's balance as of December 31st, 2014
4,000	11.2017	4.29%	3,538
2,477	12.2017	4.25%	2,193
1,600	6.2017	4.81%	1,423
1,500	12.2016	5.42%	1,356
1,000	10.2017	4.69%	877
500	4.2017	5.12%	447
500	10.2017	4.61%	439
10,000	4.2018	3.89%	8,819
500	3.2018	4.01%	441
Total: 22,077			Total: 19,533

b. In the books of a subsidiary, Migdal Insurance Company Ltd [1]

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Migdal Insurance Capital Raising Ltd.		Ordinary NIS 0.01	1,000	10	--	--		100	100	100
Migdal Makefet Pension and Providence Fund Ltd.	2,034			2,034	675,546	--	100		100	100
Yozma Pension Fund for Self-Employed Ltd	9,200,000			9,200,000	10,293	--	100		100	100
Migdal Holdings and Management of Insurance Agencies Ltd.	810 [7]			810 [7]	23,639	51,034 [8]	100		100	100
Orlan Insurance Agency (1994) Ltd. [9]	60			60	7,603	341 [10]	30		30	30
Ihud Insurance Agencies Ltd. [9]		Ordinary NIS 0.001	1,500,000 [11]	1,500 [11]	32,801	--		100	100	100

[7] Including five shares held by subsidiaries of Migdal and one share held by the Company.

[8] The balance is composed of capital notes issued to Migdal in the amount of NIS 60,000 thousand, unlinked and bearing no interest, to be paid not before December 2017. The capital notes were discounted as per generally accepted accounting rules, at a rate of 5.54%. Their balance as of December 31st, 2014 after discounting is NIS 51,034 thousand.

[9] In the books of Migdal Holdings and Management of Insurance Agencies Ltd., a subsidiary of Migdal (henceforth: "Migdal Agencies").

[10] The balance is composed of a loan extended by Migdal Agencies, bearing CPI-linking differences and/or annual interest at a rate of 3.5% or an annual nominal interest rate as set forth in Regulation 2 (a) to the Income Tax Regulations, as update every year (in 2014 the interest rate set forth in the Regulation is 3.23%), the loan is paid in equal monthly installments until January 2016.

[11] Including one share held by Migdal.

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Peltours Insurance Agencies Ltd.[9]		Ordinary NIS 0.01	18,760,002	187,600.02	21,531	715 [12]		73.28	73.28	73.28
Ihud-David Berman Insurance Agency Ltd. [13]		Foundation NIS 0.0001	100							
		Ordinary NIS 0.0001	50,900	5.1	1,615	--		73.28	73.28	73.28
Ihud Peltours Diamonds Insurance Agency (2002) Ltd. [13]		NIS 0.1	1,000	100	1,533	--		73.28	73.28	73.28
Mivtach Simon Insurance Agencies Ltd. [9]		Ordinary NIS 0.001	1,000	1	(823)	117,500 [14]		100	100	100
Amir Aloni Life Assurance Agency (1994) Ltd. [15]	300			300	1,589	--	75		75	75
Eli Erlich Insurance Services (1999) Ltd. [15]	2,000			2,000	6,816	--	100		100	100

[12] The balance is composed of a perpetual capital note issued to Migdal Agencies.
[13] In the books of Peltours Insurance Ltd., a subsidiary of Migdal Agencies (henceforth: "Peltours").
[14] The balance is composed of capital notes in the amount of NIS 100,000 thousand, issued to Migdal Eshkol Finansim B.M., a subsidiary of Migdal, unlinked, bearing no interest, to be paid not before December 2017, and a capital note for the amount of NIS 17,500 thousand, issued to Migdal Agencies, unlinked and bearing no interest, to be paid until the end of March 2015.
[15] In the books of Mivtach Simon Insurance Agencies Ltd., a subsidiary of Migdal Agencies (henceforth: "Mivtach Simon").

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
B-Diyuk - - Implementation, Operation and Control Insurance Agency (2000) Ltd. [9]	200			200	5	--	100		100	100
Municipalit Insurance Agency (2000) Ltd. [13]	50			50	78	--	36.635		36.635	36.635
Makefet Financial Services – Insurance Agency (1998) Ltd. [15]	1,000 [16]			1,000 [16]	9,174	--	100		100	100
Shaham Insurance Agencies (1977) Ltd. [9]	3,492 [17]	Preferred A shares NIS 0.1	782	3,570.2	12,225	6,509 [18]	100	43.88	100	100

[16] Including 450 shares of NIS 1 held by Proline Exclusive Ltd., a subsidiary of Mivtach Simon.

[17] Including 36 shares held by Shaham Insurance Agencies Ltd. (1977) Ltd.

[18] The balance is composed of a loan extended by Migdal Agencies, in the amount of NIS 232 thousand, bearing interest and/or CPI-linking differences as per the highest of the following alternatives: linking differences plus interest rate of 4% per year or a nominal interest in the rate set forth in Regulation 2 (a) to the Income Tax Regulations updated every year (in 2014 the interest rate set forth in the Regulation is 3.23%), the loan is paid in quarterly installments until July 2015, and capital notes issued to Migdal Agencies in the total amount of NIS 7,250 thousand, unlinked and bearing no interest, the capital notes were discounted as per generally accepted accounting rules, and their balance as of December 31st, 2014 is NIS 6,277 thousand as detailed herewith:

Capital note's par value in NIS thousand	Payment date	Discount rate	Capital note's balance as of December 31st, 2014
2,000	7/2017	4.76%	1,786
2,250	12/2018	3.53%	1,961
3,000	3/2019	4.09%	2,530
Total: 7,250			Total: 6,277

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Moshe Sofer Insurance Agency (1997) Ltd. [19]	55			55	553	--	35		35	35
Shaham Weinstein (Netanya) Insurance Agencies Ltd. [19]		Ordinary Class A NIS 0.001 Ordinary Class B NIS 0.001	10,200 9,800	20	2,210	--		100	100	100
Isabel Ouda – Shaham – Insurance Agency [19]		--	--		2,178	--			70	70
Sagi Yogev Insurance Agencies (1988) Ltd. [9]	1,722	Profits NIS 1	2,000	3,722	13,084	4,154 [20]	100	100	100	100

[19] In the books of Shaham Insurance Agencies (1977) Ltd., a subsidiary of Migdal Agencies (henceforth: "Shaham").

[20] The balance is composed of a loan extended by Migdal in the amount of NIS 1,550 thousand, CPI-inked, bearing 4.5% interest, paid in quarterly installments until November 2018, and a capital note in the amount of NIS 3,000 thousand, issued to Migdal Agencies, unlinked and interest-free, to be paid not before December 2018. The capital note was discounted as per generally accepted accounting rules, at a rate of 3.59%, and its balance as of December 31st, 2014 after discounting is NIS 2,604 thousand.

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Reshef Insurance Agency (2004) Ltd. [21]	60			60	1,178	--	50		50	50
Si-El Insurance Agency (1995) Ltd. [19]	154			154	3,414	--	100		100	100
Migdal Technologies Ltd. [22]		Ordinary NIS 0.001	101 [23]	0.101 [23]	--	--		100	100	100
Migdal Real Estate Holdings Ltd.		Ordinary NIS 0.0001	61,660,406 [24]	6,166.04 [24]	768,148	370,000 [25]		100	100	100
Migdal Claims Management Ltd. [26]		Ordinary NIS 0.001	2,000 [27]	2 [27]	--	--		100	100	100
Data Car Israel Ltd.		NIS 1 Class A NIS 1 Class B NIS 1 Class C	10,000 10,000 10,000	30,000	4,266	--		100	100	100

[21] In the books of Sagi Yogev Insurance Agencies (1988) Ltd., a subsidiary of Migdal Agencies (henceforth: "Sagi Yogev").
[22] Migdal Technologies Ltd. is a fully-owned subsidiary of Migdal, its entire activity is for Migdal, and it is entirely financed by it. The activity is recorded in Migdal's books and is included in its Financial Statements.
[23] Including three shares held by Migdal's subsidiaries.
[24] Including one share held by Migdal Claims Management Ltd., a subsidiary of Migdal (see Footnote 26 below).
[25] The balance is composed of capital notes issued to Migdal in the amount of NIS 370,000 thousand, unlinked, bearing no interest, with no payment dates.
[26] Migdal Claims Management Ltd. is a subsidiary fully owned by Migdal, it operates and engages on its behalf, and all its activity is for Migdal and it is fully financed by it, and it is included in its Financial Statements.
[27] Including one share held by Migdal Real Estate Holdings Ltd., a subsidiary of Migdal (henceforth: "Real Estate Holdings").

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Migdal Eshkol Finansim B.M.	485,057 [28]			485,057 [28]	129,755	--	100		100	100
Migdal Credit Services Ltd. [29]	100 [30]			100 [30]	2,807	2,559 [31]	100		100	100
Migdal Leasing Ltd. [29]	100			100	8,408	--	100		100	100
Hamagen Properties Ltd.	6,090,837			6,090,837	234,553	--	100		100	100
Pel Hamagen House Ltd. [32]	14,066,596 [11]			14,066,596 [11]	234,559	--	100		100	100
Ramat Aviv Mall Ltd. [33]		Ordinary NIS 0.0001	965,579	96.5579	212,179	13,547 [34]		26.599	26.599	26.599
Amot Investments Ltd. [35]	36,545,113			36,545,113	397,589	--	13.34		13.34	13.34

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[28] Including one share held by Migdal Agencies, a subsidiary of Migdal.
[29] In the books of Migdal Eshkol Finansim B.M., a subsidiary of Migdal (henceforth: "Migdal Eshkol").
[30] Including two shares held by Migdal.
[31] The balance is composed of a loan extended by Migdal Eshkol, CPI-linked and bearing 3.23% interest, with no payment date.
[32] In the books of Hamagen Properties Ltd., a subsidiary of Migdal.
[33] In the books of Real Estate Holdings.
[34] The balance is composed of capital notes issued to Migdal Real estate in the amount of NIS 15,192 thousand in June 2009, for a period of at least five years, the capital notes are unlinked and interest-free, and they are presented at their current value as of December 31st, 2014 in the amount of NIS 13,547, also, in 2H14 Ramat Aviv Mall extended to Real estate Holdings an unlinked loan, bearing a fixed nominal interest rate of 3.23%, to be paid in one installment by the end of 2015, with possible early payment. The loan's balance as of December 31st, 2014 is approx. NIS 5,137 thousand.
[35] Amot Investments Ltd. is traded on the TASE. The data do not include other holdings in Amot Investments held by subsidiaries and sub-subsidiaries of the Company against insurance liabilities.

c. In the books of a subsidiary, Migdal Management Services Ltd.

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Arxcis Global Wealth Management Ltd. [36]		Ordinary NIS 0.01	419,818	4,198.18	2,696	1,418 [37]		100	100	100
Pilat - Hi-Capital Group Ltd.	116			116	(6,571)	10,335 [38]	70		70	70
Talent HR Systems Ltd.	150 [39]			150 [39]	64	--	60		60	60

[36] The company is being sold.

[37] The balance is composed of capital notes issued to Migdal Management Services Ltd. (henceforth: "Migdal Management Services"), as detailed below: a capital note in the amount of NIS 500 thousand, unlinked and bearing no interest, to be paid not before December 2016; a capital note in the amount of NIS 500 thousand, unlinked and bearing no interest, to be paid not before April 2017; and loans in the amount of NIS 418 thousand, bearing 3.23% interest with no payment date.

[38] The balance is composed of loans extended by Migdal Management Services as detailed hereinafter: loans in the amount of NIS 4,290 thousand, CP-linked, bearing 4% interest to be paid starting from January 2015 in four equal annual installments, loans in the amount of NIS 5,237 thousand, CPI-linked, bearing interest of 4%, to be paid starting from January 2016 in 60 equal monthly payments, and a loan in the amount of NIS 808 thousand, bearing 3.23% interest with no payment date.

[39] 50 shares held by Migdal Management Services, and in addition there are 100 shares held by Pilat - Hi-Capital Group Ltd.

d. In the books of a subsidiary, Migdal Capital Markets (1965) Ltd.

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Migdal Underwriting and Business Initiative Ltd.	5,001,053			5,001,053	5,124	--	100		100	100
Migdal Capital Markets (Management Services) Ltd.		Ordinary NIS 0.001	50,000[40]	50	93	--		100	100	100
Migdal Trust Funds Ltd. [41]	259,518,001 [42]			259,518,001[42]	291,272	--	100		100	100
Migdal Investment Portfolio Management (1998) Ltd.	694,247 [42]			694,247 [42]	5,040	--	100		100	100
Migdal Stock Exchange Services (N.E.) Ltd.	259,506,540 [42]			259,506,540[42]	351,072	69,900 [43]	100		100	100
Migdal Issuers Ltd. [44]	100			100	(4,074)	4,482 [45]	100		100	100

[40] Including one share held by Migdal Trust Funds Ltd.
[41] In the books of Migdal Stock Exchange Services (N.E.) Ltd., a subsidiary of Migdal Capital Markets.
[42] Including one share held by Migdal Capital Markets (Management Services) Ltd., a subsidiary of Migdal Capital Markets.
[43] The balance is composed of loans in the following amounts, extended by Migdal Capital Markets: a loan in the amount of NIS 27,523 thousand, bearing 3.8% interest, to be paid on December 29th, 2021; a loan in the amount of NIS 10,081 thousand, bearing interest of 3.8%, to be paid on August 31st, 2021; a loan in the amount of NIS 23,904 thousand, bearing Bank of Israel interest rate plus 1.75%, to be paid on December 31st, 2021; and a loan in the amount of NIS 8,392 thousand, bearing an interest rate based on the average of banking on-call loans, with no payment date.
[44] In the books of Migdal Underwriting and Business Initiative Ltd., a subsidiary of Migdal Capital Markets.
[45] The balance is composed of capital notes issued to Migdal Capital Markets, in the total amount of NIS 4,768 thousand, unlinked, interest-free, to be paid not before February 2016. The capital notes were discounted as per generally accepted accounting rules, at a rate of 4.10%, and their balance as of December 31st, 2014 after discounting is NIS 4,482 thousand.

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Dragon Hedge Funds Management Ltd. [46][47]		NIS 0.01	852	8.52	(121)	915 [48]		100	100	100
MRM – Migdal Risk Management Ltd. [49]	1,000			1,000			100		100	100
MRM – Investments Management Ltd.	1,000			1,000			100		100	100
MCM Alternative Investments Ltd.	100			100	(8,077)	9,085 [50]	100		100	100
MGTF Hedge Funds Management Ltd. [46]	1,000			1,000	(2)	--	100		100	100
MGTF Hedge Investments Management Ltd. [46]	1,000			1,000	(591)	--	100		100	100
Migdal L.B. Ltd. [46] [51]	1,000			1,000	(34)	--	100		100	100
Migdal Capital Markets - Finance Academy Ltd. [52]	1,000			1,000	(4,926)	--	100		100	100

[46] In the books of MCM Alternative Investments Ltd., a subsidiary of Migdal Capital Markets (henceforth: "MCM").

[47] As of December 31st, 2014, no assets were managed in the hedge funds in which Dragon Hedge Funds Management Ltd. serves as a general partner, however, in 2014 the monies of investors in these hedge funds (including Migdal Capital Markets (1965) Ltd.) were redeemed and their activity was discontinued.

[48] The balance is composed of a loan extended by MCM, unlinked, bearing 4% interest, to be paid in the beginning of 2015.

[49] The company was founded on September 14th, 2014, the activity in this company began on January 1st, 2015 via MRS Hedge Fund L.P. (Cayman Islands).

[50] The balance is composed of capital notes issued to Migdal Capital Markets, in the total amount of NIS 9,086 thousand, unlinked, interest-free, to be paid not before January 2015. The capital notes were discounted as per generally accepted accounting rules, at a rate of 3.3%, and their balance as of December 31st, 2014 after discounting is NIS 9,085 thousand.

[51] The activity in Migdal L.B. Ltd. was discontinued on December 31st, 2014. The company has not yet been dissolved.

[52] On January 1st, 2015 all the shares of Migdal Capital Markets – Finance Academy Ltd. were transferred to a party that is not related to the Group.

e. In the books of a subsidiary, Migdal Health and Quality of Life Ltd.

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
50 Plus Ltd.	9,080			9,080	42	28,129 [53]	100		100	100

[53] The balance is composed of perpetual capital notes issued to Migdal Health and Quality of Life Ltd. (henceforth: "Migdal Health") in the total amount of NIS 21,100 thousand and capital notes in the total amount of NIS 8,058 thousand, unlinked, interest free. The capital notes were discounted as per generally accepted accounting rules, and their balance as of December 31st, 2014 is NIS 7,029 thousand, as detailed herewith:

Capital note's par value in NIS thousand	Payment date	Discount rate	Capital note's balance as of December 31st, 2014
850	9.2018	4.15%	736
450	7.2018	3.81%	394
350	12.2018	3.57%	305
300	8.2018	3.73%	263
250	10.2018	3.69%	218
370	10.2018	3.81%	321
220	6.2018	3.83%	193
200	4.2018	3.95%	176
200	5.2018	3.78%	177
1,040	1.2019	3.68%	900
173	1.2019	3.55%	150
300	2.2019	3.35%	262
335	4.2019	3.33%	291
350	4.2019	3.26%	305
1,070	5.2019	2.92%	943
1,600	7.2019	3.05%	1,395
Total: 8,058			Total: 7,029

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Club 50 Insurance Agency Ltd. [54]	120			120	(3,038)	7,149 [55]	100		100	100
Infomed Medical Sites Ltd.	1,530			1,530	7,212	5,009 [56]	71		71	71
B-Well Quality of Life Solutions Ltd. [57]		NIS 0.1	1,200	120	2,178	--		100	100	100

[54] In the books of 50 Plus Ltd. (henceforth: "50 Plus"), a subsidiary of Migdal Health.

[55] The balance is composed of capital notes issued to 50 Plus as detailed below: perpetual capital notes in the total amount of NIS 4,447 thousand, capital notes in the total amount of NIS 2,658 thousand, unlinked and interest-free, to be paid during 2018-2019. The capital notes were discounted as per generally accepted accounting rules, and their balance as of December 31st, 2014 is NIS 2,268 thousand, as well as capital notes issued to Migdal Health, unlinked and interest-free, in the total amount of NIS 497 thousand. The capital notes were discounted as per generally accepted accounting rules, and their balance as of December 31st, 2014 is NIS 434 thousand as detailed herewith:

Capital note's par value in NIS thousand	Payment date	Discount rate	Capital note's balance as of December 31st, 2014
100	7.2019	3.19%	87
80	9.2019	2.69%	71
137	10.2019	2.92%	120
90	11.2019	2.73%	79
90	7.2019	3.12%	77
Total: 497			Total: 434

[56] The balance is composed of a loan extended by Migdal Health, CPI-linked, bearing 4% interest, to be paid in monthly installments from June 2014 until May 2017 .

[57]. In the books of Infomed Medical Sites Ltd., a subsidiary of Migdal Health.

Regulation 12: Changes in investments in subsidiaries and related companies in the reported period [1] [58]

Date of change	Nature of change	Name of company	Type of share	Total shares	Cost in NIS thousand
29.1.2014	Share allotment (in the books of Migdal Insurance Company Ltd.)	Yozma Pension Fund for Self Employed Ltd. [59]	Ordinary NIS 1	2,700,000	2,700
18.7.2014	Share acquisition (in the books of MCM Alternative Investments Ltd.)	Dragon Hedge Funds Managements Ltd. [60]	Ordinary NIS 0.01	232	257
14.9.2014	Establishment of a company (in the books of Migdal Capital Markets (1965) Ltd.)	MRM – Migdal Risk Management Ltd. [61]	NIS 1	1,000	1,000
14.9.2014	Establishment of a company (in the books of Migdal Capital Markets (1965) Ltd.)	MRM – Investment Management Ltd.	NIS 1	1,000	1,000
25.12.2014	Investment in a company (in the books of Migdal Insurance Company Ltd.)	Amot Investments Ltd. [62]	NIS 1	1,000	--

[58] The following companies were deleted from the companies list: Avgad Diamond Management and Services Ltd., whose entire activity is management and services, and Yevulim Financial and Business Consultants Ltd., for which a liquidation order was given on May 24th, 2014, and a special manager was appointed.

[59] On January 29th, 2014, the General Meeting of Yozma approved issuing 2,700,000 ordinary NIS 1 shares to Migdal Insurance, against a capital infusion from Migdal Insurance to Yozma in the amount of NIS 2,700 thousand.

[60] During 2013, MCM Alternative Investments Ltd. acquires 187 ordinary NIS 0.01 shares of Dragon Hedge Funds Management Ltd. These shares were transferred during 2014. The cost of acquisition is NIS 192 thousand. These data include this acquisition.

[61] On September 14th, 2014 the companies MRM – Migdal Risk Management Ltd. and MRM – Investment Management Ltd. were established in the books of Migdal Capital Markets (1965) Ltd. The activity in these companies began on January 1st, 2015.

[62] Amot Investments Ltd. was acquired in installments starting from 2009, and was first added to the Periodic Report for 2014 pursuant to the Amendment to the Securities Regulations (Periodic and Immediate Reports) – 2015.

Regulation 13: **Income of subsidiaries and related companies and income of the Corporation thereof as at the balance sheet date, in NIS in thousands** [58]

Company name	Profit (loss) for the period [63]	Other compre-hensive profit (loss) for the period [63]	Total compre-hensive profit (loss) for the period [63]	Dividend	Mgmt. fees	Nominal interest	Date of interest payment
Migdal Insurance Company Ltd.	442,552	113,738	556,273	403,273 [64]	--	--	--
Migdal Health and Quality of Life Ltd.	(6,311)	(27)	(6,338)	--	--	211 [64]	Monthly
Migdal Capital Markets (1965) Ltd.	(9,357)	1,050	(8,307)	--	--	--	--
Migdal Management Services Ltd.	(3,663)	30	(3,633)	--	--	--	--
Migdal Holdings and Management of Insurance Agencies Ltd.	23,166	1,439	24,605	--	--	--	--
Peltours Insurance Agencies Ltd.	6,794	110	6,904	--	260 [65]	--	--
Sagi Yogev Life Assurance Agency (1988) Ltd.	570	180	750	--	200 [64]	84 [64]	--
Ihud Insurance Agencies Ltd.	1,530	296	1,826	--	320 [64]	--	--
Mivtach Simon Insurance Agencies Ltd.	13,453	108	13,561	--	560 [64]	--	--
Migdal Makefet Pension and Provident Funds Ltd.	63,108	314	63,422	--	--	--	--
Ihud – David Berman Insurance Agency Ltd.	577	--	577	1,000 [66]	520 [64]	--	--
Shaham Insurance Agencies (1977) Ltd.	724	907	1,631	--	280 [65]	13 [65]	Quarterly
Si-El Insurance Agency (1995) Ltd.	603	--	603	1,000 [67]	300 [67]	--	--
Migdal Technologies Ltd.	--	--	--	--	--	--	--
Migdal Claims Management Company Ltd.	--	--	--	--	--	--	--
Data Car Israel Ltd.	861	--	861	1,100 [68]	--	--	--
Migdal Real Estate Holdings Ltd.	70,215	--	70,215	--	--	2,385 [68]	Monthly

[63] Reflects the profits (losses) of the Corporation in full, and excludes the amortization of original differences that have not yet been realized due to inter-companies transactions.
[64] Received in the Company.
[65] Received in Migdal Agencies, a subsidiary of Migdal.
[66] Received in Peltours, a subsidiary of Migdal Agencies.
[67] Received in Shaham, a subsidiary of Migdal Agencies.
[68] Received in Migdal, a subsidiary of the Company.

Company name	Profit (loss) for the period [63]	Other comprehensive profit (loss) for the period [63]	Total comprehensive profit (loss) for the period [63]	Dividend	Mgmt. fees	Nominal interest	Date of interest payment
Migdal Eshkol Finansim B.M.	466	--	466	39,500 [68]	--	--	--
Yozma Pension Fund for Self-Employed Ltd.	113	163	276	--	11,307 [68]	--	--
Hamagen Properties Ltd.	19,208	--	19,208	--	--	--	--
Pel Hamagen House Ltd.	19,209	--	19,209	--	--	--	--
Migdal Credit Services Ltd.	192	--	192	7,500 [69]	--	157 [69]	Monthly
Migdal Leasing Ltd.	600	--	600	13,500 [69]	--	--	--
Pilat - Hi-Capital Group Ltd.	(4,760)	28	(4,732)	--	--	330 [72]	Quarterly
Talent HR Systems Ltd.	(199)	2	(197)	--	881 [70]	--	--
B-Diyuk - Pension Arrangements Operation Insurance agency Ltd.	--	--	--	--	--	--	--
Reshef Insurance Agency (2004) Ltd.	1,896	--	1,896	800 [71]	--	--	--
Ihud Peltours Diamonds Insurance Agency (2002) Ltd.	936	--	936	--	150 [66]	73 [66]	Quarterly
Municipalit Insurance Agency (2000) Ltd.	214	--	214	25 [66]	800 [66]	22 [66]	Quarterly
Makefet Financial Services – Insurance Agency (1998) Ltd.	386	50	436	--	--	--	--
Shaham Weinstein (Netanya) Insurance Agencies Ltd.	561	--	561	--	470 [67]	--	--
Sofer Moshe Insurance Agency (1997) Ltd.	(174)	--	(174)	--	123	--	--
Amir Aloni Life Assurance Agency (1994) Ltd.	1,421	36	1,457	--	--	--	--
Arxcis Global Wealth Management Ltd.	3,314	--	3,314	--	--	47 [72]	Quarterly
Orlan Insurance Agency (1994) Ltd.	2,098	37	2,135	150 [65]	--	17 [65]	Monthly
Eli Erlich Health Services (1999) Ltd.	1,516	28	1,544	800 [73]	--	--	--

[69] Received in Migdal Eshkol, a subsidiary of Migdal.
[70] Received in Pilat – Hi-Capital Group, a subsidiary of Migdal Management Services.
[71] Received in Sagi Yogev, a subsidiary of Migdal Agencies.
[72] Received in Migdal Management Services.
[73] Received in Mivtach Simon, a subsidiary of Migdal Agencies.

Company name	Profit (loss) for the period [63]	Other comprehensive profit (loss) for the period [63]	Total comprehensive profit (loss) for the period [63]	Dividend	Mgmt. Fees	Nominal interest	Date of interest payment
Ramat Aviv Mall Ltd.	131,015	--	131,015	--	--	--	--
Isabel Ouda – Shaham – Insurance Agency	883	--	883	--	--	--	--
Migdal Underwriting and Business Initiative Ltd.	1,113	--	1,113	--	--	--	--
Migdal Capital Markets (Management Services) Ltd.	106	402	508	--	--	92 [74]	Quarterly
Migdal Investment Portfolio Management (1998) Ltd.	(2,350)	103	(2,247)	--	--	--	--
Migdal Stock Exchange Services (N.E.) Ltd.	3,228	482	3,710	--	--	2,779 [74]	Quarterly
Migdal Issuers Ltd.	(181)	--	(181)	--	--	180 [75]	Quarterly
MCM Alternative Investments Ltd.	(6,860)	--	(6,860)	--	--	254 [74]	Quarterly
Dragon Hedge Funds Management Ltd.	2	--	2	--	--	--	--
Migdal Capital Markets - Finance Academy Ltd.	(1,311)	--	(1,311)	--	--	--	--
MRM – Migdal Risk Management Ltd.	--	--	--	--	--	--	--
MRM – Investment Management Ltd.	--	--	--	--	--	--	--
MGTF Hedge Funds Management Ltd.	(2)	--	(2)	--	--	--	--
MGTF Hedge Investments Management Ltd.	(343)	--	(343)	--	--	--	--
Migdal L. B Ltd.	552	--	552	--	--	--	--
50 Plus Ltd.	(4,064)	(136)	(4,200)	--	--	--	--
Club 50 Insurance Agency Ltd.	(1,370)	11	(1,359)	--	--	--	--
Infomed Medical Sites Ltd.	1,673	110	1,783	--	--	211 [76]	Monthly
B-Well Quality of Life Solutions Ltd.	1,029	78	1,107	--	--	--	--
Migdal Trust Funds.	6,179	318	6,497	--	--	--	--
Migdal Insurance Capital Raising Ltd.	--	--	--	--	--	--	--
Amot Investments Ltd.	258,150	1,171	259,321	29,268 [77]	--	--	--

[74] Received in Migdal Capital Markets, a subsidiary of the Company.
[75] Received in Migdal Underwriting and Business Initiative Ltd., a subsidiary of MCM.
[76] Recorded in Migdal Health, a subsidiary of the Company.
[77] The amount of NIS 24,118 thousand was received in Migdal, a subsidiary of the Company, and a dividend in the amount of NIS 5,150 thousand was declared in December 2014, to be distributed in January 2015.

Regulation 14:	**List of groups of balances of loans granted as at the balance sheet date, if the granting of loans was one of the main businesses of the Corporation**

The Corporation does not grant loans

Regulation 20:	**Trading on the Stock Exchange - Securities listed for trading - Dates of and reasons for interruption of trading**

In the report period, there were no interruptions of trading in the Company's securities

Presented below are notes and general explanations regarding the asterisks in the tables above:

Asterisk	Subject	Description
(*)	Salary	The salary component includes a grant and/or a payment set forth in an agreement, that is not objective-based and/or discretion, and it includes social benefits and ancillaries such as company car, per diem, newspapers, medical scanning tests, etc. Grant such as adaptation grant or signing grant or persistency grant, should the Senior Officer be entitled to it, reflects the expense recognized in the report year as per generally accepted accounting rules. If this is relevant for the Senior Officer, salary also includes management fees paid to companies controlled by the Senior officer.
(**)	Grant	On June 30th, 2014 the Boards of Directors of Migdal Insurance, Makefet and Yozma ("the institutional entities") approved a remuneration policy for institutional entities for the years 2014-2016, further to the Circular issued by the Commissioner of Insurance dated April 10th, 2014 ("Commissioner's Circular") ("remuneration policy for institutional entities"). This policy includes specific provisions regarding the salary components of "key position holder", who were determined as such in the Commissioner's Circular, and they include, *inter alia*, all Senior Officers in institutional entities as per the Companies Law, Senior Officers who were defined as such in the Commissioner's Circular, relatives of controlling shareholders, investment entities as well as position holders who were identified by the institutional entities as holding a key position, if the position holders' activity may have a material impact on the risk profile of the institutional entities or if they manage a group of workers who are subject to the same remuneration arrangements, and the variable component in their remuneration may, in aggregate, expose the institutional entity or the monies saved via that institutional entity to a material risk. Within the adoption of the remuneration policy for institutional entities, it was decided to adopt the Commissioner's position from June 9th, 2014, and the Law Memorandum regarding the Remuneration for Senior Officers in Institutional entities (Special Approval and Restriction of Expenses due to Extraordinary Remuneration) – 2014, and accordingly, no remuneration will be paid beyond the cap suggested in the Law Memorandum ("Commissioner's Position"), except in special and extraordinary cases. Pursuant to the Commissioner's Circular, the competent organs should examine the policy once a year, and this examination and update were carried out in the institutional entities on December 31st, 2014. For details regarding the remuneration policy for institutional entities, see Immediate Report dated June 30th, 2014, Reference No. 2014-01-103386, as well as Note 38j3 to the Consolidated Financial Statements. On October 27th, 2014 the Company's General Meeting approved a change and update to the Company's remuneration policy, which was approved by the Company's General Meeting on September 2nd, 2013 for the years 2013-2014 ("the original policy"), by adopting a new remuneration policy that is adapted to the remuneration policy for institutional entities for the years 2014-2016, and which would substitute the original policy for all intents and purposes ("the policy"/ "the remuneration policy"). The remuneration policy applies o all Senior Officers in the Company, and except the Company CoB, all Senior Officers of the Company serve, in addition to serving as Senior officers in the Company, also as Senior Officers in institutional entities. The Company's remuneration policy was adjusted to the remuneration policy for institutional entities. For details regarding the remuneration policy in the Company see the Company's Immediate Reports issued on September 22nd, October 27th, and June 30th,

2014, Reference Nos. 2014-01-161913, 2014-01-181653 and 2014-01-103363, respectively, as well as Note 38j3 to the Consolidated Financial Statements.

The remuneration policy does not apply to the person receiving remunerations mentioned in paragraph (3) above, who serves in Migdal Capital Markets Group and who is not a Senior Officer in the Company and in institutional entities, and the reference below regarding the annual grant, applies only to all senior Officers who serve in the Company and in institutional entities.

Pursuant to the remuneration policy, the annual grant to a Senior Officer who is not an investment entity (except a special grant and/or a signing grant) shall include three types of objectives at various measurement levels (a) Company objectives (b) Unit/personal objectives (c) personal evaluation. Each of these objective types will be attributed a certain weight in determining the annual grant, depending on the Senior Officer's position and the range of weights set forth in the remuneration policy (for investment entities, the unit objectives will be separate from the personal objective, so there are four types of objectives instead of three).

Note 38j3 to the Consolidated Financial Statements details the conditions and arrangements for extending the annual grant to senior Officers in the Company and in institutional entities in the Group. Extending the annual grant is not included in employment agreements, and as per the policy, it is subject to the approval in advance of eligibility to a normative grant by the competent organs. In addition, and even after there is an approval for a normative grant, extending each grant as per the policy's provisions is subject to receiving the approval of the competent organs, and the grant's amount is in fact the cap of grants that may be extended by the competent organs.

The grant for 2014 has not yet been discussed or approved by the competent organs of the Company and institutional entities, therefore it has not yet been extended to Senior Officers in the company and in the Group's institutional entities.

The provision for annual grant for Senior Officers in the Company and in institutional entities in respect of 2014 in the Company's Financial Statements was performed as per an estimation only, based on 75% of the target grant that is based on the Company's objectives as per the remuneration policy, i.e.: (1) comprehensive income before tax in general insurance (2) comprehensive income before tax not from general insurance and (3) NBV, as per the weights set forth in the remuneration policy. The Company's objectives were set as relative/comparative objectives, which measure the Company's pr-rata share in the results of these parameters, out of the results of the five largest insurance groups in Israel as to these parameters, in each of the years 2014-2016. In addition to the entry requirement of an RoE at a rate of 7%, there are other entry requirements for receiving an annual grant, which include complying with the safety cushion set forth by the Board of Directors, meeting a liquidity ratio, as well as conditions regarding across-the board amortization and cancellation conditions, regarding the rating of the Group's institutional entities' bonds, even regarding deferred payments of the annual grant.

The amount written as a grant next to each Senior Officer, except the remuneration mentioned in paragraph (3) above, includes: (1) spreading of part of the deferred payment of the annual grant in respect of 2013, at

8.3% of the grant amount to which the Senior Officer is eligible, as per the remuneration policy, only in 2014, which was carried out pursuant to generally accepted accounting rules (2)an estimate of the annual grant for 2014, based on an estimate of 75% of the target grant as described above (3) differences due to the difference between the estimated grant amount for the Senior Officer as recognized in 2013 Financial Statements, vs. the amount to which the Senior Officer was eligible in reality in respect of 2013. For the disclosure given by the Company because the grant amount that was actually approved by the Company's competent organs on July 23rd, 2014 regarding 2013, was different from the estimated amount included in Regulation 21 in 2013 Periodic Report, see the Company's Immediate Report dated July 24th, 2014, Reference No. 2014-01-120387.

It should be noted that the provision for grants for Senior Officers detailed in the tables above (except the person mentioned in paragraph (3)) for the annual grant in respect of 2014, entirely, or partly, was recorded based on an estimate only, and that the grant that will be actually paid, if at all, may be different due to data regarding the Company's relative results compared with peer companies in several indices, and it is subject to the approval of the competent organs of the Company and the group's institutional entities.

(***) Share-based payment

2010 Remuneration plan – the long term remuneration plan for Senior Officers and managers in the Group, which includes grants in cash as well as private allotments of untraded eligibility deeds, which allow their holder the right to receive Company shares, which are allotted in two phases. The plan is for a period of six years and includes two consecutive phases, each lasting three years. By the end of the first phase, on December 31st, 2012, participants were eligible to a grant set forth in a number of monthly salaries, which was paid to them as per their compliance with objectives, and the amount of Phase I grant was calculated and set depending on complying with two objectives: compliance with profit objective and persistency objective. The persistency component was entirely paid in shares, and the profit component was paid partly in shares and partly in cash, as per the offerees' choice. On April 22nd, 2013, the eligibility deeds for those who chose shares were converted to shares, and shares were allotted and deposited in trusteeship until the end of Phase II, on December 31st, 2015. Participants to whom shares were allotted at the end of Phase I in respect of the profit component will be entitled to additional company share allotments, free of charge, except a negligible payment of the par value, to be determined based on the Group's rating compared to four other peer groups in its area of activity. The expense in 2013-2014 was recorded based on the assumption that the Group will be rated second, however, this assumption will be reexamined at the end of 1Q15. The expense is over straight line and in respect of workers who leave during Phase II under non-qualifying circumstances, the aggregate expense recorded for them regarding Phase II shares starting from the beginning of 2013 is cancelled. See Note 33 to the Consolidated Financial Statements.

It should be noted, regarding 2009 plan in which options were allotted to Senior Officers and managers in the Group, that its exercise period ended on December 31st, 2014.

Holding rate in capital

The holding rates in Corporation capital did not take into account the eligibility deeds as per 2010 plan.

Additional general notes regarding both Senior Officers in the Company and in institutional entities in the Group

Social provisions and ancillaries	The fixed component (salary) also includes social provisions and ancillaries (as per their definition below), part of which originate in the requirements of Labor Laws (components such as pensionary savings, provisions for severance pay, annual leave, sick leave, r & R, etc.) and part of which are due to standard practices on the labor market (such as savings in educational funds, insurance against occupational disability etc.), and part of which are aimed at complementing the monthly salary and reimburse expenses, such as per diem, etc. The ancillaries may include the following conditions: annual leave, sick leave, R & R, car (in kind or in value) and reimbursement of car expenses, maintenance and telephone, newspapers, membership fees in professional associations, participation in professional courses and conferences, welfare activities, medical scanning tests, etc.
Severance pay at the termination of employment	Pursuant to the remuneration policy, Senior Officers who are included in the remuneration plan are entitled, in case of employment termination, except in the event of dismissal which allow the non-payment of severance pay, and except if their terms of employment include an arrangement pursuant to Clause 14 to the Severance Pay Law – 1963, to severance pay at 100% of the last monthly salary for each working year, or to the total amounts accrued in provident benefits in respect of provisions for severance pay, the highest of the two.
Adaptation grant	Pursuant to the remuneration policy for Senior Officers in the institutional entities in the Group and Senior Officers in the Company, rules were set regarding adaptation grants, that will substitute any adaptation grant and/or retirement grant and/or any other payment to be paid upon retirement or afterwards, which are not in respect of early notice. The adaptation grant is 9 times the salary, to be paid as follows: half the adaptation grant is paid upon the termination of employment, and as to the second half – there are deferral provisions as to its payment until the end of 36 months. Furthermore, the adaptation grant is stipulated, in its deferred part, by performance, and for part of the deferred payments – to not finding another work at the time of the deferred payment.
Benefits to all workers when acquiring Group's products	All the Group's workers and their families, including Senior Officers in the Company and in the institutional entities, receive various benefits and special conditions in insurances and/or in acquiring Group products at market conditions. All the benefits granted to Senior Officers total a negligible amount.

Additional details regarding the persons receiving remunerations:

(1) **Ms. Anath Levin**

Ms. Anath Levin has served as the CEO of the Chairman of the Board of Directors of Migdal Insurance from February 2014 to October 31st, 2014.

Ms. Anath Levin was employed from February 2014, as per an employment agreement dated December 2nd, 2013. Her monthly salary was NIS 185,000, CPI-linked. Ms. Levin was entitled to a signing grant of three monthly salaries (excluding ancillaries and social benefits), which was paid to her together with the payment of her first salary. Furthermore, Ms. Levin is entitled to a car, as customary in Migdal for managers in her status, and the Company bears the cost of car usage and maintenance, including income tax grossing up (100%), as well as telephone bill expenses, reimbursement of personal expenses, newspapers etc.

Pursuant to the employment agreement, each party could terminate the agreement, at any time, with an early notice of six months. Accordingly, in the period from August 7th, 2014 (the date upon which she gave her resignation notice) and until February 7th, 2015, Ms. Anath Levin received a monthly salary including ancillaries in respect of early notice, out of which – until October 31st, 2014 against extending actual services. The amount detailed in the table as salary includes all the payments made to Ms. Levin, until the end of the early period, i.e. until February 2015.

For details regarding the terms of employment of Ms. Levin and her resignation, see the Company's Immediate Reports dated February 25th, 2014, Reference No. 2014-01-046174, April 13th, 2014, Reference No. 2014-01-046119, July 3rd, 2014, Reference No. 2014-01-120126, August 7th, 2014, Reference No. 2014-01-129327, and October 28th, 2014, Reference No. 2014-01-182949, as well as Note 38j3c) to the Financial Statements for 2013.

Further to the resignation notice given by Ms. Levin, there was no adaptation of her employment agreement to the remuneration policy, see also the Company's Immediate Report dated August 7th, 2014, Reference No. 2014-01-129711.

(2) Mr. Ofer Eliahu

Mr. Ofer Eliahu serves as the CEO of Migdal Insurance, effective from February 11th, 2014. Mr. Ofer Eliahu is the son of the Company's controlling shareholder Mr. Shlomo Eliahu. From January 2014 to February 11th, 2014, he served also as substitute to the CEO of Migdal Insurance.

Mr. Ofer Eliahu also served as Deputy to CEO of Migdal Insurance starting from January 29th, 2013, first as the Head of General Insurance and Reinsurance Division in Migdal insurance, and from July 15th, 2013 as the Head of Customers, Service and Distribution Channels Division of Migdal Insurance. During the entire period in which he served in Migdal Insurance until December 31st, 2013, Migdal Group did not pay any salary to Mr. Ofer Eliahu.

Mr. Ofer Eliahu's terms of employment, effective from January 1st, 2014, were approved by the Company's General Meeting on April 13th, 2014, after receiving the approval of Migdal Insurance's Audit Committee and the Company's Seniors' compensation Committee and the Company's Bod and Migdal Insurance's BoD. See the Company's Immediate Reports dated February 25th, 2014, Reference No.s. 2014-01-046174 and 2014-01-146171, March 31st, 2014, Reference No. 2014-01-032985, and April 13th, 2014, Reference No. 2014-01-046119.

Mr.Ofer Eliahu is employed pursuant to an employment agreement signed on April 30th, 2014, for an unlimited period. If, after three years, the approvals of the competent organs in the Company will be required in order to continue his employment, including the GM's approval pursuant to Clause 275 to the Companies Law or any other similar approval, after three years the agreement's validity will be subject to receiving such approvals as per the Law.

Each party may terminate the agreement at any time and for any reason, with an early notice of three months.

Mr. Ofer Eliahu's monthly salary was set at NIS 170,000, CPI-linked and the linking update is once a year. In addition, his terms of employment include social benefits and ancillaries and insurance against occupational disability within a collective insurance policy for Migdal Insurance Group employees, annual leave (26 days), R & R, reimbursement of expenses for telephone, per diem, providing a car (group 7) (grossing up at 100%), daily newspapers, medical screening tests, etc. Pursuant to the terms of employment with him, Mr. Ofer Eliahu is not entitled to an adaptation grant.

Mr. Ofer Eliahu's employment agreement includes a clause, pursuant to which his employment by the Company is new under a personal agreement, with no continuity of rights for his employment by another employer, including statement that he has no claims and will have no claims towards the Company in respect of his employment by Eliahu Insurance.

An annual grant for Mr. Ofer Eliahu was not brought to the approval of the competent organs.

(3) Mr. Sharon Hinkis

Mr. Sharon Hinkis is employed by Capital Markets Group as an Investments Manager in Migdal Funds, as an Investments Manager in the portfolio management company and as the person in charge of handling portfolios and debt arrangements and bad debt. Mr. Hinkis, including via a company controlled by him, is entitled to a monthly salary (partly in management fees) in the amount of NIS 63 thousand (in gross terms), as well as social benefits and ancillaries, insurance against occupational disability, educational fund, annual leave, R & R, cellular phone and payment for replacement vehicle. Furthermore, Mr. Hinkis is entitled to an annual grant, which is composed of a grant calculated according to the funds profit rate which he manages, and a persistency grant. It should be noted that the total cost of Mr. Hinkis' annual salary (including grants), including via a company controlled by him, shall not exceed NIS 2.97 million (excluding VAT and payroll tax). Each party may terminate the agreement at any time with an early notice of six months.

(4) Mr. Gil Yaniv

Mr. Gil Yaniv serves as the Head of LTS, Health and Quality of Life Division since January 1st, 2013. Previously, he served as the Head of the LTS and Resources Discipline, and held other positions in the Group, since September 1st, 2009.

Mr. Gil Yaniv is employed by Migdal Insurance pursuant to an employment agreement dated February 23rd, 2009, as updated in the additions to the agreement dated February 8th, 2010 and December 31st, 2014, for an unlimited period. Each party may terminate the engagement at any time and for any reason, with an early notice of 60 days.

Mr. Gil Yaniv's monthly salary, starting from January 1st, 2014, was set at NIS 110,000, CPI-linked and the linking update is once a year. Mr. Yaniv's salary was raised in 2014, effective since January 2014, from NIS 81,575 to the salary set forth above. In addition, his terms of employment include social benefits and ancillaries and insurance against occupational disability, if there is a provision to an educational fund, it will be deducted from the salary and not in addition to the salary, annual leave, R & R, reimbursement of per diem, providing a car (grossing up at 90%), newspapers, medical insurance, etc.

If the agreement is terminated, Mr. Gil Yaniv will be entitled to an adaptation grant of 9 times the monthly salary. The adaptation grant will be paid as per the terms and arrangements as detailed in the general notes above.

Regarding the estimated annual grant – see the description above. The provision for the annual grant in respect of 2014 is NIS 462 thousand, composed of approx. NIS 563 thousand estimated annual grant in respect of 2014, less NIS 132 thousand in respect of the difference between the estimate and the amount that was actually paid in respect of the annual grant for 2013, plus the deferred amount in respect of 2013, in the amount of NIS 58 thousand.

Within the long term remuneration plan for 2010, Mr. Gil Yaniv was allotted 102,322 eligibility deeds, as well as 79,822 shares as per the terms of the 2010 plan.

(5) Mr. Bezalel Zucker

Mr. Bezalel Zucker serves as the CEO of Migdal Makefet since September 9th, 2009, and as the CEO of Yozma Pension Fund for Self-Employeds Ltd. since December 1st, 2006. Previously, Mr. Zucker was employed by Migdal Group in various positions in the area of LTS. Mr. Zucker has

Mr. Bezalel Zucker is employed by Migdal Insurance pursuant to a personal employment agreement that was amended from time to time, for an unlimited period. Each party may terminate the engagement at any time and for any reason, with an early notice of 90 days.

Mr. Bezalel Zucker's monthly salary, starting from January 1st, 2014, was set at NIS 75,000, CPI-linked and the linking update is once a year. Mr. Zucker's monthly salary in the period from January 2014 until the salary update as set forth above was NIS 60,971 per month. In addition, his terms of employment include social benefits and ancillaries and insurance against occupational disability under a collective insurance policy, the manager has a provision to an educational fund – 7.5% on his entire salary, annual leave, R & R, reimbursement of per diem, providing a car with no grossing up, newspapers, medical insurance, etc.

If the agreement is terminated, Mr. Bezalel Zucker will be entitled to an adaptation grant of 9 times the monthly salary. The adaptation grant will be paid as per the terms and arrangements as detailed in the general notes above.

Regarding the estimated annual grant – see the description above. The expense in respect of the annual grant in respect of 2014 is NIS 187 thousand, composed of a provision of approx. NIS 241 thousand estimated annual grant in respect of 2014, less NIS 79 thousand in respect of the difference between the estimate and the amount that was actually paid in respect of the annual grant for 2013, plus the deferred amount in respect of 2013, in the amount of NIS 25 thousand.

Within the long term remuneration plan for 2010, Mr. Bezalel Zucker was allotted 32,776 eligibility deeds, as well as 30,160 shares as per the terms of the 2010 plan.

(6) Mr. Eran Czerninski

Mr. Eran Czerninski serves as the CFO of the Company, the Finances and Actuarial Division Manager of Migdal Insurance since January 1st, 2009. Until March 24th, 2015 he served as the substitute to CEO, and since then he serves as the Company's CEO, in addition to the other positions he holds in the Company.

Mr. Eran Czerninski is employed by Migdal Insurance as per an employment agreement dated September 19th, 2002, which was amended for the last time on December 31st, 2013, as well as the addition to the agreement dated December 31st, 2014, for an unlimited period. Each party may terminate the engagement at any time and for any reason, with an early notice of 60 days.

Mr. Eran Czerninski's monthly salary, starting from January 1st, 2014, was set at NIS 89,000, CPI-linked and the linking update is once a year. Mr. Czerninski's monthly salary in the period from January 2014 until the salary update as set forth above was NIS 79,417 per month. In addition, his terms of employment include social benefits and ancillaries and insurance against occupational disability under a collective insurance policy, if there is a provision to an educational fund, it is deducted from his salary and not in addition to the salary, annual leave, R & R, reimbursement of per diem, providing a car (grossing up at 90%), newspapers, medical insurance, etc.

If the agreement is terminated, Mr. Eran Czerninski will be entitled to an adaptation grant of 9 times the monthly salary. The adaptation grant will be paid as per the terms and arrangements as detailed in the general notes above.

Regarding the estimated annual grant – see the description above. The expense in respect of the annual grant in respect of 2014 is NIS 317 thousand, composed of a provision of approx. NIS 536 thousand estimated annual grant in respect of 2014, less NIS 264 thousand in respect of the difference between the estimate and the amount that was actually paid in respect of the annual grant for 2013, plus the deferred amount in respect of 2013, in the amount of NIS 45 thousand.

It should be noted to the salary and the provision for the estimated grant are subject to the approval of the competent organs.

Within the long term remuneration plan for 2010, Mr. Eran Czerninski was allotted 89,238 eligibility deeds, as well as 69,616 shares as per the terms of the 2010 plan.

(7) Ms. Ilana Bar

Ms. Ilana Bar serves as the Chief Legal Counsel of the Company since July 2001.

Ms. Ilana Bar is employed by Migdal Insurance as per an employment agreement dated June 3rd, 2003 (she started working on September 5th, 1999), which was amended in the addition to the agreement on December 31st, 2014, for an unlimited period. Each party may terminate the engagement at any time and for any reason, with an early notice of 60 days.

Ms. Ilana Bar's monthly salary, starting from January 1st, 2014, was set at NIS 90,000, CPI-linked and the linking update is once a year. Mr. Czerninski's monthly salary in the period from January 2014 until the salary update as set forth above was NIS 72,907 per month.

In addition, her terms of employment include social benefits and ancillaries and insurance against occupational disability under a collective insurance policy, if there is a provision to an educational fund, it is deducted from her salary and not in addition to the salary, annual leave, R & R, reimbursement of per diem, providing a car (grossing up at 90%), newspapers, medical insurance, etc.

If the agreement is terminated, Ms. Ilana Bar will be entitled to an adaptation grant of 9 times the monthly salary. The adaptation grant will be paid as per the terms and arrangements as detailed in the general notes above.

Regarding the estimated annual grant – see the description above. The expense in respect of the annual grant in respect of 2014 is NIS 187 thousand, composed of a provision of approx. NIS 241 thousand estimated annual grant in respect of 2014, less NIS 79 thousand in respect of the difference between the estimate and the amount that was actually paid in respect of the annual grant for 2013, plus the deferred amount in respect of 2013, in the amount of NIS 25 thousand.

Within the long term remuneration plan for 2010, Ms. Ilana Bar was allotted 16,466 shares as per the terms of the 2010 plan.

Directors fees

The total remuneration paid to Directors serving in it during the reported period, who serve also as Directors in Migdal Insurance, in respect of their office as the Company BoD and in Migdal insurance and in the various Committees next to the BoD, was approx. NIS 2,025 thousand. The sum excludes the payment made to Mr. Israel Eliahu, the son of Mr. Shlomo Eliahu, who serves as a Director in the Company and in Migdal Insurance. For details regarding the remuneration that was paid to Mr. Israel Eliahu see Note 38j2 to the Consolidated Financial Statements, and it also excludes the payment made to Ms. Anath Levin, the CoB of Migdal Insurance in the past as detailed in the table above.

Mr. Shlomo Eliahu served as the Company's Chairman of the Board of Directors from October 1st, 2013 until February 18th, 2015. On February 24th, 2015 Mr. Shlomo Eliahu reported to the Company's BoD and to the BoD of Migdal Insurance that he waives any salary in relation with his position as the Company CoB and as a Director in Migdal Insurance, and shall not request any salary in their respect. The Company's remuneration policy includes the regulation of remuneration to the Company's CoB, including a fixed monthly salary, social provisions and various ancillary terms, as well as a variable component of an annual grant, subject to the approval of competent organs. Pursuant to the remuneration policy, the maximum annual remuneration to which the CoB, Mr. Shlomo Eliahu, is entitled (in the event of a maximum grant) may reach the total amount of approx. NIS 4.3 million, before the impact of Company payroll tax. As set forth above, Mr. Shlomo Eliahu waived any remuneration in relation with his position or the termination of his office. See the Company's Immediate Report dated February 24th, 2014, Reference No. 2014-01-046135.

Mr. Oded Sarig was appointed as a Director in the Company after the reported period, effective as of January 27th, 2015, and as the Chairman of the Board of Directors effective as of February 18th, 2015, he receives a salary from Eliahu Insurance, see Note 38j4b) to the Consolidated Financial Statements.

Regulation 21a: Control of the Corporation

To the best knowledge of the Company, as of the date of the Report, Eliahu Insurance Company Ltd. ("Eliahu Insurance" or "Eliahu") holds about 69% of the Company's issued and paid-up capital. [78] [79]

Mr. Shlomo Eliahu and Ms. Hava Eliahu are the ultimate holders of the Company. To the best knowledge of the Company, presented below are details of their holdings:

Eliahu Insurance's shareholders are: Mr. Shlomo Eliahu, who holds about 25.14% of capital and 98%of management shares, Ms. Hava Eliahu, who holds 0.02% of capital and 2% of management shares, Shlomo Eliahu Holdings Ltd. that holds 61.7% of capital, Eliahu Brothers Trust and Investments Ltd., that holds 13.14% of capital.

Shlomo Eliahu Holdings' shareholders are: Mr. Shlomo Eliahu, who holds about 83.31% of capital and Ms. Hava Eliahu, who holds 16.69%. The only shareholder of Eliahu Brothers Trust and Investments Ltd. is Shlomo Eliahu Holdings Ltd., held by Messrs. Shlomo Eliahu and Haya Eliahu as detailed above.

[78] Eliahu Insurance acquired from Generali Group all the shares that were held directly and indirectly in the Company (about 69.135% of the Company's issued and paid-up capital). The transfer of control shares in the Company from Generali Group was closed on October 29th, 2012. For details regarding the transaction for the closing of the transfer of control in the Company, see by way of referral the Company's Immediate Report dated October 29th, 2012, Ref. No. 2012-01-266412.

[79] As the Company was informed by Eliahu Insurance, Eliahu insurance put a lien on about 30% of the Company's share capital in favor of Bank Leumi le-Israel Ltd., see Note 1 to the Consolidated Financial Statements.

Regulation 22: Transactions with controlling shareholders or in which the controlling shareholders have a personal interest

1. The controlling shareholders in the Company are Messrs. Shlomo Eliahu and Hava Eliahu hold the Company's shares, directly and indirectly, via Eliahu Insurance. For details see Regulation 21a in this part of the Report. In addition to transactions with his relatives, Mr. Shlomo Eliahu is considered as having a personal interest in transactions with Union Bank, and until October 2013, he was also perceived as having a personal interest in transactions with Bank Leumi.

2. Furthermore, in light of the position expressed by the ISA in other contexts, in which it perceived transactions with an ex-controlling shareholder as transactions in which the new controlling shareholder have a personal interest, the Company decided, based on a legal opinion it received, that although Generali (the previous controlling shareholder in the Company) is no longer the controlling shareholder in the Company, and although allegedly there is no reason to see Mr. Shlomo Eliahu as having a personal interest in engagements with Generali, for the sake of caution only, the agreements with Generali should be approved in the procedure set forth by the Companies Law regarding the approval of transactions with controlling shareholders, until the end of 2014 (two calendar years since the acquisition of control in the Company by Mr. Shlomo Eliahu).

3. Pursuant to the provisions of Clause 117 (1b) to the Companies Law, during 2014, the Audit Committees of the Company and of its subsidiaries outlined the procedures that the Company and/or its subsidiaries should follow, as the case may be, before engaging in transactions with the controlling shareholder or in transactions in which the controlling shareholder has a personal interest, as set forth in Clause 270 (4) or 270 (4a) to the Companies Law, even if they are not extraordinary transactions, depending on the type of transaction being examined, including, *inter alia*: the acquisition of services by the Company and/or subsidiaries, the sale of insurance or other products of the Group, the subrogation and/or the distribution of liability between insurers, participation in a credit consortium and terms of office and employment.

   In order to approve an engagement, the results of the procedure will be presented to the Audit Committee, or – in the event of an engagement within the management of beneficiaries' monies – to the relevant Investments Committee and the Audit Committee. In addition, it was set forth that if one of these procedures is not carried out, the engagement should be brought for approval to the Audit Committee that will determine the specific procedure that should be carried out in relation to the approval of that engagement.

For details regarding the transactions and the personal interest of the controlling shareholder in the entities set forth above, see Note 38 to the Consolidated Financial Statements.

Regulation 24: Shares and other securities held by interested parties and executive officeholders in the Corporation, subsidiary or related company, as close as possible to the report date (to the best of the Corporation's knowledge)

a. <u>In the Corporation</u>

Name of interested party	Registered company no./ I.D. Number	Ordinary shares	Number of the securities in the Stock Exchange	Number of shares held on 10.3.2015	Rate of holding in capital[80]	Rate of holding in voting & right to appoint Directors [80]
Eliahu Insurance Company Ltd.	520029851	NIS 0.01	1081165	729,168,309 [81]	69.19	69.19
Migdal Insurance Company Ltd. [82]	52-000489-6	NIS 0.01	1081165	6,365		

For details regarding shares and other securities held by Senior Executives in the Corporation as of March 10th, 2015 (to the best of the Corporation's knowledge), see the Corporation's Immediate Report dated March, 8th, 2015, Reference No. 2015-01-046459.

[80] Theoretically assuming that all the options that were allocated pursuant to the plans for granting options and eligibility deeds, whose principles were approved in October 2010, will be fully exercised, see Regulation in this part of the Report.

[81] For share transfers performed during the reported period, see Clause 4.3 to Part A in the Corporation Businesses Description Chapter.

[82] Migdal holds the shares in trusteeship for those who were shareholders prior to July 31st, 1997. Migdal is fully owned by the Company.

b. In subsidiaries and related companies[83]

Name of subsidiary/ related company	Name of interested party	Registered company No.	Name of security	No. of shares held as of 10.3.2015	Rate of holding in capital	Rate of holding in voting and right to appoint Directors
Migdal Insurance Capital Raising Ltd.	Migdal Insurance Company Ltd. [84]	52-000489-6	Ordinary NIS 0.01	1,000	100	100
Migdal Holdings and Management of Insurance Agencies Ltd.	Migdal Insurance Company Ltd.[84]	52-000489-6	Ordinary NIS 1	804	100	100
Peltours Insurance Agencies Ltd.	Migdal Holdings and Management of Insurance Agencies Ltd.[85]	52-001162-8	Ordinary NIS 0.01	18,760,002	73.28	73.28
Migdal Real Estate Holdings Ltd.	Migdal Insurance Company Ltd.[84]	52-000489-6	Ordinary NIS 0.0001	61,660,406	100	100
Yozma Pension Fund for the Self-Employed Ltd.	Migdal Insurance Company Ltd. [84]	52-000489-6	Ordinary NIS 1	9,200,000	100	100
Hamagen Properties Ltd.	Migdal Insurance Company Ltd. [84]	52-000489-6	Ordinary NIS 1	6,090,837	100	100
Pel Hamagen House Ltd.	Hamagen Properties Ltd.[86]	51-093969-7	Ordinary NIS 1	14,066,595	100	100
Shaham Insurance Agency (1977) Ltd.	Migdal Holdings and Management of Insurance Agencies Ltd.[85]	52-001162-8	Ordinary NIS 1	3,492	100	100
Shaham Insurance Agency (1977) Ltd.	Migdal Holdings and Management of Insurance Agencies Ltd.[85]	52-001162-8	Preferred shares NIS 0.1	782	43.88	43.88

[83] The details are regarding held companies whose activity is material.
[84] Migdal is a company fully owned by the Company.
[85] Migdal Agencies is a company fully owned by Migdal.
[86] Hamagen Properties is a company fully owned by Migdal.

Name of subsidiary/ related company	Name of interested party	Registered company No.	Name of security	No. of shares held as of 10.3.2015	Rate of holding in capital	Rate of holding in voting and right to appoint Directors
Sagi Yogev Life Assurance Agency (1988) Ltd.	Migdal Holdings and Management of Insurance Agencies Ltd. [85]	52-001162-8	Ordinary NIS 1	1,722	100	100
Sagi Yogev Life Assurance Agency (1988) Ltd.	Migdal Holdings and Management of Insurance Agencies Ltd. [85]	52-001162-8	Profits NIS 1	2,000	100	100
Mivtach Simon Insurance Agencies Ltd.	Migdal Holdings and Management of Insurance Agencies Ltd. [85]	52-001162-8	Ordinary NIS 0.001	1,000	100	100
Migdal Makefet Pension and Provident Funds Ltd.	Migdal Insurance Company Ltd. [84]	52-000489-6	Ordinary NIS 1	2,034	100	100
Migdal Capital Markets (1965) Ltd.	Migdal Trust Funds Ltd.[87]	51-130366-1	Ordinary NIS 1	33,000	0.4	0.4
Infomed Medical Sites Ltd.	Migdal Health and Quality of Life Ltd. [88]	51-313729-9	Ordinary NIS 1	1,530	71	71
B-Well Quality of Life Solutions Ltd.	Infomed Medical Sites Ltd.[89]	51-288741-5	Ordinary NIS 1	1,200	71	71

[87] Migdal Trust Funds is fully owned (indirectly) by Migdal Capital Markets.
[88] Migdal Health is a company fully held by the Company.
[89] Infomed is a company fully held by Migdal Health.

Regulation 24a: Authorized capital, issued capital and convertible securities of the Corporation

Authorized capital as of March 10th, 2015	**Issued capital as of March 10th, 2015**
NIS 15,000,000	NIS 10,539,082.34
Divided into 1,500,000,000 Ordinary NIS 0.01 shares	Divided into 1,053,908,234 Ordinary NIS 0.01 shares

The Corporation's convertible securities

For details regarding the Corporation's convertible securities see the Company's Immediate Report dated January 27th, 2015, Reference No. 2015-01-020095.

Regulation 24b: The Corporation's shareholders register

For details regarding the Corporation's shareholders register see the Company's Immediate Report dated March 8th, 2015, Reference No. 2015-01-046459.

Regulation 25a: Registered address of the Corporation

The Corporation's registered address is 4, Ef'al Street, Kiryat Aryeh, Petach Tikva 4951229, Israel; P.O. Box 3063, Petach Tikva 49130, Israel
Telephone No. 076-8868962, Facsimile No. 03-9238988.
E-mail: migdalhold@migdal.co.il

Regulation 26: Directors of the Corporation as of March 24th, 2015

Senior Officer's name:	Prof. Oded Sarig, CoB	Shlomo Eliahu	Israel Eliahu
ID. No.:	53547451	43661602	27768969
Date of birth:	25.7.1955	18.1.1936	16.5.1970
Address for documents:	2, Gutman Street, Tel Aviv	6, Hadassah Street, Tel Aviv	12, Hish Street, Affeka, Tel Aviv
Nationality:	Israeli	Israeli	Israeli
Membership in Committees next to the BoD:	No	No	No
External Director:	No	No	No
Director with accounting and financial skills:	Yes	Yes	Yes
Employee of the Corporation, a subsidiary, a related company or an interested party:	Yes, employed by Eliahu Insurance Company Ltd., the controlling shareholder of the Corporation	No	No
Date of taking office as a Director:	Director – 27.01.2015; Chairman of the Board of Directors – 18.02.2015	29.10.2012	29.10.2012
Education and occupation during the past five years, and the Corporations in which he serves as a Director:	B.A in Economics and Accounting (Tel Aviv University), M.A specialization in Financing (University of California, Berkeley), Ph.D in Business Administration (Specialization in Financing) (University of California, Berkeley), and Associate Professor (University of Columbia). He serves as Financing Professor in Interdisciplinary School Herzliya, Arison School, Adjunct Professor at Wharton Business School, University of Pennsylvania, and served as the Commissioner of Capital Market, Insurance and Savings between 2010 and 2013.	Chairman of Shlomo Eliahu Holdings Ltd. and subsidiaries, Eliahu Insurance Company Ltd., Director, entrepreneur and partner in Gan Ha'ir Project Ltd. and subsidiaries and a partner in the control core in Union Bank. CoB of Migdal Claims Management Ltd. and a Director in Migdal Holdings and Management of Insurance Agencies Ltd. Chairman of the Committee for the Deployment Towards Solvency II in Migdal Insurance Company Ltd. He served as the CoB of Migdal Insurance Company Ltd. until December 31st, 2013, and the CoB of the Corporation until February 18th, 2015.	B.A in Economics, Cinema and Television (Tel Aviv University), graduated courses for Executives, specialization in negotiations, mergers and acquisitions and family businesses (INSEAD). Director and CEO in Shlomo Eliahu Holdings Ltd., Director in subsidiaries of Shlomo Eliahu Holdings Ltd., Eliahu Insurance Company Ltd. and subsidiaries and in Migdal Insurance Company Ltd. Chairman of the Board in Migdal Capital Markets (1965) Ltd, Chairman of the Nostro Investments Committee in Eliahu Insurance Company Ltd. and in Migdal Insurance Company Ltd. Member of the Public Council in the Nova Project for Excellence in the Public Service. Member of the Executive Committee in Lev Ohev Association and in Vehadarta – the National Committee for the Promotion of Senior Citizens' Status. Founder of the Family Businesses Center – Israel Ltd.
Member of the family of another interested party in the Corporation	No	Yes, the father of Mr. Israel Eliahu, a Director in the Corporation, and Mr. Ofer Eliahu, Executive Senior Officer in the Corporation.	Yes, the son of Mr. Shlomo Eliahu, Director in the Corporation and the brother of Mr. Ofer Eliahu, Senior Executive Officer in the Corporation.

Regulation 26: Directors of the Corporation as of March 24th, 2015

Senior Officer's name:	**Ronit Abramson**	**Eyal Ben Chlouche**	**Yigal Bar Yossef**
ID. No.:	54121108	57440638	1543198
Date of birth:	17.8.1957	15.12.1961	6.3.1947
Address for documents:	5, Shimshon Street, Jerusalem	148, Hashaked Street, Moshav Shoresh	3, Adam Hacohen Street, Tel Aviv
Nationality:	Israeli	Israeli	
Membership in Committees next to the BoD:	Audit Committee and Compensation Committee	Chairman of the Financial Statements Committee, member of the Audit Committee and the Seniors Compensation Committee	Chairman of the Audit Committee, a member of the Committee for the Examination of Financial Statements and the Seniors Compensation Committee
External Director:	No	Yes	Yes
Director with accounting and financial skills:	No	Yes	Yes
Employee of the Corporation, a subsidiary, a related company or an interested party:	No	No	No
Date of taking office as a Director:	25.2.2009	10.6.2008	5.9.2007
Education and occupation during the past five years, and the Corporations in which he serves as a Director:	LL. B. (the Hebrew University), lawyer regarding business issues and Companies Laws. Director and member of the Audit Committee in Migdal Insurance Company Ltd., Director and Chairman of the Audit Committee in Migdal Capital Markets (1965) Ltd., External Director in Carmel Olefins Ltd., member of the Executive Committee of Jerusalem Fund and Shiluv Institute of Family and Couple Therapy, a member of the Board of Trustees of Beit Berl Academic College (registered association).	B.A. in Economics and Statistics, M.A. in Economics, (the Hebrew University). External Director, Chairman of the Committee for the Examination of Financial Statements, Member of the Seniors Compensation Committee, of the Audit Committee, of the Nostro Investments Committee and of the Committee for the Deployment Towards Solvency II in Migdal Insurance Company Ltd., a member of the Investment Committee in Old Mivtachim Construction Workers Pension Fund, Hadassah Fund and Egged Fund, Chairman of the Investments Committee of Lawyers' Fund Under Special Administration, Director in Matrix-IT Ltd., Karnit Fund for the Compensation of Road Accident Casualties, Sapiens International Corporation N.V, Arcana Ltd., DavidShield – Life Insurance Agency (2000) Ltd. and BlueSky Energy Ltd. and their subsidiaries.	MBA (the Hebrew University). External Director, Chairman of the Audit Committee, member of the Seniors Compensation Committee, of the Committee for the Examination of Financial Statements, of the Investments Committee, and of the Committee for the Deployment Towards Solvency II in Migdal Insurance Company Ltd., a Director in Tidhar Investments GB Ltd. Member of the Board of Trustees of the Branco Weiss Institute for the Development of Thinking. Consultant in Keren Shemesh Fund for the Encouragement of Young Entrepreneurs (company for the public's benefit).
Member of the family of another interested party in the Corporation	No	No	No

Regulation 26: Directors of the Corporation as of March 24th, 2015

Senior Officer's name:	**Jacob Danon**	**Dr. Gavriel Picker**
ID. No.:	969014	05049302
Date of birth:	11.1.1946	30.1.1950
Address for documents:	279, Ha'agam Street, Beit Zayit	32, Har Miron Street, Mevaseret Zion
Nationality:	Israeli	Israeli
Membership in Committees next to the BoD:	Chairman of the Seniors Compensation Committee, member of the Audit Committee and the Committee for the Examination of the Financial Statements	No
External Director:	Yes	No
Director with accounting and financial skills:	Yes	No
Employee of the Corporation, a subsidiary, a related company or an interested party:	No	No
Date of taking office as a Director:	5.10.2008	12.11.2013
Education and occupation during the past five years, and the Corporations in which he serves as a Director:	B.A. in Economics, MBA (the Hebrew University). External Director, Chairman of the Seniors Compensation Committee, member of the Audit Committee and the Committee for the Examination of Financial Statements in Migdal Insurance Company Ltd., Chairman of the Audit Committee in the National Library Ltd. (a company for the public's benefit) and Director in Malam-Team Ltd. and a Board member in the Open University and a consultant to companies.	Dentist, D.M.D (the Hebrew University and Hadassah Jerusalem). Consultant regarding health and dental care insurance – trusted physician. Director in Migdal Insurance Company Ltd., Eliahu Insurance Company Ltd, the Israel Philharmonic Orchestra Foundation, Infomed - Medical Websites Ltd., B-Well Quality of Life Solutions Ltd., the Association of the Israeli Center for International Migration and Absorption, ICC Israel, the Thirteenth Way Ltd. and Picker Fund.
Member of the family of another interested party in the Corporation	No	No

Regulation 26a: Senior Officers of the Corporation as of March 24th, 2015 [90]

Senior Officer's name:	Eran Czerninski	Amos Sapir
ID. No.:	57693236	3139300
Date of birth:	20.6.1962	4.7.1937
Position held in the Corporation:	CEO and Company CFO	No position held in the Corporation
Office held in a subsidiary or related company of the Corporation or in an interested party therein:	Head of the Finance and Actuary Division in Migdal Insurance Company Ltd., a subsidiary of the Corporation, CEO and CFO in Migdal Holdings and Management of Insurance Agencies Ltd., CFO and Director in Migdal Health and Quality of Life Ltd., in Migdal Eshkol Finansim Ltd., Migdal Credit Services Ltd. and Migdal Leasing Ltd., Director in Migdal Real Estate Holdings Ltd., Hamagen Properties Ltd., Pel-Hamagen House Ltd., Migdal Technologies Ltd., Migdal Insurance Capital Raising Ltd., Mivtach Simon Insurance Agencies Ltd. ,Migdal Management Services Ltd., and CFO in Migdal Insurance Capital Raising Ltd.	CoB and a member of the Committee for the Deployment Towards Solvency II in Migdal Insurance Company Ltd., a subsidiary of the Corporation, CoB of Migdal Insurance Capital Raising Ltd.
Is he/she an interested party of the Corporation or member of the family of another Senior Officer or interested party:	No	No
Education and business experience in the last five years:	B.A in Economics and Accounting (Tel Aviv University), CPA, a member in the professional committee of the Institute of Certified Public Accountants in Israel. Substitute of the Company CEO until March 24th, 2015.	B.A in Social Sciences - Economics and International Relations ng (the Hebrew University), MBA with specialization in Financing (Columbia University, New York), Ph.D. studies – specialization in Financing and Banking (Columbia University, New York). Director in corporations for the public's benefit. Owner of Sixace Holdings Ltd. and Sixace Management (1997) Ltd. In the past, he served as a Director in Israel Capital Studios Ltd. until January 2011, Chairman of the Board of Directors in Isal Amlat Investment (1993) Ltd. until August 2012, in N. Feldman and Sons Ltd. until March 2013, Independent Director in Bank Leumi Le-Israel Ltd. until October 2014, Director In Israel Infrastructures Management 1 Ltd. and in Israel Infrastructures Management 2 Ltd. until March 2014, Director in Log Plastic Products Ltd. until November 2014, as an External Director in Hot Communications Systems Ltd. and U. Dori Ltd. until January 2015.
Date of taking office:	CEO – 24.3.2015; CFO – 1.4.2009	10.12.2014 (office in Migdal Insurance)

[90] Since 2010 the Group classifies managers in the Company and in the Group's institutional entities with the title "Assistant to CEO" and who report directly to the CEO as "Senior Officers" pursuant to the Companies Law. Also, the classification includes managers who fulfill roles that as per their content and essence, including regarding institutional entities in consolidated companies as per the legislative arrangement that applies to them, roles that require subordination to the CEO or regarding which there are regulatory provisions testifying that they hold a position who, from the material aspect, are "Senior Officers". On the other hand, managers with the title "Assistant to the CEO" but who do not actually report to the CEO, and whose position does not match the title in its content and essence, are no longer perceived as "Senior Officers" by the Company pursuant to the Companies Law, in light of the examination of the content and essence attached to the types of positions in which these managers serve. Such classification does not affect managers included under "Executive Senior Officers of the Corporation", as detailed in this Regulation.

Regulation 26a: Senior Officers of the Corporation as of March 24th, 2015 [90]

Senior Officer's name:	**Ofer Eliahu**	**Gil Yaniv**
ID. No.:	55444699	58451170
Date of birth:	28.8.1958	16.11.1963
Position held in the Corporation:	No position held in the Corporation	No position held in the Corporation
Office held in a subsidiary or related company of the Corporation or in an interested party therein:	CEO and the Head of Customers, Service and Distribution Channels Division of Migdal Insurance Company Ltd., a subsidiary of the Corporation, CoB of Sagi Yogev Insurance Agencies (1988) Ltd., Migdal Health and Quality of Life Ltd., Migdal Makefet Pension and Provident Funds Ltd., Yozma Pension Fund for Self-Employeds Ltd., Migdal Real Estate Holdings Ltd., Hamagen Properties Ltd. and Pel-Hamagen House Ltd. Director and CEO in Migdal Insurance Capital Raising Ltd. Director in Migdal Claims Management Ltd., in Migdal Holdings and Management of Insurance Agencies Ltd., in Ihud Insurance Agencies Net Ltd., in Mivtach Simon Insurance Agencies Ltd., in B-Diyuk Pension Arrangements Operation Insurance Agency (2000) Ltd., in Shaham Weinstein (Netanya) Insurance Agencies Ltd. and in Shaham Insurance Agencies (1977) Ltd.	Head of LTS, Health and Quality of Life Businesses Division and Head of the Strategy Discipline in Migdal Insurance Company Ltd., a subsidiary of the Corporation, CEO of Migdal Health and Quality of Life Ltd., CoB of Migdal Technologies Ltd, Migdal Management Services Ltd., Pilat – Hi Capital Ltd., Infomed Medical Sites Ltd., B-Well Quality of Life Solutions Ltd., 50 Insurance Agency Ltd., 50 Plus Ltd., and Director in Migdal Holdings and Management of Insurance Agencies Ltd., Migdal Claims Management Ltd. and Talent HR Systems Ltd.
Is he/she an interested party of the Corporation or member of the family of another Senior Officer or interested party:	Yes, the son of Mr. Shlomo Eliahu, the Corporation's CoB, and the brother of Mr. Israel Eliahu, a Director in the Corporation.	No
Education and business experience in the last five years:	Specialization in General Insurance Studies in the Insurance College, 2-years. Director in Eliahu Insurance Company Ltd. and subsidiaries, in Shlomo Eliahu Holdings Ltd. and subsidiaries, in Gan Ha'ir Project Company Ltd. and subsidiaries, CoB in Migdal Makefet Pension and Provident Funds Ltd., in the Research Fund regarding Insurance next to the Insurance Companies Association, registered association, and Chairman of the Insurance Companies Association in Israel. He served as a Director in the Corporation until October 7th, 2013, he served as the CEO of Eliahu Insurance Company Ltd. until December 31st, 2013, as the Manager of General Insurance and Reinsurance Businesses Division in Migdal Insurance until July 14th, 2013, and since July 15th, 2013 he serves as Head of Customers, Service and Distribution Channels Division, in addition to his office as the CEO.	B.A in Economics (Haifa University), MBA (Tel Aviv University). Director in the Clearing House Center of Insurance Companies Ltd. He served as the Head of Headquarters and Cross-Organization Resources Division in Migdal Insurance Company Ltd. until May 31st, 2010.
Date of taking office:	11.2.2014 (office as CEO in Migdal Insurance; 15.7.2013 (office in the Customers Division in Migdal Insurance)	1.1.2013 (office in Migdal Insurance as the Head of the LTS, Health and Quality of Life Division): 24.2.2014 (office in Migdal Insurance as the Head of Strategy Discipline)

Regulation 26a: Senior Officers of the Corporation as of March 24^{th}, 2015 [90]

Senior Officer's name:	Shay Basson	Yossi Peretz	Ilana Bar
ID. No.:	22091581	012305207	22190839
Date of birth:	5.10.1965	6.11.1960	7.11.1965
Position held in the Corporation:	No position held in the Corporation	No position held in the Corporation	Company legal counsel
Office held in a subsidiary or related company of the Corporation or in an interested party therein:	Head of the Technology and Resources Division, in charge of information security, Manager of IT and Business Continuity in Migdal Insurance Ltd., a subsidiary of the Corporation and in Migdal Makefet and Yozma, CEO of Migdal Technologies Ltd., a subsidiary of Migdal Insurance and Director in Mivtach Simon Insurance Agencies Ltd. and in B-Diyuk Pension Arrangements Operation Insurance Agency (2000) Ltd.	Head of the General Insurance (Headquarters, Marketing and Sales) Division in Migdal Insurance Company, Ltd., a subsidiary of the Corporation.	Legal Counsel of Migdal Insurance Company Ltd., a subsidiary of the Corporation, and of Migdal Makefet and other companies in Migdal Insurance Group.
Is he/she an interested party of the Corporation or member of the family of another senior officer or interested party:	No	No	No
Education and business experience in the last five years:	B.A in Economics and Computer Sciences (Tel Aviv University), MBA (Tel Aviv University), M.A in Social Sciences (Haifa University), National Security (Haifa University). He served as Senior Assistant and Director in subsidiaries of Malam Systems until April 2010.	BA in Business Administration (College of Management), studies Electrical Engineering for 4 academic years (HIT). He served as general insurance businesses marketing manager in Migdal Insurance Ltd. until June 30^{th}, 2014. Previously, he served as general insurance businesses marketing manager in Eliahu Insurance Company Ltd. until December 31^{st}, 2012.	LL. B (Bar-Ilan University) and LL.M (Harvard University, U.S.A.). A lawyer
Date of taking office:	1.5.2010 (office in Migdal Insurance)	1.7.2013 (office in Migdal Insurance)	10.7.2001

Regulation 26a: Senior Officers of the Corporation as of March 24th, 2015 [90]

Senior Officer's name:	**Tali Cassif**	**Michal Leshem**	**Bezalel Zucker**
ID. No.:	54677836	27862721	50671627
Date of birth:	13.2.1957	30.7.1970	24.4.1951
Position held in the Corporation:	Company secretary	Company Internal Auditor	No position held in the Corporation
Office held in a subsidiary or related company of the Corporation or in an interested party therein:	Company secretary of Migdal Insurance Company Ltd., a subsidiary of the Corporation, of Migdal Health and Quality of Life Ltd., and other companies in Migdal Insurance Group.	Internal Auditor of Migdal Insurance Company Ltd, a subsidiary of the Corporation, and of Migdal Insurance Capital Raising Ltd.	CEO of Migdal Makefet Pension and Provident Funds Ltd. and Yozma Pension Fund for Self-Employed Ltd., subsidiaries of Migdal Insurance Company Ltd, a subsidiary of the Corporation. Director in Migdal Technologies Ltd.
Is he/she an interested party of the Corporation or member of the family of another senior officer or interested party:	No	No	No
Education and business experience in the last five years:	LL.B (Tel Aviv University). A lawyer.	MBA (the College of Management), CPA (the College of Management). She serves as an External Director in Matrix IT Ltd. She served as the Company's and Migdal Insurance's Head of SOX 404, Group Enforcement, Strategy, Business Development and Control Discipline until January 31st, 2014.	CLU (Insurance College), Life Assurance Studies (Insurance College).
Date of taking office:	18.3.1991	1.2.2014	CEO of Migdal Makefet Pension and Provident Funds Ltd. – 9.2.2009. CEO of Yozma Pension Fund for Self-Employed Ltd. – 1.12.2006

Regulation 26a: Senior Officers of the Corporation as of March 24^{th}, 2015 [90]

Senior Officer's name:	**Yossi Ben Baruch**	**Assaf Shoham**	**Amos Rokach**
ID. No.:	58890138	013306832	58456906
Date of birth:	25.11.1970	28.7.1969	23.1.1964
Position held in the Corporation:	No position held in the Corporation	No position held in the Corporation	No position held in the Corporation
Office held in a subsidiary or related company of the Corporation or in an interested party therein:	CEO of Migdal Capital Markets (1965) Ltd. a subsidiary of the Corporation, CoB of Migdal Stock Exchange Services Ltd., Director in Migdal Investment Portfolio Management (1998) Ltd., in Dragon Hedge Funds Management Ltd., in Migdal Capital Markets (Management Services) Ltd., in MGTF Hedge Funds Management Ltd., in MGTF Investment Management Ltd., in MRM - Investment Management Ltd. and in MRM – Migdal Risk Management Ltd.	Manager of the Investments Division in Migdal Insurance Company Ltd., a subsidiary of the Corporation, Director in Migdal Real Estate Holdings Ltd., in Hamagen Properties Ltd., in Pel-Hamagen House Ltd., in Migdal Eshkol Finansim Ltd., in Migdal Credit Services Ltd., in Migdal Leasing Ltd. and in Ashmoret Tichona Ltd.	CEO of Mivtach Simon Insurance Agencies Ltd., a sub-subsidiary of Migdal Insurance Company Ltd., Director in Amir Aloni Life Assurance Agency (1994) Ltd., Yevulim Financial and Business Consultants Ltd. and Eli Erlich Insurance Services (1999) Ltd.
Is he/she an interested party of the Corporation or member of the family of another senior officer or interested party:	No	No	No
Education and business experience in the last five years:	LL.B and BA in Accounting (Tel Aviv University), MBA – specialization in finances (Tel Aviv University). He served as a Director in Migdal Capital Markets (1965) Ltd., as substitute to the CEO, controller, legal counsel and the Investment Department Manager in Eliahu Insurance Company Ltd. until June 30^{th}, 2014.	B.A in Economics and Political Science (Tel Aviv University), MBA (Tel Aviv University). He served as the provident and educational manager in Migdal Makefet Pension and Provident Funds Ltd, a sub-subsidiary of the Corporation, until March 30^{th}, 2014, and previously, he served as the Investments Department Manager in Eliahu Insurance Company Ltd. until January 31^{st}, 2013.	B.A in Economics (the Hebrew University). He served as the Agencies District Manager in Migdal Insurance Company Ltd. until December 31^{st}, 2012.
Date of taking office:	1.7.2014 (office in Migdal Capital Markets)	30.3.2014 (office in Migdal Insurance)	1.1.2013 (office in Mivtach Simon))

Regulation 26a: Senior Officers of the Corporation as of March 24th, 2015 [90]

Senior Officer's name:	Itzhak Ben Menachem	Leybush Ulman	Asaf Ashkenazy
ID. No.:	23643836	16020752	38290698
Date of birth:	20.4.1968	27.2.1955	18.1.1976
Position held in the Corporation:	Company Risk Manager	No position held in the Corporation	Enforcement Manager in the Company
Office held in a subsidiary or related company of the Corporation or in an interested party therein:	Risk Manager in Migdal Insurance Company Ltd., a subsidiary of the Corporation, and of additional companies in Migdal Insurance Group.	Chief actuary and appointed life assurance actuary in Migdal Insurance Company Ltd., a subsidiary of the Corporation.	Headquarters Manager, Enforcement Manager and Service Manager in Migdal Insurance Ltd., a subsidiary of the Corporation, and in Service Manager in Migdal Makefet and Yozma.
Is he/she an interested party of the Corporation or member of the family of another senior officer or interested party:	No	No	No
Education and business experience in the last five years:	B.A in Economics and Statistics (the Hebrew University), M.A in Economics and MBA (the Hebrew University), he served as Research VP in Migdal Insurance until October 1st, 2013.	Ph. D. in Actuarial Studies (University of Basle, Switzerland), M.A in Actuarial Studies (University of Basle, Switzerland), B.A in Mathematics and Statistics and Operations Research (University of Basle, Switzerland).	B.A in Industrial Engineering (the Technion), MBA (Ben Gurion University) and LL.M (Bar Ilan University). He served as the Manager of Insurance Businesses and Distribution Headquarters in Migdal Insurance until February 24th, 2013, as the Manager of General Insurance Headquarters in Migdal Insurance until May 31st, 2013, and as Assistant to CEO and O&S Department, Regulation and Sox and Compliance Officer in Eliahu Insurance Company Ltd. until December 31st, 2012.
Date of taking office:	1.10.2013	1.12.2006 (office in Migdal Insurance)	27.5.2014

Regulation 26a: Senior Officers of the Corporation as of March 24th, 2015 [90]

Senior Officer's name:	Dr. Ra'anan Cohen	Sigal Grinhaus	Avraham Shamay
ID. No.:	048316954	058677709	024317463
Date of birth:	28.2.1941	5.4.1964	10.1.1969
Position held in the Corporation:	No position held in the Corporation	No position held in the Corporation	No position held in the Corporation
Office held in a subsidiary or related company of the Corporation or in an interested party therein:	CoB of Mivtach Simon Insurance Agencies Ltd., of Migdal Holdings and Management of Insurance Agencies Ltd., of B-Diyuk Pension Arrangements Operation Insurance Agency (2000) Ltd. Director in Shaham Insurance Agencies (1977) Ltd., in Amir Aloni Life Assurance Agency (1994) Ltd., in Ihud Insurance Agencies Ltd., in Eli Erlich Insurance Services (1999) Ltd., in Sagi Yogev Insurance Agencies (1988) Ltd., in Shaham Weinstein (Netanya) Insurance Agencies Ltd., in Makefet Financial Services – Insurance Agency (1998) Ltd. and in Peltours Insurance Agencies Ltd.	Head of the Reinsurance Division and the Business Array in Migdal Insurance Company Ltd., a subsidiary of the Corporation.	Head of the General Insurance Claims in Migdal Insurance Company Ltd., a subsidiary of the Corporation.
Is he/she an interested party of the Corporation or member of the family of another senior officer or interested party:	No	No	No
Education and business experience in the last five years:	PHD in History of the Middle East (Tel Aviv University), MA in History of the Middle Eastern (Tel Aviv University), BA in General History (Tel Aviv University). CoB of Sola Agricultural Products Export Ltd., External Director in Neto Melinda Commerce Ltd. and Director in Zerah Oil and Gas Explorations – Limited Partnership Ltd. Director and Member of the Audit Committee and Financial Statements Committee in Gulliver Energy Ltd. Chairman of the Audit Committee and a Member of the Investments Committee at Ami Government Employees Provident and Management Company Ltd. He served as CoB in the Bank for the Development of Industry in Israel Ltd. until December 2010, in the Israeli Wholesale Market Ltd. until December 2013, Director in Bank Otsar Ha-Hayal Ltd. until December 2013, in S. Shlomo Insurance Company Ltd. until December 2013, in Rafael Armament Development Authority Ltd. until August 2013, External Director in B. Gaon Holdings Ltd. until July 2013 and in Y.Z. Queenco Ltd. until December 2013.	LL.B (Hebrew University), attorney, MBA (Peres Academic Center). She served as the Manager of the Corporate Risks District and Reinsurance in Migdal Insurance Company Ltd. until June 30th, 2014.	LL. B (the College of Management), MBA (College of Management), a lawyer. He served as the Claims Section Manager in Eliahu Insurance Company Ltd. until January 31st, 2015.
Date of taking office:	27.5.2014 (office in Mivtach Simon)	1.7.2014 (office in Migdal Insurance)	1.2.2015 (office in Migdal Insurance)

Senior Officers whose office ended during the reported period and thereafter, until the publication date:

Name	ID. No.	Beginning of office	End of office
Osnat Manor-Zisman	23096233	1.4.2013	31.1.2014
Gideon Rozolio	030250567	1.7.2013	1.7.2014
Ronen Torem	58890138	13.12.2006	1.7.2014
Doron Sapir	56614688	1.6.2010	13.1.2013
Limor Dannesh	27392760	25.5.2010	30.3.2014
Omer Kreizel	24342032	25.5.2010	30.3.2014
Anath Levin	69420867	1.2.2014	31.10.2014

Regulation 26b: The signatories of the Corporation

The Corporation does not have independent signatories.

Regulation 27: The Auditors of the Corporation

Somekh Chaikin Accountants, 17, Ha'arba'a Street, Tel Aviv.

Kost, Forer Gabbay & Kasierer Accountants, 3, Aminadav Street, Tel Aviv.

Regulation 28: Amendments in Memorandum or in Articles of Association

None.

Regulation 29: Recommendations and Resolutions of the Board of Directors

(a) The recommendations of the Board of Directors to the General Meeting and their resolutions which do not require the approval of the General Meeting regarding:
(Regarding the BoD recommendations to the General Meeting, see details of the extraordinary General Meeting resolutions in (c) below):

1. Paying dividend (interim and final) and distribution of bonus shares: Yes.

18.3.2014
- To approve a dividend distribution to shareholders, in the amount of NIS 200 million based on the Company's Financial Statements as of December 31st, 2013. The X-day is May 5th, 2014. The distribution is from the surpluses accrued in the Company. The distribution date is May 19th, 2014. The resolution requires the approval of the Company's General Meeting

21.9.2014
- To approve the declaration of a dividend distribution of NIS 200 million to the Company's shareholders, based on the Company's Financial Statements as of June 30th, 2014. The X-day is October 13th, 2014. The distribution is from the surpluses accrued in the Company. The resolution requires the approval of the Company's General Meeting.

24.3.2015
- To approve a dividend distribution to shareholders, in the amount of NIS 200 million based on the Company's Financial Statements as of December 31st, 2014. The X-day is April 6th, 2014. The distribution is from the surpluses accrued in the Company. The distribution date is April 20th, 2015. The resolution requires the approval of the Company's General Meeting.

2. Changes in the Corporation's authorized or issued capital: Yes.

- In 2014 1,569,500 option deeds that were allotted pursuant to an option plan, whose principles were approved in 2009 (henceforth: "the options") were exercised to 80,415 Company shares, such that the Company's issued capital increased from 1,053,827,819 ordinary NIS 0.01 shares to 1,053,908,234 ordinary NIS 0.01 shares. See the Corporation's Immediate Report dated March 8th, 2015 (Reference No. 2015-01-046459), detailing the updated situation.
- On December 31st, 2014 the balance of non-exercised options expired since the plan ended. See Immediate Report dated December 31st, 2014 (Reference No. 2014-01-049135).

3. Changing the Corporation's memorandum or Articles of Association: None.

4. Redemption of shares: None.

5. Early redemption of bonds: None.

6. A transaction not according to the market conditions between the Corporation and an interested party therein: None. (See Note 38 to the Consolidated Financial Statements).

(b) Resolutions of the Extraordinary General Meeting regarding the issues detailed above that were made not pursuant to the BoD's recommendation: Yes.

13.4.2014 Not to approve the payment of a special grant in the amount of NIS 388,343 to the Mr. Yonel Cohen, the CEO of the Company and of Migdal Insurance Company Ltd. until December 31st, 2013.

(c) Resolutions of special General Meetings:

13.4.2014

- To approve the terms of employment of Mr. Ofer Eliahu, the CEO of Migdal Insurance Company Ltd. as of February 11th, 2014.
- To approve the terms of employment of Ms. Anath Levin, the CEO of the Company as of February 1st, 2014.
- Not to approve the payment of a special grant to Mr. Yonel Cohen, the CEO of the Company and of Migdal Insurance Company Ltd. until December 31st, 2013.
- To approve the co-option of Mr. Eyal Ben Chlouche for another 3-years office starting from June 10th, 2014, as an external Director in the Company pursuant to the provisions of Clause 245 to the Companies Law.
- To approve the distribution of a dividend of NIS 200 million, which, as of the date of the BoD resolution, constitute NIS 0.18 per share and 1897.843223% of the Company's issued and paid-up capital. The dividend will be paid to the Company shareholders who will be registered in the Company shareholders register by the end of the effective day (May 5th, 2014), which as per the TASE provisions, shall also be the X day. The payment will be made on May 19th, 2014.

17.9.2014

- To approve the co-option of Mr. Jacob Danon for another 3-years office starting from October 5th, 2014, as an External Director in the Company pursuant to the provisions of Clause 245 to the Companies Law.

27.10.2014

- To approve the change and update of the remuneration policy for Senior Officers in the Company for the years 2014-2016, pursuant to the Circular issued by the Commissioner of Capital Market, Insurance and Savings in the Ministry of Office dated April 10th, 2014.
- To approve an annual grant for the years 2014-2016 for Mr. Eli Eliahu, a relative of the controlling shareholder, who is employed in Migdal Insurance.
- To approve an annual grant for 2013 for Mr. Eli Eliahu, a relative of the controlling shareholder, who is employed in Migdal Insurance.

- To approve the distribution of a dividend of NIS 200 million, which, as of the date of the BoD resolution, constitute NIS 0.18 per share and 1897.6983% of the Company's issued and paid-up capital. The dividend will be paid to the Company shareholders who will be registered in the Company shareholders register by the end of the effective day (October 13th, 2014), which as per the TASE provisions, shall also be the X day. The payment will be made on October 27th, 2014.

18.2.2015

- To approve the appointment of Prof. Oded Sarig as a Director in the Company, effective as of January 27th, 2015.
- To approve the appointment of Prof. Oded Sarig as the Chairman of the Board of Directors of the Company.

Regulation 29a: The Corporation's Resolutions

1. Approval of activities as per clause 255 to the Companies Law: None.

2. Action as per clause 254 (a) to the Companies Law which was not approved: None.

3. Extraordinary transactions requiring special approvals as per clause 270 (1) to the Companies Law:

   - On May 27th, 2014 the Company BoD decided to approve an extraordinary transaction of Migdal Insurance Company Ltd. and Migdal Technologies Ltd., companies fully owned and controlled by the Company (henceforth jointly: "Migdal") with Matrix IT Ltd. (henceforth: "Matrix") in an agreement for extending HR and maintenance services in the area of technology and an agreement for the procurement, software licensing, and annual maintenance for said software, for them and for companies controlled by them. The annual financial scope for the HR and maintenance services is approx. NIS 11 million (including VAT), and the engagement in an agreement for procurement, software licensing, and annual maintenance for said software total about NIS 190 thousand (including VAT). Both engagements are during the ordinary course of business of Migdal Insurance, and at non-material amounts. The engagement regarding HR and maintenance services is also at market conditions and is not an extraordinary transaction. The transaction regarding the engagement for procurement, software licensing, and annual maintenance was also brought to the BoD for approval as an "extraordinary transaction", since Matrix, as of this date, is the exclusive representative of the foreign manufacturer. In light of the above, there were no other offers in order to allow the transaction's market conditions.

4. A release, insurance or obligation to indemnify Senior Officers effective on the Report's date:

   1) Letters of indemnification until 2006

   a. The Company gave letters of indemnification to Senior Officers of investee companies and other Corporations in which they serve in their capacity as Senior Officers in the consolidated company as well as to a few employees in the Group, according to which Migdal will indemnify them, in the scope, limits and circumstances detailed in the letters of indemnification, in respect of a financial liability that will be imposed on them, in connection with any actions carried out as Senior Officers of the said Corporations, or in respect of actions detailed in the letters of indemnification.

   b. The Company gave letters of exemption to Senior Officers of investee companies and other Corporations in which they serve in their capacity as Senior Officers in Migdal Insurance Company Ltd., a subsidiary of the Company (henceforth: "Migdal") and in subsidiaries of Migdal, according to which, the Company waived claims against Senior Officers, to the extent and under the circumstances and restrictions specified in the letters of waiver, in connection with any actions and/or omissions carried out as Senior Officers of the said Corporations.

   c. The Company gave letters of indemnification to Senior Officers of Migdal, of Migdal's subsidiaries and of investee companies, according to which it will indemnify them to the extent, under the circumstances and restrictions specified in the letters of indemnification, in respect of financial liabilities which may be imposed on them in connection with the following:

      (1) The prospectus of the Company from 1996.

      (2) Obligations of the Company and/or companies of the Migdal Group in respect of the Company being a company whose shares are held by the public and listed for trading on the Stock Exchange, only insofar as the obligation to indemnify will apply solely to liabilities resulting from activities carried out during a period of up to one year from the date of the prospectus.

d. The Company gave letters of exemption and a commitment to dismiss claims to Senior Officers of Corporations owned by Migdal Group, according to which, the Company waived all claims against such Senior Officers, to the extent and under the circumstances and restrictions specified in the letters of exemption, in connection with any actions and/or omissions carried out as Senior Officers of any of the Corporations, including an action related with any of the following areas:

(1) The prospectus of the Company from 1996.

(2) Obligations of the Corporation in respect of the Company being a company whose shares are held by the public and listed for trading on the Stock Exchange.

Furthermore, the Company undertook, under the circumstances and restrictions specified in the letters of exemption and commitment, to dismiss any claim it filed against the Corporations or any of them, if resulting from such a claim, Senior Officers will be sued by any of the Corporations in a claim which will not be dismissed in limine.

2) Letters of exemption and indemnification given in 2006

e. In November 2006, the extraordinary General Meeting of the Company resolved to release Senior Officers of the Company from responsibility and undertook to indemnify them.

Subsequently, the Company informed the Senior Officers of the following:

Undertaking for exemption – the Company exempts the Senior Officers in the Company of any liability towards it, as much as this is allowed by the law, for any damage that was incurred and/or will be incurred, if it was incurred and/or will be incurred due to a breach of the duty of care of the Senior Officers in acting in good faith by virtue of being Senior Officers in the Company and/or in another company in Migdal Group and/or as a representative of the Company and as per its request in another corporation in which the Company holds rights , directly or indirectly, or is an interested party (henceforth: “the other company”) as detailed in the exemption and indemnification letter given to the Senior Officers.

Undertaking for indemnification - the Company undertakes in advance to indemnify the Senior Officers in the Company, including Senior Officers in the other company as per the wording of the exemption and indemnification letter given to the Senior Officers. As per the indemnification letter and subject to the provisions of the law, the Company will undertake to indemnify the Senior Officers for any liability or expense as detailed in the indemnification letter that will be imposed on them or will be incurred due to activities they performed (including activities prior to the date of the indemnification warrant) and/or that will be performed by virtue of them being Senior Officers in the Company and/or other company, as long as the activities are related, directly or indirectly, to one or more of the types of events detailed in the addendum to the indemnification letter, and as long as the maximum total aggregate amount of indemnification in respect of Clause 2.1.1 to the indemnification letter that will be paid by the Company to all the Senior Officers in aggregate as per all the indemnification letters that were issued and/or will be issued by the Company shall not exceed an aggregate amount that equals 25% of the Company’s equity (consolidated) as per the Company’s last annual consolidated Financial Statements before actually granting the indemnification, for each of the Senior Officers and jointly, for a single event and in aggregate, in addition to the amounts that will be received from the insurance company, if they are received, within the insurance acquired by the Company.

3) Limiting the exemption from liability and undertaking for indemnification given in 2011

In November 2011 the Company's Audit Committee decided to limit by November 30th, 2020 the period of events in which the existing exemption and indemnification arrangements in the Company shall apply, provided they are not replaced by other arrangements, as well the letters of exemption or indemnifications that will be given from time to time by the Company as per the existing exemption and indemnification arrangements in the Company, regarding Senior Officers in the Company that the controlling shareholder in the Company may be perceived as having a personal interest in giving the exemption and indemnification letters to them, serving or who would serve from time to time, see the Company's Immediate Report issued on November 29th, 2011 (Reference No. 2011-01-344328).

4) Updated letters of indemnification given in 2012

On February 7th, 2012, the Company's General Meeting approved:

- Granting updated letters of indemnification to Directors serving in the Company upon the approval date, and as appointed from time to time. The update of existing letters of indemnification includes, *inter alia*, reference to the following main issues:

    a. An undertaking to indemnify in advance in respect of a financial liability imposed on the Senior Officer for paying to victims of a violation in an administrative procedure, as well as expenses incurred by a Senior Officer in relation to an administrative procedure in his/her respect, including reasonable litigation fees, including legal fees, all subject to the coming into effect of the Administrative Enforcement Law and the Amendment to the Securities Law – 1968 ("Securities Law"), and as per the Increase in Enforcement in the Capital Market Law (Legislative Amendments) - 2011.

    b. The maximum indemnification amount that will be paid to Senior Officers in the entire Migdal Group, within all letters of indemnification that were issued and will be issued from time to time, has not changed, however it was amended not to exceed the amount that equals 25% of the Company's equity (consolidated) as per the last Financial Statements published by the Company before the actual date of indemnification (instead of setting forth that it should be as per the last annual reports published by the Company before the actual date of indemnification).

    c. There was a clarification that the undertaking for indemnification also applies to other positions held by the owner of the letter of indemnification in Migdal Group Corporations and/or in another Corporation in which he/she serves on behalf of Migdal Group.

    d. There was a clarification that the undertaking for indemnification applies to events that occurred in Israel as well as events that occurred outside of Israel.

    Furthermore, in light of the developments in the business environment in which the Company operates and in the regulation that applies to it, the list of events in respect of which the Company may give an undertaking for indemnification was expanded, such that it includes, *inter alia*, reference to the following events: risk management, investments policy, SOX procedures and controls, the preparation of financial reports and other reports and the management of customers' monies.

    The provisions of the updated letters of indemnification shall apply, subject to the provisions of the Law, also to actions made prior to their amendment.

- To grant updated letters of indemnification for Senior Officers in the Company, in whose indemnification the controlling shareholder may have personal interest, as set forth below, as appointed from time to time ("certain Senior Officers"). The updated letters of indemnification that will be granted to the certain Senior Officers are identical to the letters of indemnification that will be granted to Directors, whose version is attached.

The provisions of the updated letters of indemnification that will be granted to the certain Senior Officers shall apply, subject to the provisions of the Law, also to actions made prior to their amendment.

- It should be noted that the granting of letters of indemnification to senior Officers serving in the Company, and they are the controlling shareholder and/or other Senior Officers in which the controlling shareholder has a personal interest (Shlomo Eliahu and his relatives serving in the Company as Senior Officers, Ofer Eliahu and Israel Eliahu) have not been brought for approval, and therefore as of the date of the Report, they do not yet have a letter of indemnification from the Company.

For additional information regarding these letters of indemnification, see the Company's Immediate Report dated December 28th, 2011, Reference No. 2011-01-378141, Immediate Report issued on February 2nd, 2012, Reference No. 2012-01-032109, and Immediate Report dated February 7th, 2012, Reference No. 2012-01-036555.

5) Senior Officers insurance

a. On August 13th, 2013 the Company BoD, as per the provisions of the Companies Regulations (Reliefs with interested parties) – 2000, decided to approve the renewal of engagement in a D & O insurance policy in the Group for Senior Officers in the Group, including for the controlling shareholder and his relatives serving as Senior Officers in the Company for a period of 17 months starting from August 1st, 2013 and until December 31st, 2014 with a liability limit of USD 100 million per event and for the period, against an annual premium of USD 731,413, subject to the approval of the Company's remuneration policy. See Immediate Report dated August 13th, 2013 (Reference No. 2013-01-116520).

b. On January 27th, 2015, the Company's BoD, after receiving the approval of the Company's Seniors Compensation Committee on January 25th, 2015 decided to extend the expiring policy (detailed in Clause a. above) for a period of 30 days until December 31st, 2015 against a pro-rata premium for the period. See Immediate Report dated January 27th, 2015 (Reference No. 2015-01-020140).

c. On January 27th, 2015, the Company's BoD, pursuant to the provisions of the Companies Regulations (Reliefs with Interested Parties) – 2000, after receiving the approval of the Company's Seniors Compensation Committee on January 25th, 2015, decided to approve the renewal of the Group's engagement in D & O insurance policy for the Senior Officers in the Group, including for the controlling shareholder and his relatives serving as Senior Officers in the Company, for a period of seventeen (17) months, starting on February 1st, 2015 and until June 30th, 2016, with a liability limit of USD 100 million per event, and in total for the period, against an annual premium that would not exceed USD 270,000. See Immediate Report dated January 27th, 2015 (Reference No. 2015-01-020140).

The engagement is pursuant to the Company's remuneration policy, which was approved by the general Meeting on October 27th, 2014. See Immediate Report dated October 27th, 2014 (Reference No. 2014-01-181653).

Migdal Insurance and Financial Holdings Ltd.

The names and functions of the signatories

Oded Sarig **Chairman of the Board of Directors**	**Eran Czerninski** **CEO**

Date: 24.3.2015

Corporate governance questionnaire [102]

It should be clarified that the answers in this questionnaire do not include a reference to subsidiaries, unless specified otherwise.

102 Published within a legislation proposal for the improvement of Financial Statements, dated March 16th, 2014.

BOD INDEPENDENCE

		Correct	Incorrect
1.	In every reported year, two External Directors or more served in the Corporation. *In this question, you may answer "correct" if the period in which two external Directors did not serve, does not exceed 90 days, as set forth in Clause 363a(b) (10) to the Companies Law, however, in any answer (Correct / Incorrect), the period (in number of days) in which two External Directors or more did not serve in the Corporation (including also an office period that was approved a-posteriori, with a differentiation between the various External Directors):* Director A: Yigal Bar Yossef Director B: Eyal Ben Chlouche Director C: Jacob Danon The number of External Directors serving in the Corporation as of the date of this questionnaire: 3	✓	
2.	The rate[103] of independent External Directors[104] serving in the Corporation as of the date of this questionnaire[105]: 38%		
	The rate of independent Directors set forth in the Articles of Association[106] of the Corporation[107] ✓ Irrelevant (there is no provision in the Articles of Association)	✓	

103 In this questionnaire, "rate" – a certain number out of the entire number.
104 Including "External Directors" as per their definition in the Companies Law.
105 In the Company there is no cap for independent Directors who are not External Directors.
106 In this question, merely serving as a Director in a held Corporation shall not be perceived as "reporting" as to this question. On the other hand, the service of a Director in a corporation that serves as a Senior Officer (except Director) and/or an employee in a corporation held/controlled by the Corporation shall be perceived as "reporting" for this question.
107 Bond companies are not required to answer this Clause.

BOD INDEPENDENCE				
			Correct	**Incorrect**
3.		In the reported year there was an examination with External Directors (and independent Directors), and we found that in the reported year they complied with the provisions of Clause 240 (b) and (f) to the Companies Law regarding the lack of affiliation of External Directors (and independent Directors) serving in the Corporation, and that they comply with the pre-requisites for the office of an External Director (or independent Director).	✓	
4.		All the Directors who served in the Corporation during the reported year <u>do not</u> report[108] to the CEO, directly or indirectly (except a Director representing the employees, if there is an employees representation in the Corporation). If your answer is "Incorrect" (i.e., the Director reports to the CEO, as set forth above) – the number of Directors who <u>do not</u> comply with such restriction should be set forth: ___________	✓	
5.		All the Directors who informed that they have a personal interest in the approval of an issue on the agenda did not attend the deliberation and did not participate in such vote (except a deliberation and/or vote in circumstances as per Clause 278 (b) to the Companies Law). If your answer is "Incorrect" a. Was it in order to present a certain issue by him/her as per the provisions of Clause 278 (a) to the Companies Law, final section ____ Yes _____ No b. The rate of meetings in which such Directors attended the deliberation and/or participated in the vote, except under circumstances set forth in paragraph a.	✓	

[108] In this question, merely serving as a Director in a held Corporation shall not be perceived as "reporting" as to this question. On the other hand, the service of a Director in a corporation that serves as a Senior Officer (except Director) and/or an employee in a corporation held/controlled by the Corporation shall be perceived as "reporting" for this question.

BOD INDEPENDENCE				
			Correct	Incorrect
6.		The controlling shareholder (including a relative and / or anyone on his/her behalf), who is not a Director or any other executive Senior Officer in the Corporation, did not attend the BoD meetings that convened in the reported year. If your answer is "Incorrect" (i.e., the controlling shareholder and / or his/her relative and / or anyone on his / her behalf who is not a BoD member and / or executive Senior Officer in the Corporation attended the BoD meetings) – the following details as to the attendance of the additional person in the BoD meetings as set forth above should be specified: Identity:________________ Position: in the Corporation (if any) __________ Details of the affiliation to the controlling shareholder (if the attending person is not the controlling shareholder himself / herself):_____________ Was it for the presentation of a certain topic? ☐ Yes ☐ No *(Please mark x in the relevant square)* Attendance rate[109] in BoD meetings that were held in the reported year:._____ In order to present a specific issue:___________ Other attendance:________________ ☐ Irrelevant (there is no controlling shareholder in the Corporation)	✓	

[109] Please separate between the controlling shareholder and his/her relative and/or anyone on his/her behalf.

DIRECTORS' ELIGIBILITY AND SKILLS

				Correct	Incorrect
7.		In the Corporation's Articles of Association there is <u>no</u> provision that restricts the possibility to terminate immediately the service of all Directors in the Corporation who are not External Directors *(for this matter – a decision by simple majority **is not** perceived as a restriction).* [110] i If your answer is "Incorrect" (i.e., there is such restriction), please note –		✓	
		a.	The period for a Director's office set forth in the Articles of Association: ________		
		b.	The required majority for the termination of a Director's office set forth in the Articles of Association: ________		
		c.	The quorum for the termination of a Director's office set forth in the Articles of Association of the General Meeting: _________		
		d.	The required majority for amending these provisions in the Articles of Association:____________		

[110] Bond companies are not required to answer this Clause.

DIRECTORS' ELIGIBILITY AND SKILLS					
				Correct	**Incorrect**
8.		The Corporation has a training program for new Directors, regarding corporation businesses and the Law that applies to the Corporation and the Directors, as well as a continuation program for the training of current Directors, that matches, *inter alia*, the role that the Director fulfills in the Corporation. If your answer is "Correct" – please note whether the program was implemented in the reported year: ✓ Yes ☐ No		✓[111]	
9.		a.	In the Corporation, there is a minimal number of Directors in the BoD, who must have an accounting and financial expertise. If your answer is "Correct" – please note the minimal number set forth: 3	✓	

[111] Pursuant to the Procedure regarding the BoD Work, every new Director has meetings with the Executives and senior position holders set forth in the Procedure, in order to get acquainted with the Company, the regulatory environment, the corporate governance array in it, etc. Also, pursuant to the Bod Procedure, there should be training for Directors once every two years. On September 14th, 2014 a raining regarding derivatives was conducted. In addition, from time to time, the Company conducts trainings for Senior Officers and / or Directors regarding topics and contents that the Company deems should be examined thoroughly, or requested by the Directors from time to time.

DIRECTORS' ELIGIBILITY AND SKILLS

				Correct	Incorrect
		b.	The number of Directors who served in the Corporation during the reported year: With accounting and financial skills[112]: 5 With professional skills [106]: 2 If there were changes in the number of such directors in the reported year, please provide the lowest number (except during a period of 60 days after the change) of Directors of any kind who served in the reported year.		
10.		a.	In the entire reported year, the BoD slate included members of both genders. If you answered "Incorrect" – please note the period (in days), in which the above was not complied with: ___________ *Regarding this question, you may answer "Correct" if the period in which Directors of both genders did not serve does not exceed 60 days, however, in any answer (Correct/Incorrect) the period (in days) in which they did not serve in the Corporation should be specified:* _____________.	✓	
		c.	The number of Directors of each gender serving in the Corporation's BoD as of the publication of this questionnaire: Men: 7; Women: 1		

[112] Pursuant to the BoD estimate, as per the provisions of the Companies Regulations (Conditions and Criteria regarding Directors with Accounting and Financial expertise and Directors with Professional expertise) – 2005.

BOD MEETINGS (AND GENERAL MEETINGS)

				Correct	Incorrect
11.		a.	The number of BoD meetings held during each quarter in the reported year: 2014 First quarter:: 3 (23.1.2014, 24.2.2014, 23.1.204) Second quarter: 3 (27.5.2014, 16.6.2014, 30.6.2014) Third quarter: 5 (23.7.2014, 30.7.2014, 7.8.2014, 26.8.2014, 21.9.2014) Fourth quarter: 4 (28.10.2014, 17.11.2014, 25.11.2014, 29.12.2014)		____
		b.	Next to the name of Directors who served in the Corporation during the reported year, you may see the participation rate in BoD meetings (in this paragraph – including the meetings of Committees next to the BoD in which they are members, and as set forth below) that were held during the reported year (in reference to their tenure)*: *(Please add lines according to the number of Directors)*	____	____

* Mr. Oded Sarig was appointed as Chairman of the Board of Directors on February 18th, 2015.

BOD MEETINGS (AND GENERAL MEETINGS)

								Correct	Incorrect
			Director name	Participation rate in BoD meetings (15 meetings)	Participation rate in Audit Committee meetings (for Directors who are members in this Committee)[113] (18 meetings)	Participation rate in the meetings of the Committee for the examination of Financial Statements (for Directors who are members in this Committee)[113] (6 meetings)	Participation rate in the meetings of the Compensation Committee Compensation (16 meetings)		
			Ronit Abramzon	100%	89%		82%		
			Yigal Bar Yossef	74%	89%	84%	94%		
			Eyal Ben Chlouche	100%	100%	100%	95%		
			Jacob Danon	94%	95%	100%	100%		
			Shlomo Eliahu	94%					
			Israel Eliahu	67%					
			Gavriel Picker	100%					

[113] For Directors who are members in these Committees.

BOD MEETINGS (AND GENERAL MEETINGS)

Director name	Participation rate in BoD meetings (19 meetings)	Participation rate in Audit Committee meetings (for Directors who are members in this Committee) (18 meetings)	Participation rate in the meetings of the Financial Statements Committee (for Directors who are members in this Committee) (6 meetings)	Participation rate in the meetings of the Compensation Committee (21 meetings)	Participation rate in the meetings of Nostro Investments Committee (10 meetings)	Participation rate in the meetings of Computerization Strategy Committee (4 meetings)	Participation rate in the meetings of the Committee for the Accompaniment of the general insurance portfolio transaction (21 meetings)	Correct	Incorrect	Normative framework
Moshe Habbah (resigned on 12.11.2013)	93%									
Herzl Shalem (resigned on 12.11.2013)	100%		60%							
Dan Suesskind (resigned on 12.11.2013)	53%		80%							

BOD MEETINGS (AND GENERAL MEETINGS)				
			Correct	**Incorrect**
12.		In the reported year, the BoD held at least one meeting regarding the management of Corporation businesses by the CEO and Senior Officers reporting to him, without their presence, after they were given the opportunity to express their opinion.		×

SEPARATION BETWEEN THE OFFICES OF CEO AND COB				
			Correct	**Incorrect**
13.		In the entire reported year, a CoB served in the Corporation. *Regarding this question, you may answer "Correct" if the period in which a CoB did not serve in the Corporation does not exceed 60 days as set forth in Clause 363 a (2) to the Companies Law, however, in any answer (Correct/Incorrect) the period (in days) in which no CoB served in the Corporation should be specified:*________	✓	
14.		In the entire reported year, a CEO served in the Corporation. *Regarding this question, you may answer "Correct" if the period in which a CEO did not serve in the Corporation does not exceed 90 days as set forth in Clause 363 a (6) to the Companies Law, however, in any answer (Correct/Incorrect) the period (in days) in which no CEO served in the Corporation should be specified:*________ Mr. Eran Czerninski served as substitute to the Company's CEO from January 1st, 2014 until January 31st, 2014. Ms. Anath Levin served as the Company's CEO from February 1st, 2014 until October 31st, 2014. Mr. Eran Czerninski served as substitute to the Company's CEO from November 1st, 2014 until March 24th, 2015. As of March 24th, 2015, the date upon which the FS for December 31st, 2014 were approved, Mr. Eran Czerninski serves as the Company's CEO.	✓	
15.		In a Corporation in which the CoB also serves as the Corporation CEO and / or exercises his/her powers, the duplicity was approved pursuant to the provisions of Clause 121 (c) to the Companies Law [114]. ✓ Irrelevant (if there is no such duplicity in the Corporation)	✓	

114 In bond companies approval pursuant to Clause 121 (d) to the Companies Law.

SEPARATION BETWEEN THE OFFICES OF CEO AND COB					
				Correct	**Incorrect**
16.		The CEO <u>is not</u> a relative of the CoB[114]. If you answered "Incorrect" (i.e., the CEO is a relative of the CoB)		✓	
		a.	State the relation between the parties:_________	_____	_____
		b.	The office was approved pursuant to Clause 121 (c) to the Companies Law[115]: ☐ Yes ☐ No *(Please mark x in the relevant square)*	_____	_____
17.		A controlling shareholder or a relative thereof <u>does not</u> serve as the CEO or as an Executive Senior Officer in the Corporation, except as a Director. Mr. Ofer Eliahu, the son of Mr. Shlomo Eliahu, the Company's controlling shareholder, serves as the CEO of Migdal Insurance ☐ Irrelevant (in the Corporation there is no controlling shareholder).			x

[114] Mr. Ofer Eliahu, who serves as the CEO of the subsidiary Migdal Insurance is the son of Mr. Shlomo Eliahu who served as the CoB of the Corporation until February 18th, 2015.
[115] In bond companies – approval pursuant to Clause 121 (d) to the Companies Law.

AUDIT COMMITTEE				
			Correct	**Incorrect**
18.		In the Audit Committee, the following <u>did not</u> serve in the reported year -	______	______
	a.	The controlling shareholder or a relative thereof. ☐ Irrelevant (in the Corporation there is no controlling shareholder).	✓	
	b.	CoB.	✓	
	c.	A Director employed by the Corporation or by the controlling shareholder in the Corporation or by a corporation controlled by him/her.	✓	
	d.	A Director providing services on a regular basis to the Corporation or to the controlling shareholder or a Corporation controlled by him/her.	✓	
	e.	A Director whose main livelihood relies on the controlling shareholder. ☐ Irrelevant (in the Corporation there is no controlling shareholder).	✓	
19.		Whoever is not entitled to be a member of the Audit Committee, including the controlling shareholder or a relative thereof, did not attend the Audit Committee meetings in the reported year, except pursuant to the provisions of Clause 115 (e) to the Companies Law.	✓	

AUDIT COMMITTEE				
			Correct	**Incorrect**
20.		The quorum for the deliberation and decision-making in all Audit Committee meetings that were held in the reported year was the majority of Committee members, and the majority of attendants were independent Directors and at least one of them was an External Director.		×
21.		In the reported year the Audit Committee held at least one meeting with the attendance of the Internal Auditor and the Auditing CPA, as the case may be, and without the attendance of senior Officers in the Corporation who are not members of the Committee, regarding flaws in the Corporation's business management.		×
22.		In all the meetings of the Audit Committee in which whoever is not entitled to be a Committee member attended, this was with the approval of the Chairman of the Committee and / or as per the Committee's request (regarding the legal counselor and the Corporation secretariat who is not the controlling shareholder or a relative thereof).	✓	
23.		In the reported year there were arrangements set forth by the Audit Committee regarding the way to handle complaints made by the Corporation's employees as to flaws in the management of its businesses as to the protection that would be extended to employees who complained as set forth above.	✓	
24.		The Audit Committee (and/or the Committee for the Examination of the Financial Statements is convinced that the scope of work of the Auditing CPA and his fees in relation to the FS in the reported year were appropriate in order to perform accurate audit and review work.	✓	

THE ROLES OF THE FINANCIAL STATEMENTS COMMITTEE (HEREINAFTER – THE COMMITTEE) IN ITS PRELIMINARY WORK FOR THE FS APPROVAL

			Correct	Incorrect
25.	a.	The number of days set forth by the BoD as a reasonable time for submitting the recommendations before the BoD meeting in which the Periodic or Quarterly Reports will be approved: 2 days		
	b.	The period (in days) actually elapsed between the day upon which the recommendations were transferred to the BoD and the date upon which the FS were approved: First quarter FS (2013) 2 days Second quarter FS 11 days Third quarter FS 2 days 2014 annual FS 5 days		
	c.	The number of days actually elapsed between the day upon which the FS drafts were transferred to the BoD and the date upon which the FS were approved: First quarter FS (2014) 5 days Second quarter FS 2 days Third quarter FS 4 days 2013 annual FS 5 days		
26.		The Corporation's Auditing CPA was invited to all the meetings of the Committee and the BoD, and the Internal Auditor received notifications about the convening of such meetings, in which the Corporation's FS relevant to the periods included in the reported period were deliberated.	✓	

THE ROLES OF THE FINANCIAL STATEMENTS COMMITTEE (HEREINAFTER – THE COMMITTEE) IN ITS PRELIMINARY WORK FOR THE FS APPROVAL

			Correct	Incorrect
27.	In the Committee, in the entire reported year, all the following conditions were met:			
	a.	The number of its members was not less than three (at the time of the deliberation in the Committee and FS approval, as set forth above)	✓	
	b.	All the conditions set forth in Clause 115 (b) and (c) to the Companies Law (regarding the tenure of Audit Committee members) were met.	✓	
	c.	The Chairman of the Committee is an External Director.	✓	
	d.	All its members are Directors, and the majority are independent Directors.	✓	
	e.	All its members are able to read and understand FS and at least one of the independent Directors has accounting and financial expertise.	✓	
	f.	The Committee members gave a declaration prior to their appointment.	✓	
	g.	The quorum for the deliberation and decision-making in the Committee was the majority of its members, provided the majority of those attending were independent Directors, including at least one External Director.	✓	
	If your answer is "Incorrect" regarding one or more of these sub-clauses of this question, please detail the Report (Periodic/Quarterly) in which of the conditions set forth above was not met:________			

SENIORS' COMPENSATION COMMITTEE				
			Correct	Incorrect
28.		In the reported year, the Committee was composed of at least three members and the External Directors were the majority (at the time it was deliberated by the Committee). ☐ Irrelevant (there was no deliberation)	✓	
29.		The terms of office and employment of all the Seniors' Compensation Committee's members in the reported year comply with the companies Regulations (rules regarding Remuneration and Expenses for External Directors) – 2000.	✓	
30.		In the Compensation Committee, the following did not serve:	✓	
	a.	The controlling shareholder or his/her relative ☐ Irrelevant (there is no controlling shareholder in the Corporation)	✓	
	b.	The CoB	✓	
	c.	A Director employed by the Corporation or by the controlling shareholder of the Corporation or by a corporation controlled by him/her	✓	
	d.	A Director who provides services to the Corporation or to the Corporation's controlling shareholder on a regular basis	✓	
	e.	A Director whose livelihood mostly depends on the controlling shareholder ☐ Irrelevant (there is no controlling shareholder in the Corporation)	✓	

SENIORS' COMPENSATION COMMITTEE			
		Correct	**Incorrect**
31.	In the reported year, the controlling shareholder or his/her relative did not attend the meetings of the Seniors' Compensation committee, except if the Chairman of the Committee decided that one of them is required in order to present a specific issue.	✓	
32.	The Seniors' Compensation Committee and the BoD did not exercise their power pursuant to Clauses 267 a (c), 272 (c1) (1) (c) for the approval of a transaction or a remuneration policy, in spite of the General Meeting's objection. If your answer is "incorrect", please note: The type of transaction approved as set forth above:____________ The number of times in which they used their power in the reported period:_______	✓	

INTERNAL AUDITOR

		Correct	Incorrect
33	The Corporation's CoB or CEO is in charge of the Internal Auditor in the organization.	✓	
34.	In the reported year, the Chairman of the Board of Directors or of the Audit Committee In addition, the audit topics that were examined by the Internal Auditor in the reported report should be detailed: For details, see the answer to question 35	✓	
35.	The scope of the Internal Auditor's employment in the reported year (in hours) [116] The scope of employment of the Audit in the Group, as detailed in the chapter regarding the Internal Auditor, is 52,740.		
	In the reported year there, there was a discussion (in the Audit Committee or the BoD) regarding the Internal Auditor's findings. The topics of audit in Migdal Group are derived from the multi-annual WP of Migdal holdings and its subsidiaries, based on risk surveys that are carried out periodically, as well as audit results, organizational changes and events, regulation updates etc. In Migdal Group, the topics include the various areas of activity in the Group, including life assurance, general insurance, investments, finances, IT etc. [117]		
36.	The Internal Auditor is not an interested party in the Corporation, his/her relative, Auditing CPA or anyone on his/her behalf, and does not have material business relations with the Corporation, its controlling shareholder, relatives thereof or corporations controlled by him/her.	✓	

[116] Including working hours invested in held corporations and in auditing outside of Israel, as the case may be.
[117] The slate of the members of Migdal insurance's Audit Committee and Migdal Holdings' Audit Committee is identical.

TRANSACTIONS WITH INTERESTED PARTIES

		Correct	Incorrect
37.	The controlling shareholder or his/her relative (including a Company controlled by him/her) is not employed by the Corporation, nor he/she supplies management services to it. If your answer is "Incorrect" (i.e., the controlling shareholder or his/her relative is employed by the Corporation or he/she supplies management services to it) please specify – - The number of persons (including the controlling shareholder) employed by the Corporation (including companies controlled by them) and / or via management companies – 2[118]. Employed by Migdal Insurance and 2 [119] serve as Directors. - Were the employment agreements and / or management services agreements as set forth above approved by the organs set forth by the Law: ✓ Yes *(Please mark x in the relevant square)* ∟ Irrelevant (in the Corporation there is no controlling shareholder)._____		x

[118] Mr. Ofer Eliahu, the son of Mr. Shlomo Eliahu, serves as the CEO of the subsidiary, Migdal Insurance, as of February 11th, 2014. Mr. Ofer Eliahu's terms of office were approved by the organs set forth by the Law. Mr. Eliahu Eliahu, the brother of Mr. Shlomo Eliahu, serves in the subsidiary, Migdal Insurance, as the Manager of General Insurance in the Central District. Mr. Eliahu Eliahu's terms of office were approved by the organs set forth by the Law.

[119] Mr. Shlomo Eliahu, the Company's controlling shareholder, served as the Company's CoB until February 18th, 2015, with no salary. Since then, he continues to serve as a Director in the Company and in Migdal Insurance, with no salary. Mr. Israel Eliahu, the son of Mr. Shlomo Eliahu, serves as a Director in the Company and in Migdal Insurance, and as the CoB of Migdal Capital Markets, a subsidiary of the Corporation. Mr. Israel Eliahu is entitled to Directors' fees in respect of his office in the Company and in Migdal Insurance. The Directors' fees received by Mr. Israel Eliahu were approved by the organs set forth by the Law.

TRANSACTIONS WITH INTERESTED PARTIES

		Correct	Incorrect
38.	To the best knowledge of the Corporation, the controlling shareholder does not have additional businesses in the Corporation's areas of activity (in one or more areas). If your answer is "Incorrect" – please specify whether there is an arrangement for the delimitation of activities between the Corporation and the controlling shareholder: ✓ Yes ∟ No Mr. Shlomo Eliahu, the controlling shareholder, is the owner and CoB of Eliahu Insurance Company Ltd., he has holdings in Bank Leumi and Union Bank as detailed in the FS, and he also owns half of Gan Ha'ir Project, which includes a mall, a hotel and a housing project, he owns real estate assets that are Eliahu Building in Tel Aviv and real estate assets that serve as branches of Eliahu Insurance Company Ltd. He serves as a Director in companies in Gan Ha'ir Group and he is the CoB of companies in Shlomo Eliahu Holdings Group. As of January 1st, 2013, Eliahu Insurance Company Ltd. transferred all its activity in life assurance to Harel, and all its activity in general insurance to Migdal Insurance, and it only engages in the dissolution of liabilities in general insurance, written until the end of 2012. In Union Bank, the controlling shareholder may not participate in the management or operation of means of control, therefore these are passive capital holdings for realization only, within a period of up to 3-4 years.	✓	× ×

CoB:______________ Chairman of the Audit Committee:_______________ Chairman of the Financial Statements Committee:___________

Signature's date: March 24th, 2015

Regulation 21 Payments to Interested Parties and Executives

Following are the payments (in NIS thousands) made by Migdal Insurance Company Ltd., a subsidiary of the Company, or by other corporations in the Group, and all the undertakings for payment they took upon themselves, in NIS (excluding payroll tax and VAT) for each of the five highest paid Senior Executives serving in the Company and in the corporations controlled by it in 2014, as well as to interested parties in the Company:

Details of remuneration receiver					Benefits for services							Other benefits			
Name	Gender	Position	Extent of employ-ment	Holding rate in capital of Company	Salary (*)	Grant (**)	Share-based payment (***)	Mgmt. fees	Consultation fees	Comm.	Other	Interest	Rent	Other	Total
Anath Levin (1)	F	Previously Company CEO and CoB of Migdal Insurance	100%	---	3,532	---	---	---	---	---	---	---	---	---	3,532
Ofer Eliahu (2)	M	CEO of Migdal Insurance and CoB of Migdal Makefet	100%	---	2,723	---	---	---	---	---	---	---	---	---	2,723
Sharon Hinkis (3)	M	CoB of the Company, Migdal Insurance and MCM (ended his position in the Company)	100%	---	1,344	1,603	---	---	---	---	---	---	---	---	2,947
Gil Yaniv (4)	M	Head of the LTS, Health and Quality of Life Division in Migdal Insurance	100%	0.0075	2,181	462	24	---	---	---	---	---	---	---	2,667
Bezalel Zucker (5)		Company's Finances Division Manager and Finances and Actuarial Division Manager in Migdal Insurance	100%	0.0028	1,984	187	5	---	---	---	---	---	---	---	2,176

Presented below are the details of remunerations to two of the three Executives in the Company who receive the highest salaries in the Company, who were not included in the table of highest paid persons above:

Details of remuneration receiver					Benefits for services							Other benefits			
Name	Gender	Position	Extent of employ-ment	Holding rate in capital of Company	Salary (*)	Grant (**)	Share-based payment (***)	Mgmt. fees	Consultation fees	Comm.	Other	Interest	Rent	Other	Total
Eran Czerninski (6)	F	CEO and CFO of the Company, and Head of the Finances and Actuarial Division in Migdal Insurance	100%	0.0066	1,812	317	21	---	---	---	---	---	---	---	2,150
Ilana Bar (7)	M	Legal Counsel of the Company	100%	0.0015	1,627	187	---	---	---	---	---	---	---	---	1,814

REPORT AND STATEMENTS REGARDING THE INTERNAL CONTROL OVER THE FINANCIAL REPORTING AND DISCLOSURE

Solomon's Pillars, Timna Park

Report regarding the effectiveness of internal control over the financial reporting and disclosure pursuant to Regulation 9b (a)

Management, supervised by Migdal Insurance and Financial Holdings Ltd.'s Board of Directors (hereinafter - the Corporation), is in charge of setting and executing a proper internal control over the financial reporting and disclosure in the Corporation.
For this matter, management members are as follows [1]

1. Eran Czerninski, CFO and substitute to CEO[2];
2. Itzhak Ben Menachem, Risk Manager;
3. Michal Leshem, Internal Auditor;
4. Ilana Bar, Legal Counsel;
5. Tali Cassif, Company Secretary;
6. Asaf Ashkenazy, Enforcement Officer;

The internal control over the financial reporting and disclosure includes controls and procedures that exist in the Corporation, that were planned by the CEO and the highest Senior Officer in the area of finances or under their supervision, or by whoever performs these roles in reality, under the supervision of the Corporation's BoD, aimed at providing a reasonable level of confidence as to the reliability of the financial reporting and preparation of reports pursuant to the Law provisions, and make sure that information that the Corporation is required to disclose in the reports it publishes pursuant to the Law is collected, processed , summarized and reported on time and in the outline set forth by the Law.

The internal control includes, *inter alia*, controls and procedures designed to make sure that information that the Corporation is required to disclose as set forth above, is collected and submitted to the Corporation management, including to the CEO and the most senior officeholder in the area of finances or to whoever performs these roles in reality, in order to allow making decisions at the appropriate time, regarding the disclosure requirements.

Due to its structural limits, internal control over the financial reporting and disclosure is not aimed at providing complete confidence that misstatement or omission of information in the reports shall be prevented or found out.

Management, under the BoD supervision, performed an examination and evaluation of the internal control over the financial reporting and disclosure in the Corporation and its effectiveness; the evaluation of the effectiveness of the internal control over the financial reporting and disclosure that was conducted by management, under the supervision of the BoD, included:

Entity Level Controls; controls over the process of preparing and closing the reports, general controls over the IT systems (ITGC) and controls over processes that are very material for the financial reporting and disclosure (these processes are performed under Migdal Insurance Company Ltd, a subsidiary of the Corporation, that is an institutional entity, and to which the aforesaid applies).

Migdal Insurance Company Ltd., a subsidiary of the Corporation, is an institutional entity, to which the provisions of the Commissioner of Capital Market, Insurance and Savings in the MoF regarding the evaluation of the effectiveness of internal control over the financial reporting, apply.

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[1] Updated as per the date upon which the Financial Statements were signed.
[2] Ms. Anath Levin who served as the CEO, resigned on October 31st, 2014, and as of November 1st, 2014, Mr. Eran Czerninski, the Company's CFO and the Head of the Finances and Actuarial Division in Migdal Holdings, was appointed as substitute to the Company CEO, until a CEO is localized.

As to the above mentioned subsidiary, the management, under the BoD supervision, performed an examination and evaluation of the internal control over the financial reporting and its effectiveness, based on the provisions of the Institutional Entities Circular 2009-9-10 "Management Liability over the Internal Control over the Financial Reporting", Institutional Entities Circular 2010-9-7 "Internal Control over Financial Reporting – Statements, Reports and Disclosures" and amendments thereof.

Based on this evaluation, the Corporation's BoD and management concluded that the internal control over the financial reporting, regarding the internal control in the institutional entity as of December 31st, 2014, is effective.

Based on the effectiveness evaluation conducted by the management, supervised by the BoD, as aforesaid, the Corporation's BoD and management concluded that the internal control over the financial reporting and disclosure in the Corporation as of December 31st, 2014, is effective.

Managers' statement
CEO Statement

I, Eran Czerninski, certify that:

(1) I have reviewed Migdal Insurance and Financial Holdings Ltd.'s (hereinafter: “the Corporation”) Periodic Report for 2014 (hereinafter: “the Reports");
(2) To the best of my knowledge, the Reports do not contain any untrue statement of a material fact nor omit any material fact necessary such that the statements, given the circumstances under which such statements were made, are not misleading with respect to the covered periods;
(3) To the best of my knowledge, the Financial Statements and other financial information included in the report, present fairly in all material respects, the financial position, results of operations and cash flows of the Corporation for the dates and periods presented in the Report;
(4) I disclosed to the Corporation's auditing CPA, BoD and the Corporation's Audit and Financial Statements Committees, based on my most updated evaluation of the internal control over the financial reporting and disclosure;
    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure, which are reasonably likely to adversely affect the ability of the Corporation to collect ,process, summarize or report any financial information in a way that might impose doubts as to the reliability of the financial reporting and preparation of Financial Statements pursuant to the Law, and –
    (b) Any fraud, whether material or not material, that involves the CEO or anyone directly subordinated to him or involving other employees with a significant position in the internal control over financial reporting and disclosure;
(5) I, alone or together with others in the Corporation:
    (a) Set controls and procedures, or ensured that controls and procedures are set out and exist under my supervision, designed to ensure that material information relevant to the Corporation, including its consolidated subsidiaries as defined in the Securities Regulations (Annual Financial Statements) – 2010, is brought to my attention by others in the Corporation and in the consolidated companies, particularly during the preparation of the reports; and
    (b) Set controls and procedures, or ensured that controls and procedures are set out and exist under my supervision, designed to reasonably ensure the reliability of the financial reporting and preparation of the Financial Statements pursuant to the provisions of the Law, including pursuant to generally accepted accounting principles;
    (c) Evaluated the effectiveness of the internal control over the financial reporting and disclosure, and presented in this report the conclusions of the BoD and management as to the effectiveness of internal control as at the date of the Financial Statements.

The above does not derogate from my liability or the liability of any other person, as per any law.

March 24th, 2015

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Eran Czerninski, substitute to CEO

Managers' statement
Statement of the most senior officeholder in the finance discipline

I, Eran Czerninski, certify that:

(1) I have reviewed Migdal Insurance and Financial Holdings Ltd.'s (hereinafter: "the Corporation") Financial Statements and other financial information included in the reports for 2014 (hereinafter: "the Reports");
(2) To the best of my knowledge, the Financial Statements and other financial information included in the reports do not contain any untrue statement of a material fact nor omit to state a material fact necessary such that the statements, given the circumstances under which such statements were made, not misleading with respect to the covered period;
(3) To the best of my knowledge, the Financial Statements and other financial information included in the report, present fairly in all material respects, the financial position ,results of operations and cash flows of the Corporation for the dates and the periods presented in the Report;
(4) I disclosed to the Corporation's auditing CPA, the BoD and the Corporation's Audit and Financial Statements Committees, based on my most updated evaluation of the internal control over the financial reporting and disclosure:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure, insofar as it relates to the financial statements and the other financial information included in the financial statements, which are reasonably likely to adversely affect the ability of the Corporation to collect, process, summarize or report about financial information in a way that might impose doubts as the reliability of the financial reporting and the preparation of Financial Statements pursuant to the Law, and –
   (b) Any fraud, whether material or not material, that involves the CEO or anyone directly reporting to him or other employees with a significant position in the internal control over financial reporting and disclosure;
(5) I, alone or together with others in the Corporation:
   (a) Designed controls and procedures, or caused such controls and procedures are designed and exist under my supervision, to ensure that material information relevant to the Corporation, including its consolidated subsidiaries as per their definition in the Securities Regulations (Annual Financial Statements) - 2010, insofar as it relates to the financial statements and the other financial information included in the financial statements, is made known to me by others in the Corporation and in the consolidated companies, particularly in the period in which this Report is being prepared; and -
   (b) Set controls and procedures, or caused such controls and procedures are designed and exist under our supervision, to reasonably ensure that the financial reporting is reliable and that the Financial Statements are prepared pursuant to the provisions of the Law, including pursuant to generally accepted accounting principles.
   (c) Evaluated the effectiveness of the internal control over the financial reporting and disclosure, insofar as it relates to the financial statements and the other financial information included in the Financial Statements as at the date of the financial statements; my conclusions in respect of my evaluation as aforementioned were presented to the BoD and Management and are included in this report.

The above does not derogate from my liability or the liability of any other person, as per any law.

March 24th, 2015

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Eran Czerninski, CFO

APPENDICES RELATED TO MIGDAL INSURANCE COMPANY LTD.

Hayarkon Park, Tel Aviv

Migdal Insurance Company Ltd.

Certification

I, Ofer Eliahu, certify that:

1. I have reviewed Migdal Insurance Company Ltd.'s (henceforth: "**the Insurance Company**") Annual Report for 2014 (henceforth: "**the Report**").
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact nor omits any material fact necessary so that the statements, given the circumstances under which such statements were made, are not misleading with respect to the covered period.
3. Based on my knowledge, the Financial Statements and other financial information included in the report, fairly reflect in all material respects, the financial position, results of operations, changes in equity and cash flows of the Insurance Company for the dates and periods covered by the Report.
4. I and others in the Insurance Company who make such statement are responsible for establishing and maintaining controls and procedures regarding the disclosure[1] and internal control over the Insurance Company's financial reporting[1], and have:
   (a) Set forth these controls and procedures, or lead to their establishment under our supervision, designed to ensure that material information relevant to the Insurance Company, including its consolidated subsidiaries, is brought to our attention by others in the Insurance Company and in those entities, particularly during the preparation of the report.
   (b) Set forth an internal control over the financial reporting, or supervised the setting of an internal control over the financial reporting, aimed at providing a reasonable amount of certainty as to the reliability of the financial reporting and to the fact that the Financial Statements are prepared pursuant to IFRS and the provisions of the Commissioner of Insurance.
   (c) Evaluated the effectiveness of the controls and procedures as regards the Insurance Company's disclosure, and presented our conclusions regarding the effectiveness of the disclosure controls and procedures, as of the end of the period covered in the Report based on our evaluation; and
   (d) Disclosed in the Report any change in the Insurance Company's internal control over financial reporting which occurred in 4Q13, which affected materially, or are reasonably likely to materially affect, the Insurance Company's internal control over financial reporting; and
5. I and others in the Insurance Company who make such statement disclosed to the Insurance Company's auditing CPA, BoD and Financial Statements Committee, based on our most recent evaluation regarding the internal control over financial reporting:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the ability of an Insurance Company to record, process, summarize and report financial information; and
   (b) Any fraud, whether material or not material, that involves management or other employees with a significant position in the Insurance Company's internal control over financial reporting.

The above does not derogate from my liability or the liability of any other person, as per any law.

March 24th, 2015

______________ ______________________

Ofer Eliahu, CEO

[1] As defined in the provisions of the Institutional Entities Circular regarding Internal Control over Financial Reporting - Statements, Reports and Disclosures.

Migdal Insurance Company Ltd.

Certification

I, Eran Czerninski, certify that:

1. I have reviewed Migdal Insurance Company Ltd.'s (henceforth: "**the Insurance Company**") Annual Report for 2014 (henceforth: "**the Report**").
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact nor omits any material fact necessary so that the statements, given the circumstances under which such statements were made, are not misleading with respect to the covered period.
3. Based on my knowledge, the Financial Statements and other financial information included in the report, fairly reflect in all material respects, the financial position, results of operations, changes in equity and cash flows of the Insurance Company for the dates and periods covered by the Report.
4. I and others in the Insurance Company who make such statement are responsible for establishing and maintaining controls and procedures regarding the disclosure[1] and internal control over the Insurance Company's financial reporting[1], and have:
   (a) Set forth these controls and procedures, or lead to their establishment under our supervision, designed to ensure that material information relevant to the Insurance Company, including its consolidated subsidiaries, is brought to our attention by others in the Insurance Company and in those entities, particularly during the preparation of the report.
   (b) Set forth an internal control over the financial reporting, or supervised the setting of an internal control over the financial reporting, aimed at providing a reasonable amount of certainty as to the reliability of the financial reporting and to the fact that the Financial Statements are prepared pursuant to IFRS and the provisions of the Commissioner of Insurance.
   (c) Evaluated the effectiveness of the controls and procedures as regards the Insurance Company's disclosure, and presented our conclusions regarding the effectiveness of the disclosure controls and procedures, as of the end of the period covered in the Report based on our evaluation; and
   (d) Disclosed in the Report any change in the Insurance Company's internal control over financial reporting which occurred in 4Q13, which affected materially, or are reasonably likely to materially affect, the Insurance Company's internal control over financial reporting; and
5. I and others in the Insurance Company who make such statement disclosed to the Insurance Company's auditing CPA, BoD and Financial Statements Committee, based on our most recent evaluation regarding the internal control over financial reporting:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the ability of an Insurance Company to record, process, summarize and report financial information; and
   (b) Any fraud, whether material or not material, that involves management or other employees with a significant position in the Insurance Company's internal control over financial reporting.

The above does not derogate from my liability or the liability of any other person, as per any law.

March 24th, 2015

Eran Czerninski, Head of the Finances and Actuarial Division

[1] As defined in the provisions of the Institutional Entities Circular regarding Internal Control over Financial Reporting - Statements, Reports and Disclosures.

Migdal Insurance Company Ltd.

BoD and Management Report regarding the internal control over the financial reporting

Management, under supervision of the BoD of Migdal Insurance Company Ltd. (henceforth: "the insurance company") is responsible for maintaining effective internal control over financial reporting. The insurance company's internal control system was planned in order to provide a reasonable amount of certainty to the insurance company's BoD and management as to the accurate preparation and presentation of the Financial Statements published pursuant to the IFRS and the provisions of the Commissioner of Insurance. Regardless of their planning level, all internal control systems have built-in limitations. Therefore, even if it was determined that these systems are effective, they can only provide a reasonable level of certainty with respect to the preparation and presentation of a financial report.

Management, under the BoD supervision, conducts a comprehensive system of controls aimed at making sure that transactions are performed pursuant to management authorizations, assets are protected, and the accounting records are reliable. In addition, management, under the BoD supervision, takes measures in order to make sure that the information and communication channels are effective and monitor execution, including the execution of internal control procedures.

The insurance company's management, under the BoD supervision, evaluated the effectiveness of the insurance company's internal control over financial reporting as of December 31st, 2014, based on the criteria set forth in the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control model. Based on this evaluation, management believes that as of December 31st, 2014, the insurance company's internal control over financial reporting is effective.

CoB	**Amos Sapir**	(Signature) _____________
CEO	**Ofer Eliahu**	(Signature) _____________
Head of the Finances and Actuarial Division	**Eran Czerninski**	(Signature) _____________

Report approval date: March 24th, 2015

Migdal Insurance Company Ltd.

March 24th, 2015

Declaration of the Life Assurance Actuary

Part A – Identity of the Actuary

I was requested by Migdal Insurance Company Ltd. (henceforth, “the Insurer”) to assess the reserves specified in part B below in life assurance lines of business (henceforth, "the reserves”) for the Insurer’s Financial Statements dated December 31st, 2014, as specified below.
I am an employee of the Insurer and serve as its Chief Actuary since December 1st, 2006.
I am not an interested party, nor a relative of an interested party of the Insurer.

Part B – Scope of Actuarial Opinion

1. Scope of Actuarial Opinion

a. For the purpose of calculating the insurer's reserves, I relied on data provided to me by the insurer. My requests for receiving data and information for the sake of assessing reserves for the Financial Statements were answered in a satisfactory manner. I examined the reasonability and adequacy of the data, and compared the data to data of the valuation year, and to data of previous years.

b. When necessary, my assessment also relied upon data received from other reliable sources. I checked both the appropriateness and the relevance of this data.

c. The actuarial assumptions I used in my work, including the methods for assessing the reserves cited below, were determined by me, to the best of my professional judgment, and in compliance with the provisions, instructions and rules provided in section 1 of part C below.

d. In order to calculate the retention, I requested information regarding the insurer’s reinsurance arrangements, the insurer's ability to collect claims, and any problems with the payment policies of the reinsurers from the responsible reinsurance officers. Based on the information I received, I examined the impact and effect of the reinsurance arrangements on the reserves.

e. In my assessment, I also took into consideration the following:
The provision calculated for coinsurance administered by domestic Israeli insurance companies is the proportional part of the provision calculated by the life assurance actuary of the leading company. This principle was applied with respect to the life assurance portfolio of Hassneh Israeli Insurance Company, which was jointly acquired by the Insurer and Clal Insurance Company, in respect of policies administered by Clal Insurance Company.

2. Data attached to the paragraph "Scope of Actuarial Opinion"

a. In the appendix attached herewith, there are details of the amounts of provisions, in NIS thousands, both in gross and retained amounts, as follows:
   1) Reserve for outstanding claims (claims incurred but not fully paid, whether approved or not, except claims paid as annuities, such as LTC, income protection and family income benefits), including reserve for unpaid losses (incurred but unpaid claims) and the reserve for incurred but not yet reported losses (IBNR).
   2) Reserve stemming from insurance contract conditions relating to life assurance alone, including:
      a) Reserve for savings plans;
      b) Reserve required when part of the premium collected in the contract’s early years is designated for granting future cover, such as provision in respect of fixed premium, guaranteed insurability and continuation options;

3) The part of reserve in respect of claims in payment, including claims paid as annuities, such as LTC, income protection and family income benefits.
4) Supplemental provisions stemming from reserve Liability Adequacy Test (LAT). After performance of the test, it was determined that there is no need for a supplementary reserve.
5) Other – additional provisions in accordance with the Commissioner's instructions, such as: supplementary reserves for annuity policies as per the Commissioner's circular 2013-1-2.

b. The effect of the changes in assumptions, premiums or other changes on the provisions, in NIS thousands, both in gross and retained amounts -–
1) For policies which became effective after the end of period of the last annual Financial Statement – there was no need for such adjustment to the provisions.
2) For policies that became effective before the valuation date of the last annual Financial Statement the adjustments were with respect to the following reserves:
a) Supplementary Annuity Reserve (SAR)
b) LAT reserve for guaranteed-yield life assurance policies.

Part C – Opinion

I hereby declare and confirm that with respect to the Life Assurance Area:

1. I assessed the insurer's reserves detailed in Part B in accordance with the provisions, instructions and rules detailed below, all as valid on the date of the Financial Statements:
   a. The provisions of the Financial Services Supervision Law (Insurance) – 1981, and regulations thereof;
   b. The provisions and instructions given by the Commissioner of Insurance;
   c. Generally accepted actuarial principles.
2. Having examined the data mentioned in part B, I have reached the conclusion that the data are reasonable and satisfactory, and that I can rely on them in my assessment.
3. The assumptions and methods for the assessment of reserves were determined by me, according to my best professional judgment, and in compliance with the provisions, instructions and rules specified above.
4. To the best of my knowledge and opinion, the reserves set forth in Part B constitute an appropriate reserve for covering the insurer's liabilities in respect of its obligations stemming from life assurance contracts, valid on the date of the Financial Statements.

Part D - Comments and clarifications

1. Details about the types of reserves are included in Note 18 to the Financial Statements.
2. No material changes occurred in the actuarial assumptions and methods compared with last year's actuarial assessment, including the discount rate, except for the change in the assumptions for the calculation of the Supplementary Annuity Reserve and LAT reserve, as detailed in paragraph 2b2 above.

March 24th, 2015	**Appointed actuary - life assurance**	**Leybush Ulmann**	________________
Date	Position	Actuary's name	Signature

Enclosed herewith:

Form 12a: Outstanding claims and reserves - gross
Form 12b: Outstanding claims and reserves - retention

Form 12a: Outstanding claims, reserves and reserve for extraordinary risks - gross **As at: 31.12.2014**
Company name: Migdal Insurance Company Ltd.
(NIS thousands)

			Total	Savings and death risk (classic, traditional)		Pure savings or savings component in policies (Adif, Track)		Pure death risk or death risk component in policies		PHI	LTC		Other covers 1)
				Guaranteed yield	Participating	Guaranteed yield	Participating	Individual	Group		Individual	Group	
				1a	1b	2a	2b	3a	3b	4	5a	5b	6
1	Outstanding claims		1,885,569	568,344	10,816	630,500	224,945	122,686	23,251	216,542	25,122	2,863	60,500
2	Reserves (total rows 2a1 to 6)		102,761,223	5,636,343	1,346,984	19,611,956	72,874,498	24,150	13,259	1,739,692	1,496,887	17,189	265
2a1	Policies with a savings element (including riders) by date of policy issue:	Policies written until 1990	19,947,940	3,908,866	4,326	15,548,810	324,702	1,238	0	159,779	0	0	219
2a2		Policies written 1991-2003	49,987,755	0	1,232,253	791	48,534,309	2,142	0	218,217	0	0	43
2a3		Policies written from 2004	22,124,848	0	2,804	236,337	21,850,222	563	0	34,922	0	0	0
2a4		Total (2a1 - 2a3)	92,060,543	3,908,866	1,239,383	15,785,938	70,709,233	3,943	0	412,918	0	0	262
2b	Policies without a savings component		1,507,779	0	0	0	0	20,207	13,259	62,520	1,408,271	3,519	4
3	Reserve for claims in payment		6,605,475	1,538,596	93,993	1,882,989	1,723,357	0	0	1,264,254	88,616	13,670	0
4	Profit participation		0	0	0	0	0	0	0	0	0	0	0
5	Supplement due to Liability Adequacy Test (LAT)		59,530	0	0	59,530	0	0	0	0	0	0	0
6	Other		2,527,896	188,881	13,608	1,883,499	441,908	0	0	0	0	0	0
7	Reserve for extraordinary risks		0	0	0	0	0	0	0	0	0	0	0

1) Other covers, including: disability, accidental disability etc.

8a	Impact of adjusting provisions in respect of new businesses		0	0	0	0	0	0	0	0	0	0	0
81b	Impact of adjusting provisions in respect of current businesses	Changes in assumptions	406,707	27,087	1,175	269,905	108,540	0	0	0	0	0	0
8b2		Changes in methods	0	0	0	0	0	0	0	0	0	0	0
8b3		Changes in premium	0	0	0	0	0	0	0	0	0	0	0
8b4		Other changes	0	0	0	0	0	0	0	0	0	0	0

Form 12b: Outstanding claims, reserves and reserve for extraordinary risks - in retention **As at: 31.12.2014**

Company name: Migdal Insurance Company Ltd.

(In NIS thousands)

			Total	Savings and death risk (classic, traditional)		Pure savings or savings component in policies (Adif, Track)		Pure death risk or death risk component in policies		PHI	LTC		Other covers 1)
				Guaranteed yield	Participating	Guaranteed yield	Participating	Individual	Group		Individual	Group	
				1a	1b	2a	2b	3a	3b	4	5a	5b	6
1	Outstanding claims		1,863,971	567,828	10,791	630,500	224,945	106,557	23,251	214,004	23,233	2,863	59,999
2	Reserves (total rows 2a1 to 6)		102,667,090	5,627,961	1,346,984	19,532,984	72,871,509	24,150	13,259	1,736,824	1,496,665	17,189	265
2a1	Policies with a savings element (including riders) by date of policy issue:	Policies written until 1990	19,870,846	3,900,484	4,326	15,484,250	322,200	1,238	0	158,129	0	0	219
2a2		Policies written 1991-2003	49,986,799	0	1,232,253	791	48,534,309	2,142	0	217,261	0	0	43
2a3		Policies written from 2004	22,124,804	0	2,804	236,337	21,850,222	563	0	34,878	0	0	0
2a4		Total (2a1 - 2a3)	91,982,449	3,900,484	1,239,383	15,721,378	70,706,731	3,943	0	410,268	0	0	262
2b	Policies without a savings component		1,507,561	0	0	0	0	20,207	13,259	62,302	1,408,271	3,519	3
3	Reserve for claims in payment		6,598,329	1,538,596	93,993	1,876,543	1,722,879	0	0	1,264,254	88,394	13,670	0
4	Profit participation		0	0	0	0	0	0	0	0	0	0	0
5	Supplement due to Liability Adequacy Test (LAT)		59,530	0	0	59,530	0	0	0	0	0	0	0
6	Other		2,519,221	188,881	13,608	1,874,833	441,899	0	0	0	0	0	0
7	Reserve for extraordinary risks		0	0	0	0	0	0	0	0	0	0	0

1) Other covers, including: disability, accidental disability etc.

8a	Impact of adjusting provisions in respect of new businesses		0	0	0	0	0	0	0	0	0	0	0
81b	Impact of adjusting provisions in respect of current businesses	Changes in assumptions	406,707	27,087	1,175	269,905	108,540	0	0	0	0	0	0
8b2		Changes in methods	0	0	0	0	0	0	0	0	0	0	0
8b3		Changes in premium	0	0	0	0	0	0	0	0	0	0	0
8b4		Other changes	0	0	0	0	0	0	0	0	0	0	0

Migdal Insurance Company Ltd.

March 24th, 2015

Actuary statement in general insurance lines of business

Part A – Identity of the Actuary

I was asked by Migdal Insurance Company Ltd. to assess the reserves specified in Part B below in general insurance lines of business, for the Financial Statements of Migdal Insurance Company Ltd. (henceforth "Migdal" or "the insurer") dated December 31st, 2014 as specified below.

I am the head of the appointed actuary - general insurance at Migdal Insurance Company from May 1st, 2013.

I am not an interested party and work as a salaried employee with the insurer.

Part B – Scope of actuarial opinion

1. Scope of actuarial opinion

1. For the purpose of calculating the insurer's reserve, I relied on data provided to me by the insurer. My requests for receiving data and information for the sake of assessing reserves for the Financial Statements were answered in a satisfactory manner. I examined the reasonability and adequacy of data, and compared said data to the data of the year to which the statement refer, and to data of previous years.
2. In my assessment, I did not rely upon data received from other sources, except for the retention insurance settlements data ("pool").
3. The actuarial assumptions I used in my work, including methods for assessing reserves set forth in Section 2 below were determined by me, to the best of my professional judgment, and in compliance with the provisions, instructions and rules specified in Section 1 of Part C below.
4. For the purpose of calculating retention I asked the Reinsurance Division in Migdal Group for information regarding the insurer’s reinsurance arrangements, the capability to collect claims, and problems with the payment policy of reinsures. Based on the information I received, I examined the impact and effect of reinsurance arrangements on the reserves.
5. In my opinion, I also took into consideration the following issues:
   a. The reserve calculated in respect of residual insurance settlements (henceforth "the Pool"), was performed based on the calculation performed by the "Pool" actuary.
   b. The reserve calculated for other coinsurance, where the Company is not the leading insurer, was done by me while referring to information received from the leading company.
   c. Migdal serves as a reinsurer in multi-national businesses which do not materially affect retention, therefore there was no need for calculating incoming reinsurance.
   d. We did not take into consideration the lack of correlation between the various lines for the reduction of the overall reserve in respect of outstanding claims for all of the lines of business included in my estimate.

2. Data enclosed to the actuarial opinion scope

		As of December 31st, 2014	
		NIS thousand	
	Outstanding claims	Gross	Retention
2 a 1) a)	Statistical lines of business:		
	Compulsory Motorcar Bodily Injury (CMBI)*	1,489,271	1,453,252
	Employers' liability*	320,446	287,525
	Third party liability*	621,681	393,969
	Professional liability*	361,148	300,047
	Product liability*	95,620	68,350
	Casco	137,317	137,317
	Homeowners	36,971	23,721
	Total statistical lines of business	3,062,454	2,664,181
	Non-statistical lines of business	There is no reporting duty	There is no reporting duty
2 a 1) b)	Total statistical & non-statistical lines of business	3,062,454	2,664,181
2 a 2)	Unallocated loss adjustment expenses	82,311	82,311
2 a 3)	Premium deficiency:		
	CMBI	No declaration required	
	Casco	No declaration required	
	Homeowners comprehensive	No declaration required	
	Total insurance liabilities in respect of insurance contracts included in general insurance sector, calculated by actuarial estimate	3,144,765	2,746,492

Notes:

1. The actuarial provisions in Note 17 a2, which I estimated at NIS 2,861,701 thousand, gross, include the above said provisions of NIS 3,144,765 thousand, as well as the reserve for outstanding claims in respect of the personal accidents line as set forth in the health declaration of NIS 22,384 thousand. In retention, the provision for personal accidents is NIS 19,851 thousand.

2. The provision for outstanding claims, gross and in retention, in respect of travel insurance line as included in the health statement is NIS 3,241 thousand.

3. For lines excluded from the actuarial estimate, see Part D Section 7 below.

4. In liability lines assessed based on underwriting: outstanding claims and provision for premium deficiency.

Part C – The opinion

I hereby declare and confirm that in the following lines: CMBI, employers' liability, third party liability, professional liability, product liability, casco and homeowners' comprehensive insurance:

1. I assessed the insurer's reserves detailed in Part B in accordance with the provisions, instructions and rules detailed below, as valid on the date of the Financial Statements:

    a. The provisions of the Insurance Businesses Supervision Law – 1981, and regulations thereof;
    b. The provisions and instructions given by the Commissioner of Insurance;
    c. Generally accepted actuarial principles.

2. Having examined the data mentioned in Part B, I have reached the conclusion that the data are reasonable and satisfactory, and that I can rely on them in my assessment.

3. I determined the assumptions and methods for the assessment of reserves according to the best of my professional judgment, and in compliance with the provisions, instructions and rules specified above.

4. The reserves set forth in Part B, Section 2 a 1) b) in respect of the statistical lines of business constitute, to the best of my knowledge and assessment, an appropriate reserve for covering the insurer's liabilities in respect of the above said outstanding claims, in each separately detailed statistic line of business, as valid on the date of the Financial Statements.

5. The reserve set forth in Part B, Section 2 a 2) constitutes, to the best of my knowledge and assessment, an appropriate reserve for covering the insurer's liabilities in respect of unallocated loss adjustment expenses for claims settlement for all lines of business practiced by the Company in general insurance, as valid on the date of the Financial Statements.

6. The reserves set forth in Part B, Section 2 a 3) constitute, to the best of my knowledge and assessment, an appropriate reserve for covering the insurer's liabilities in respect of premium deficiency at retention level (should such premium deficiency exist) in the detailed lines, as valid on the date of the Financial Statements

Part D - Comments and clarifications

1. In the CMBI, employers' liability, third party liability and casco lines (excluding third party coverage) the calculations are based on actual claim payments. In the casco (excluding third party coverages), homeowners, personal accidents, professional liability and product liability lines, the calculations are based on claims' aggregate cost (actual claim payments plus individual assessments). There may be new phenomena which are not actually reflected in these data. Should it turn out that the actual experience is different than the aggregate experience, there may be need for additional reserves in the future.

2. In the employers' liability and third party liability lines there was a negative development in reserves, due to a deterioration in the development of claims payments, therefore the loss ratio increased. On the other hand, in the lines of professional liability, product liability, homeowners comprehensive insurance and personal accidents, there was a positive development in reserves, due to an improvement in the development of claims and actions taken by the claims department. In the CMBI line there was a positive development in reserves, due to an improvement in actual results.

3. Further to above Sections 2 and 3, no reduction was made to the reserves due to the future discounting of cash flows, in real terms.

4. There were no material changes in the assumptions and actuarial methods compared with the previous annual actuarial estimate, including with respect to discounting, see Section 3. However, the estimates regarding loss ratio was updated in the employers' liability and third party liability lines due to deeper research and aggregate experience.

5. Actuarial estimate is based on statistical estimates that include an element of uncertainty. The statistical estimate is based on various assumptions, which will not necessarily come true. The assumptions in the actuarial forecast affect the reserve final result. Therefore, the actual claims cost may be higher or lower than the statistical estimate. Assumptions set in the past may change according to new information received in the future, due to, *inter alia*, Court rulings and precedents which cannot be forecasted ahead of time and changes in social and environmental factors. In such cases, outstanding claims will change according to the change in assumptions and actual results, and the differences created in the reported year will be included in the general insurance business report.

6. In the personal accidents line of business I perform an actuarial calculation of the outstanding claims. This reserve appears in the health actuary's statement.

7. In the travel insurance line, the Company examined the possibility of implementing actuarial model for provisions. Due to the lack of statistic significance, no actuarial model was applied in this line. This reserve appears in the health actuary's statement.

8. In accordance with the instructions of the Commissioner of Insurance, the Company considered the possibility of calculating actuarial reserves in the following lines as well: commercial comprehensive insurance, engineering insurance, contractors insurance, marine insurance, aviation insurance and goods in transit insurance. Due to the lack of statistical significance, an actuarial model was not applied in these lines of business.

9. Until now, 2014 was characterized by a continued decrease in yield to maturity on State bonds. The risk-free interest curves as of the date of the balance sheet reached a substantial low, mainly the long term ones. In short terms, real interest rate was even negative for a few years. Usually, Migdal does not discount its reserves, i.e. it discounts at a real discount interest rate of 0%. The Company conducted an examination in order to make sure that the erosion of margins stemming from the non-discount of reserves compared with other margins did not cause a need for a supplement to the reserve.

10. In January 2015 the Ministry of Finance published an updated Circular regarding Actuarial Valuations in General Insurance, a Circular regarding the Calculation of Insurance Reserves in General Insurance, as well as a Commissioner position regarding the Optimal Way for Calculating Insurance Reserves in General Insurance for the Financial Reporting, as follows:

    a. Insurance Circular 2015-1-1: Actuarial Valuation in General Insurance – the updated circular includes changes in the report regarding the development of the actuarial valuation of outstanding claims in insurance, in the analysis of outstanding claims' valuation in every line, in the analysis of the valuation of unexpired risk reserves, including the annual actuarial report.
    b. Insurance Circular 2015-1-2: Calculation of Reserves in General Insurance – Update – This Circular updates Clause 5b to Insurance Circular 2013-1-1 and postpones the application date of the cancellation of the reserve in respect of an excess in income over expenses to the Financial Statements in respect of 2015.

However, the Circular allows an early implementation of the reserve cancellation subject to the realization of the Commissioner position detailed below.

c. Commissioner position - the Optimal Way for Calculating Insurance Reserves in General Insurance for the Financial Reporting – within the position paper, the Commissioner proposes principles and rules regarding the proper procedures to be carried out by actuaries in order to calculate general insurance reserves for the financial reporting, such that they would accurately reflect the Company's insurance liabilities.

11. The Company will strive towards implementing the regulation in the Financial Statements for 2015. At this point, the Company is unable to assess the implications stemming from the cancellation of the Fund reserve.

I agree that this statement may be included in the prospectus that will be published by Migdal Insurance Capital Raising Ltd. on March 2015.

March 24th, 2015	**Appointed actuary - general insurance**	**Daniel Israeli**	________________
Date	Position	Actuary's name	Signature

Migdal Insurance Company Ltd.

March 24th, 2015

Actuary's Declaration for Health Insurance Lines of Business

Part A – Identity of the Actuary

I have been requested by **Migdal Insurance Company Ltd**. (henceforth: "the insurer") to assess the reserves specified in part B below in health insurance lines of business, for the Financial Statements of the insurer (henceforth: "the reserves") dated December 31st, 2014, as specified below.
I am a salaried employee of the Company. I am not an interested party of or relative of an interested party of the insurer. I was appointed actuary of health insurance on July 18th, 2013.

Part B – Scope of actuarial opinion

1. Scope of actuarial opinion

a. For the purpose of calculating the insurer's reserves, I relied on data provided to me by the insurer. My requests for receiving data and information were answered in a satisfactory manner for the sake of assessing reserves for the Financial Statements. I examined the reasonability and adequacy of the data, and compared the reserve data to other data of the year to which the statement refers, and to data of previous years.
b. In my assessment, I also relied upon data received from other reliable sources. I examined the extent of data compatibility and relevance.
c. The actuarial assumptions that I used in my work, including the methods for the aforementioned assessment of reserves, were determined by me to the best of my professional judgment, and in compliance with the provisions, instructions and rules specified in section 1 of part C below.
d. For the purpose of calculating retention I requested information from the authorized reinsurance officers regarding the insurer's reinsurance arrangements, the collectibility of claims, and any problems with the payment policy of reinsurers. Based on the information I received, I examined the impact and effect of reinsurance arrangements on the rese.
e. Migdal has no incoming business and/or coinsurance regarding this report.

2. Assessment data as to the reserve amounts

a. Amounts of reserves in NIS thousands:

	Individual insurance		Collective insurance		
Description	**Health business reported in the health sector (including travel insurance)**	**Personal accident***	**Health business reported in the health sector (including travel insurance)**	**Personal accident***	**Total**
Gross					
Outstanding claims (including IBNR)	87,342	22,401	20,715	7,787	138,245
Indirect expenses	2,434	1,407	1,315	465	5,621
Insurance contracts terms	449,506	23,903	11,016	0	484,425
Total gross	**539,282**	**47,711**	**33,046**	**8,252**	**628,291**
Retention					
Outstanding claims (including IBNR)	68,448	20,863	20,715	6,792	116,818
Indirect expenses	2,434	1,407	1,315	465	5,621
Insurance contracts terms	449,170	23,903	11,016	0	484,089
Total retention	**520,052**	**46,173**	**33,046**	**7,257**	**606,528**

* Long-term personal accident business reserves were set by Health Insurance. Short-term personal accident business reserves were set by General Insurance. See Part D, section 1e.

b. Impact of changes on provisions:

1) For policies which became effective after the end of the period of the last annual Financial Statement - the amount of adjustment to the provisions, stemming from differences between premium basis assumptions and provision basis assumptions – **none.**
2) Policies which became effective before the last annual Financial Statement - the amount of adjustment to the provisions, stemming from changes in the assumptions, methods or level of premium to be collected, and from other changes gross and retention:
A decrease in dread disease policy reserves in the amount of NIS 29 million, and an increase in medical expense policy reserves in the amount of NIS 22 million, following changes in estimates.

Part C – The opinion

I hereby declare and confirm that in the following sub-lines of health insurance:

- Medical expense
- Dread disease
- Dental insurance
- Long term personal accident
- Other

1. I assessed the insurer's provisions detailed in Part B in accordance with the directives, guidelines, and rules detailed below, all as valid on the date of the Financial Statements:
    a. The directives of the Insurance Business Supervision Law – 1981, and regulations thereof;
    b. The directives and guidelines of the Commissioner of Insurance;
    c. Generally accepted actuarial principles.

2. Having examined the data mentioned in Part B, I reached the conclusion that the data were reasonable and satisfactory, and that I could rely on them in my assessment.

3. Having examined the data mentioned in Part B, I reached the conclusion that the data were reasonable and satisfactory, and that I could rely on them in my assessment.

4. The reserves set forth in Part B constitute, to the best of my knowledge and assessment, an appropriate reserve for covering the insurer's liabilities in respect of health insurance contracts that belong to the sub-lines of health insurance detailed above, as valid on the date of the Financial Statements.

Part D - Notes and clarifications

1. Notes, clarifications and explanations
    a. Medical expense – reserves stemming from the terms of contract, are as per an actuarial model.
    b. Dread disease – the reserves stemming from the terms of contract were set pursuant to an actuarial model.
    c. Other line – "Healthy Investment" plan covering medical expenses (surgery and other). Unlike ordinary plans, if insureds have no claims for 15 years, they are reimbursed.
    d. The calculation of reserves for outstanding claims and IBNR for medical expense, dread disease and long-term personal accident was set on the basis of a statistical forecasting model for the determination of future claims payments based on past experience.
    e. Outstanding claims in the lines of short-term personal accident and travel insurance were set by the general insurance appointed actuary, Mr. Daniel Israeli.

2. Changes in assumptions and methods
    a. A change in estimates of the reserve for medical expense stemming from the terms of contract, in which several parameters were changed, *inter alia*, regarding expected premiums, expected claims, lapse rates and persistency, and medical inflation.
    b. A change in estimates of the reserve for dread disease stemming from the terms of contract, that was calculated based on an actuarial model, instead of the calculation based on premium percentage used in previous years.

March 24th, 2015	**Appointed actuary - health insurance**	**Daniel Katsman**	___________________
Date	Position	Actuary name	Signature