MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.
PERIODIC REPORT FOR 2016

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.migdalholdings.co.il

RAMON CRATER | **NEGEV DESERT**

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

BOARD OF DIRECTORS

- **Yohanan Danino - Chairman**
- **Shlomo Eliahu**
- **Ronit Abramson** (resigned on February 2nd, 2017)
- **Israel Eliahu**
- **Ronit Bodo** External Director (was appointed on October 6th, 2016)
- **Eyal Ben Chlouche** External Director
- **Yigal Bar-Yossef** External Director (resigned on September 5th, 2016)
- **Jacob Danon** External Director
- **Amos Sapir** (resigned on February 2nd, 2017)
- **Dr. Gavriel Picker**

MIGDAL **SOCIAL RESPONSIBILITY**

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

NEGEV DESERT

MIGDAL'S STRATEGY FOR SOCIAL INVESTMENT IN THE COMMUNITY

Since its establishment, Migdal attributes great importance to the social investment in the community in which it operates, and throughout the years, it has donated towards a variety of social needs. The Company's employees and agents volunteered in activities for the community, based on an approach of social responsibility and involvement. Since 2015, the Company holds a strategic activity of social investments together with Non-Governmental Organizations.

The strategy focuses on five channels

Improving the quality of life and economic, physical and mental-social wellbeing of people in the Third Age (60+) and the Fourth age (80+).
Improving managerial infrastructures of social organizations by supporting infrastructure associations.
Strengthening the social solidity of communities adjacent to the Company's offices.
Promoting social programs related to the core business.
Donating to various associations that act in the community.

The donations and social investments are managed in a professional manner and are accompanied by a Committee next to the BoD, according to policy, professional criteria, objectives and indices of success. In 2016 Migdal donated approx. NIS 6 million.

Presented below are some projects from the activity for the community in 2016

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

Economic wellbeing

VEHADARTA Promoting and encouraging the employment of older people in Israel; TELEM Promoting the employment of older people in the North; INNOVATIVE IMPACT PROGRAM Promoting high-quality employment for older people.

Physical wellbeing

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

Mental-social wellbeing

YADID LEHINUCH Pensioners who volunteer in the educational system; IMAGINE ASSOCIATION a social communal plan aimed at making older people feel less lonely through music.

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

THE HOUSE OF ASSOCIATIONS A joint working space for fifteen fixed associations and guest associations; MIDOT Promoting effective behavior of social organizations, a website aimed at mapping social organizations; NOVA Strategic accompaniment of social organizations; CIVIL LEADERSHIP The parent organization of non-profit associations and organizations; KOL ZCHUT The largest website for civil rights in Israel.

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

Migdal has offices in Petach Tikva, Tel Aviv, Haifa and Jerusalem. Since it is part of the social-economic fabric of these cities, Migdal supports community projects for the residents: JERUSALEM Improving the residents' quality of life in Gilo neighborhood, with an emphasis on Third and Fourth Age population, together with "Lev Ohev" organization; HAIFA A social-economic entrepreneurship center for people in the Third Age (60+), together with "Zionism 2000" organization; PETACH TIKVA Encouraging bicycle riding and teaching the right and safe way to ride a bicycle for elementary school children, together with "Instructors on the Road" organization; TEL AVIV Sapirim Lirvava program that provides financial education for youngsters, together with "Shiur Aher".

4. Donating to various associations that act in the community

In 2016 about 150 associations received donations from Migdal.

HULA LAKE

CORPORATION BUSINESSES DESCRIPTION

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

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

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

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

Forward-looking information contained in this report

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

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

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

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

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

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

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

CHAPTER 1 - CORPORATION BUSINESSES DESCRIPTION

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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	The Commissioner of Capital Market, Insurance and Savings Authority at the Ministry of Finance (who is also the “Commissioner of Insurance” as defined in the Law of Supervision).
The Company and/or the Corporation and/or Migdal Holdings	Migdal Insurance and Financial Holdings Ltd.
Companies Law	The Companies Law – 1999.
Contributions	The amounts deposited by members (or deposited for them) in a pension or provident fund.
Designated Bonds	CPI-linked government bonds which the State issues to insurance companies and pension funds, with a fixed interest rate and for a period set in advance. In life assurance – Hetz bonds are issued and in pension – Meiron and Arad bonds are issued.
Educational Fund	Provident funds which allow members to save money for training purposes and monies may be withdrawn after 6 years of membership. This product is considered as both a pension and a financial product.
Earned Premium	Premium with respect to the reported year.
Eliahu	Eliahu 1959 Ltd. (previously Eliahu Insurance Company Ltd.)
Fees	Amounts included in the premiums, designated to cover the insurer’s expenses (registration fees, policy fees, and levy fees).
Free Investments	The share of the assets which is not invested in designated bonds.
General Fund	A pension fund that may not invest in designated bonds.
Generali	Assicurazioni Generali S.p.A.
The Group and/or Migdal Group	Migdal Holdings and the companies held by it, owned fully or partially, whose Financial Statements are consolidated with Migdal Holdings' Financial Statements.
Income Tax Regulations	Income Tax Regulations (Rules for the Approval and Management of Provident Funds) – 1964.

Institutional Entity	An insurer and a managing company, as defined in the Law of Supervision.
Insurance Contracts	As defined in Note 1 to the Financial Statements, in the Definitions clause.
Insurance Fund	An insurance plan approved as per the Provident Funds Law and its provisions, as a provident fund, a provident fund for severance pay or a pension fund.
Insureds and/or Members	A life assurance insured person and a pension or provident funds member.
Investment Contracts	As defined in Note 1 to the Financial Statements, in the Definitions clause.
Investment Regulations and/or Regulations regarding Ways of Investment	Supervision of Financial Services (Provident Funds) (Investments Regulations Applying to Institutional Entities) - 2012 and/or the Regulations of Supervision on Insurance Businesses (Ways of Investment of Capital and Reserves of an Insurer and Management of Its Liabilities) – 2001, as the case may be.
Law of Supervision	The Law of Supervision of Financial Services (Insurance) – 1981.
Long Term Savings Assets	As defined in Clause 31a to the Supervision Law.
Managing Company	A company that manages a pension fund or a provident fund, and has a license from the Commissioner of Capital Market, Insurance and Savings at the Ministry of Finance, pursuant to Clause 4 to the Provident Funds Law.
Migdal Agencies	Migdal Holdings and Management of Insurance Agencies Ltd.
Migdal Capital Markets	Migdal Capital Markets (1965) Ltd.
Migdal Capital Raising	Migdal Insurance Capital Raising Ltd.
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.
Pension Fund	A paying fund to annuity as defined in the Provident Fund Law, which is not an insurance fund.

Premium	The insurance fees and other payments to be paid by the insured to the insurer, pursuant to the policy's conditions, including fees.
Provident Fund	As defined in the Law of Supervision of Provident Funds (provident funds include educational funds and exclude "pension funds" and "insurance funds").
Provident Fund Law	The Law of Supervision of Financial Services (Provident) – 2005.
Securities Law	The Securities Law - 1968.
Yozma for Self-Employed	Yozma Pension Fund for Self-Employed Ltd.

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

2. Group activity and the description of its business development

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

2.1 Company description

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

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

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

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

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

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

2.2 Description of the Company's control structure

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

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

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

2.3 The Group's holdings structure diagram

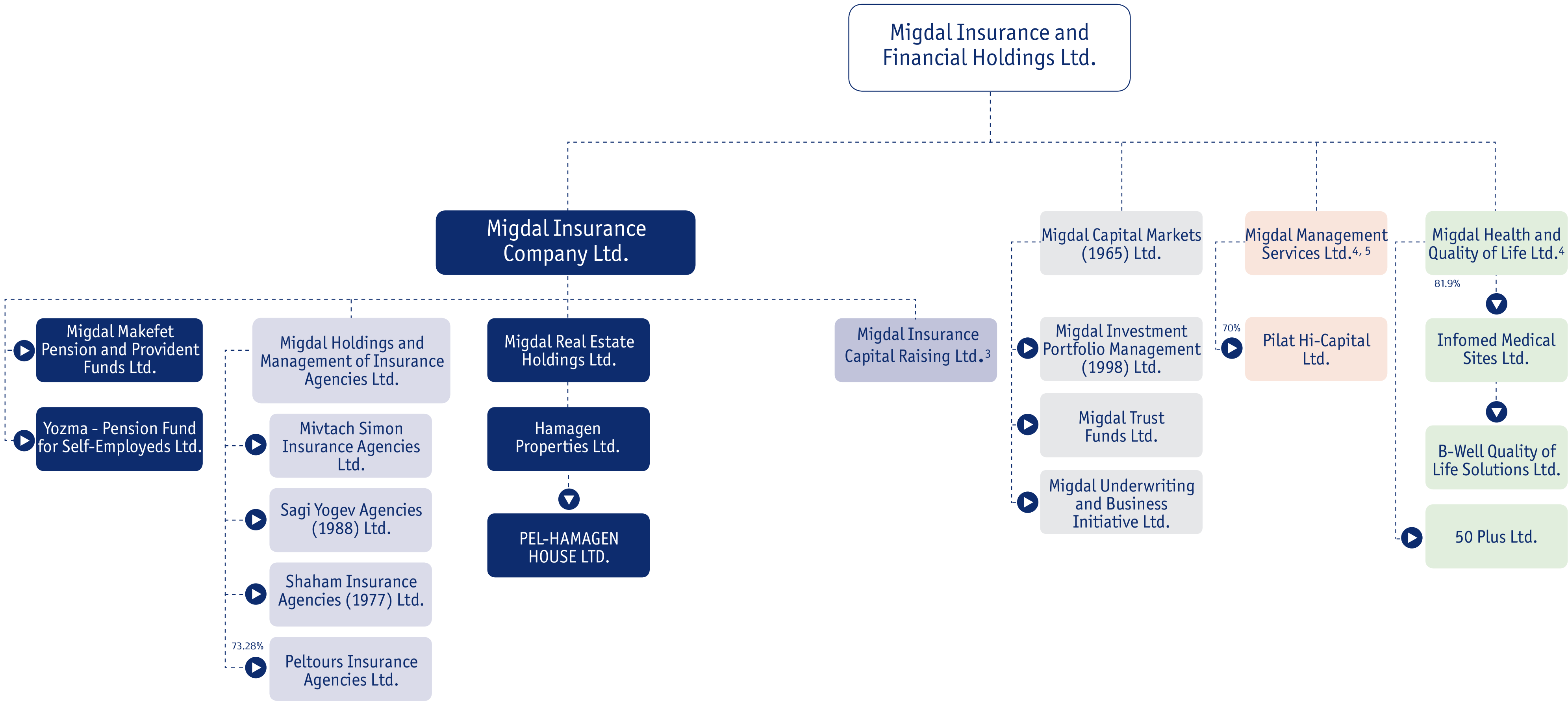
A schematic diagram of the Company's main holdings, just before the Report's publication[2] is presented below.

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

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

Group Holdings Structure

As of March 22nd, 2017



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.
5. In December 2016 Pilat from Pilat Hi-Capital Ltd., which was held by Migdal Management Services Ltd., was sold.

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

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

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

The year 2016 was characterized by significant fluctuations in the risk-free interest curve, and by the end of the year there was a certain decrease compared with the end of 2015. These fluctuations affected the Company's provisions for annuities.

Furthermore, there were also fluctuations in the prices of bonds and shares in the capital market, which affected the Company's investment income, such that by the end of 2016 there was a decrease in investment income achieved by the Group compared with 2015.

For additional details, see Clauses 1.2.1 and 3.3 in the Board of Directors' Report attached as Chapter 2 to this Periodic Report.

2.4.2 Other developments in the business environment, including material changes in legislative arrangements

The area of life assurance and LTS

The legislative arrangements that were published in recent years in general and last year in particular, brought about material changes in the area of pension insurance, reflected in recent years mainly in an increase in the sales of the pension product. However, recently there was an awakening in the sales of life assurance (managers’ insurance) products, with lower management fees compared with the past. At the same time, there is a decrease in sales of pension funds via agents. The aforementioned change is also reflected in a multitude of regulatory arrangements in the area of pension, mostly aimed at consolidating, simplifying, and increasing transparency of pension products, along with increasing competition in the area. Most of the changes in the area of life assurance and LTS are detailed in Clause 6.3 in Part B below.

Presented below is the summary of material regulatory provisions in the reported year:

(a) In March 2017, the Finance Minister signed the **Supervision of Financial Services Regulations (Provident Funds) Allocation of Designated Bonds in New Comprehensive Pension Funds) – 2017**, regarding a gradual change in the allocation of designated bonds (bearing guaranteed yield) between members in new comprehensive pension funds, such that designated bonds (bearing guaranteed yield) in new comprehensive pension funds will be allocated in a different manner between those receiving a retirement pension, savers over the age of 50 and savers under the age of 50, as set forth in the Regulations. As of the date of this Report, the Regulations have not yet been published in the official gazette.

For additional details, including the expected implications of the change in the allocation of designated bonds, see Clause 6.3.11 below.

(b) In June 2016, **Amendment No. 16 to the Provident Funds Law** (henceforth: "**Amendment No. 16**") was published, regarding the adjustment of various provisions in the Law to correspond with the collective labor agreement signed in February 2016, pursuant to which employers' payments and employees' deposits shall increase, such that the rate of payments to the employers' benefits component will be the same in all pension products. The implementation of Amendment No. 16 to the Law brought about an increase in the rate of deposits to pension insurance and an increase in the scope of premiums and contributions in the Company, for details see Clause 6.3.2 (c) below.

(c) In August 2014 the **Supervision of Financial Services Regulations (Provident Funds) (Payments to Provident Funds) – 2014 ("Payment Regulations")** were published, setting forth, *inter alia*, guidance regarding how employers should make deposits to pension products of their employees, managed by institutional entities, as well as regarding the information that employers must submit to institutional entities when performing the deposits. The Regulations came into effect gradually starting from February 2016 depending on the number of employees employed by each employer. For additional details, including expected implications for the Company, see Clause 6.3.7 below.

(d) **Separation between commissions and management fees**: in January 2017 Amendment No. 20 to the Supervision of Financial Services (Provident Funds) Law – 2016, regarding the prohibition on calculating the distribution commission paid to insurance agents based on the management fees that will be collected from a person enrolling in a provident fund, was published. For additional details, including the expected implications on the Company, see Clause 32.2.2 (a) below.

(e) **Default fund**: during 2016 the default fund mechanism pursuant to the Commissioner's Circulars from March 2016 and its Amendment from July 2016 ("**Default Fund Circular**") was implemented, and accordingly, the Ministry of Finance conducted a procedure for the election of default funds for the next two years, within which 2 small funds (that do not belong to the Group) were elected. The two small funds that were elected offer to new members who enrolled and who will enroll starting from November 1st, 2016, significantly lower management fees compared with the market. It should be noted that in February 2017 a **Draft for the Amendment of the Default Fund Circular** was published, regarding the period for the default agreements, in which the management fees that are collected are the maximum management fees permitted by the Law. For additional details regarding the Default Fund Circular see Clause 6.3.8 below.

(f) **Mechanism for the consolidation of accounts**: the mechanism for the consolidation of accounts, that was set within Amendment No. 13 to the Provident Funds Law (published in November 2015) states that if there is no other instruction given by the members, their pension accounts will be consolidated into their active accounts. The provisions regarding the implementation of the mechanism were set forth in various Circulars published by the Commissioner, published throughout 2016. For additional details see Clauses 6.3.10 and 26.5.11 below.

In this context, it should be noted that in January 2017 the "Follow me" regulation came into effect, pursuant to which, upon opening a new pension fund, the monies accrued in the old pension fund shall be automatically transferred to the new fund (for additional details see Clause 6.3.4 below).

(g) **The transfer of monies by old age annuity receivers**: in August 2016 a Draft for the Amendment of Supervision of Financial Services Regulations (Provident Funds) (Money Transfers between Provident Funds) – 2016 was published, regarding adding the possibility to transfer monies by old age annuity receivers, as well as adding the possibility to transfer monies from one investment provident fund to another investment provident fund, as well as from a “new account” pursuant to Amendment No. 13 to the Provident Funds Law, to an investment provident fund. For additional details, including the expected implications of the Draft on the Company, see Clause 6.3.5 below.

(h) **Transfer of policies with guaranteed annuity coefficien**t: in August 2016 an Amendment to the Circular published in December 2015 regarding marketing of life assurance policies with annuity coefficients embedding a guarantee for life expectancy, was published. The Circular allows the marketing of life assurance plans that combine yield-dependent savings and a guarantee for life expectancy, to insureds with such a life assurance policy, who are insured in another company, and who would like to transfer their monies. The Circular also includes provisions regarding the preservation of life assurance with life expectancy guarantee coefficients. For additional details see Clause 6.3.3 (b) below.

(i) **Investment provident fund** – in June 2016 Amendment No. 15 to the **Supervision of Financial Services Law (Provident Funds) – 2016** was published in the official gazette. The Amendment regulates the legal status of investment provident funds. Investment provident funds are a lump-sum savings instrument, in which an amount of up to NIS 70 thousand for every fiscal year may be deposited, in all the member’s investment provident funds, and the monies may be withdrawn at any time. For additional details see Clause 6.3.14 below.

For details, including the implications of the implementation of said Regulatory arrangements, see Clause 6.4 below.

The area of health insurance

In 2016 various regulatory provisions came into effect, affecting the characteristics of individual health insurance sold by insurance companies, the coverages that are extended and the way they are sold. The aim of the changes is, *inter alia*, increasing the competition, creating standardization in the various health insurance products, reducing their prices and adjusting them to the changing needs in the area of health.

The changes include the coming into effect of the standard policy in all insurance companies, for the coverage of surgeries and non-surgical alternative treatments, the cancellation of the mechanism for the reimbursement of medical expenses in case the surgeon or consultant are chosen, as well as the coming into effect of the change in the structure of health insurance policies, that will renew every two years (usually – automatically) under the same conditions or different conditions as per the Company’s discretion (and with the Commissioner’s approval). Furthermore, in the reported year regulatory changes regarding the way health insurance policies are marketed and sold came into effect. These include, *inter alia*, the coming into effect of provisions regarding the marketing of various insurance coverages sold together under one policy, the way riders are marketed, etc.

For details regarding the aforementioned regulatory provisions, including the expected implications on the Company as a result of their implementation, see Clause 9.3 below.

2.4.3 **The outline for the implementation of the Solvency II governance**
In February 2017, the provisions for the implementation of Solvency II ("**the updated provisions**") were published and transferred to the Knesset's Finance Committee.

The updated provisions were aimed at establishing a new solvency governance for insurance companies in Israel, based on the provisions of the EC/2009/138 Directive, called Solvency II ("**the Directive**") that was adopted by the European Union and is implemented in all the countries that are members of the European Union since January 2016.

As per the Directive, there are two levels of capital requirements:

(a) The capital required for maintaining insurance companies' solvency (Solvency Capital Requirement –"**SCR**").

(b) Minimum Capital Requirement ("**MCR**" or "**capital threshold**").

The updated provisions include, *inter alia*, transitory provisions for the implementation of Solvency II, for the period from June 30th, 2017 (at this time companies will have to comply with 60% of SCR) until December 31st, 2021 (when companies will have to comply with full SCR).

For additional details, including the IQIS5 drill conducted by Migdal Insurance regarding the compliance with capital requirements and its results, see Clauses 26.3.1 and 43 below, as well as Clause 4.2 in the Board of Directors Report and Note 7c4 to the Financial Statements.

2.4.4 **Recognized equity of insurers – Migdal Insurance**
In 2016 Migdal Insurance expanded its equity basis via second tier capital, and performed a bond issuance via Migdal Insurance Capital Raising, as detailed in Clause 4.2 below.

2.4.5 **Rating of Migdal Insurance and bonds raised via Migdal Capital Raising**
In September 2016 Midroog announced that it was decreasing Migdal Insurance's IFS rating from Aaa.il to Aa1.il, and as a result, there was a decrease in the rating of the subordinated bonds issued via Migdal Capital Raising from Aa1.il (hyb) to Aa2.il (hyb) for hybrid third tier capital and from Aa2.il (hyb) to Aa3.il (hyb) for hybrid second tier capital. The rating's horizon remained stable.

Furthermore, on September 15th, 2016 Midroog announced that its rating for the subordinated bonds (Series E) issued by Migdal Capital Raising is Aa3.il (hyb), as set forth in Clause 4.2 below.

For details see the Company's Immediate Report dated September 12th, 2016, Reference No. 2016-01-122005, as well as Migdal Capital Raising's Immediate Reports dated September 15th, 2016, Reference No. 2016-01-123625, and September 27th, 2016, Reference No. 2016-15-055125, all brought here by way of reference and Note 24e to the Financial Statements.

2.4.6 **Update of the remuneration policy for Senior Officers in the Company for the years 2017-2019 and the approval of the remuneration policy in institutional entities**

On December 30th, 2016 the Company's General Meeting approved an update to the remuneration policy for the years 2017-2019. Furthermore, the remuneration policy for institutional entities in the Group for 2017-2019 was also updated. For additional details regarding the update of the remuneration policy in the Company, see Clause 31.5.2 below.

2.4.7 **Changes regarding Directors in the Company and in Migdal Insurance**

(a) **Changes related to the remuneration of Senior Officers in the Company**

On December 30th, 2016 the Company's General Meeting approved an amendment in the terms of employment of Mr. Yohanan Danino, the Chairman of the Board of Directors of the Company and of Migdal Insurance, Mr. Ofer Eliahu, Migdal Insurance's CEO, and Mr. Eran Czerninski, the Company CEO. For details regarding said amendments, see Immediate Reports set forth in Clause 2.4.6 above, as well as Regulation 21 in the Additional Data on the Corporation chapter and Note 38j4 to the Financial Statements.

For additional changes in the Group's Senior Officers see Clause 31.7 in Part D below.

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

(1) On August 13th, 2016 Mr. Yigal Bar Yossef ended a term of 9 years as an External Director in Migdal Insurance, and on September 4th, 2016 he ended his office as an external Director in Migdal Holdings. See also the Company's Immediate Report dated August 14th, 2016, Reference No. 2016-01-102619, brought here by way of reference.

(2) On September 6th, 2016 Ms. Ronit Bodo began her office as External Director and as a member of the Audit Committee in Migdal Insurance, after her appointment was approved by Migdal Insurance's Board of Directors on September 1st, 2016, and after the Commissioner informed on September 6th, 2016 that she does not object to the appointment. The Company intends to appoint her as an External Director also in other institutional entities controlled by the Company, from time to time, when the need for such appointment arises and subject to the composition of the Board of Directors in such entities, at the relevant time, and with the Commissioner's approval.

On October 6th, 2016, after receiving the General Meeting's approval, Ms. Bodo started her office as an External Director in the Company. For details see the Company's Immediate Reports dated September 7th, 2016, reference No. 2016-01-1199380, and October 6th, 2016, Reference No. 2016-01-060534, and October 9th, 2016, reference No. 2016-01-061053, all brought here by way of reference.

(3) On February 8th, 2017, Mr. Amos Sapir ended his term as a Director in the Company and in Migdal Insurance. See also the Company's Immediate Report dated February 8th, 2017, Reference No. 2017-01-014109, brought here by way of reference.

(4) On February 8th, 2017, Ms. Ronit Abramson ended her term as a Director in the Company and in Migdal Insurance. See also the Company's Immediate Report dated February 8th, 2017, Reference No. 2017-01-014118, brought here by way of reference.

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

On February 3rd, 2016 the Company's General Meeting approved, subject to the Court's approval, a transaction with Eliahu for the absorption of the general insurance portfolio of Eliahu, that includes claims (outstanding and future) originating from general insurance policies sold by Eliahu until December 31st, 2012. The portfolio is in run-off, and most outstanding claims are in CMBI ("**the transaction of the claims portfolio acquired in general insurance**").

On April 21st, 2016, after receiving the Court's approval on March 31st, 2016, the transaction for the acquisition of the claims portfolio in general insurance was completed.

On August 4th, 2016 the Company's General Meeting approved an amendment to the said claims portfolio acquisition agreement. The amendment was mainly with respect to the calculation of indirect expenses that Eliahu had to transfer to Migdal Insurance upon completion of the agreement.

For additional details see the Company's Immediate Reports dated: December 29th, 2015, Reference No. 2015-01-081583; April 24th, 2016, Reference No. 2016-01-054871; June 28th, 2016, Reference No. 2016-01-068965 and 2016-01-068974, as well as August 4th, 2016, Reference No. 2016-01-097930, all brought here by way of reference, as well as Note 38e2 to the Financial Statements.

2.4.9 **Migdal Holdings shelf prospectus**

On January 4th, 2017 the Company published a shelf prospectus, after receiving all the necessary approvals as required by the Law.

For additional details, see the Company's Immediate Report dated January 4th, 2017, Reference No. 2017-01-001473, as well as Note 40b 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) ("**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, foreign travel insurance, and personal accidents insurance in which the insurance period exceeds one year.

3.3 **The area of general insurance (area C)**

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

3.4 **The area of financial services (area D)**

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

3.5 **Other activities which do not constitute an area of activity**

It should be noted that in addition, the Company has other activities, included in the Company's consolidated Financial Statements under "other areas of activity" or "not attributed to areas of activity", in which the Group engages. These activities include mainly the holding of insurance agencies, investment activity performed not against various insurance reserves, but against equity required for insurance businesses and the capital surplus of companies in the Group, as well as related/associated activities to the Group's activity[3] (mainly in the area of quality of life and Third Age). The activity of companies engaging in the above is non-material.

4. Company's capital and transactions in its shares

4.1 **Company's capital in the last two years until the publication date of this Report**

In the last two years there were no additions to the Company's capital.

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

4.2 **Raising of second tier capital**

On August 17th, 2016 Migdal Insurance Capital Raising Ltd. ("**Migdal Capital Raising**"), a subsidiary of Migdal Insurance, published a shelf prospectus ("**the shelf prospectus**"), pursuant to which it may issue bonds and options for bonds in the future, and they could serve as hybrid second and third tier of Migdal Insurance.

In September 2016 Migdal Capital Raising issued 901,115,000 (Series E) registered bonds of NIS 1 par value each, pursuant to the shelf prospectus and pursuant to the shelf offering report dated September 27th, 2016.

[3] 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 segments of activities. For 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.

The consideration of the bond issuance (Series E) was deposited at Migdal Insurance, and was recognized by the Commissioner as hybrid second tier capital at Migdal Insurance, subject to restrictions on the maximum amount of hybrid second tier capital. Migdal Insurance undertook to bear all the amounts required for the payment of bonds (Series E) to holders.

For details regarding the rating of bonds (Series E), see Clause 2.4.5 above.

For details see the Company's Immediate Reports dated August 17th, 2016, Reference No. 2016-01-105484, September 15th, 2016, Reference No. 2016-01-123688, and September 29th, 2016, Reference No. 2016-01-057117 brought here by way of reference, as well as Note 24e to the Financial Statements.

4.3 **Details of material transactions performed by interested parties in the Company in the Corporation's shares**

In the last two years there were no material transactions in the Corporation's shares by interested parties in the Company.

5. Dividend distribution

On March 1st, 2017 the Company's Board of Directors approved the distribution of a dividend in the amount of approx. NIS 110 million, to be distributed on March 30th, 2017. On March 22nd, 2017 the Company's General Meeting approved such dividend distribution.

The monetary sources for the dividend are approx. NIS 100 million received from Migdal Capital Markets, pursuant to a capital reduction it performed with the Court's approval, as well as cash balances in the Company's accounts. As of the date of this Report, the balance of returned earnings as defined in Clause 302 to the Companies' Law) after the deduction of the future dividend as aforesaid, is approx. NIS 4,648 million. It should be clarified that this balance is no indication of the Company's future ability to distribute dividends.

For additional details see the Company's Immediate Report (corrective) dated March 5th, 2017, Reference No. 2017-01-021450, brought here by way of reference, as well as the Company's Immediate Report dated March 22nd, 2017, Reference No. 2017-01-027534, brought here by way of reference.

For details regarding dividends paid/declared by the Company to its shareholders in the last two years (including dividend declared but not distributed), including dividends distributed by Migdal Insurance and Migdal Capital Markets to the Company, as well as legal restrictions that might affect dividend distribution in the Company and in the Group's institutional entities, see Clause 27.1.2 in Part D below, Clause 4.2 in the Board of Directors report, as well as Notes 7c and Note 40a to the Financial Statements.

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

Area A – Life Assurance and Long Term Savings

6. Products and services

6.1 General

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

The Group markets products in all the lines of the area of life assurance and LTS – life assurance, various types of pension and provident funds, including educational funds[4]. The Group's activity in this area is conducted by Migdal Insurance and its subsidiary: Migdal Makefet, which manages the Group's new pension funds ("**Makefet Ishit**" and "**Makefet Supplementary**") and all the Group's non-insurance provident funds, as well as by Yozma for Self-Employeds, which manages an old pension fund, Yozma Pension Fund for Self-Employeds.

The mix of products in the area of life assurance and LTS is affected by regulatory arrangements in the sector within laws, regulations, circulars and instructions of the Commissioner aimed at performing a regularization in the area, encouraging long term savings of the saving public, setting rules and restrictions, by granting intensives such as tax benefits to pension savings and terms of withdrawal, setting provisions in Labor Laws that compel employers to provide pension insurance to their employees, issuing designated bonds etc., which constitute key considerations for customers in choosing the area's products.

As of September 30th, 2016, 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[5].

The regulatory arrangements implemented in recent years, including the regularization of annuity coefficients, the reform in management fees, and the drafts of pending arrangements as of the publication date of the Report, whose summary is described below, brought about, and are expected to bring about material changes in the area of life assurance and LTS. For additional details and the implications on the Company see Clauses 6.3 and 6.4 below, as well as Clause 26.5 in Part D below.

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

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

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

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[4] Educational funds should be considered as medium-term savings before the age of retirement.
[5] Based on the processed data provided in the Ministry of Finance's reports, as of September 30th, 2016, published in the Ministry of Finance's website (Managerial Reports, pensyanet.mof.gov.il, gemelnet.mof.gov.il).

Pension plans: in general, the product includes a combination of mutual coverage for risk and savings (annuity, disability pension and survivors' pension), and they are laid down in the funds' Articles of Association.

Provident funds: the product includes savings, both for the long term and the medium term, depending on the relevant product.

Key differentiating characteristics – the key differentiating characteristics between the various products marketed by Migdal Insurance are presented below:

	Life assurance	Pension funds	Provident funds[6]
Type of engagement	Contract (insurance policy)	Articles of Association	
Changing the terms of engagement	May be changed only pursuant to the contract's conditions and subject to the Law.	May be changed from time to time, with the Commissioner's approval.	
Insurance coverage for risk	Within life assurance, risk for the event of death, disability/PHI and life expectancy insurance may be purchased, which may be adjusted to the insureds' needs, all depending on the policy's conditions..	Within pension funds, usually there is coverage for survivors in the event of death, and a coverage for PHI, and the coverages may be adjusted to the insureds' needs pursuant to the Articles of Association	Beginning from January 2013, in addition to the coverages set forth in the funds' Articles of Association, managing companies of provident funds may market insurance coverages to their members via individual policies for death risks, for disability risks and for release from payment. As of this date, the Group does not market such coverages. In addition, managing companies of provident funds may buy collective insurance policies against the event of death and PHI, as well as collective policies against the event of death to members of educational funds managed by them.

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

	Life assurance	Pension funds	Provident funds[6]
Mutual insurance	There is no mutual insurance. The engagement between the insurers and the insureds is in a contract.	A kind of mutual insurance between members/ pensioners in the fund. Actuarial assumptions, which are the basis for the members'/pensioners' rights, are examined from time to time as per the actual situation. If there was a change in them, good or bad, the members'/pensioners' rights are affected by these changes, and the members bear, jointly, all the fund's actuarial surplus or deficit pursuant to the fund's Articles of Association.	There is no mutual insurance
Annuity coefficient	In policies marketed until the end of 2012, insureds in annuity plans benefit, in some annuity tracks, from an annuity coefficient that is guaranteed against changes in life expectancy, pursuant to the policy's conditions. Beginning from January 2013, the marketed policies include guaranteed annuity coefficients only for insureds in annuity plans who are over 60 years of age on the date of the sale.	The coefficient is not guaranteed and it is affected by demographic and financial variables, as set forth in the fund's Articles of Association.	There is no annuity coefficient.
Identity of the beneficiary	Full flexibility in choosing the beneficiaries, except for severance pay paid to survivors, as defined in the Severance Pay Law.	The identity of survivors is set forth in the Articles of Association, and in the absence of survivors, there is flexibility in choosing the beneficiaries.	Full flexibility in choosing the beneficiaries, except for severance pay paid to survivors, as defined in the Severance Pay Law.

	Life assurance	Pension funds	Provident funds[6]
Issuing designated bonds	**For policies sold until 1990** – Government designated bonds aimed at guaranteeing CPI-linkage plus interest were issued to insurance companies ("**Hetz bonds**"). Accordingly, most life assurance plans sold until then were guaranteed-yield plans (CPI-linked plus interest), and insurance companies invested most of the reserves in Hetz bonds, and the balance in free investments as per the restrictions set forth in the legislative arrangements. These plans are called "**guaranteed-yield**" or "**non-profit participating**"[7]. In these policies, management fees from accrual were not determined, and insurance companies benefit from the difference between the obligations towards the insureds as set forth in its insurance policies, and investment returns (both from free investments and in Hetz bonds) ("**spread**" and/or "**financial spread**"). **For policies sold during 1991 and thereafter** – the insurance plans that are offered do not guarantee yields to insureds, and the issuance of Hetz bonds for insurance companies in their respect was reduced, and in 1992 it was completely discontinued. [8]. The savings monies are invested in free investments (except monies invested in Hetz funds in policies marketed during 1991), and the balance of accrued savings depends on the returns on the insurer's investments **("profit participating plan" or "yield dependent plans" or "yield-dependent insurance"**).	Beginning from 2004, new comprehensive pension funds and old pension funds (closed to new members)[9]. – are entitled to invest 30% of all their funds in designated bonds[10]. For details about the new regulations regarding the allocation of designated bonds, dated March 2017, see Clause 6.3.11 below.	As of this date, no designated bonds are issued to provident funds in the Group[11].

[7] Throughout the years, the Group redeemed, as per the Ministry of Finance's approval, some of the designated bonds in order to increase yield, and the reserves were invested in free investments. The Group may not reacquire designated bonds 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 decline in interest rate on reserves, see also Note 37b3b)(5) to the Financial Statements.

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

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

[10] The effective interest rate guaranteed in designated bonds for new pension funds is currently 4.86% (in addition to linkage differences). (It should be noted that there are series of designated bonds issued in the past, with an effective interest rate of 5.05%). The current effective interest rate guaranteed in designated bonds for old pension funds is 4.86% (in addition to linkage differences). (It should be noted that there are series of designated bonds issued in the past, with an effective interest rate of 5.57%).

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

6.3 Key trends and changes in the area

The pension insurance market is undergoing a material change that encompasses all its components – pension products, distribution channels, and customers.

In the last years, the change is mainly reflected in a strengthening of the pension product within new sales of LTS products, along with an erosion in average management fees in the market. Recently there was a revival in the sales of life assurance products (managers' insurance), via agents, with lower management fees compared with the past. Along with this increase in the sale of life assurance, there is a trend of decrease in new sales in the pension funds line via agents.

The above change is also reflected in a multitude of regulatory arrangements in the area of pension, mainly aimed at:

- Consolidating, simplifying, and increasing transparency of pension products, *inter alia*, through provisions to standardize the Articles of Association of pension funds and standard conditions in PHI policies.

- Allowing the transfer of life assurance policies with guaranteed coefficients, as well as a proposal allowing the transfer of annuities, a reduction of management fees and a price decrease, *inter alia*, through provisions regarding the default fund, the consolidation of accounts and higher involvement by the Commissioner in the approval of tariffs.

- Encouraging the entry of competitors to the large insurance companies and to arrangement managers, *inter alia*, by introducing operating companies and salary bureaus to the pension operation world, granting built-in advantages to small players (for example: in the procedure for the election of default funds).

- Encouraging the area of provident funds, *inter alia*, by increasing the supply of provident products, such as investment provident funds and Savings for All Children.

- Placing restrictions on agents and arrangement agencies to engage both in marketing and in providing operational services.

- Prohibiting the existence of a relationship between the distribution commissions paid to insurance agents and the management fees paid to the provident funds, which may affect the way remuneration is paid on LTS sales and the mix of sales of various products made by agents and through direct sale channels.

- Changing the way designated bonds (bearing guaranteed yield) are allocated in new comprehensive pension funds between receivers of retirement pension, savers aged over 50 and savers under the age of 50.

Presented below are the most significant changes that occurred in the area in recent years:

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

In insurance plans recognized as provident funds, the legislator implemented several law provisions, mostly aimed at encouraging leaving the monies accrued in the pension savings for old age retirement annuity, thus increasing the amount of annuity after retirement. These changes in regulations have not changed the rules regarding monies deposited before the changes came into effect[12], however, they changed the rules applying to money depositing in these plans from then on.

Accordingly, today it is not possible to deposit monies in provident funds for lump-sum savings, and all the monies that are deposited (regardless of the product in which they are deposited), are aimed for annuity only as of the age of retirement.

6.3.2 **Mandatory pension insurance**

(a) 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.

(b) In June 2016 the **Expansion Order for the Increase of Pension Allowances** was published in the official gazette. Within the Order, The Minister of Economy and Industry expanded the collective agreement that was signed in February 2016 (and was amended in April 2016), and set forth agreed-upon and clear criteria regarding deposits to various provident funds, along with an increase in the amount of deposits. This agreement was expanded to all employees in Israel by the aforesaid Order. Below are the Order's key points: (1) the deduction from employees' salaries for the benefit component will increase to 5.75% of the determinant salary starting from July 1st, 2016, and to 6% starting from January 1st, 2017; (2) employers' deposits for the benefit component will increase to 6.25% of the determinant salary starting from July 1st, 2016, and to 6.5% starting from January 1st, 2017; (3) employers' deposits shall include payment in respect of the acquisition of PHI insurance at a rate required for guaranteeing 75% of the employees' salary, and at any event, employers' deposits for the benefit component shall not be less than 5% of the determinant salary; (4) if there will be need for increasing costs in order to acquire PHI insurance, the total cost for employers for the acquisition of PHI insurance together with employers' deposits for the benefit component shall not exceed 7.5% of the determinant salary; (5) the rate of employers' deposits for severance pay will be as set forth in the agreement signed with the employees, and in any event not less than 6% of the determinant salary; (6) if employers had different deposit rates for pension funds, provident funds or insurance funds, employers may, for existing and new employees, set the deposit rate to the one customary in the pension fund, provided it is not less than 6% as aforementioned, pursuant to the conditions specified in the Order; (7) for employees insured by pension products that are not pension funds, and their employers allocate 8.33% to severance pay for them, and to whom Clause 14 to the Severance Pay Law – 1963 applies, their employers shall continue with the same deposit, and Clause 14 aforementioned shall continue to apply for them; (8) employers and employees may decide to deposit higher rates for the severance pay component.

[12] Before the regularization came into effect, monies deposited in provident funds could have been withdrawn as a lump sum.

(c) In June 2016, **Amendment No. 16 to the Provident Fund Law** was published, regarding the adjustment of the provisions of Clause 20 to the Provident Fund Law to the collective agreement aforementioned. In order to adjust the Law provisions to the agreement, it was set forth that if the Law or the agreement set a stipulation, pursuant to which employers' deposits for the employers' payments component in a certain provident fund are at a certain rate of the employees' salary and includes employers' payment for PHI insurance, and the deposit rate for another provident fund is lower, the provisions of the Law or of the collective agreement shall not be considered as a stipulation to employers regarding the deposit rate for employees for a certain type of provident fund, provided employees will be entitled to a deposit rate that is not less than the one set forth in the Provident Fund Law. For the period from February 5th, 2106 until July 1st, 2016, the Provident Fund Law determines that the rate should be the one set forth in the Law or in the agreement for the specific type of provident fund. For the period between July 1st, 2016 and December 31st, 2016, the Provident Fund Law determines that the rate is 6.25%, and from January 1st, 2017, the rate is 6.5%.

(d) In December 2016 the **Economic Efficiency Law (Legislative Amendments to Implement the Economic Plan for Budget Years 2017-2018) – 2016 ("the Economic Efficiency Law")** was published, setting the duty on self-employeds to deposit monies for pension. The Economic Efficiency Law regulated several changes to the Income Tax Ordinance, the Provident Fund Law and the NII Law, mainly: (1) self-employeds will have to make deposits to pension funds in respect of taxable income at the rates detailed in the Law, with a differentiation between the part of taxable income that does not exceed half the average income in the economy ("**AIE**") and the part of taxable income that requires deposit, and that exceeds half the AIE and does not exceed the AIE; (2) from aforementioned deposits, an amount will be allocated to the component of savings for unemployment, that is the lower of the two – one-third of all payments made by the self-employeds to pension funds, or the amount set forth in Clause 9 (7a) (a) (2) to the Income Tax Ordinance – approx. NIS 12,230 as of 2016); (3) self-employeds earning more than 12 times the minimum wage per year and did not make allowance to pension funds will undergo collection procedures, and in the cases defined by the Law, will even have to pay fines; (4) amounts withdrawn as unemployment allowance from pension funds shall be considered as wages pursuant to Clause 3 to the Income Tax Ordinance; (5) self-employeds may withdraw the unemployment component from pension funds, as an exempt income, or as a taxable income, thus keeping the tax exemption on monies to the date upon which they will withdraw annuities; (6) there will be changes to the Provident Fund Law, that will allow withdrawing monies from funds by unemployed self-employeds, pursuant to the conditions and caps set forth by the Law.

For additional details regarding the implications of Amendment No. 16 to the Provident Fund Law, see also Clause 3.3 in the Board of Directors' Report.

The implementation of all the provisions set forth above, especially Amendment No. 16 and the provisions related to mandatory pension for self-employeds have increased and in the Company's estimation shall further increase the rate of deposits to pension insurance, and increase the scope of premiums and contributions received by the Company.

Furthermore, the Company estimates that the implementation of provisions as to the mandatory pension arrangements for self-employeds, may bring about an increase in the scope of new sales.

6.3.3 **Annuity coefficients reform**

(a) **Restrictions regarding the marketing of policies with a guaranteed annuity coefficient**
In the beginning of 2013, and pursuant to the provisions set forth in a Circular issued by the Commissioner in November 2012, insurance companies ceased selling life assurance plans that combine savings[13], with conversion coefficients that embed a guarantee for life expectancy ("**guaranteed annuity coefficient**")[14], and began marketing life assurance plans that combine savings with no guaranteed annuity coefficients. In these plans, the annuity conversion coefficient will be determined upon retirement, just before receiving the first annuity, as per the terms set forth in the plan. This reform contributed, *inter alia*, towards preferring the pension product over life assurance in the sale of new products.

(b) **Mobility of policies with guaranteed annuity coefficient**
"Old" policies with guaranteed coefficients (written until December 2012) were considered, until recently, as having a "natural protection" (in insurance companies' point of view) due to the mobility restriction that applied to guaranteed coefficients (it was impossible to transfer the policies with the guaranteed coefficients from one insurance company to another, while maintaining the guaranteed coefficient, as set forth above).

In December 2015 the **Circular regarding Marketing of Life Assurance policies that Include Annuity Coefficients that Embed Guaranteed Life Expectancy** was published. The Circular allows insurance companies to market life assurance plans that include yield-dependent savings, with a guaranteed annuity coefficient against changes in life expectancy ("**Policies with guaranteed annuity coefficient**"), to insureds who have policies with guaranteed coefficients in another insurance company, and who would like to transfer their savings. The Circular includes instructions regarding the marketing of a life expectancy appendix which will be priced separately, and its cost will be dynamic depending on changes in the risk of higher life expectancy.

In August 2016, **an Amendment to the Circular** was published, which included several changes: (1) it was clarified that the life expectancy coverage appendix shall include details regarding the maximum premium rate that may be charged, and not the amount, and insurers will give disclosures regarding the actual amounts that are collected; (2) it was clarified that the collection of a premium rate in respect of the life expectancy coverage appendix will be possible only if upon the coming into effect of the new policy maximum management fees are collected, or in the case of a transferred policy a premium is collected for the coverage of life expectancy; (3) insurers will be required to be consistent as to the calculation assumptions and the actuarial methods used for the calculation of annuity reserves in the Financial Statements

[13] These plans allow withdrawing the monies as a monthly annuity.
[14] Under certain conditions, pursuant to the Law and to the Commissioner's guidance, life assurance policies with guaranteed annuity coefficients may be marketed to people whose age is at least 60 years on the date of the marketing and selling of the policies.

for policies managed by the Company with guaranteed life expectancy coefficients.

The aforesaid Circular, including the Amendments thereof, did not affect the level of mobility of these policies in the reported year, and competition did not start in this area. However, competition may increase in the future, due to the possibility to market life assurance plans with guaranteed annuity coefficient as aforementioned.

(c) **Update of demographic assumptions related to the calculation of the reserves**

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

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

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

6.3.4 **Regularization of management fees/additional management fee arrangements**

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

The regularization set forth a cap for the collection of management fees in pension savings products, pursuant to which management fees are collected both from current deposits and from accrual, and it includes various provisions aimed at increasing transparency regarding management fees vis-à-vis insureds and members.

The regularization regarding management fees brought about an erosion in management fees, a trend that accelerated in 2016, *inter alia*, since pension savings may be transferred, and due to the regularization regarding the consolidation of accounts (for details see Clause 6.3.10 below), and due to the management fees rates that were set in the competitive procedure for the election of selected default funds (see Clause 6.3.8).

In addition, in January 2017 the "**Follow me**" regularization came into effect, pursuant to which, upon the enrolling of a member to a new pension fund, as a default (and in the lack of a refusal) the monies "frozen" in the other pension funds shall be transferred to the new fund (for details see Clause 6.3.10 below). The regularization described above, together with the possible implications of the amendment of Regulations regarding the transfer of monies between provident funds, if it is approved (for details see Clause 6.3.5.below), might bring about a continued erosion of management fees.

For details regarding additional regulatory arrangements that were published in the reported period and are related to management fees, see Clauses 26.5.6 and 32.2.2 in Part D below.

6.3.5 **Policy transfer by receivers of old annuity and investment provident funds**

In August 2016 a Draft for the **Amendment of the Supervision of Financial Services Regulations (Provident Funds) (Money Transfers between Provident Funds) – 2016** was published, regarding adding the possibility to transfer monies by old age annuity receivers, as well as adding the possibility to transfer monies from one investment provident fund to another investment provident fund, as well as from a “new account” pursuant to the Supervision of Financial Services (Provident Funds) Law - 2005, to an investment provident fund. Furthermore, within the Amendment, the transfer periods were shortened, as detailed below: (1) it is proposed to permit the transfer of monies from one investment provident fund to another investment provident fund, and from an investment provident fund of a member who reached the age of retirement to a pension fund; (2) it is proposed to cancel the restriction on the transfer of monies if there is a loan that was not fully paid on the monies; (3) it is proposed to set that the time limit for executing the transfer will be shortened to five business days instead of ten business days, and that it will not be possible to cancel the request after a detailed and signed request was transferred to the receiving fund.

As per the Company’s estimation, the Draft Regulations, in its current wording, might decrease the rate of management fees that will be collected from annuitants in the period in which the annuity is paid. In light of the comments to the draft wording that were submitted to the Commissioner, it is impossible to assess whether the Draft will be approved as-is, and therefore it is impossible to assess its exact implications, which will depend, *inter alia*, on the extent of competition between managing companies and/or insurance companies (as the case may be) in the market, on the behavior of distribution and customer advisory channels.

6.3.6 **Transparency in pension data - the pension clearing house and regularization regarding the transfer of data in a "unified structure"**

The pension clearing house, which began operating in 2H13, is aimed at serving as a key data broker in the pension savings market for savers and employers, along with the regularization of work interfaces between pension producers, the pension license holders and the other players in the pension market (employers and employees). For this purpose, starting from 2013, and gradually until 2017, all license holders must conduct certain activities only through the pension clearing house. For example, all transfers of information between institutional entities and license holders regarding advice or marketing of pension products or regarding receiving information, the transfer of documents from license holders to institutional entities, the update of customers’ personal details in institutional entities, etc., shall be conducted via the clearing house, unless there is a designated system between the institutional entities and license holders.

The Company is operating vis-à-vis the clearing house as required by the Law, and as of the date of this report, the scope of activity vis-à-vis the clearing house is increasing, however, it is not material compared with the Company's entire operational activity.

6.3.7 **Arrangements vis-à-vis employers - Regulations regarding payments to provident funds**

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

The Regulations came into effect on a gradual basis beginning on February 2016 in accordance with the number of employees employed by the employer.

The Company is implementing the provisions of the Payment Regulations from the moment they came into effect. Until the date of this Report the Company has processed most of the files submitted to it for the reported period. However, the process suffers from "teething problems" in the entire pension savings market, including in the Company. This is reflected in an increase in unassigned deposit amounts (deposits that have not yet been assigned to insureds' accounts). The Company is striving towards reducing the unassigned amounts, as aforementioned.

Starting from February 2017, the provisions of the Payment Regulations apply also to "middle-size" employers (between fifty and one hundred employees), and starting from 2018, the Payment Regulations will come into effect completely, and their provisions shall apply to all employers in Israel. The Company is of the opinion that when the Regulations shall apply to all employers, there will be a significant increase in the Company's activity, pursuant to the provisions of the Payment Regulations. The implementation of these Regulations requires a complex operational preparation over time both on behalf of employers, institutional entities, and the operating companies – arrangement managers or other operators ("**the operator/s**"), and in the opinion of the Company, the improvement expected in the quality of data that will be received from employers will allow the Company, after integrating the activity, to increase the efficiency of collection and the management of the relations vis-à-vis insureds/employers.

In March 2017 the **Updating Circular regarding the Standard Structure Circular, including an Amendment to the Employers' Interface at File Structure Level**, was published. Within the Amendment, the requirement for presenting the policy number was cancelled. The aforesaid Circular is supposed to come into effect in November 2017.

Pursuant to this measure, insureds and employers can no longer instruct, via the operators, how to split monies between policies in a unique manner best suited to the insureds. This act of making deposits with the lack of splitting instructions might bring about a split of monies in a standard manner, and not necessarily according to the customers' desire, and in other cases, might complicate the procedure if an additional interim stage for the split will be required.

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

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

The Circular sets forth that managing companies of provident funds shall not allow the payment of employers' deposits to provident funds in respect of employees who did not fill in a form for enrolling to the provident fund managed by it, and shall not allow the enrollment of such employees to the provident fund, unless it is one of the following default funds:

(a) An elected default fund, which is one of at least two new comprehensive pension funds that were determined by the Commissioner.

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

On August 1st, 2016 The Ministry of Finance announced the results of the procedure for the election of the default funds for the next two years, within which 2 small funds were elected (they offered significantly lower management fees than customary in the market, for new members who will enroll starting from November 1st, 2016). Pursuant to the Commissioner’s guidance, the management fees offered by the default funds shall be effective for all members who enroll in the next two years, for ten years.

The Company estimates that the election of two small funds as default funds, as well as the duty to conduct competitive procedures by employers as aforementioned, may have material implications on the market, including on the Group, which could reduce management fees charged from new members and/or existing members and undermine the Group’s income (mainly in Makefet, as the managing company of new pension funds, provident funds and educational funds). The above did not have a material impact on the scope of assets managed by Makefet as of December 31st, 2016.

In February 2017 a **Draft Amendment to the abovementioned Circular** was published, stating: (1) managing companies will reimburse monies deposited by employers without a deposit form or without being defined as a default fund, and a relevant explanation regarding the reimbursement shall be attached, with the reason for reimbursement, informing that the employees were not enrolled to the provident fund, with all that this entails, and (2) regarding the application of the Circular, it was clarified that the provision determining that the default agreements that were effective when the original Circular was published shall remain in effect until March 31st, 2019, and shall not apply to default agreements in which management fees are the maximum management fees permitted by the Law, pursuant to the Management Fees Regulations.

The Company is of the opinion that the Draft's provisions are expected to reduce the scope of sales, mainly through agents, continue the erosion in the rate of management fees in pension, as well as hurt the Company's profitability.

6.3.9 Standard Articles of Association for comprehensive pension funds

In September 2016 the **Draft Circular regarding Provisions as to the Rights and Duties of Members in New Comprehensive Pension Funds' Articles of Association** was published. Pursuant to the Draft Circular, there will be a standard wording of the Articles of Association for all pension funds. Below are the Circular's key points: (1) Pension funds' Articles of Association will be pursuant to the standard Articles of Association's wording for comprehensive pension funds, attached to the Circular; (2) managing companies may set provisions that are different from the standard Articles of Association regarding issues detailed in the Circular, subject to receiving the Commissioner's approval in advance; (3) changes that may be made to the standard Articles of Association are in the following cases: coverage for a disabled relative, coverage rates that are different than those set in the disability and survivors appendix, default regarding members who did not specify the insurance coverage that should apply to them, waiver of a qualification period in certain cases and setting a default track as detailed in the standard Articles of Association; (4) managing companies shall publish on the Internet the documents and information detailed in the Circular; (5) Articles of Association should be submitted to the Commissioner's approval by September 1st, 2017, and they should be updated by January 1st, 2018; (6) transition provisions regarding the rights of existing members were set.

The Company estimates that the regulatory arrangements regarding the setting of standard Articles of Association for pension funds will reduce the differentiation between various products, and the variety of pension products will become very similar.

6.3.10 Consolidation of existing accounts in pension funds

Pursuant to Amendment No. 13 to the Law of Financial Services[15] (published in November 2015), unless the members do not specifically order otherwise, accounts in pension funds of members shall be consolidated into their active pension account.

Accordingly, in May and June 2016 **Circulars regarding the Consolidation of Existing Accounts in new Pension Funds**, guidance for preparations and a temporary order were published, with practical instructions as to the consolidation of accounts.

These provisions set, *inter alia*, a procedure, timetables and the duty to report and notify members regarding the transfer of monies from inactive accounts to active accounts.

In this context, it should be noted that in January 2017 the "Follow me" regulation came into effect, pursuant to which, upon the enrollment of a member to a new pension fund, as a default procedure (and in the

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

absence of a refusal) the monies “frozen” in the other pension funds shall be transferred to the new fund.

The implementation of the provisions regarding the consolidation of accounts, especially in light of the regulatory regularization in respect of the elected default fund (see Clause 6.3.8 above) might cause a decrease in the scope of assets managed in frozen accounts in Migdal Makefet's pension funds (since frozen accounts of members in Migdal Makefet will be consolidated with the members' active accounts in other managing companies), and accordingly, might decrease the number of members in Migdal Makefet's pension fund. On the other hand, the consolidation of accounts may increase the scope of monies managed in respect of the active accounts of members in Migdal Makefet's pension fund, as a result of the transfer of monies from frozen accounts in other pension funds to the accounts of active members from other managing companies to Migdal Makefet. These changes are expected to increase competition and cause a decrease in the management fees rate. As of December 31st, 2016, the implementation of the Circular did not have a significant impact on the scope of assets managed by the Company in the area of pension.

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

In March 2017 the Finance Minister the Finance Minister signed the **Supervision of Financial Services Regulations (Provident Funds) (Imputation of Designated Bonds in New Comprehensive Pension Funds) – 2017**. The Regulations deal with the implementation of the recommendations of the Report for Increasing Certainty in Pension Savings, which was published in January 2016, into guidance. The Report suggested alternatives to the allocation of designated bonds between members without executing a change in the total allocation framework of designated bonds. The Regulations set provisions as to the way to impute yield to members and annuitants in new comprehensive funds and when the imputation is made, including regarding the imputation of yield on designated bonds and when the calculation is made for various groups. The Regulations have not yet been published in the official gazette, and they are expected to come into effect on July 1st, 2017.

As per the calculations set forth in the Regulations, the total framework for the allocation of designated bonds, from all the assets deposited in pension funds, shall be 30%. Pursuant to the temporary order, it was set that until 2023, in respect of 60% of all the annuitants’ assets, designated bonds will be allocated, and the balance of designated bonds from the total framework shall be allocated to all the insureds who are not annuitants, regardless of the insureds’ ages. Starting from 2024, the allocation of 60% in respect of annuitants will continue, in respect of the assets of insureds over the age of 50, 30% designated bonds will be allocated (and anyway not more than the total designated bonds for the fund, less the annuitants’ share), and in respect of the assets of insureds under the age of 50, the balance of designated bonds will be allocated, if at all.

The regulations set forth a mechanism that will allow the Commissioner to decide that the rate of designated bonds allocation in respect of members not receiving an annuity, may be the same in funds. Pursuant to the mechanism, the Commissioner may increase the rate of designated bonds’ allocation in respect of the annuitants’ assets up to a cap of 85% instead of 60%, thus decreasing the rate of allocation of designated bonds in respect of the assets of other members in the same fund.

In this context, it should be noted that in May 2016 the Supreme Court acceded to the request filed by the Life Assurance Companies Association, ("**the Association**"), and added it to a pending petition by the Forum of Pension Savers in Israel and the Association of Investment Houses, asking to instruct the State of Israel to issue designated bonds for provident funds as well, similar to those issued for pension funds. Within said petition, the Association asks the Court to instruct the State to allocate designated bonds for profit participating insurance funds as well.

On September 27th, 2016, after the State submitted its response to the above, the Supreme Court discussed the issue. Although during the discussion it seemed that The Court tends to not intervene in such economic issues, that include subsidy-like elements, the Court gave a ruling emphasizing the importance and necessity of economic security at old age, and in light of the above, at this stage the Court leaves the petition open, in order to follow up on developments in the near future.

On March 9th, 2017 the State of Israel filed an update notice to the Court, in which, *inter alia*, it stated its opinion, pursuant to which no person or entity have a vested right for receiving support from the State, and that granting the benefit of designated bonds only to pension funds is in fact a subsidy aimed at encouraging the public to choose this pension savings track for the income layer that does not exceed twice the average salary. Furthermore, the State claimed that there are material differences between pension funds and provident funds and managers' insurance, that establish the Government of Israel's social-economic policy for allocating designated bonds only for pension funds, and that this is not a prohibited discrimination.

In March 2017 the Commissioner published a **Second Draft regarding the Management of New Pension Funds – Amendment ("Draft Provisions")**, and a second draft to the **Amendment of the Circular regarding the Provisions for Financial Reporting for New Pension Funds** ("**Financial Reporting Draft**").

The Drafts are aimed at coping with the cross subsidy due to the calculation of annuity conversion coefficients for retired persons as per an interest rate that exceeds the interest rate in the market[16].

The Draft Circular suggests changing the mechanism for calculating the linkage of annuity, such that whoever starts receiving an annuity after the Circular comes into effect, will be entitled to annuities that are linked to the investment portfolio's real yield (less the yield that was embedded in the annuity coefficient). The annuity's actual linkage shall be performed through the fund's actuarial balancing mechanism, that also includes surplus/deficit due to demographic factors and changes in the actuary reserve (up to 1% of liabilities). In the Draft Circular it is also suggested to set updated rules for the calculation of the fund's liabilities based on the new holding rates of annuitants in designated bonds (as detailed above), as well as to change the dates for updating the amounts of annuities.

[16] In new pension funds, for active and inactive members, there is a deficit as a result of new retirements of insureds. The deficit is due to the difference between the effective interest (that is higher) embedded in the pension conversion coefficient, based on which the amounts of annuities to which retired people are entitled (a coefficient calculated as per the Ministry of Finance's guidance), and the risk-free interest in the economy (that is lower), pursuant to which the funds' liabilities towards annuitants is discounted at the actuarial balance sheet (interest rate is set by the Ministry of Finance). The difference between the value of liabilities towards annuitants and the balance accrued in their account prior to retirement is divided between all insureds in the fund through an actuarial balancing mechanism.

The Company estimates that a change in the allocation of designated bonds and the aforesaid Drafts, aimed at coping with the cross subsidy as set forth above, might increase competition on monies designated for the payment of annuities just around the age of retirement, with a clear preference for pension funds over other LTS products, and might even cause a decrease in the rate of management fees in respect of annuitants.

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

On January 1st, 2016 the provisions of the **Circular regarding Investment Tracks in Provident Funds**, setting 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, came into effect. The Circular applies to new people enrolling to pension savings as of that date.

Existing insureds/members who have insurance policies that are insurance funds, pension funds or provident funds may enroll to an age-dependent managed track as per their choice. For insurance policies that are insurance funds marketed before 2004, the implementation is beginning from January 1st, 2017.

Pursuant to the Commissioner's guidance, the Company created three designated default tracks for groups, divided by ages. These tracks will be defined as default tracks. This means that the general track in which most of savers' monies in pension savings were deposited until now, will be closed to new savers and savings monies in respect of new savers will be diverted to investment tracks depending on age.

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

6.3.13 **Remuneration in respect of the operation of pension products**

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

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

(b) Beginning from July 2016 (retrospectively from the beginning of 2016) – from the distribution commission paid by institutional entities to operating marketing agents, the clearing fees paid to them by employers will be offset as set forth above, but not less than zero (if clearing fees exceed distribution commission); the management fees that will be paid by employees for whom clearing fees were paid as set forth above, shall be reduced by the rate of distribution commission as set forth above.

(c) A default fund was elected for employees, pursuant to Clause 20 to the Provident Fund Law, as set forth in Clause 6.3.8 above.

At the same time, in January 2017 an **(Amended) Circular regarding the rules for the Operation of Pension Products** was published, regulating the way of implementing the aforesaid Amendment, and detailing the layout of reporting by pension insurance agents to institutional entities regarding the amount of clearing fees that employers have to pay them. Furthermore, the Circular sets forth the method for crediting insureds/members in respect of clearing fees received by the license holders, as well as how to present information to insureds/members. This means that in fact, there is no reduction in the amount of management fees paid by insureds/members, rather, their balance of savings/accrual is credited with an amount that equals the clearing fee, at least once a year. The Circular's provisions are expected to come into effect on July 1st, 2017.

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

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

6.3.14 **Investment provident funds**

In June 2016 **Amendment No. 15 to the Supervision of Financial Services Law (Provident Funds) – 2016** was published in the official gazette. The Amendment regulates the legal status of investment provident funds. Investment provident funds are a lump-sum savings instrument, in which an accrued amount of up to NIS 70 thousand for every fiscal year may be deposited, in all the member's investment provident funds, and the monies may be withdrawn at any time. Deposits made to investment provident funds do not grant tax benefits at the stage of deposit, and upon withdrawal, they will be taxed at 25% of real gains. Members who will decide to receive the monies in annuities after retirement age will be exempt of tax on gains accrued in investment provident funds. Pursuant to the Economic Efficiency Law, and if the arrangement regarding taxes on income from a third apartment is approved, owners of three apartments and more who sell an apartment may deposit the consideration in investment provident funds as per the conditions set forth by the Law. As a supplement to this legislation, there was an amendment to the Income Tax Ordinance, granting a tax exemption on interest for the persons depositing monies, provided they comply with the conditions set forth in the Amendment.

In June 2016 a Draft Clarification regarding Investment Provident Funds was published, suggesting to elucidate the following issues: (1) it will not be possible to establish an investment provident fund within the Articles of Association of an existing provident fund, therefore, managing companies wishing to establish an investment provident fund must submit to the Commissioner' approval designated Articles of Association for the investment provident fund; (2) the provisions set forth in the Circular regarding Tracks for Savings Provident Funds shall also apply to investment provident funds. The Commissioner intends to amend the aforesaid Circular, and to set that in this regard, the provisions that apply to educational funds shall apply to investment provident funds, *mutatis mutandis*; (3) investment provident funds shall not allow depositing amounts exceeding the deposit cap set forth by the Law, and the examination of deposited amounts shall be carried out upon the deposit, and not at the end of the fiscal year; (4) the cap of management fees shall be pursuant to the Management Fees Regulations for savings provident funds, as long as it is not decided differently; (5) it will be prohibited to transfer monies from investment provident funds and to investment provident funds pursuant to the Mobility Regulations, as long as it is not decided differently; (6) the Commissioner intends to compel managing companies of investment provident funds to open a digital track, in which members' actions and the services given to them shall be performed digitally.

In September 2016, the Commissioner published the wording of standard Articles of Association for investment provident funds. The Articles of Association is based on the generic Articles of Association, with the necessary changes in order to adjust them to investment provident funds.

Starting from November 2016, Migdal Makefet operates an investment provident fund with seven investment tracks.

The Company is of the opinion that the possibility to market investment provident funds may increase private savings in the market, along with a diversion of the public's individual investments from other channels (including from insurance agencies, investment houses and banks) to provident funds (including in the Group's managing companies), and will increase competition over these monies.

6.3.15 **Saving funds for all children**

In November 2016 a **Circular regarding Investment Provident Funds for Long-Term Savings for Children ("Saving Funds for Children"), which includes standard Articles of Association for saving funds for children**, pursuant to the Amendment of the National Insurance Institute Law [Combined Version] – 1995, regarding savings for all children, stating that the monies deposited by the NII (with a possibility of additional amounts invested by the parents, that will be offset from children's allowance shall be deposited in a provident fund or in a bank account. The Circular sets forth the following key points: (1) the provisions regarding investment tracks in provident funds shall apply to saving funds for children, with the necessary changes, and they will have to offer five investment tracks, depending on the type of risk or the relation with the Halacha; (2) the investment policy for savers who will invest in a track pursuant to the type of risk shall be determined by the Investments Committee and will be approved by the Commissioner, and the default track for those who did not choose a track will be a track with low risk; (3) there are designated notices that must be sent to members regarding the enrollment of children to saving funds for children, and the rights thereof; (4) annual reports will be sent to members, in the outline set forth by the Circular, and from the age of 21 the report will be prepared pursuant to the outline set forth for investment provident funds; (5) there is an outline for filing a redemption request by children who reached the age of redemption.

During November 2016 Migdal Makefet (together with 12 other managing companies and several banking corporations) won the tender published by the General Accountant, for the operation of saving funds for all children.

The Company estimates that the operation of saving funds for all children will increase deposits to provident funds managed by the Group.

6.3.16 **Distribution commissions**

In March 2017 the **Second Daft for the Amendment of the Supervision of Financial Services Regulations (Provident Funds) (Distribution Commissions)** was published, proposing to add a provision regarding the way distribution commissions are paid to banks, including to advisors and to license holders, as well to expand the definition of provident funds, in order to allow advisors to receive distribution commissions also in respect of managers' insurance and investment provident funds. For additional details see Clause 26.5.14 in Part D below.

Since at the publication date of this Report the provision is still a Draft only, and since the final and binding wording is still unknown (as there are discussions between institutional entities and the Ministry of Finance in this matter), the Company is unable to assess its implications on the Company.

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

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

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

6.3.18 In September 2016 a **Circular regarding Life Assurance Plans with Fixed Insurance Fees** was published. The Commissioner states that although life assurance policies for the event of death are policies that are acquired for long insurance periods, in fact it was found that in many cases, insureds decide to reduce or cancel the coverage before the end of the insurance period, when the insurance need decreases. The Commissioner notes that insurers market life assurance policies for the event of death for insurance periods exceeding five years with management fees that do not change throughout the insurance period depending on the decrease in insured risk. These plans do not include a reimbursement mechanism for insureds, if the insurance is cancelled or the insurance amount is reduced. The aim of the Circular is to set rules for reimbursing monies to insureds in the event of cancellation or insurance amount reduction. The Commissioner sets forth the rules for the wording of life assurance plans with fixed insurance fees, including, *inter alia*, reimbursement provisions.

Throughout 2016 the Company marketed a life assurance plan with fixed premium. Further to the provisions of aforesaid Circular, the Company discontinued the marketing of this plan, from January 1st, 2017 (when the Company came into effect), which might reduce the scope of sales of risk insurance for the event of death in the Company.

6.3.19 **Amendment to the Severance Pay Law**

The Economic Efficiency Law includes guidance regarding the taxation of severance pay, including at the time of depositing. Below are the key points: (1) employers' deposits to the severance pay component in pension funds exceeding the cap of severance pay (the lower between the employee's salary or NIS 32,000) shall be considered as taxable income by employees, and will require tax payment upon the deposit, except in old pension funds; (2) these rules shall also apply to supplements to severance pay; (3) deposits to the severance pay component over the cap of severance pay, which were recognized as income from work at the time of the deposit, shall be exempt from tax at the date of withdrawal upon retirement, except interest and other income accrued on these deposits, to which profit tax will apply; (4) in respect of deposits recognized as taxable income and were eventually reimbursed to employers, employers will have to pay the maximum income tax that applies to individuals, and the deducted tax will remain in the severance pay component in the employee's provident fund; (5) the withdrawal of monies as a lump-sum grant pursuant to death is exempt, if the tax rules were applied to it upon the deposit; (6) if, when leaving a workplace, the amount accrued in pension funds does not exceed the higher of NIS 360 thousand or seniority multiplied by the cap of severance pay, the accrued monies shall be considered as monies that remain for annuity payment, unless the employee requested differently.

The Company estimates that the implementation of Clause (6) above shall spare the Company, as well as employees to whom this Clause applies, and who do not need to withdraw the severance pay when leaving a workplace, the need to settle accounts with the Tax Authority.

In addition, setting deposits over the cap of severance pay that require the imputation of taxable income by employees, might decrease the motivation of highly-paid salarieds to designate the severance pay monies, above the severance pay cap, in case of early retirement, as monies left for the age of retirement.

6.3.20 **Separation between commissions and management fees**

In January 2017 the **Amendment No. 20 to the Supervision of Financial Services (Provident Funds) Law – 2016** regarding the prohibition on calculating the distribution commission paid to insurance agents based on the management fees that will be collected from a person enrolling to a provident fund, was published. For additional details, including the expected implications on the Company, see Clause 32.2.2 (a) in Part D below.

6.3.21 **Draft Circular regarding Withdrawals from Provident Funds not by Way of Annuity**

In March 2017 the Commissioner published a Draft Circular regarding **Withdrawals from Provident Funds not by Way of Annuity**. The aim of the Draft Circular is setting provisions that create homogeneity in money withdrawals. It is proposed to set forth as follows: (1) withdrawal requests that should be submitted to institutional entities, including the documents that should be attached to them, depending on the type of product and the type of withdrawal, in withdrawal forms, shall include notifications regarding the possible harm to members, such as harm to pension rights, the cancellation of insurance coverages and a reduction of old age annuity; (2) in addition, it is proposed to set provisions for the authentication of payment details through credit companies or through a cancelled cheque or a certificate from the bank regarding the account; (3) rules for the withdrawal of monies for accounts abroad; (4) provisions regarding the timetables for handling withdrawal requests and sending notifications to customers regarding receiving their requests or regarding flaws in the withdrawal requests and reminders; (5) ways for filing withdrawal requests, including on-line; (6) information that institutional entities will have to publish in their websites regarding withdrawal requests. It is suggested to apply the provisions of the Draft Circular from July 1st, 2017, except regarding the authentication of means of payment, which should apply on January 1st, 2018.

If the Draft becomes a binding Circular, the Company will have to carry out operational preparations in order to meet the timetables set forth therein.

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

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

Products mix

Following the cancellation of the possibility to market new life assurance policies that include a guaranteed annuity coefficient, beginning from 2013, there is a relative advantage for the pension funds line, which grew in recent years at the expense of alternative products, along with a strengthening of the direct distribution channel in this area. Recently, and together with the decrease in the level of management fees in managers' insurance, there is an increase in the sales of managers' insurance in the line, which is mainly marketed by agents.

Profitability

The trend of continued competition and its effect on management fees, the coming into effect of the regularization regarding a default fund, the standard Articles of Association (as set forth in Clauses 6.3.8 and 6.3.9 above), the provisions regarding the cancellation of the relationship between distribution commissions paid to agents and management fees paid by members in provident funds (as set forth in Clause 6.3.20), the provisions regarding the consolidation of existing accounts in pension funds (as set forth in Clause 6.3.10 above), as well as the possibility to grant discounts on management fees to old age annuitants (pursuant to the Commissioner's Circular from July 2014), are expected to bring about an increase the mobility of monies, a continued erosion in management fees, and, as a result, a decrease in the profitability of the products in the area.

In addition, the possibility to allow mobility for insurance products that include a guaranteed annuity coefficient, while maintaining the guaranteed coefficient, if it is implemented by companies in the market, might also affect the rate of management fees in existing life assurance plans and the preservation level of these policies.

Distribution channels

In light of the low price levels, as well as in light of the erosion in management fees, we see a trend of a shift from transactions marketed by agents to direct transactions, mainly in the pension and provident products, in which the level of remuneration to agents is constantly eroding. This activity is performed by the direct arms in the companies, and by various models that combine direct activity with the activity of arrangement managers/agents. This trend, which is stepping up in the entire market, also characterizes the solutions offered by the Group in these cases.

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

Additional trends

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

In recent years, the Third Age market benefits from interest on the part of most competitors in the line. The interest is promoted by regulatory changes stemming from amendment No. 190 to the Income Tax Ordinance from 2012, granting, *inter alia*, tax reliefs to savers aged 60 and more, as well as the provisions regarding granting discounts on management fees to old age annuitants and the transfer of managers' insurance policies with guaranteed coefficients, as well as the discontinuation of the marketing of insurance policies with coefficients for people under the age of 60, create a potential for an increase in the scope of money transfers around the age of retirement, and the Company estimates that all the above might even increase the competition over this market.

The Company is of the opinion that in the market for retirement, products will be offered around retirement age, including additional synergetic products from other areas, which may be offered to this population. Also, monies from other savings products shall be transferred 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.

Another trend in the area of pension savings is the awakening in the area of savings provident funds and more savings in provident funds as aforementioned, mainly pursuant to the provisions of Amendment No. 190 to the Income Tax Ordinance, and the possibility to establish investment provident funds.

For details regarding the way the Company copes with the accelerated competition in the area, see Clause 7 below.

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

6.5 Description of key products/insurance coverages

6.5.1 Life assurance

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

(a) Insurance policies with risk components only

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

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

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

(b) Insurance policies that may combine insurance coverage

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

The main difference in designating policies for savings as provident funds is mainly expressed in tax benefits granted to savings in these plans, set forth in the legislative arrangement, along with withdrawal rules that restrict the withdrawal of monies as annuity only, to the age of retirement only, and under the conditions defined in the legislative arrangements, compared with the accrual in policies which are not recognized as liquid provident funds and may be withdrawn at any time.

The nature of the policies that include savings has changed throughout the years due to regularizations initiated from time to time by the Commissioner, as aforementioned.

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 beneficiaries 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, PHI insurance riders, etc. This coverage is also offered within the "mortgage insurance" plan, such that the insurance amount decreases throughout the period, and it is usually offered to the population that takes housing loans.
PHI insurance	A coverage that guarantees a monthly compensation that shall not exceed 75% of the wage in the event of PHI, and a release from premium payment. The coverage market in various plans that refer to various definitions of PHI, such as the loss of the ability to engage in another reasonable occupation or the loss of the ability to engage in a specific profession/occupation. The compensation is paid as long as the insureds suffer from PHI or until the end of the insurance period. Employers and self-employed receive tax benefits in respect of payments for this coverage, under certain restrictions.
Accident-related death insurance	An insurance that guarantees the payment of a lump-sum in the event of death caused by an accident.
Accident-related disability insurance	An insurance that guarantees the payment of a lump-sum in the event of disability caused by an accident.

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

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

Plans marketed in the past

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

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

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

6.5.2 **Pension products**

Pension funds managed by the Group:

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

6.5.3 **Provident products**

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

Type of fund	Description
Educational fund	The fund is designated for employees 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 the end of three years' membership in the fund. After six years' membership in the fund, the monies may be withdrawn for any purpose.
Savings provident fund	The fund is designated for employees and self-employeds. Deposits to the fund are made on a monthly basis for employees. Self-employed may make separate deposits.
Investment provident fund	Funds in which an accrued amount (in all investment provident funds of the same member) of up to NIS 70 thousand per year may be deposited (the sum is CPI-linked in respect of May 2016 CPI), and the monies may be withdrawn at any time. Upon lump-sum withdrawal, they will be taxed at 25% of real gains, and upon withdrawal by way of annuity the monies will be exempt of tax on gains. For details see Clause 6.3.14 above.
Investment provident fund for long-term savings for children	The fund is designated for members who are children, whose parents are entitled to an allowance from the NII in their respect. Deposits to the fund are carried out by the NII and from its budget. Parents may increase deposits for children, and the increased amount is deducted from the child’s allowance.
Sick leave provident fund	It allows employers to accrue monies in the fund for the payment of sick leave.
Central provident fund for the participation in Defined Benefit (DB) pension	The fund is designated for managing the sums deducted by employers, defined in The Israel Economic Recovery Program (Legislative Amendments for the Achievement of the 2003 and 2004 Economic Policy and Budgetary Objectives) - 2003, from the salary of employees employed by that employer, namely employers to whom the DB pension arrangement applies. The deduction rate as of 2005 is 2% of the employee's salary.
Central fund for severance pay	This fund is closed to new deposits since January 2011. The fund is designated for employers who would like to accrue monies in order to secure severance pay for their employees. Members are the employers and the money accrual is in the employers' name, for their employees.

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

Presented below are key data for 2014-2016 (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					
2016	53,381	6,155	3,953	.029%	2.95%
2015	47,739	5,647	4,084	0.31%	3.32%
2014	42,955	5,208	3,808	0.34%	3.75%
Migdal Makefet Comprehensive					
2016	700	116	73	0.81%	0.67%
2015	611	99	74	0.84%	0.66%
2014	536	93	76	0.79%	0.55%
Old pension funds (Old Yozma)					
2016	1,737	18	(27)	0.60%	9.15%
2015	1,698	21	(20)	0.60%	9.12%
2014	1,658	22	(20)	0.60%	9.14%
Provident and educational funds					
Provident funds – Educational funds					
2016	13,251	1,613	(359)	0.80%	-
2015	13,306	1,584	(369)	0.86%	-
2014	13,602	1,655	(115)	0.90%	-
Provident funds – Provident funds for provident benefits and severance pay					
2016	1,980	119	81	0.67%	-
2015	1,857	93	0	0.73%	-
2014	1,851	88	20	0.79%	-
Provident funds - Other(2)					
2016	254	11	(5)	0.71%	-
2015	253	4	(32)	0.75%	-
2014	283	4	(21)	0.80%	-

Total pension and provident funds

Year	AuM	Contributions	Net accrual
2016	71,303	8,032	3,716
2015	65,464	7,449	3,737
2014	60,885	7,070	3,748

(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 participation in “pay as you go” pensions, sick leave provident fund and investment provident fund.

In 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 1f5) to 2015 Financial Statements.

[17] "Net accrual" is defined as contributions plus net members' transfers.

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

7. Competition

7.1 General

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

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

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

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

7.2 Changes in the scope of activity in the market

Based on the data regarding life assurance premiums in the years 2014 until September 2016, and on the data of contributions and net accruals[18] in 2014-2016, we see an upward trend in the aggregate activity of the area of life assurance and LTS[19], along with an accelerated growth in the area of pension.

In life assurance, in the first nine months of 2016 there was an increase of approx. 7% in the scope of premiums in the market, compared with the first nine months of 2015, following an increase of approx. 3% in the first nine months of 2015.

In life assurance there was an increase of approx. 13% in 2015 compared with 2014[20] in the scope of premiums, including receipts in respect of investment contracts.

[18] Net accruals are defined as contributions plus net transfer of members.
[19] Based on the data of the Ministry of Finance websites, including bituachnet.mof.gov.il, pensyanet.mof.gov.il and gemelnet.mof.gov.il.
[20] Based on the Commissioner's Report for 2015.

In the activity in the pension line, in the last two years there was accelerated growth in terms of contributions (approx. 14% in 2016 and about 13% in 2015). In the provident line (including educational funds) there was an increase of approx. 18% in 2016, compared with an increase of approx. 15% in 2015.

In the aggregate scope of activity in terms of AuM, there was also an increase in total products in the area, totaling approx. 9% as of September 30th, 2016 compared with September 30th, 2015, affected by increases in capital markets and net current accrual, compared with an increase of about 5% as of September 30th, 2015 compared with September 30th, 2014.

The weight of the life assurance area, in terms of AuM, totaled approx. 34% as of December 31st, 2015, similar to December 31st, 2014. The weight of new pension funds increased from 22% as of December 31st, 2014 to approx. 24% as of December 31st, 2015, and the weight of the provident line decreased from approx. 43% as of December 31st, 2014 to approx. 42% as of December 31st, 2015[21].

7.3 **Market data**[22]

As of September 30th, 2016, and on the basis of the size of insurance liabilities in life assurance and assets managed in new pension funds and provident funds, the Company is the largest entity operating in this area. The Company's main competitors are Clal, Menorah, Harel and The Phoenix.

In 2016 there was a significant increase in sales of life assurance plans in the Group, and on the other hand, there was a decrease in pension sales (for details see Clause 6.3 above). In recent years, due to regulatory arrangements in the area, there was a decline in the weight of new sales of life assurance to total new sales of pension savings products in the Group (except provident funds), and an increase in the weight of new sales of pension funds.

In total new sales in the area of life assurance and LTS there was an increase in 2016 compared with 2015, following a slight increase last year.

In addition, the trend of net money transfers due to the mobility of pension and provident funds members to other institutional organs, as aforementioned, continued.

[21] Based on the Commissioner's Report for 2015.

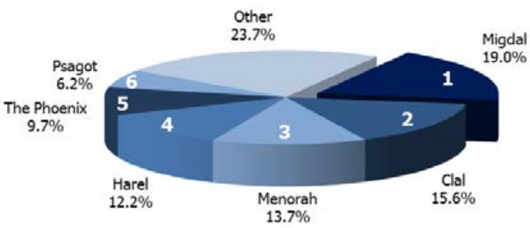
[22] Unless specified otherwise, the data brought in this Clause regarding market data are based on the processing of Ministry of Finance Reports published on the Ministry of Finance's website (**Managerial Reports, pensyanet.mof.gov.il, gemelnet.mof.gov.il**).

Also, premiums in data published in the Managerial Reports do not include premiums in respect of investment contracts, as defined by the various insurance companies.

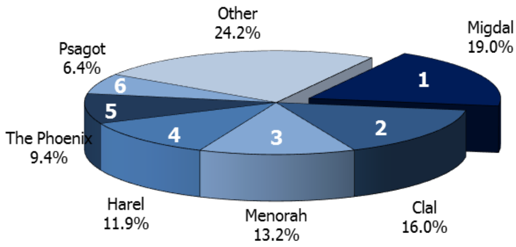
The entire area

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

As of September 30th, 2016



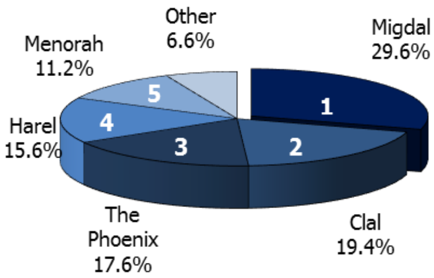
As of September 30th, 2015



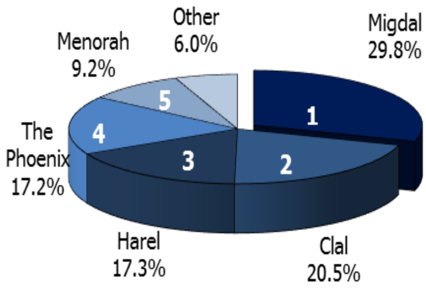
Life assurance

Premium breakdown

For 1-9/2016

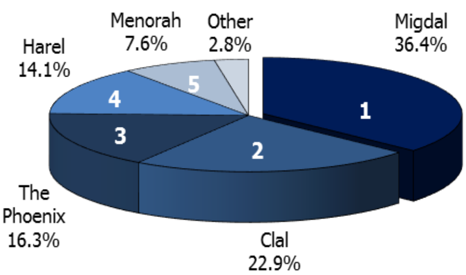


For 1-9/2015

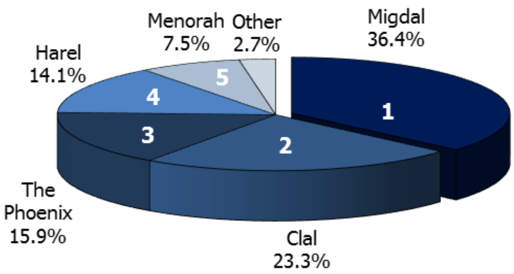


Insurance liabilities breakdown

As of September 30th, 2016



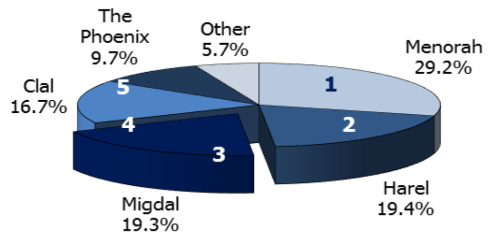
As of September 30th, 2015



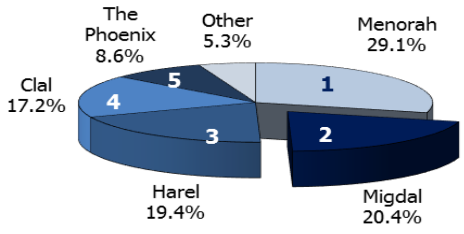
New pension funds

Contributions' breakdown

For 1-12/2016

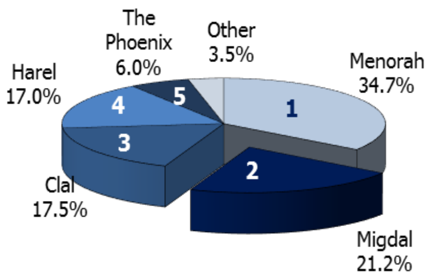


For 1-12/2015

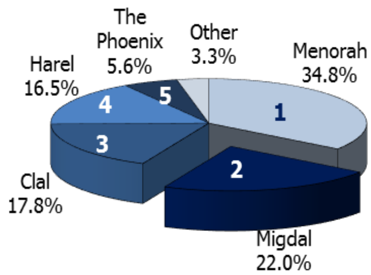


AuM breakdown

31.12.2016



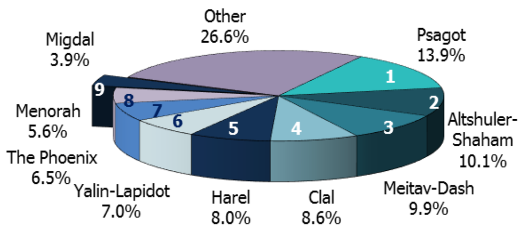
31.12.2015



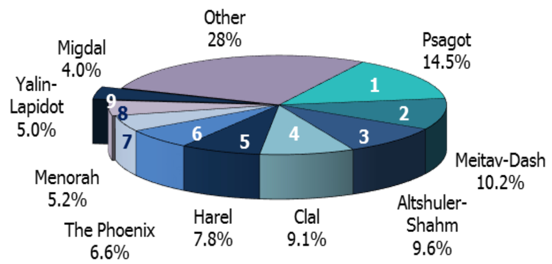
Provident funds and educational funds

Provident funds' AuM breakdown

31.12.2016

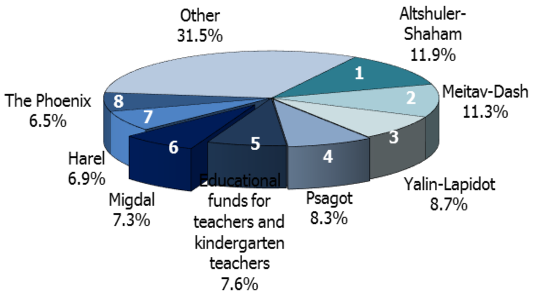


31.12.2015

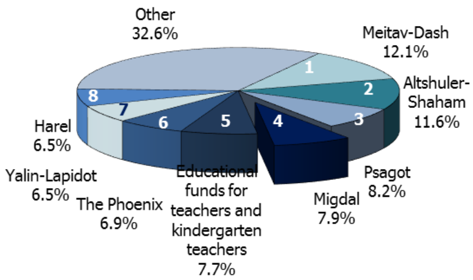


Educational funds' AuM breakdown

31.12.2016



31.12.2015



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

The Group has experience, knowledge and a reputation earned over many years in the area of life assurance and LTS, and as aforesaid, it is the leading company in this area[23], which allows it to utilize economies of scale and leverage them in order to strengthen its status in the area.

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 and pension products, through which it increases the basket of products it offers its customers, and can adjust, for each customer, a product that meets his/her needs and special characteristics, while simplifying selling procedures.

In light of the regulatory changes and the increased competition in the area, the Company is preparing towards adjusting the existing products to the changing regulatory and competitive reality, as well as towards developing new products accordingly. In addition, the Group continues its activity in the area of Third Age, including the operation of a separate unit for handling this target audience.

In order to adjust itself to the developments in the arena of distribution, the Company is striving towards perfecting and expanding the abilities of direct pension sales, and developing its digital sales and sales service abilities.

In this framework, the Group operates in cooperation with agents and supports them, *inter alia*, by providing efficient instruments for executing sales, including digital instruments, as well as instruments for the analysis of the agents' customer potential.

The Group also strives towards an improvement in customers' and distribution channels' loyalty and satisfaction, which, in its estimation, can be achieved via leadership in service and by deepening customer share, while creating a basis for long-term relations with the end customers. In this context, the Company tries to increase the number of customers to which it provides more than one product by promoting sales by agents of additional products of the Group to existing customers of these agents. Furthermore, the Company strives towards increasing sales of individual insurance products, and especially risk products, *inter alia*, by recruiting agents who specialize in this area, as well as by establishing independent selling platforms, including operating a designated call center for selling risk products.

The Company operates in order to expand its activity, as aforementioned, with an emphasis on a policy for accepting businesses and expanding the actuarial data base.

In addition, the Group is experienced in managing portfolio assets for the long term, by performing diversified investment activities and with an emphasis on the development of abilities and specialization in the area of investment management, both in Israel and abroad, including in the areas of real estate and credit, in order to achieve good yields for insureds and members, in accordance with the risk level.

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

[23] As of September 30th, 2016, based on the data of insurance liabilities in life assurance and AuM in pension funds and provident funds.

In light of the regulatory changes and the increased competition in the area, as aforementioned, the Group operates towards improving operational efficiency and service to customers and to various distribution channels of the Group, *inter alia*, through innovation and the implementation of advanced computerized systems, as well as an emphasis on high quality manpower, all along with the examination of across-the-board processes and the cost structure

8. Customers

8.1 Life assurance

Presented below are data regarding the gross premiums breakdown in life assurance in 2014-2016 (excluding receipts in respect of investment contracts):

	2016		2015		2014	
	NIS million	**Breakdown in %**	**NIS million**	**Breakdown in %**	**NIS million**	**Breakdown in %**
Salaried insureds	5,727	73	5,480	71	5,492	72
Individual and self-employed insureds	2,039	26	2,109	28	2,030	27
Collective insurance	65	1	75	1	84	1
Total	**7,831**	**100**	**7,664**	**100**	**7,606**	**100**

Presented below are data regarding the gross premiums, including receipts in respect of investment contracts, in 2014-2016:

	2016		2015		2014	
	NIS million	**Breakdown in %**	**NIS million**	**Breakdown in %**	**NIS million**	**Breakdown in %**
Salaried insureds	5,727	69	5,498	65	5,517	66
Individual and self-employed insureds	2,487	30	2,937	34	2,813	33
Collective insurance	65	1	75	1	84	1
Total	**8,279**	**100**	**8,510**	**100**	**8,414**	**100**

8.2 Pension funds

Presented below are data as to the breakdown of contributions in pension funds (new and old) in 2014-2016:

	2016		2015		2014	
	NIS million	**Breakdown in %**	**NIS million**	**Breakdown in %**	**NIS million**	**Breakdown in %**
Salaried members	5,801	92	5,283	92	4,950	93
Individual members and self-employed	488	8	485	8	373	7
Total	**6,289**	**100**	**5,768**	**100**	**5,323**	**100**

8.3 **Provident funds**

Presented below are data as to the breakdown of contributions in provident funds in 2014-2016:

	2016		2015		2014	
	NIS million	**Breakdown in %**	**NIS million**	**Breakdown in %**	**NIS million**	**Breakdown in %**
Salaried members [24]	1,493	86	1,455	86	1,497	86
Individual and self-employed members	250	14	226	14	250	14
Total	**1,743**	**100**	**1,681**	**100**	**1,747**	**100**

8.4 **Surrender rates**[25]

In **life assurance**, surrenders to average reserves ratio was approx. 1.9% in 2016, vs. about 1.7% in 2015 and approx. 1.9% in 2014.

In **pension**, the surrender to average accrual ratio[26] was approx. 5.3% in 2016, compared with about 4.5% in 2015 and 4.1% in 2014.

In **provident**, the surrender to average accrual ratio[27] was approx. 15.5% in 2016, vs. about 14.8% in 2015 and approx. 13.3% in 2014.

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

[24] Including a sick leave fund and Makefet Taktsivit in non-material amounts in every year.
[25] Surrender rate, including outgoing transfers.
[26] The average accrual is defined as the average between the net asset balance as of the beginning of the period, and the net asset balance at the end of period in the fund.
[27] The average accrual is defined as the average between the net asset balance as of the beginning of the period, and the net asset balance at the end of period in the fund.

Area B – Health Insurance

9. Key products and services

9.1 General description of the area of activity

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

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

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

9.2 Key characteristics of the area

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

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

Alternative insurance (an alternative to the services provided in the National Health Basket[28]/Shaban[29]), complementary insurance (insurance beyond the National Health Basket and/or Shaban), supplementary insurance (insurance not included in the National Health Basket and/or Shaban).

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

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

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

The key characteristics of the collective insurance terms:

[28] The basic health basket that is provided to each resident in Israel pursuant to the National Health Insurance Law – 1994 ("**Health Law**").

[29] Additional supplementary health services in health funds (expanding/alternative to the health basket).

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

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

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

Sometimes the terms of collective policy are more comprehensive than the conditions in individual policies.

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

9.3 **Key changes**

Presented below are several key changes in health insurance:

9.3.1 **Individual health insurance**

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

(a) **Marketing individual health insurance plans**[30] **for two years.** Beginning from February 1st, 2016, and pursuant to the Circular from September 2015 regarding the writing of individual health insurance plans, the insurance plans that will be marketed ("**new policies**") will be renewed every two years, on June 1st, beginning from 2018, under the same conditions or different conditions, with insurance continuity (with no underwriting and no qualification period), automatically and with no need for the insureds' consent, except when insurance companies will increase insurance fees by the end of the insurance period by an amount exceeding NIS 10 per month or approx. 20% of premium paid prior to the renewal, the highest of the two, or in the event of a reduction of insurance coverage, that was made instead of increasing insurance fees as set forth above, in which case the insureds' consent for the renewal of the insurance period under the new conditions must be obtained.

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

At this point, except for an estimation regarding a reduction in the cost of premiums to insureds, it is impossible to assess all the implications as set forth above, which depend, *inter alia*, on the behavior of competing companies, the distribution entities and customers' preferences and behavior.

[30] Individual health insurance plans that refer mainly to medical expenses insurance and dread diseases insurance.

(b) **Setting identical terms for insurance policy regarding surgery and non-surgical alternative treatments in Israel including consultations** ("**surgery policies**"). Beginning from February 1st, 2016 surgery policies are marketed as a standard policy, that includes coverages whose conditions are set forth in the Supervision of Financial Services Regulations (Insurance) (Conditions in Insurance Contracts for Surgeries and Non-Surgical Alternative Treatments in Israel) – 2015 ("**Standard Policy Regulations**").

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

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

(c) **Surgery arrangements and payments for surgeries**
Beginning from July 2016[31], it will not be possible[32] to receive reimbursement for medical expenses in respect of the cost of a surgeon or a consulting physician chosen by the insured, and there will only be a service arrangement, with the insured paying a deductible, if so determined.

Furthermore, health funds will be able to offer coverages for surgeries within the Shaban, and insurers will be able to market insurance plans that include coverages for surgeries only after the Minister of Health or the Commissioner (as the case may be) have considered and found that health funds or insurers (as the case may be) have satisfactory arrangements vis-à-vis physicians for surgeries, both regarding the number of physicians and the scope of surgeries in the arrangement, as well as their geographic spread.

[31] Pursuant to the Economic Efficiency Law (Legislative Arrangements for the Implementation of the Economic Policy for Budget Years 2015 and 2016).
[32] Except for funds and insurance companies with a market share lower than 10%, and which were included in the Commissioner provisions as insurance companies with a small market share.

The Company is of the opinion that the implementation of the aforesaid provisions regarding surgery arrangements and payments for surgeries, may affect the cost of claims in surgery insurance in Israel and the profitability of this coverage.

In this context, it should be noted that in February 2016, the Israel Medical Association ("**the appellant**") appealed to the High Court of Justice against the Israeli Knesset, the Ministry of Health, the Minister of Health, the Minister of Finance and the Israeli Government. The health funds operating in Israel, private hospitals for general hospitalization, in which surgery services are given, and the large private insurance companies in Israel (including Migdal Insurance) ("**the respondents**") were added as formal respondents. In the appeal, the appellant asked the Court, *inter alia*, to issue an order nisi, instructing the respondents to explain why the health chapter in the Economic Efficiency Law published in November 2015, including the provisions detailed in his Clause above ("**health chapter**"), is not cancelled. *Inter alia*, the appellant claims that the health chapter restricts individual freedom to consume private health services, thus restricting private health services, and it reduces the access of surgeons to patients in the private system. Furthermore, it was claimed that the health chapter limits the freedom of contractual engagement of physicians and patients in the private sector, and undermines physicians' freedom to exercise their occupation and outline the commercial relations with patients. Within the procedure, the Court decided that there is no sufficient experience from the new arrangement in order to be able to rule on this matter, thus the Court postponed the handling of the appeal by six months, to the end of March 2017.

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

Individual insurance policies marketed from February 1st, 2016 are subject to the provisions of the Circular regarding the **Non-Dependence between Coverages in Individual Health Insurance**[33], dated September 2015. The Circular sets forth provisions regarding the marketing of various insurance coverages in individual health insurance, as well as provisions regarding the separation of such coverages, which were sold together, and the cancellation of one plan out of various coverages sold together without the cancellation of additional plans that were sold together with the cancelled plan. Therefore, *inter alia*, the consent of potential buyers of each of the plans included under the policy must be received, separately, and they should be notified regarding the possibility of cancelling each of the abovementioned plans, provided not all the fundamental insurances in the policy were cancelled, subject to exceptions.

The Company is of the opinion that the sale of health insurance products separately pursuant to the Circular might decrease the scope of new premiums in the health line, paid by insureds, because of customers who may choose to purchase a portion of the product packages that were sold together before the Circular came into effect. However, on the other hand, the implementation of the Circular may increase the target audience of health insurance customers in the Company, who will purchase a smaller product basket. However, the

[33] Insurance Circular 2015-1-20 Non-Dependence between Coverages in Individual Health Insurance dated April 1st, 2015.

above may not be realized as it all depends on the actual behavior of competing entities and insureds.

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

Pursuant to the above, the Company launched new health insurance products which comply with the new guidance beginning from February 1st, 2016, after receiving the Commissioner's approval to the above.

9.3.2 **Collective LTC insurance**

(a) Beginning from June 1st, 2014, insurance companies cannot market or renew plans that include coverage for LTC insurance in collective policies, except (1) the renewal of collective policies whose insurance period will end by December 31st, 2017[34], at the latest, provided the policy renewal is made under the same conditions, or: (2) policies approved by the Commissioner. However, insurance companies may update insurance fees or decrease the insurance amount, up to the required cap in order to align them with the claims forecast for a certain year.

(b) In December 2016 the **Draft Circular regarding LTC Insurance** was published. The Circular is aimed at allowing a selling model for collective LTC insurance for long periods, along with maintaining the right of continuity, such that it will be possible to move to an individual policy if the collective insurance is discontinued, along with maintaining the same premium paid in the collective insurance and the surrender values. The model integrates the group's strength because of its bargaining power and operational advantages, while guaranteeing rights of insureds for long periods.

Within the model, it is stated that policyholders shall negotiate with insurers in order to get the best conditions for insureds, and the insurance will be with "fixed premium" or "premium which becomes fixed at the age of 65, at the latest".

At the end of the insurance period, there may be several alternatives: renewal with the same insurer, and the policyholder and insurer shall agree on the premium to be paid, renewal with another insurer (assuming that the policy was priced for the long term, a material change in premium is not expected in either possibility), or the non-renewal and fulfilment of rights accrued to insureds.

In addition, pursuant to an accompanying letter published with the Draft, the Commissioner expressed the possibility of setting unique principles for such groups, because collective insurance based on the aforementioned model might be expensive for certain groups, in which most members are of old age.

The Company estimates that the Draft Circular is not expected to have material implications on the Company, because the Company's activity in the area of collective LTC insurance is non-material.

[34] The final date was postponed as per the Circular from December 2016.

(c) In December 2016 a **Model for LTC Insurance for Old Age Enrollers – Draft Paper for Discussion** was published. The Draft Paper was published in light of existing barriers regarding older people enrolling to LTC insurance policies (individual insurances of insurance companies, or collective LTC insurance of health funds), due to two main characteristics that serve for pricing: medical condition (the older a person is, his/her chances to be accepted for insurance from the medical point of view are lower), and the age of enrollment (since at an older age of enrollment, the premiums that will be required in order to buy sufficient insurance coverage will be higher). Accordingly, a model for handling older enrollers was suggested. The model principles are the purchase of LTC insurance coverage at a predetermined period beginning from the age of 60 and until the age of retirement or the age of 67 (the earlier of the two); the insurance period will be for life; enrollment will be without underwriting, will be subject to the right qualification period, during which insureds are not entitled to insurance benefits; enrollment will be voluntary, and the possibility exists to pay a lump-sum in advance, without the right to receive the surrender value in case insurance is discontinued. The Paper also suggested alternatives to the model implementation: (1) from time to time, one insurer (or more than one) will be selected in a tender, which will offer an LTC insurance policy as per the abovementioned principles; or (2) a mutual LTC insurance model will be examined, such that the insurance risk shall be imposed on the insureds, and the update of parameters (for example the morbidity rate, the duration of average claim, etc.) will affect the cost of insurance and the right of insureds' to receive insurance benefits during the insurance.

It should be noted that the Draft Paper is a preliminary Draft, which is still being outlined, therefore, the Company is unable to assess its future implications.

9.3.3 **Riders**

In December 2015 the Commissioner published a Circular regarding the Marketing of Riders. The Circular sets forth that insurers may market riders to which the Commissioner did not object, and provided they comply with the conditions set forth in the Circular. Riders shall include the details set forth in the Circular, and insurers will be obligated to provide the service pursuant to the riders. The marketer of riders will present the cost separately, and the purchase of a rider shall not be conditioned upon the purchase of an insurance plan. The terms of riders will be provided in advance. Agents may market riders without the involvement of insurers, under the conditions set forth by the Circular. The Circular came into effect on June 30th, 2016.

The coming into effect of the Circular provisions brought about a reduction in the scope of services sold under riders, but with no material implication on the Company's businesses in the area of health insurance.

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

In March 2017 an Amendment to the **Circular regarding the Clarification and Settlement of Claims and the Handling of Public Complaints** (in this Clause: "**the Corrective Circular**") was published. The Circular amends and updates some provisions existing in the Circular regarding the Clarification and Settlement of Claims and the Handling of Public Complaints published in July 2016 (including its Amendment from November 2016), as well as some provisions existing in the Draft

Corrective Circular regarding the same issue, published in February 2017. The Corrective Circular deals with setting complementary corrective provisions for the handling of claims in institutional entities (in its areas of activity in general, and not only in the area of health insurance, as detailed in Clause.3 in Part D below).

Regarding health insurance, it was established that if an insurance company decides to dismiss a claim due to a previous health condition, in its dismissal notice or in its partial payment, the insurance company should detail the medical condition argued by it. Furthermore, it will not calculate aggregate disability of insureds if the insured is defined as being disabled in more than one organ, by the way of disability weighting carried out by the NII, if this method is not laid down in the terns of the policy. Also, it states that insurance companies shall not require, in the filling in of a claim form, reference to a specialist's opinion or the delivery of medical documents.

Regarding LTC insurance, there are provisions regarding the definition of an insurance event in LTC, including that insureds who, due to problems in mobility or due to low responsiveness of the bladder, do not control sphincters, shall be considered as being unable to carry out alone a material part (at least 50% of the action) of “sphincter control”, and insureds suffering from a lack of equilibrium or instability that cause recurring falls, shall be considered as unable to carry out alone a material part (at least 50% of the action) of "mobility".

There are also rules regarding the performance of tests as to the functional and cognitive evaluation, and rules for the dismissal of claims.

The Corrective Circular may affect procedures for the clarification of claims and public complaints. However, at this point the Company is unable to assess the Corrective Circular's impact on the Group’s activity in the area.

9.3.5 **Collective health insurance**

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

The provisions of the Collective Health Insurance Regulations have operational consequences that increased the cost of collective health insurance policies, *inter alia*, due to the need to receive the insureds’ consent at the date of renewal, including when the premium is updated during the insurance period or when it is renewed.

In July 2016 a **Draft Amendment to the Supervision of Financial Services (Insurance) (Collective Health Insurance) Regulations –** was published. Within the Amendment, the possibility to be considered as a policyholder (besides employers, corporations, service providers or health funds) was expanded. Pursuant to the Draft's provisions, it is possible to engage vis-à-vis another person, even if he/she receives a benefit from the engagement in a collective policy, provided the following conditions are met: the collective policy is written pursuant to the plan that was submitted as an individual policy, the engagement in a collective health insurance contract benefits insureds in the group compared with an individual policy, the policyholder is not a related party to the insurer, and does not receive a benefit that is not related to this engagement from the insurer, as well as additional conditions instructed by the Commissioner.

The Company is of the opinion that the aforementioned Draft Amendment to Regulations, if it becomes a binding amendment, may increase the scope of sales of collective insurance in the line.

9.3.6 **Foreign travel insurance**

In January 2017 a **Circular regarding Foreign Travel Insurance** was published. The Circular sets forth provisions regarding the wording of foreign travel insurance plans and how to market them, dealing mainly with the fact that insurance amounts will depend on the expected costs upon the occurrence of an insurance event, taking into account, *inter alia*, the expected costs in the country of destination. Furthermore, the Circular sets forth that the coverages will constitute of a preliminary basic layer of the insurance plan, and a list of extensions that may be purchased beyond the basic plan. In addition, insurance companies must inform insureds as to the implications of their previous medical condition, and if necessary, offer them an extension to the policy that would cover such medical condition.

As per the Company's estimation, the implementation of the provisions of the Foreign Travel Insurance Circular detailed above, together with the **Circular regarding the Involvement of Entities that are Not License Holders in the Marketing and Selling Insurance Products that Are Not Collective Insurance** (see Clause 9.3.7 below) may increase premiums paid in respect of foreign travel insurance, *inter alia*, due to an increase in sales of foreign travel insurance via agents.

9.3.7 In December 2016 a Circular regarding **the Involvement of Entities that are Not License Holders in the Marketing and Selling Insurance Products that Are Not Collective Insurance** was published. The provisions of the Circular are aimed, *inter alia*, at defining the cases in which the involvement of an external entity in the marketing or selling of an individual insurance product will be allowed. For additional details regarding the Circular, see Clause 26.6.3 in Part D below.

9.3.8 **Provisions regarding the wording of insurance plans and the enrollment to insurance**

In March 2017, Amendments to the Circular regarding the Wording of Insurance Plans and to the Circular regarding Enrollment to Insurance (henceforth, in this Clause, "the Amended Circulars")[35]. The amended Circulars deal, *inter alia*, with the update of provisions set forth in previous Circulars regarding these issues, and the Draft Circular regarding

[35] In this context, it should be noted that in September 2016 a Draft Amendment regarding Provisions for the Behavior of Insurers during the Policy's Life (in this Clause - "the previous Draft") was published. The previous Draft dealt with concentrating all the provisions regulated in various circulars, regulating the handling of insureds in various periods during the insurance period into one Circular, including the Circular regarding Provisions for the Wording of Insurance Plans, and the Circular regarding Enrollment to Insurance. In February and March 2017, the Commissioner split the previous Draft back into the original Circulars from which it was composed, and amended them.

Provisions for the Wording of Insurance Plans, as published in February 2017.

For additional details regarding the provisions of aforementioned Drafts, see Clause 26.4.1 and 26.4.2 in Part D below.

The Company's estimation regarding the implications of regulatory provisions as set forth in Clause 9.3 above, is forward-looking information that is based on the Group's estimations and assumptions and on information held by the Company as of the time of this Report. At this point it is impossible to assess all the implications that may be recorded, since they depend on the actual behavior of the competing companies, the distributing agents, the insureds and policyholders with whom the Company is engaged.

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

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

Type of plan	Coverage description
	Medical expenses insurance
Surgery insurance*	It mainly provides coverage for expenses involved in private surgery in Israel and abroad, in policies marketed beginning from January 2014 pursuant to the Commissioner's guidance, insurers may not give a compensation to insureds if they choose to have the surgery conducted within the Shaban or in the public system. The coverage for surgeries in Israel is marketed in several layers, which include coverage for surgeries in Israel with deductible, complementary plan to Shaban and coverage "from the first Shekel". Beginning from February 1st, 2016, the surgery coverage is marketed within a standard policy for insurance companies within "from the first Shekel" track or complementary to Shaban, and beginning from July 1st, 2016, the coverage is given only for surgeries performed at contracted service providers only. For the change regarding surgery medical insurance plans, see Clause 9.3.1 above.
Transplant insurance*	It mainly provides coverage for expenses involved in organ transplants and/or special treatments abroad.
Medications insurance*	It mainly provides coverage in respect of medications that are not included in the National Health Basket.
Dental insurance	It mainly provides the insureds with coverage of expenses in respect of dental treatments based on several coverage layers: basic dental treatments, gums, restorative, dental implants and orthodontics. As of the date of this Report, this coverage is marketed by the Group only as collective insurance and for limited durations.
Riders	Various coverages provided to insureds such as physiotherapy treatments, consultations with psychologists, alternative medicine treatments, house calls by physicians as well as ambulatory coverages such as consultations with physicians, diagnostic medical tests, managers' screening tests and preventive medicine checks. Riders are offered as appendices to the main coverage and sold as riders that are effective for the same period as the main coverage. The Company may cancel these riders as per the arrangements set forth in the relevant riders. Regarding the regularization related to riders, see Clause 9.3.3 above.

* In individual insurance plans marketed until February 1st, 2016, the aforementioned insurance coverages were offered for life. Individual insurance plans marketed after February 1st, 2016 are renewed every two years on June 1st, beginning from 2018.

Type of plan	Coverage description
	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. In insurance plans marketed until February 1st, 2016, the coverage was offered for a predetermined period. In insurance plans marketed after February 1st, 2016, the insurance plans are renewed every two years and end at the age predetermined in the policy.
	LTC insurance
LTC insurance	An insurance which provides the insureds with compensation in case they become LTC-dependent under the definition set in the policy, and after the preset waiting period in the policy has passed. The payment of insurance benefits is for a limited period or for life, depending on the policy's conditions. In insurance plans marketed up until 2012, the monthly compensation was linked to the investment portfolio, as per the conditions set forth in the plan. Effective from 2012, the marketed insurance plans link the monthly compensation amount in the event of LTC to the CPI, as per the conditions set forth in the plan. Under certain conditions, in case of discontinuing the premium payment before the end of the insurance period, the insured is entitled to partial insurance coverage, according to the policy terms. In individual insurances this coverage is offered for life.
	Personal accidents insurance
Personal accidents	A plan granting insureds with insurance benefits in respect of damages (compensation) or medical expenses (indemnification) they incurred as a result of an accident. The coverage is multi-annual and is provided in the event of death, burns, fractures, LTC condition, hospitalization or disability, and medical expenses caused following an accident, and may also include coverage for temporary PHI. The insurance coverage is offered for a predetermined 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.

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

10. Competition

10.1 General

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

In the area there is harsh competition between insurance companies stemming, *inter alia*, from the large number of competitors and the similarity in products.

The area of health insurance in Israel is concentrated and held mainly by the five large insurance companies, Harel Group, Clal Group, The Phoenix Group, Migdal Group and Menorah Group, and the strongest is Harel Group with a market share of over 40% of premiums in the market for the period ending on September 30th, 2016.

Collective insurance's share constituted approx. 47% of total premiums in the area in 2015[36]. The collective LTC insurance constituted about 26% of total premiums in the area, and most of it is attributed to LTC insurance for members of health funds.

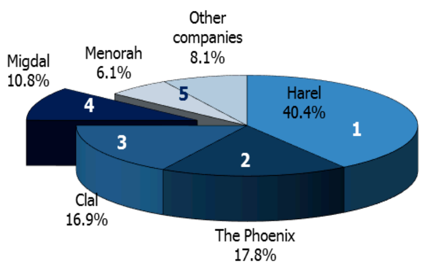
The Company's share in the collective health insurance market is small, and the Company does not have agreements regarding LTC insurance with health funds.

10.2 **Market data**

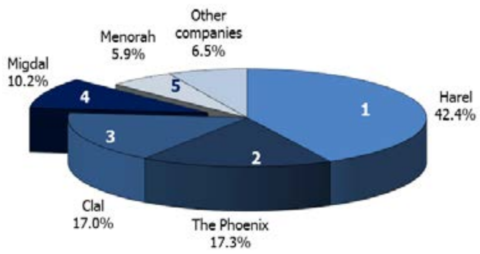
Presented below are market shares in individual insurance and in collective insurance in terms of premiums:

Total health insurance business[37]

For the period 1-9/2016

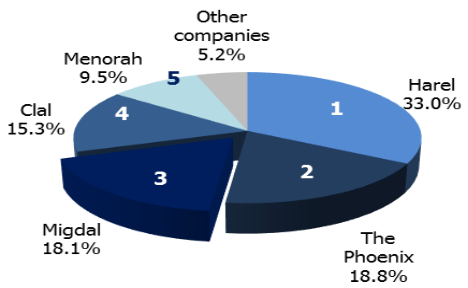


For the period 1-9/2015

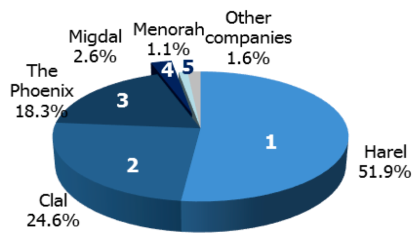


Individual[38] and collective insurance in 2015

Individual insurance



Collective insurance



[36] Based on the 2015 Annual Report by the Capital Markets, Insurance & Savings Authority, excluding disability insurances, foreign workers' insurance, personal accidents and other.
[37] Market shares are based on the processing of the Ministry of Finance reports published in the website ("**Managerial Reports**").
[38] Market shares in individual and collective insurance are based on the 2015 Annual Report by the Capital Markets, Insurance & Savings Authority, excluding disability insurances, foreign workers' insurance, personal accidents and other.

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

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

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

The Group strives towards expanding its activity, *inter alia*, by directing its agents to this area of activity, recruiting new agents specializing in health insurance products, as well as participating in tenders for collective insurance, with good income potential. All the above, with an emphasis on business acceptance policy, expansion of the actuarial information basis, along with an efficient management of claims.

11. Customers

Presented below is a table showing the breakdown of customers in the area of health insurance by gross premiums in 2014-2016:

	2016		2015		2014	
	NIS million	Breakdown in %	NIS million	Breakdown in %	NIS million	Breakdown in %
Individual insurance	1,041	88	921	90	810	92
Collective insurance	136	12	105	10	71	8
Total	1,177	100	1,026	100	881	100

The increase in the relative share of premiums in collective insurance in 2015 and 2016 was mainly affected by adding new businesses to the collective insurance.

In individual LTC policies, the cancellation rate, in terms of premiums, as a percentage of policies in force at the beginning of the year, equaled approx. 3.9% in the reported year, vs. approx. 4.9% in 2015 and about 4.6% in 2014.

In individual policies in other health insurance (not including LTC insurance and including the other sub-lines in policies exceeding one year), the cancellation rate, in terms of premiums, as a percentage of policies in force at the beginning of the year, equaled approx. 10.0% in the reported year, similar to 2015, and about 9.9% in 2014.

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

Area C – General Insurance

12. Key products and services

12.1 General

The area of general insurance includes the line of CMBI insurance, the Casco line and other general insurance lines (see details below), which include the other insurance lines in which the Group engages, other than insurance lines included under the area of life assurance and long term savings (detailed in Clause 3.1 above) and long term health insurance (detailed in Clause 3.2 above), as detailed below:

The **compulsory motorcar bodily injury ("CMBI") area** – it focuses on the coverage of bodily injuries, and its acquisition by car owners or drivers is mandatory under the Law (Motor Vehicle Insurance Ordinance [revised version] – 1970). For details regarding characteristics that are unique for the CMBI line, see Clauses 12.3 and 12.4 below.

The Casco area – it focuses on coverage of property damages to the insured car and coverage of property damages that the vehicle might cause to a third party. For details regarding characteristics that are unique for the Casco line, see Clause 12.3 below

The area of other general insurance lines - it focuses mainly on property insurance and liability insurance, and is characterized by providing coverage for specific risks or "coverage packages" for houses, businesses etc., which combine several insurance coverages, and also includes short-term personal accidents policies (for one year). For details regarding characteristics that are unique for the other general insurance lines, see Clause 12.3 below

12.2 Key changes in the area

12.2.1 Amendment of interest serving for the discount of insurance benefits and mortality tables

In June 2016 the **National Insurance Institute (Discount) (Amendment) Regulations – 2016** were published. Within the Amendment to the Regulations, the following changes were introduced: (1) the interest calculated for the discount of insurance benefits was decreased to 2% instead of 3%, and a mechanism for interest update was set, beginning from January 1st, 2020 and every 4 years after that date; (2) the mortality tables were updated based on the Central Bureau of Statistics' data, which are updated assuming higher life expectancy, and a monthly update mechanism was set.

Pursuant to another amendment to the Regulations from September 2016, the implementation date for these Regulations was postponed to October 2017.

Further to aforesaid Regulations, the Company updated its estimations in the area of general insurance, and accordingly, it increased reserves in the area of CMBI insurance and liability lines, mainly in 1Q16. Although the implementation date of abovementioned Regulations was postponed, the Company left the update of reserves unchanged, since the reserves embed future payments also in respect of the period after the Regulations come into effect. See also Clause 3.6 in the Board of Directors' Report and Note 37b3c(5) to the Financial Statements.

12.2.2 **Amendment to the provisions of the consolidated Circular in CMBI**

In September 2016 the **Amendment to the provisions of the consolidated Circular in CMBI** was published, updating insurance fees for private vehicles in residual insurance ("the Pool"), coming into effect on January 1st, 2017. Furthermore, a Circular dated August 2016 regarding the amendment to the provisions of the consolidated Circular in CMBI, cancelled the restriction from March 2016, prohibiting insurers from collecting insurance fees exceeding 90% of the Pool tariff. In August 2016 the Company received a notice regarding the Commissioner's objection to the CMBI tariffs for private and commercial vehicles of up to 3.5 tons beginning from November 1st, 2016, cancelling the approval previously given to the Company. On September 19th, 2016 the Commissioner informed the Chairman of the Israel Insurance Union that the objection notices to CMBI tariffs for insurance policies in respect of private and commercial vehicles of up to 3.5 tons that were sent to the companies, will come into effect on January 1st, 2017 (instead of November 1st, 2016).

Accordingly, beginning from January 2017 the Company is operating as per new tariffs that were approved by the Commissioner until March 1st, 2017, which include the use of additional parameters for determining the premium, including the use of safety accessories and the driver's gender. This tariff was updated again and approved by the Commissioner beginning from March 2017.

12.2.3 **CMBI insurance for groups and vehicle fleets**

In November 2016 the Circular regarding the **Amendment of the provisions of the Consolidated Circular in CMBI** was published. The Circular amends the provisions of the Circular dated January 2016, within which the possibility to set net insurance fees for groups and vehicle fleets, that are different from net insurance fees set for vehicles that do not belong to these two categories, was cancelled. As per the Commissioner, after a re-examination of this matter by the authorities, it was decided that the cancellation shall apply only to groups, and insurers may use a different tariff formula for vehicle fleets, subject to a notice in advance to the Commissioner and her approval, and pursuant to a procedure set forth in the Circular. Accordingly, beginning from January 2017, there was an increase in insurance fees in respect of collective insurances that are renewed in the Company, compared with insurance fees collected in the same period in 2015.

12.2.4 **Karnit**

The Traffic Accident Casualty Compensation Fund ("**Karnit**"), is a corporation established following the Traffic Accident Casualty Compensation Law -1975 ("**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 circumstances: the liable driver is unknown, the driver does not have CMBI or the insurance does not cover the liability, the insurer of the motorcar is in liquidation or was appointed an authorized manager.

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

Further to **Amendment No. 25 to the TAAC Law**, which was published in April 2016, stating that in Karnit's account there is an amount exceeding the amount required for financing its activities and securing its stability ("**surplus amount**"), Karnit may be required by the Minister of Finance (or anyone empowered by the Minister of Finance), with the consent of the Minister of Justice, transfer these amounts to insureds in the motorcar insurance line, in cash or in another way, including by reducing the rate of insurance fees. In September 2016 a **Circular regarding the Reimbursement to Insureds by Karnit** was used, regulating the distribution of the surplus amount to insureds of motorcar insurance. Presented below are the key points of the reimbursement arrangement; (1) in respect of insurance policies which began between January 1st, 2017 until December 31st, 2018 ("**the reimbursement period**"), in which the insurance period does not exceed 13 months, the insurance company shall reimburse on the date of payment of insurance fees , by reducing insurance fees by 13% of insurance fees collected ("**reimbursement fees**"); (2) a specific vehicle will be entitled to reimbursement fees during the reimbursement period, in respect of insurance periods that do not exceed 24 months.

The Company is of the opinion that this Circular will not have a material impact on the Company.

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

In November 2016 an **Amendment of the Consolidated Circular – Provisions in Homeowners Insurance** was published, aimed at improving the service that insureds will receive upon the occurrence of an insurance event. The Amendment sets forth the following provisions: (1) insurers will have a list of contracted plumbers, who will help in improving service in this area, with good geographic dispersion; (2) the list shall include at least 12 plumbers, and it will be presented in the insurers' website, with details regarding the plumbers, as per the Circular; (3) the insurance policy will allow choosing between contracted plumbers and plumbers elected by insureds; (4) insurers shall conduct satisfaction surveys with contracted plumbers among insureds, regarding how quick the service was provided and the quality of repair, and shall publish the outcome; (5) deadlines for providing plumbing services were defined, as well as instruction orders in case these deadlines are not met; (6) upon the completion of service by contracted plumbers, insurers must provide details to insureds about the service that was provided; (7) there are provisions that will be included in the engagement agreement between insurers and contracted plumbers.

The Circular (except certain provisions) will come into effect on June 1st, 2017 or upon the renewal of existing policies, the latest of the two.

As of the date of this Report, the Company is studying the provisions of the Circular, and it is preparing towards its implementation, along with examining the various possibilities for the implementation of the Circular and adjusting claim management in water damages. Accordingly the Company is currently unable to assess the implications of the Circular's implementation.

12.2.6 **Enrollment to insurance plans**

In June 2016 a **Circular regarding Enrollment to Insurance** was published, cancelling the previous Circular dated July 2016. The Circular sets provisions for the regularization of the behavior of insurance companies and insurance agents upon the enrollment to insurance. In March 2017, a Circular amending this Circular was published. For additional details regarding the Circular, see Clause 26.4.2 in Part D to this Report.

12.2.7 **Circular regarding the operation of riders and how to market them**

In December 2015 the Commissioner published a Circular regarding the Marketing of Riders. The aim of the Circular is setting conditions for the marketing of riders, and how to market them, as well as imposing the liability on insurance companies for providing the service pursuant to the riders.

12.2.8 **Changes in the Company's activity in the area of general insurance**

(a) **Agreement for the acquisition of Eliahu claims portfolio included in general insurance in Migdal Insurance**

On April 21st, 2016, after its approval by the Court on March 31st, 2016, the transaction of the transfer of Eliahu's claims portfolio in general insurance, that includes claims (outstanding and future) of Eliahu, originating from general insurance policies sold by Eliahu until December 31st, 2012, to Migdal Insurance's responsibility. For additional details see the Company's Immediate Report dated April 24th, 2016, Reference No. 2016-01-054871.

On August 4th, 2016, the Company's General Meeting approved an amendment to the said claims portfolio acquisition agreement, mainly dealing with an amendment regarding the calculation of indirect expenses that Eliahu had to transfer to Migdal Insurance upon the completion of the agreement. For additional details see the Company's Immediate Reports dated June 28th, 2016, Reference No. 2016-01-068965 and 2016-01-068974, as well as August 4th, 2016, Reference No. 2016-01-097930, as well as Note 38e2 to the Financial Statements.

(b) **Motorcar tender for State employees for 2017**

Pursuant to a notice delivered to Migdal Insurance on September 18th, 2016 by the Ministry of Finance's General Accountant, Migdal Insurance was selected as one of the companies that won the motorcar insurance (comprehensive and CMBI) tender for State employees for 2017 ("**the winning notice**"). The winning notice states that as per data regarding insureds in 2016, the number of insureds in comprehensive and CMBI insurance won by Migdal Insurance is approx. 34,000 insureds. The winning notice also stated that the entity that published the tender is not committed to a certain number of insureds or a certain scope of insureds' monies.

Pursuant to the tender's provisions, the beginning date of the renewed policies, within the tender, is December 31st, 2016 at 23:59. In light of the above, the premiums recorded within this tender in respect of policies whose beginning date is as set forth above, were recorded as gross premiums in 2016.

The scope of gross premiums received as set forth above, and recorded in 2016, totaled approx. NIS 147 million, and the number of insureds within the tender is approx. 34,000. The aforesaid premium will be recorded as earned premium in 2017.

At this point, the Company is unable to assess the impact of winning the tender on its financial results.

See also the Company's Immediate Report dated September 19th, 2016, Reference No. 2016-01-125377.

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

Type of plan	Coverage description
Motorcar insurance	
CMBI	
Providing insurance coverage by virtue of the Motorcar Insurance Ordinance (New Version) - 1970 ("Motorcar Insurance Ordinance")	The product is a policy that covers bodily injuries caused as a result of using a car, and its purchase is mandatory under the Motorcar Insurance Ordinance. The CMBI policy covers, according to the Motorcar Insurance Ordinance, the owner of the vehicle and the driver from any liability they may bear according to the Traffic Accident Casualty Compensation Law - 1975 ("**TACC Law**") due to bodily injury caused by the use of a motorcar to the driver, to the passengers, or to pedestrians hit by the vehicle. The policy is a standard policy that should be issued pursuant to the **Regulations of Supervision of Financial Services (Insurance) (Conditions of Contract for Insurance of Vehicles) – 2010**. The amount of insurance benefits in this area is unlimited except for certain heads of damage such as "**pain and suffering**" whose amount is limited, and compensation in respect of salary loss, all as per the coverage restrictions set forth in the TACC Law. Amendments to the TACC Law and/or precedents regarding interpretation to this Law affect the scope of coverage. Usually, CMBI policies are written for a period of one year. However, claims in this area are handled over a long period, which might take several years, due to the long time that elapses from the occurrence of the event until the final damage assessment date and the settlement of the claim. The tariff principles are based on the instructions of the Commissioner of Insurance under the **Consolidated Circular**[39], 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, were set. The Group applies a differential tariff, based on some relevant variables, selected by the Group as being the most appropriate in assessing risk and setting premium. For details regarding the updates to the provisions of the Circular regarding CMBI, see Clause 12.2.2 above.

[39] The Consolidated Circular concentrates the Commissioner's guidance.

Type of plan	Coverage description
Motorcar insurance	
Casco	
Casco insurance includes coverage for property damages to the insured vehicle and property damages caused by the vehicle to a third party	The product is a motorcar insurance policy that provides coverage against damages that might be incurred to the vehicle itself or to the property of a third party. There are several types of Casco insurance: (a) Insurance for third party vehicle, that provides only coverage for damages incurred to a third party's property. (b) A comprehensive coverage that offers coverage for a third party's damages as well as damages to the vehicle itself, such as theft. (c) Partial comprehensive coverage, excluding damages caused by an accident or theft. **Casco** policies are divided into two main groups, depending on the vehicles: • Insurance for private and commercial vehicles of up to 3.5 tons that grants insurance coverage as per the terms of the standard policy set forth in the **Supervision of Insurance Business Regulations (Conditions of Contract for Insurance of a Private Vehicle) – 1986**. It is possible to add to the standard policy extensions as to the scope of coverage and covered risks (within riders, various coverages are offered, such as windshields, road services and towing, alternative vehicle etc.). The tariff is an actuarial differential tariff (not standard for all insureds, and adjusted to risk), and it is based on several parameters/variables, both related to the vehicle insured by the policy (such as make, model, etc.) and to the insured's characteristics (number of drivers, drivers' age, past claim record etc.). • Insurance for other types of vehicles such as trucks of over 3.5 tons, motorcycles, taxis, heavy equipment, buses, agricultural equipment etc. Insurance policies for these types of vehicles are not subject to the terms of the standard policy.
Other general insurance	
This line mainly includes two types of insurance: property insurances, which include coverage in respect of loss or physical damage to the insured property and liabilities, which include coverage in respect of a financial liability by insureds towards a third party in respect of bodily injury and property incurred to them, as per the Law, as detailed below. Furthermore, this line includes personal accidents policies for a period of one year.	
Property insurances	
Property insurances are aimed at providing insureds with coverage against loss or physical damage to their property. The main risks covered in property policies are fire hazards, explosion, burglary, earthquake and natural disasters. Property insurances sometimes include coverage for consequential damage (loss of profits) due to physical damage caused to the property, and they are a layer in homeowners insurance, business insurance, engineering insurances, goods in transit (marine, terrestrial, aerial) etc. In most cases, the property insurance policies are written for a period of one year. Also, in most cases, claims in respect of such policies are clarified a short time after the occurrence of the insurance event. Insurance coverages in this area are designated for private and corporate customers. The key products in the property insurance line are as follows:	
Homeowners insurance	Homeowners insurance includes building insurance and content insurance, based on property insurances as described above plus liability insurances related to homes (third party liability and employers' liability in respect of housekeeping employees). The homeowners insurance policy is based on the terms set forth in the **Supervision of Insurance Businesses (Conditions of Contract for Home Insurance and Content) Regulations – 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, emergency services, etc. The standard policy was updated in July 2015, along with an expansion of the minimal coverage set forth in it, and now it includes: another coverage amount in condominiums, an expansion of coverage for risks of water and other liquids to also cover damages originating from the of escape of liquids from plumbing and heating appliances of another property in the condominium, as well as the inclusion of a standard wording for liability insurance

Type of plan	Coverage description
	towards a third party. The underwriting of this product is based on a basic tariff (with some variance regarding parterres, villas and penthouses) and through analyzing the specific risk. Within homeowners insurances, the Group also offers a "**structure insurance for mortgage**" policy, which is a policy covering the building only, as per the standard policy, whose main target is mortgage banks borrowers.
Business insurance	Business insurance is usually an insurance plan that includes several coverages (property insurance and liability insurance), consolidating al the coverages required for a business in one policy. Property, building and content insurances, 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, as well as liability insurances. The underwriting of this product is mostly based on the specific risk analysis and in large corporations insurance, on the terms of reinsurance in respect of the insured risk.
Other property insurance	Within other property insurances, the Group offers additional insurance coverages such as marine and aviation insurances (watercrafts, aircrafts, and goods in transit), contractor work insurances, mechanical engineering equipment insurance, fidelity insurance and all risks insurance. The scope of activity in these insurance lines is non-material.
	Personal accidents insurance (for one year)
Personal accidents insurance compensates the insured in respect of any damage caused to him/her due to an accident. Coverage is granted against death or disability as a result of an accident, and may also include coverage for temporary occupational disability. The area of general insurance includes personal accidents for one year (and personal accidents policies for a period of over a year are included with the area of health insurance).	

Type of plan	Coverage description
Liability insurances	
Liability insurances are aimed at covering an insured's liability, by law, in respect of damage he/she may inflict upon a third party. The liability insurance policies are usually issued for one year. However, the pace at which claims in this line progress is longer and may take several years, for several reasons: the damage covered in the policy is caused to a third party who is not the policyholder, the time elapsed between the occurrence of the event and the time of establishing the liability and damage and filing the claim, is relatively long. In many cases it involves a relatively complex factual and legal inquiry, both regarding the insured's liability and the scope of damage. The statute of limitation period in respect of the cause of claim is longer than the customary limitation period in property insurance. In some of the liability insurances, mainly third party and employers' liability, coverage is usually event-based (unlike policies based on claim made), namely the coverage is for events that occurred during the insurance period and the claim can be filed after the end of the insurance period, subject to limitation. In liability insurances, mainly professional liability and product liability and D&O insurance, coverage is based on filing claims (claim made), i.e., the coverage is for events that occurred during the insurance period or in the retrospective date set forth in the schedule, and the claim must be filed within the insurance period.	
Insurance of liability towards a third party	The purpose of this product is to protect insureds against a liability which they might bear, in respect of damage they caused, by negligence, to a third party. The coverage is adjusted to the insureds’ activity and the limit of liability in the policy is determined by the insureds, at their discretion, based on the risk level to which they are exposed, in their opinion. This product is sold both as an independent individual policy (third party liability coverage only), and as part of a policy, which includes several coverage chapters (property and liability chapters), whose aim is to consolidate into one policy all coverages required for the business.
Employers' liability insurance	The purpose of this product is to protect employers against 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. This product is sold both as an independent individual policy (employers' liability coverage), and as part of a policy, which includes several coverage chapters (property and liability chapters), whose aim is to consolidate into one policy all coverages required for the business.
Other liability insurances	These are insurance coverages for product liability, professional liability insurance, and D&O insurance.

12.4 Special arrangements referring to the CMBI line

12.4.1 Residual insurance arrangement (“the Pool”)

Since on the one hand there is a duty imposed on vehicle owners to insure their vehicles pursuant to the CMBI Ordinance, but on the other hand, insurance companies may refuse to insure vehicles as per their discretion, vehicle owners who were rejected by insurance companies may acquire insurance via "the Pool" – the Israeli Vehicle Insurance Database, that the way of its establishment, the way it is managed and the way it behaves, its duties, the share of each insurance company in the arrangement, the way the coinsurance is settled, including arrangements as to the setting of tariff, are regulated in the Motorcar Insurance Regulations (Residual Insurance Arrangement and Mechanism for Setting the Tariff) - 2001. All insurance companies operating in the area of CMBI participate in "the pool" and each bears the pool's losses or profits as per its relative share in the CMBI market, as determined by the end of the current year. For the Group's share in the Pool's results see Clause 3.6.3 in the Board of Directors' Report.

12.4.2 **Karnit**

As set forth in Clause 12.2.4 above, 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 circumstances set forth in the TACC Law.

For additional details regarding Karnit, as well as regulatory updates in its respect, see Clause 12.2.4 above.

12.4.3 "**Light heavy" clearance outline**

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

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

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

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

On January 1st, 2016 another Amendment to Clause 328 to the Law[40] came into effect, setting provisions regarding the way of reporting and its publication by the NII, deadlines for activities between the NII and insurers after the NII requests payment, as well as provisions regarding the statute of limitation, which will be seven years after the reporting date or the date upon which the NII was informed about the procedures, regardless of the breach of the reporting duty, but no more than 15 years after the accident.

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

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

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

13. Competition

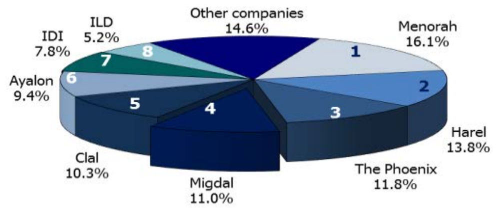
13.1 General

The area of general insurance is characterized by continued competition, which focuses on tariffs and service. The Company's market share, as reflected in revenues from insurance fees in the first nine months of 2016, is approx. 11.0%, vs. approx. 10.4% in the same period in 2015. As of September 30th, 2016, and based on market data in terms of gross premium, the Group is fourth among the entities that operate in this area, as detailed below:

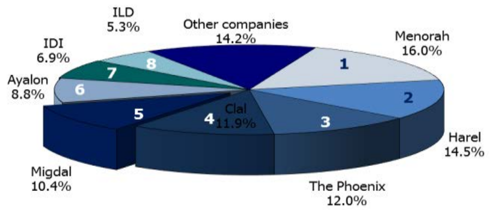
13.2 Market data in terms of gross premiums[41] [42]

The entire area of general insurance in Israel

For the period 1-9/2016

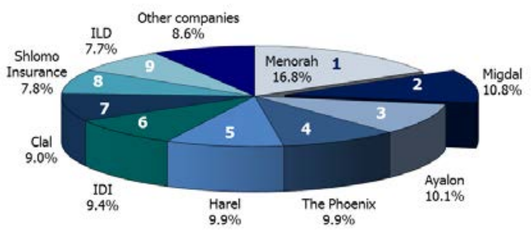


For the period 1-9/2015

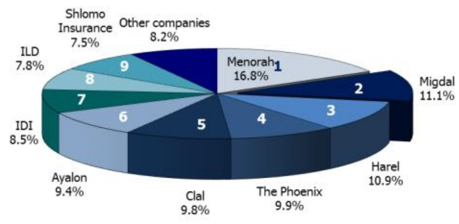


CMBI

For the period 1-9/2016



For the period 1-9/2015



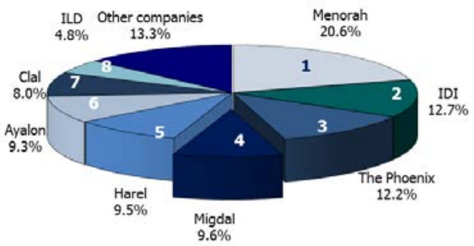
The share of all direct insurance companies in this period equaled approx. 12.4% of total gross premiums in the line, vs. approx. 11.6% in the same period in 2015.

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

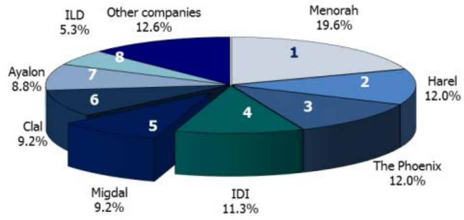
[42] The item of other companies includes the data regarding the Insurance Fund for Natural Damages in Agriculture Ltd., whose market share as of September 30th, 2016 is approx. 1.7%.

Casco insurance

For the period 1-9/2016



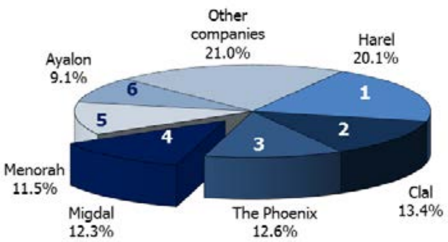
For the period 1-9/2015



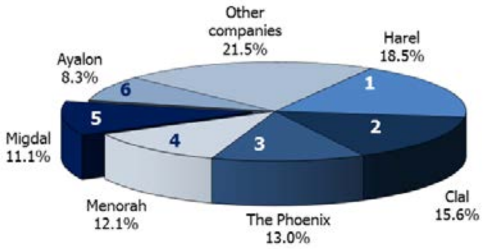
The share of all direct insurance companies in this period equaled approx. 16.7% of total gross premiums in the line, vs. approx. 15.2% in the same period in 2015.

Other general insurance lines

For the period 1-9/2016

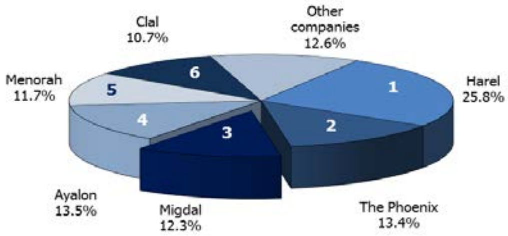


For the period 1-9/2015

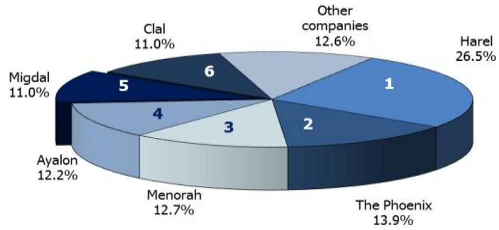


Liability lines (excluding CMBI)

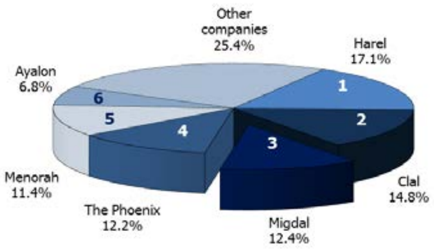
For the period 1-9/2016

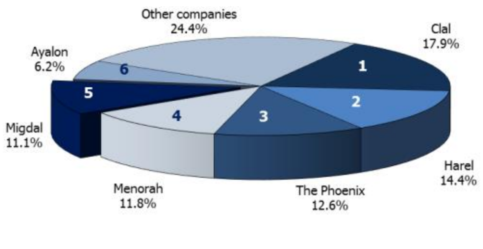


For the period 1-9/2015



Property lines (excluding Casco)[43]	
For the period 1-9/2016	**For the period 1-9/2015**





In the first nine months of 2016, the Group's market share in terms of gross premium increased compared with the same period in 2015. The increase was reflected in Casco insurance, and was due to an increase in the number of policies, both individual and collective insurances, as well as an increase in average premium. In addition, there was an increase in market share in other property lines and in liability insurances, partly due to an increase in the number of policies, as well as from a change in the dates of policy renewal of several large businesses, in which the insurance coverage is for over one year. For additional details, see Clause 3.6.3 in the Board of Directors' Report.

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

The Company deals with the competition in several ways:

(a) Managing tariff in individual insurance and business insurance – the Group manages the tariff in individual insurance and business insurance in a way that allows it to compete over market shares and 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.
(b) Development and marketing synergetic products - the Company focuses on developing and marketing combined products and structured tracks, which include several coverages that provide a comprehensive solution for customers.
(c) Increasing the efficiency of claim settlement and improving service to the Company's insureds in claims services.
(d) Facilitating the access to service to customers and agents via operational and technological measures – the Company is striving towards improving and increasing accessibility of service to customers and agents, via operational streamlining and integrating advanced computerization systems, including developing various digital tools for agents, aimed at facilitating their work and streamlining it.

[43] The item of other companies includes the data regarding the Insurance Fund for Natural Damages in Agriculture Ltd., whose market share as of September 30th, 2016 is approx. 6.4%.

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 2014-2016 (in NIS million and in %):

	2016		2015		2014	
	NIS million	Breakdown in %	NIS million	Breakdown in %	NIS million	Breakdown in %
Individual insureds and small business customers	1,778	73	1,606	78	1,526	78
Collective insurance and big businesses(1)	663	22	444	22	443	22
Total	2,441	100	2,050	100	1,969	100

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

There was an increase in the rate of collective insurance and large businesses in 2016 compared with 2015, which was mostly affected by the fact that Migdal Insurance won the tender for motorcar insurance for State employees for 2017, which came into effect by the end of 2016, for details see Clause 12.2.8 (b) above.

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

14.2 Customers' seniority and persistency[44]

14.2.1 CMBI

In 2016, the renewal rate in the CMBI line, in terms of premiums to policies in force in the previous year, equaled approx. 66%, vs. a renewal rate of about 59% in 2015 and about 62% in 2014.

In 2016 there was an increase in the renewal rate compared with 2015, mostly affected by an increase in renewed policies, following a slight decrease in the renewal rate in 2015 compared with 2014, which was mainly affected by a tariff erosion in the Company.

[44] In November 2012, an agreement was signed between the Company and Eliahu Insurance, in which, *inter alia*, Eliahu undertook that new policies to customers insured by Eliahu in the area of general insurance, whose insurance initiation is beginning from January 1st, 2013, will be renewed by Migdal Insurance ("**new business**"). In 2013 Eliahu's new business in general insurance was absorbed in Migdal Insurance, and this brought about an increase in premiums, mainly in CMBI, Casco insurance and homeowners insurance. Policies that were renewed from that population, in the data referring to the breakdown of customers' seniority in 2014, are presented in "second insurance year (no seniority), in 2015 in third insurance year (two seniority years), and in 2016 in "over three seniority years".

Presented below are details of the breakdown of customers by seniority in CMBI, in terms of premium turnover, in 2014-2016:

Number of underwriting years (seniority years)	2016	2015	2014
First insurance year (no seniority)	43%	40%	39%
Second insurance year (one seniority year)	21%	20%	44%
Third insurance year (two seniority years)	11%	28%	6%
Over three seniority years	25%	12%	11%
Total	100%	100%	100%

The increase in 2016 in the weight of customers with seniority of less than one year was mainly affected by the fact that Migdal Insurance won the tender for State employees' insurance, as set forth in Clause 14.1 above.

14.2.2 **Casco**

In 2016, the renewal rate in the Casco line, in terms of premiums of policies in force in the previous year, equaled approx. 81%, vs. approx. 75% in 2015 and approx. 69% in 2014.

The increase in the renewal rate in 2015 and 2016 was affected by an increase in the number of policies, as well as by tariff updates.

Presented below are details of the breakdown of customers by seniority in Casco, in terms of premium turnover, in 2014-2016:

Number of underwriting years (seniority years)	2016	2015	2014
First insurance year (no seniority)	45%	40%	32%
Second insurance year (one seniority year)	22%	18%	42%
Third insurance year (two seniority years)	10%	27%	7%
Over three seniority years	23%	15%	19%
Total	100%	100%	100%

As set forth above, the increase in 2016 in the weight of customers with seniority of less than one year was mainly affected by the fact that Migdal Insurance won the tender for State employees' insurance.

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

(a) In 2016 customers of both CMBI and Casco lines constitute approx. 65% of premiums in CMBI, vs. about 57% in 2015 and about 49% in 2014.

(b) In 2016 customers of both CMBI and Casco lines constitute approx. 89% of premiums in Casco, vs. about 85% in 2015 and about 79% in 2014.

The increase in customers having both CMBI and Casco insurance in 2016 was affected by the winning of the tender to insure government employees as mentioned above.

14.2.4 Homeowners insurance

In 2016, the renewal rate in the homeowners insurance[45] line in terms of premiums of policies in force in the previous year, equaled approx. 93%, vs. about 91% in 2015 and approx. 79% in 2014.

In 2016 there was a slight increase in the renewal rate, following a significant increase in the renewal rate in 2015, stemming from an update of tariffs in the Company.

Presented below are details of the breakdown of customers' seniority in homeowners insurance[46], in terms of premium turnover, in 2014-2016:

Number of underwriting years (seniority years)	2016	2015	2014
First insurance year (no seniority)	18%	13%	11%
Second insurance year (one seniority year)	11%	9%	25%
Third insurance year (two seniority years)	8%	22%	9%
Over three seniority years	64 %	56%	55%
Total	100%	100%	100%

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

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

Area D – Financial Services

15. Financial information in the area of financial services[47]

	2016	2015	2014
Total revenues			
Revenues from external sources – not from other areas of activity	129	196	206
From other areas of activity(1)	3	9	4
Total revenues	**132**	**205**	**210**
Costs that do not constitute revenues of other areas of activity	129	207	207
Costs that constitute revenues of other areas of activity(2)	2	2	2
Total costs	**131**	**209**	**209**
Out of which: expenses in respect of original difference amortization and goodwill write-down (3)	1	26	8
Income (loss) for the period before tax	1	(4)	1
Comprehensive income (loss) for the period before tax	1	(3)	2
Total assets in balance sheet	**668**	**636**	**789**

(1) The revenues of Capital Markets Group as a result of services supplied to other companies in the Group, in respect of brokerage services in 2014-2015 (an activity that was discontinued at the end of 2015, pursuant to the merger of Migdal Stock Exchange Services into Investment IBI) and from distribution services in respect of bond issuance by Migdal Capital raising in 2015 and 2106, which were provided to other areas of activity in the Group.

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

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

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

Presented below are details of development in revenues of different segments comprising the financial services area between 2014-2016 (NIS million):

	2016	2015	2014
Revenues from mutual funds and investments portfolio management fees	131	142	144
Revenues from commissions on investment banking, distribution and brokerage services activity [48]	6	55	44
Other revenues	-	2	7
Income/losses from securities (net) and finance income	(5)	6	15
Total revenues of the area	**132**	**205**	**210**

In 2016 there was a decrease in revenues, mainly due to a decrease in revenues from providing brokerage services due to the discontinuation of this activity in Migdal Capital Markets. In addition, there was a reduction in revenues from mutual funds management, affected by a decrease in the scope of AuM, and on the other hand, an increase in average management fees, as well as a decrease in revenues from financial and financing activity.

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

16. General information about the area of financial services

16.1 General

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

The Capital Markets Group engages mainly in financial asset management services, investment marketing, as well as other activities that are non-material, including investment banking and distribution.

16.2 The area of activity structure and its changes

16.2.1 General

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

[48] The increase in this item in 2015 is due to revenues that were received for the handling of investment banking transactions.

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

The asset management activity of Capital Markets Group includes the management of mutual funds, and the management of investment portfolios via Migdal Trust Funds Ltd. ("**Migdal Funds**") and Migdal Investment Portfolio Management (1998) Ltd. ("**Migdal Portfolio Management**").

Also, Migdal Capital Markets Group engages in investment marketing to customers, including to eligible customers in Israel and abroad.

16.2.3 **Other non-material activities**

Investment banking and distribution – this activity includes the accompaniment of M&A transactions, capital raisings, financing and distribution, and it is performed through Migdal Underwriting and Business Initiative Ltd., a subsidiary fully controlled and owned by Migdal Capital Markets ("**Migdal Underwriting**")[49].

Hedge funds[50] - the asset management activity includes, *inter alia*, also the management of mutual funds, through a subsidiary of Migdal Capital Markets – MCM Alternative Investments Ltd., under which this activity is carried out, via several subsidiaries.

Investments in financial assets – Nostro -

Beginning from October 28th, 2015 Migdal Capital Markets holds 19.9% of the shares of IBI Stock Exchange Services Ltd. ("**IBI**"), which were allocated to it further to the completion of the merger of a previous subsidiary fully owned by it, Migdal Stock Exchange Services (N.E) Ltd. ("**Migdal Stock Exchange Services**") with and into IBI[51]. Furthermore, pursuant to the merger agreement, Migdal Capital Markets is entitled to receive from IBI part of the TASE shares that will be received by IBI in respect of Migdal Stock Exchange Services'[52] right, upon the change in the TASE's incorporation structure. On March 20th, 2017 the Knesset approved the Securities Law (Amendment No. 61) – 2017, that includes, *inter alia*, provisions regarding the change in the TASE's incorporation structure. For additional details regarding this Law see Clause 25.1.1 below.

After the merger, Migdal Stock Exchange Services stopped being a subsidiary of Migdal Capital Markets, and the investment in IBI shares, including the right to receive Migdal Stock Exchange Services' share in the TASE shares within its privatization, was handled in the Company's Financial Statements as an investment in non-material financial asset that is not a business area, revalued as per fair value through profit & loss.

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[49] It should be noted that in spite of its name, Migdal Underwriting (which is an "inactive underwriter") does not engage in underwriting, but in distribution activity.

[50] As of the date of this Report, Migdal Capital Markets does not manage hedge funds.

[51] The balance of IBI shares, 80.1%, are held by IBI Investment House Ltd., a public company that is not a related party to Migdal Group.

[52] Pursuant to the merger agreement, Migdal Capital Markets will be entitled to a share of TASE' shares as set forth above, if the TASE Board of Directors (or any other regulator) decides regarding the TASE privatization by share allocation, until the later of the following: (1) five years after the merger; (2) as long as Migdal Capital Markets holds shares in IBI, or (3) one year after the exercise date of the call option given to IBI Holdings (that IBI Investment House stepped into its shoes after the merger) within the merger transaction – if the option is exercised. It was also agreed that if the parties disagree regarding the value of the TASE shares, the parties will ask an economic arbitrator to rule, and his/her ruling will be final and shall bind the parties.

For additional details regarding the merger see Note 39.2.e3 to the Financial Statements.

In addition, Migdal Capital Markets, via subsidiaries, invests in Nostro investments as detailed in Clause 6.4.2 to the Board of Directors' Report.

Furthermore, Migdal Capital Markets may invest its assets in hedge funds managed by it. As of the date of this Report, Migdal Capital Markets does not manage hedge funds and does not invest in them.

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

See Clause 25 below.

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

16.4.1 **General**

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

16.4.2 **The line of asset management and investments marketing**[53]

Mutual funds are established pursuant to the Joint Investments Trust Law – 1994 ("**the Joint Investments Law**"), as per an agreement between the fund manager and the trustee, and based on the fund's prospectus, and they serve as an instrument for joint investments in securities and financial assets, and for the joint production of profits from holding them and from any transaction thereof, and they are characterized with high liquidity.

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

[53] Data referring to the mutual funds line are based on Bizportal system and the data referring to index products are based on information Authority website. 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.

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

	Traditional management / "active management" (in NIS billion)		Index-tracking management / "Passive management" (in NIS billion)	
	Traditional funds	Money market funds[54]	Tracking funds	Index products
2016	158.9	16.9	27.6	96.2
2015	173.9	25.9	29.3	103.5
% change in 2016 vs. 2015	(2.9%)	(34.7%)	(5.8%)	(7.1%)

As can be seen from the data above, the year 2016 was characterized by competition between tracking funds and indices products - investment houses continued to prepare towards the passive market regularization reform, as a result of which, the tracking funds will become ETFs and will begin to be traded daily on a continuous basis. For details regarding the reform planned in the area of passive asset management, see Clause 25.1.2 below.

The decrease in the scope of the mutual funds sector in 2016 is mainly due to surrenders in money-market funds, due to the low interest rate, and due to the trend of price decreases in markets, which continued since 2015. Capital raising in the traditional funds, compared with surrenders in tracking funds, were in light of the public's preference of managed products, which was caused, in the Company's opinion, by the low yields in key indices, stemming, *inter alia*, from sharp price decreases in the pharma sector, as well as from the surrender of State bonds, due to an increase in risk appetite.

The investment banking and distribution line[55]

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

	Capital raising	Number of issuances (capital raising)	Scope of debt raising
2016	3.7	89	63
2015	4.3	72	55
% change in 2016 vs. 2015	(14%)	23%	14%

[54] Money market funds in NIS.
[55] The data are based on processed data produced from the annual reviews of the TASE for 2015-2016.

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

Presented below is the development in the scope of assets managed by Capital Markets Group (in NIS million), in 2015-2016:

	2016	2015
Portfolio management (1)	5,944	6,172
Mutual funds (2)	24,672	26,831
Total	30,616	33,003

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

(2) After the neutralization of assets in investment management by an external portfolio manager in the amount of approx. NIS 56 million in 2016 and approx. NIS 61 million in 2015.

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

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

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

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

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

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

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

As aforementioned, the financial services area is characterized by harsh competition, *inter alia*, due to the fact that the market is relatively small with a large number of competitors, including both banking corporations (including foreign ones), and companies held by institutional entities. For details regarding the competition in the area, see Clause 21 below.

17. The area's key products and services

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

17.1 Mutual funds management

This area of activity includes the management of mutual funds – both traditional and tracking funds. Presented below are data regarding the number of mutual funds managed by Migdal Funds[56]:

	2016	2015
Portfolio management	112	117
Mutual funds	81	69
Total	**193**	**186**

Presented below are additional details on the assets in mutual funds managed by Capital Markets Group, as well as the total amount in the sector, as of December 31st, 2016 (NIS millions)[57]:

Categories	Scope of assets of Migdal Capital Markets Group funds	Scope of assets in the sector
Bonds in Israel - general	6,016	70,405
Bonds in Israel - State	800	27,094
Bonds in Israel - corporate and convertible	1,667	23,403
Bond tracking	7,808	20,088
Money market fund	2,089	18,157
Bonds in Israel - NIS	1,602	16,424
Shares in Israel	197	10,439
Overseas bonds	273	8,453
Share tracking	3,722	7,504
Shares abroad	281	5,755
Flexible	5	4,014
Leveraged and strategic	160	586
Fund of funds	15	572
Overseas – general	-	336
Bonds in Israel - Forex	37	108
Foreign residents	-	32
Total in 2016	24,672	213,370
Total in 2015	26,831	229,048

[56] After neutralizing 5 traditional mutual funds, whose investments are managed by an external investments manager.

[57] The data for the line are pursuant to the data of Bizportal as of December 31st, 2016. The data regarding Migdal Capital Markets are after the neutralization of assets in mutual funds in investments management by an external portfolio management, in the amount of approx. NIS 56 million in 2016 and approx. NIS 61 million in 2015.

The increase in the risk appetite increased the assets in the categories of corporate bonds, general bonds and shares, at the expense of the categories of money market funds, bonds in Israel – State bonds and NIS bonds in Israel.

17.2 **Investment portfolio management and investment marketing**

The management of an investments portfolio is the execution of transactions in securities and financial assets, at the portfolio manager's discretion, in the accounts of customers managed at a bank or at a TASE member, according to the investments policy agreed upon vis-à-vis the customers and customized to their needs, and pursuant to the provisions of the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law - 1995 ("**Regulation of Investment Law**"). This activity is characterized by direct contact and acquaintance with customers. For the scope of portfolios managed by Migdal Capital Markets see Clause 16.4.3 above.

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

17.3 **Investment banking and distribution line**

This activity includes the accompaniment of M&A transactions, capital raisings, financing and distribution. In 2016 Capital Markets Group handled about 21 transactions in the area of investment banking, part of which have not yet been completed. Furthermore, Capital Markets Group handled approx. 10 distributions of issuances to the public as the main or secondary distributor, including one issuance performed by Migdal Capital Raising Ltd, a sub-subsidiary of the Company in the reported year. In the reported year this activity is non-material.

17.4 **Hedge fund management**[58]

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

18. Revenues and profitability breakdown of products and services

In the area of financial services there is no group of products whose revenues constitute 10% or more of the area's total revenues.

19. Customers

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

[58] As of the date of this Report, Migdal Capital Markets does not manage hedge funds.

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

(a) Private – retail.

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

(c) Corporations (that are not eligible).

The last two types of customers are characterized with a large scope of assets, but with low management fees.

Capital Markets Group has no dependence on a single customer, or on a small number of customers, the loss of which might have a material impact on the area of financial services. Capital Markets Group does not have a customer from which the Group's revenues constitute 10% or more of total revenues of the Group.

20. Marketing and distribution

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

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

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

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

Holding professional/marketing conventions.

Press and internet-related advertising.
Capital Markets Group has no exclusivity agreements with any of the abovementioned marketing and distribution channels.

21. Competition

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

21.1 Mutual funds management services[59] [60]

Key competitors operating in the mutual funds sector [61]	Data as of the end of 2016	Data as of the end of 2015	Data as of the end of 2014
Competitor name			
Meitav-Dash	12.88%	12.26%	14.05%
Psagot	11.59%	12.28%	12.42%
Migdal	**11.56%**	**11.71%**	**11.10%**
Yalin-Lapidot	10.14%	9.75%	7.06%
Harel-Pia	8.34%	10.76%	12.91%
Altshuler-Shaham	7.74%	8.45%	8.44%
Excellence	6.31%	8.89%	9.21%

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As of the end of 2016, 19 mutual funds management companies operate in Israel, managing about 1,400 mutual funds (unchanged compared with 2015), out of which eight companies manage assets in the scope of over NIS 10 billion, nine companies manage assets in the scope of over NIS 1 billion and two companies manage assets in the scope of less than NIS 1 billion.

In December 2016 Menorah Mivtachim Holdings Ltd. announced the merger of the mutual funds management company controlled by it, Menorah Mivtachim Mutual Funds Ltd. ("**Menorah Funds**") with Altshuler-Shaham Mutual funds Management Ltd, a subsidiary of Altshuler-Shaham Ltd., which engages in mutual funds management. This merger did not include the activity of Menorah Funds' tracking mutual funds, which was sold on December 28th, 2016 to Migdal Funds, and within the above, 34 mutual funds managed by Menorah Funds, all of which are tracking funds, were transferred to Migdal Funds' management, beginning from January 1st, 2017. The scope of assets managed in the funds transferred to Migdal Funds was approx. NIS 880 million at the time.

For details regarding the scope of assets in mutual funds in the sector, including Migdal Capital Markets, and regarding the key factors for the decrease in this scope compared with 2015 see Clauses 16.4.2 and 17.1 above.

59 As per data of Bizportal system as of December 31st, 2015.
60 The data in this Report are presented without funds whose investments are managed by external investment managers.
61 As per Bizportal data for 2014-2016. The data do not include funds managed by non-related external investment managers and include money market funds.

21.2 **Market share of Capital Markets Group**

	End of 2016	End of 2015	End of 2014
Of total tracking funds in the sector	41.8%	44.5%	50.4%
Of total passive management (tracking funds and index products)	9.3%	9.8%	8.7%

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

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

For details regarding the scope of assets in portfolios managed by Capital Markets Group see Clause 16.4.3 above.

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

21.4 **The main methods used by Capital Markets Group to handle competition in all the financial services area lines are as follows:**
Increasing awareness to the performances and quality of Capital Markets Group's products, mainly among banks' investment advisors; adjusting and diversifying the basket of products, including with respect to foreign asset management; developing new products; strengthening and increasing the channel through insurance agents; emphasizing the customer services quality; maintaining current professional relations with institutional investors in Israel, who are the main target for investments in the Group's products; professionalism and high reliability.

22. Seasonality

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

23. Suppliers and service providers

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

24. Working capital

Suppliers' credit: in 2016, the average suppliers' credit was not material.

25. Restrictions and supervision applied to the financial services area

25.1 Main laws and regulations

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

25.1.1 The Law regarding the Change in the Tel Aviv Stock Exchange Incorporation Structure

On March 20th, 2017 the Knesset approved the **Securities Law (Amendment No. 61) – 2017**, pursuant to which the Tel Aviv Stock Exchange's incorporation structure will change to a company with share capital for profit purposes, and it may distribute profits to its shareholders. After the Tel Aviv Stock Exchange becomes a company as set forth above, and after the separation of the ownership rights in it from the trading rights, all Tel Aviv Stock Exchange members will hold Tel Aviv Stock Exchange shares, and the allocation of share capital on the Tel Aviv Stock Exchange will be pursuant to an arrangement approved by the Court as per Clause 350 to the Companies Law. Pursuant to the Law, within four months after its publication, the Tel Aviv Stock Exchange will file a request for convening general meetings for the approval of the arrangement to the Court, and if such a request is not filed in the said period, or if it is not approved by the Court within another two months, the mechanism for the arrangement approval by the Court as per a request that will be filed by the ISA shall apply, and for this purpose, the Chairman of the ISA may appoint an expert who will outline a proposal as to how to allocate the rights.

It was also set forth that holdings means of control in the Tel Aviv Stock Exchange at a rate of 5% or more, will require a permit from the ISA, and that if the rate of shares allocated to a member of the Tel Aviv Stock Exchange within the arrangement exceeds 5% of all means of control of the Tel Aviv Stock Exchange, the Tel Aviv Stock Exchange member may continue to hold the portion that exceeds aforesaid rate without a permit, for a transition period of five years after the arrangement's approval, or until the Tel Aviv Stock Exchange's shares are issued to the public and registered for trading, the early of the two, however, the means of control held by them will not give them rights beyond the rights given by holding 5%of all means of control in the Tel Aviv Stock Exchange. After the end of the transition period, Tel Aviv Stock Exchange members will have to receive a holding permit in respect of holding 5% or more, as aforesaid.

Pursuant to the Law, the allocation of shares to Tel Aviv Stock Exchange members within the arrangement will be exempt from capital gain tax that Tel Aviv Stock Exchange members will receive from the arrangement approval. It was also set forth that the date upon which the shares will be allocated to Tel Aviv Stock Exchange members within the arrangement, and their value on the date of allocation, will constitute the original acquisition date and the original price, as per their definition in the Income tax Ordinance, for the calculation of capital gain, if Tel Aviv Stock Exchange members have such gain after the arrangement approval. Pursuant to the Law, any Tel Aviv Stock Exchange member who sells the Tel Aviv Stock Exchange shares allocated to him/her within the arrangement, will have to give to the Tel Aviv Stock Exchange the entire difference between the consideration of the sale of his/her shares and their value in 2015 (if the consideration of the sale exceeded aforementioned value). The share value in 2015 shall be calculated based on their rate out of all means of control of the Tel Aviv Stock Exchange on the date of the arrangement approval, multiplied with the Tel Aviv Stock Exchange's equity as per its Financial Statements for 2015. The Law regarding the Change in the Tel Aviv Stock Exchange Ltd. Incorporation Structure will come into effect one year after its publication (as of the date of this Report, it has not yet been published in the official gazette).

25.1.2 In December 2016 the **Bill for the Joint Investments Trust Law (Amendment No. 27) (ETFs) – 2016** was published, and it sets forth the legislative basis for new mutual funds of the ETF type, similar to traded mutual funds (Exchange Traded Funds), that are common in many countries. ETFs are tracking funds, aimed at achieving results deriving from the rate of change in the price of indices or commodity, which are closed funds whose units are traded on the Stock Exchange. The aim of the Amendment is regulating the supervision on the area of ETFs, and some deposit certificates (certificates on currencies) under the Joint Investments Trust Law, such that the regulatory, stability and systematic gap that currently exists between the ETF activities, which are currently supervised only in the aspect of disclosure, and the activity of mutual funds is closed, by turning the ETFs that now exist into mutual funds. Furthermore, as per the suggested Amendment, existing tracking mutual funds may become ETFs, such that they may be traded on the TASE (unlike mutual funds, which are not traded). This reform, in the area of passive asset management (the management of index products and tracking funds), when it is outlined, may allow Migdal Funds to continue developing and expanding the line of tracking funds, and the Company is of the opinion that it will have a material impact on Migdal Funds' area of activity. Migdal Funds is preparing for the coming into effect of the aforementioned Law.

25.1.3 In May 2016 the Joint Investments Trust Regulations (Offering Units of Foreign Funds) – 2016 ("**Regulations of Foreign Funds' Offering**") were published, mainly regulating the way units of foreign funds that do not specialize in investments in Israel are offered in Israel. The coming into effect of the main Regulations in the Regulations of Foreign Funds' Offering (which was a condition for the coming into effect of Amendment No. 23 to the Joint Investments Trust Law, regulating the possibility to offer foreign funds' units in Israel) was set to November 2016. In June 2016 the ISA announced that for the time being, foreign funds will be able to offer only funds denominated in Forex, and which do not include a component for hedging exposure to the NIS to the Israeli public, in order to prevent their competition with Israeli funds denominated in NIS. The

Company is unable to assess whether the aforesaid Amendment will have a material impact on Migdal Funds.

25.1.4 In June **2016 Amendment No. 15 to the Supervision of Financial Services (Provident Funds) Law - 2016** was published, dealing with the regularization of investment provident funds. For details see Clause 6.3.14 above. In the Company's estimation, this Amendment may increase private savings in the market, along with a diversion of the public's private savings from other channels, including in the area of activity of Capital Markets Group, to the provident funds, and may increase competition over these monies. Although investment provident funds may compete with mutual funds, at this point, the Company is unable to assess their impact on Migdal Funds.

25.1.5 In November **the Joint Investments Trust Regulations (Hi-Tech Fund)– 2016** were published, aimed at promoting capital raising in Israel for hi-tech companies through the Stock Exchange in Israel, by establishing venture capital funds, in a model of closed mutual funds, whose units will be traded on the Stock Exchange, and which will invest in the hi-tech industry. The Regulations set forth special provisions that will apply to hi-tech funds, which are different from the provisions that usually apply to closed funds. The Company is unable to assess whether aforesaid Amendment will have a material impact on Migdal Funds.

25.1.6 In November 2016 the ISA published a **Guidance regarding the Regularization of Custodian and the Disclosure Duty regarding Exposure of Funds to Credit Risks**, effective on May 2017. Pursuant to the Guidance, *inter alia*, the following issues will be regulated: (1) setting the procedure for choosing the custodian (who provides custody services of customers' assets by someone else) by the fund managers, the duties of follow-up by the fund managers over custodians and sub-custodians, disclosure duties regarding how the custodians were chosen, as well as external supervision on the fund managers regarding the implementation of the procedure for the selection of custodians; (2) restricting the banks in Israel, or outside of Israel, with which fund managers may engage in order to deposit cash and deposits; (3) Disclosure duty regarding the exposure of funds to credit risk factors because of exposure to banks in Israel and abroad, including disclosure regarding the management of credit risks by the fund managers, credit risk restrictions taken by them, the policy for the management of credit risk adopted by them, and regarding material changes of such policy. Fund managers will have to express the credit risk in the fund's name and within the prospectuses and reports. The Company is unable to assess whether the aforementioned Circular might have a material impact on Migdal Funds.

25.2 **Licenses and permits**

Capital Markets Group has licenses that were given by the Securities Authority, as follows:

Migdal Portfolio Management – a portfolio management license.

Migdal Funds – a fund manager license.

25.3 **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 Regulation and supervision - general

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

Insurance, pension and provident activities
The insurance, pension and provident activity in the Group, through Migdal Insurance and its subsidiaries, are supervised by the Commissioner of Insurance, who, as per her authority pursuant to various laws, is empowered to publish provisions regarding the operation and management of the institutions supervised by her.

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

In this context, it should be noted that in previous years, the handling and coping with regulatory issues applying to the Group's insurance activities were mainly conducted via the Israel Insurance Union (registered association) (henceforth: "**the Union**") and the Life Assurance Companies Association (henceforth: "**the Association**"). On January 18th, 2017 the Board of Directors of Migdal Insurance decided to withdraw from these two entities. This decision was made further to Migdal Insurance's lack of satisfaction with the way these entities handle regulation in general, and the provisions for the implementation of the new solvency governance (Solvency II), in particular.

Migdal Insurance's withdrawal notice will come into effect by the end of 2017, pursuant to the provisions of the Articles of Association of these entities, however, pursuant to the decision made by Migdal Insurance, from now on Migdal does not intend to handle various regulatory issues via these entities, and their position will no longer represent Migdal Insurance's position.

For additional details regarding aforesaid decision, see also the Company's Immediate Report dated January 18th, 2017, Reference No. 2017-01-007758.

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

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

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

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

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

From time to time, complaints are filed against the Group, including complaints that are transferred to the Commissioner. The Commissioner's rulings on such complaints, are given rarely, as across-the-board rulings with respect to groups of insureds.

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

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

26.3 **The Group's activity in general**

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

26.3.1 **Solvency governance and risk management**

For details regarding the provisions for the implementation of a Solvency-II based economic solvency governance in insurance companies, published in February 2017, and which include the capital requirements that will apply to insurance companies on June 20th, 2017, see Clause in 2.4.3 above, Clause 4.2 in the Board of Directors' Report, as well as Note 7c4 to the Financial Statements.

26.3.2 **Promoting investments in technology**

(1) In a letter from September 2016, the Commissioner addressed the insurance companies in order to encourage insurance companies to invest in technology, since she is of the opinion that the technology that exists in insurance companies is obsolete, and the technological and professional support is decreasing, and this constitutes a risk for insureds' monies. The promotion of investment in technology will be via a transition order within the implementation of the first pillar in the Solvency II Directive, such that insurers who will present plans for the development of the technological infrastructure may receive reliefs in the calculation of the solvency ratio.

(2) The reliefs will be given, provided the Commissioner is convinced that the insurer's plan for the technical improvement complies with the benchmark set forth by in the letter, and that the objective of the plan is bringing about a real and material improvement in the Company's technological preparation.

(3) If the Commissioner is convinced as set forth above, the technological improvement may be recognized as an intangible investment asset, that is not recognized in the economic balance sheet up to its amount in the accounting balance sheet for a period that does not exceed three years after the Solvency II Directive came into effect, and subject to the following:
- The fair value of the investment asset in infrastructure shall not exceed 0.3% of all the economic balance sheet assets (excluding investment in said asset).
- The capital requirement that applies for intangible assets recognized in the economic balance sheet shall apply to investment in infrastructure assets as set forth above, at a reduced rate.

(4) Within the letter it was clarified that the suggested reliefs shall be taken into account only for the calculation of the capital situation, but not for calculating the solvency ratio for dividend distribution.

26.3.3 **Companies Regulations**

In April 2016, **several Amendments to the Companies Regulations** were published, as part of a general move for giving reliefs in the provisions for corporate governance for traded companies. *Inter alia*, the following changes were introduced:

(a) Under certain conditions, a non-material change in the terms of employment and office of Senior Officers reporting to the CEO shall not require the approval of the Compensation Committee, but only the CEO's approval.

(b) Companies that published an announcement regarding the convening of a General Meeting in its website, will be exempt from publishing an announcement in two daily newspapers.

(c) A reduction of the requirements regarding the linking of remunerations for External Directors, and a reduction of some of the remuneration given to them.

(d) Under certain conditions, the renewal or extension of the engagement with the CEO shall not require the General Meeting's approval, but only the approval of the Compensation Committee and the Board of Directors.

(e) It will be possible to give grants pursuant to non-measurable criteria to Senior Officers reporting to the CEO.

(f) The existence of business or professional relations, which began after the appointment of an External Director, will not be considered as "affiliation" as defined by the Companies Law, provided: 1) the relations are considered as negligible both from the External Director's side and from the Company's side; 2) this relationship was approved by the Audit Committee.

(g) A relief in the conditions for the approval of an extraordinary transaction of a public company pursuant to Clause 270 (4) to the Companies Law, such that there will be no need for the General Meeting's approval, if on the date of approval of the transaction by the Audit Committee and by the Board of Directors the holding rate of voting rights in the Company, by shareholders who do not have a personal interest in the transaction's approval, does not exceed 2% (instead of 1%).

26.3.4 **Remuneration for Senior Officers in financial institutions**

In April 2016 **the Law regarding Remuneration for Senior Officers in Financial Institutions (Special Approval and the Disallowance of Tax Deductible Expenses due to Extraordinary Remuneration) – 2016 ("the Remuneration Law")** was published, including the following key points:

(a) A financial corporation's agreement with an Senior Executive Officer or an employee regarding their terms of office and employment, which includes giving remuneration that the accounting expense in its respect is expected to exceed NIS 2.5 million per year (linked to the CPI from the Law publication date) requires the approval of: (1) the Compensation Committee (and if there is no such Committee – the Audit Committee) (2) the Board of Directors of the financial corporation, with a majority of External or Independent Directors and (3) in a public financial corporation – the General Meeting, by a qualified majority from among the minority shareholders pursuant to the provisions of Clause 267a (b) to the Companies Law.

For this purpose: "**Remuneration**": including an undertaking for giving a remuneration, whether directly or indirectly, and including sums or in kind, salary, grants, management fees, advising fees, rent, commissions, a benefit in the form of interest rate, share-based payment, retirement benefit that is not pension nor severance pay paid pursuant to the Law, advantages and any other benefit, except dividends.

(b) Such engagement will not be approved if the ratio between the expected accounting expense for the aforesaid remuneration, and the expense in respect of the lowest remuneration paid by the financial corporation to an employee in the year that preceded the engagement exceeds 35 times for a full-time position (including contractor's workers).

(c) In determining the taxable income of financial entities, deductions in respect of Senior Officers and employees' salaries in financial entities shall not be allowed beyond the cap. In this regard, the cap was established as approx. NIS 2.5 million per year, less the difference, if at all, between the wages cost and NIS 2.5 million, less expense in respect of granting shares or the right to receive shares, less the excess of the wages cost pursuant to the generally accepted accounting rules (henceforth in this Clause: "**the cap**").

(d) The provisions shall apply to financial institutions that manage the public's monies, as well as to entities controlling financial institutions as defined in the aforesaid Law. It should be noted that in calculating the wages cost for the remuneration cap, any remuneration amount paid to employees or Senior Officers in respect of their work in corporations related to the financial corporation, as defined by the Law, will also be taken into account.

(e) In addition, there is a reporting duty to the Income tax Authorities by financial institutions regarding any employee or Senior Executive Officer that the wage cost paid to them via the financial corporation (by itself or together with other institutions related to it) exceeds the said cap.

(f) Engagements approved after the date of the Law's publication (i.e., April 12th, 2016) will be subject to the Law's provisions. For engagements approved before the Law publication date, the provisions will apply six months after the publication, and these engagements will have to be approved by then. Furthermore, the Law's provisions regarding the disallowance of tax deductible expense will apply to engagements that were approved prior to the Law's publication, by the end of six months after its publication, and for engagements approved after the Law publication date – beginning from January 1st, 2017.

For details regarding the update of the Company's remuneration policy and the implementation of the Remuneration Law pursuant to the above, see Note 38j3 to the Financial Statements, as well as the Chapter of Additional Data on the Corporation.

26.3.5 **Appointment and office of key position holders**

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

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

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

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

26.3.6 **Enforcement of tax laws between countries**

In July 2016 the Knesset approved the **Law for the Amendment of the Income Tax Ordinance – CRS (Amendment No. 227) – 2016** (regarding the implementation of the FATCA agreement and the CRS[62]). The Law includes provisions that, *inter alia*, compel financial institutions to take measures in order to identify, collect, consolidate and report to foreign tax authorities regarding accounts of foreign countries' citizens and/or residents. Within the Law, the Minister of Finance was empowered to set provisions regarding activities that financial institutions must carry out in order to identify, collect information and report about accounts regarding account holders who are residents in other countries. The Minister of Finance was empowered, *inter alia*, to make Regulations regarding reporting to financial institutions' customers before submitting reports and regarding the possibilities for their being removed from the report.

In August 2016 the **Income Tax Regulations (Implementation of the FATCA agreement) – 2016** were published. The Regulations deal with establishing the duties that apply to financial institutions regarding the implementation of the FATCA agreement.

26.3.7 **Establishing the Capital Market, Insurance and Savings Authority**

In August 2016 the **Law of Financial Services Supervision (Legislative Amendments) – 2016** was published, within which legislative amendments were made to the Supervision Law, the Provident Funds Law, the Law for Regulation of Investment Advice and other pertinent laws, pursuant to which the Capital Market, Insurance and Savings Authority ("**the Authority**") was established. The Authority operates as an independent and separate governmental unit, and the Minister in charge of it is the Minister of Finance. The main roles of the Authority are: protecting the interest of insureds, members and customers of the supervised entities; safeguarding the stability and proper management of the supervised entities, promoting competition in the financial system, and especially in the capital market, insurance and savings; as well as encouraging technological and business innovation in the supervised entities' activity.

The Amendment includes provisions regarding the appointment of the Commissioner and the restriction of his/her office to five years (with no possible extension). Furthermore, the Amendment allows the delegation of authority on certain matters from the Minister of Finance to the Commissioner, such as: the classification of insurance businesses into the various insurance lines, setting the way for managing insurance companies' investments, the types of assets that they may hold and how to hold them, provisions regarding conditions in insurance contracts and their wording, and that any contradictory arrangement – is annulled, the structure of insurance policies and their format, a list of material conditions in policies, the regulation of the activity and the operation of corporate governance bodies and other position holders in insurers, etc.

[62] In May 2016, the agreement of competent authorities for the implementation of the multilateral treaty for automatic information exchange regarding financial information (CRS) and for the implementation of the multilateral treaty for reporting between countries signed by Israel in September 2015, was signed. By signing the agreement, the State of Israel joined about 80 countries, members of the OECD and other countries, which have already signed it. The Agreement and the Common Reporting Standard (CRS) set, *inter alia*, provisions regarding the type of information to be transferred by countries, the time of the exchanges and the financial entities that must transfer information to the Tax Authorities. The Agreement and CRS will come into effect in the beginning of 2017, and the State of Israel is expected to report for the first time in September 2018.

Regarding the capital requirements, it was established that the Minister of Finance will determine provisions regarding the minimum capital requirement for receiving an insurer license, and at the same time the Commissioner may give instructions regarding supplementary capital to the minimum capital requirement in order to maintain an insurer's ability to meet its obligations, and the authority to give instructions regarding the composition of insurers' capital. The Commissioner will notify the Knesset Finance Committee about such instructions, and they will come into effect 30 days after the notification, if there were no reservations.

The Amendment also includes amendments to the Provident Funds Law, *inter alia*, giving the Commissioner some of the Minister of Finance's authorities, including: authorizing managing companies to engage in other activities, the authority to set provisions regarding the manner for investing required capital, the insurances that will be required from managing companies (after consulting with the Advisory Committee that will be appointed by the Minister of Finance pursuant to Clause 4 to the Supervision of Insurance Law), the manner provident funds calculate the value of assets managed by them and certain provisions regarding payments to provident funds. Also, it was set forth that the Commissioner guidance regarding Articles of association of comprehensive funds will be approved by the Knesset Finance Committee and by the Minister of Finance.

26.3.8 In December 2016 the Knesset approved the **Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives for Budget Years 2017 and 2018) – 2016**. In the framework of the Law, it was established, *inter alia*, that the companies' tax will be decreased from 25% to 24% in 2017, and to 23% from 2018 and thereon.

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

26.4.1 **Provisions for the wording of insurance plans**

In March 2017 an Amendment to the Circular regarding the Wording of Insurance Plans (in this Clause: "**the original Circular**")[63] was published, amending and updating some provisions that are included in the Circular regarding the Provisions for the Wording of Insurance Plans dated August 2015, and provisions in the Draft Circular regarding Provisions for the Wording of Insurance Plans as published in February 2017.

The aim of the amended Circular is setting across-the-board provisions regarding the wording of various insurance plans. *Inter alia*, the amended Circular includes a defined list of provisions that should be included in insurance plans, and provisions that should not be included in insurance plans, divided into general provisions, provisions regarding life assurance, health insurance and general insurance.

[63] In this context, it should be noted that in September 2016 a Draft Amendment was published regarding Provisions for the Behavior of Insurers during the Policy's Life (in this Clause - "**the previous Draft**"). The previous Draft dealt with concentrating all the provisions regulated in various Circulars, regulating the Handling of Insureds in Various Periods during the Insurance Period into one Circular, including the Circular regarding Provisions for the Wording of Insurance Plans, and the Circular regarding Enrollment to Insurance. In February and March 2017, the Commissioner reversed the previous Draft back to the original Circulars from which it was composed, and amended them.

Beginning from December 1st, 2017, all the provisions of the amended Circular will come into effect, and the Company is preparing towards the provisions' implementation.

26.4.2 **Circular regarding enrolling to insurance**

In March 2017 an **Amendment to the Circular regarding Enrolling to Insurance** (in this Clause: "**the amended Circular**")[64] was published, substituting and cancelling the previous Circular regarding this matter published in July 2015 ("**the original Circular**") (including the Amendment thereof dated June 2016), amending and updating the provisions of the Draft Circular regarding enrolling to insurance as published in January 2017. The amended Circular deals with establishing provisions for the regulation of insurance companies' and insurance agents' behavior upon selling insurance.

The amending Circular sets forth a series of behaviors that should not be used when selling insurance, as follows: (1) insurance companies shall not enroll insureds to a policy that grants compensation if the insureds have another policy that insures a similar insurance event at the same company, unless the conditions set forth in the Circular regarding notifying the insureds are met; (2) upon continuity, from a collective policy to an individual policy at the same insurer, the following provisions shall apply: it is prohibited to collect premiums in individual policies before premium collection in respect of the same insured in the collective policy is discontinued, if insurers are informed about the discontinuation of collection in the collective policy only after the actual discontinuation, the retrospective collection of premium for the individual policy will be from the beginning of the insurance period, with insurance continuity for the interim period, the insureds must be notified that there is a difference in the scope of coverage, and provide them with detailed information regarding the above; (3) it is prohibited to use credit card details given to the insurer or to the insurance agent for the sale of another product without receiving the approval of the applicant for insurance (4) it is prohibited to include a clause appointing the agent as the insureds' proxy in the insurance proposal form.

The provisions of the amended Circular will come into effect on July 1st, 2017.

The aforesaid arrangement regarding the duty to compare policies, as well as the obligation to offer insureds to handle the cancellation of the original policy, require an operational preparation in the Company. The Company is of the opinion that the Circular may impact the ability to preserve insureds in health insurance, and its effect will depend, *inter alia*, on the behavior of competitors in the market, the marketing agents and the insureds.

64 In this context, it should be noted that in September 2016 a Draft Amendment was published regarding Provisions for the Behavior of Insurers during the Policy's Life (in this Clause - "**the previous Draft**"). The previous Draft dealt with concentrating all the provisions regulated in various Circulars, regulating the Handling of Insureds in Various Periods during the Insurance Period into one Circular, including the Circular regarding Provisions for the Wording of Insurance Plans, and the Circular regarding Enrollment to Insurance. In February and March 2017, the Commissioner reversed the previous Draft back to the original Circulars from which it was composed, and amended them.

26.4.3 In March 2017 an **Amendment to the Circular regarding the Clarification and Settlement of Claims and the Handling of Public Complaints** (in this Clause: "**the amended Circular**")[65] was published. The Amendment changes and updates some of the provisions set forth in the Circular regarding the Clarification and Settlement of Claims and the Handling of Public Complaints from July 2016, and in the Draft Circular regarding the same issues dated February 2017.

The aim of the original Circular is establishing clear rules for the manner of operation of institutional entities in the claim settlement process.

Presented below are the main changes in the amended Circular: (1) claimants must be able to file the claim via digital means; (2) claims will be paid by wire transfer or by crediting the credit card. If the details for the above do not exist in the institutional entity, insureds should be contacted, and allowed to choose the means of payment, which will include at least the aforesaid, as well as by cheque; (3) if a claim is filed, and the insureds have another relevant policy, the insurers must inform the insureds that they have other insurances at the Company, and the possibility to file claims in the other policies, and should refer them to the instrument built by the Commissioner in order to find insurance policies: (4) institutional entities must allow insureds, in the case of lump-sum insurance amounts to a contracted provider or monthly payments exceeding NIS 5,000, to decide whether they want the payment to be made directly to the service provider by the institutional entity; (5) in claims of an accident resulting in a pileup, insurers shall not delay payment to the person who was damaged in the first car in order to clarify the responsibility between the insurer and the other insurers that insure the other cars involved in the accident, if the damaged persons proved their damage.

The Circular published in July 2017 may affect the procedures for claim settlement, as well as the procedures for the clarification of public complaints, but at this point, the Company is unable to assess its overall implications.

For additional details regarding the Commissioner's decisions within aforesaid amended Circular, referring specifically to health insurance, see Clause 9.3.4 in Part B above.

26.4.4 **The collection of statistical information regarding claim settlement and how to handle demands for withdrawals and money transfers**
In November 2016 a **Circular regarding the Collection of Statistical Information regarding Claim Settlement and How to Handle Demands for Withdrawals and Money Transfers** ("**the amending Circular**") was published. The amending Circular substitutes a previous Circular that was in effect since 2011 ("**the original Circular**"). The original Circular establishes that institutional entities must collect statistical information regarding claim settlement and how to handle demands for withdrawals and money transfers pursuant to the rules set forth by the Commissioner, in a way that will allow the publication of indices to the public (by the

[65] In this context, it should be noted that in September 2016 a Draft Amendment was published regarding Provisions for the Behavior of Insurers during the Policy's Life (in this Clause - "**the previous draft**"). The previous draft dealt with concentrating all the provisions regulated in various Circulars, regulating the Handling of Insureds in Various Periods during the Insurance Period into one Circular, including the Circular regarding Provisions for the Wording of Insurance Plans, and the Circular regarding Enrollment to Insurance. In February and March 2017, the Commissioner reversed the previous Draft back to the original Circulars from which it was composed, and amended them.

Commissioner) as to how institutional entities settle claims and how institutional entities handle demands for withdrawal, receiving old age annuity and money transfers.

Within the amending Circular the Commissioner introduced the following key changes: (1) a clause was added setting forth the obligation to break down claims in which partial payment was made; (2) a procedure was established for the technical cancellation of claims under the conditions set forth in the Circular; (3) it was determined that claims that were closed after the statistical information is submitted, will be transferred to the following year, similarly, claims that were opened after the statistical information was submitted will be moved to the following year; (4) it was established that the report will be submitted to the Commissioner by February 15th of a calendar year, instead of March 31st pursuant to the original Circular.

26.5 The area of life assurance and LTS

Presented below are material legal pronouncements that apply to the area, as well as legislative arrangements (including drafts) published in the reported period and until the Report's publication

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

The Supervision Law includes provisions as to the supervision of insurance businesses, and, *inter alia*, restrictions on business management, regulations regarding corporate governance, governing bodies and office holders in insurers, laws and reports, supervisory authorities 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 and publish guidance as to various issues associated with various aspects of insurance supervision, etc. Under the authority provided by the Law, 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 also empowers the Commissioner to impose financial sanctions and civil fines in significant amounts, using the administrative authorities vested to him/her by the Law.

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

The Law regulates the establishment of provident funds, the types of provident funds, the management and actions of managing companies, and the relationship between the members and the managing companies. 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 issue instructions for proper management similar to the authority to issue instructions for proper management in an insurer, and 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 the type of pension product and the institutional entities from which they want to acquire the chosen product. Insurance plans recognized as insurance funds are also subject to some of the provisions included under the Provident Funds Law.

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

The Investment Regulations that came into effect in July 2012 establish a standard framework for investment rules that apply to all institutional entities, regulating the investment principles in assets of institutional entities/institutional investors, and empowering the Commissioner to set provisions regarding various issues regarding 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 surplus recognized capital. For details regarding investments that should be put against capital, see Note 7c to the Financial Statements.

In September 2016 a **Circular regarding Investment Rules that Apply to Institutional Entities** (that cancelled the previous Circular dated February 2016 regarding the same issue) was published, establishing, *inter alia*, (similar to the Circular dated February 2016), detailed provisions regarding deviation from investment rates, appointment of a Director in a corporation further to holding means of control of institutional entities in a corporation, specialized investment track, specialized index-tracking investment track, investment in a partnership and in real estate titles through a corporation that is not a partnership, extending loans to members and insureds and participation in loans extended by a third party, lending securities and investing in non-negotiable debt assets, transactions with a related party or through it, investing in a related party and in an interested party.

The main amendments in the Circular published in September 2016 are as follows:

(a) Provisions regarding mortgage loans were updated, including when the institutional entities participate in extending the loan together with another institutional entity.

(b) Conditions were set, within a temporary order, regarding extending a loan that is considered as financial accompaniment as defined in the Housing Sale Law, for the financing of a construction project.

(c) Regarding loans to members or to insureds, a provision was added, establishing that if the loan is not paid on time, the institutional entity will act 30 business days after the payment was due, as per the procedures set by it.

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

The Insurance Contract Law mainly regulates the relationship between the insurers and the insureds, including the status of insurance agents, and sets various provisions regarding the following main issues: the essence of the insurance contract, the duty of disclosure and consequences of non-disclosure, the insurance period and conditions for cancellation or shortening of the policy, the status and rights of beneficiaries, 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 statute of limitation periods), various provisions which are specific to various types of insurance, such as life assurance, accidents insurance, disease and disability insurance, damage insurance, liability insurance etc.

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

This Law regulates two key issues:

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

(b) Provisions regarding the central pension clearing system.

The practice of providing advice for and marketing of pension products - the Law defines two practices requiring training and licensing – the pension advisor and the pension marketing agent. The distinction between advice and marketing is based on the existence of a connection between the license holders and the product marketed by them. The Law sets forth provisions regarding the duty of licensing for both pension advisors and pension marketing agents, the conditions for granting such licenses, the duties of license holders, prohibitions and restrictions that apply regarding the practice of pension advising and pension marketing (including provisions regarding the practice of pension advising by banking corporations), provisions regarding the supervision of license holders, including the Commissioner's authority to publish guidance for proper management and protection of insureds' businesses, provisions regarding the relationship between the pension 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 sanctions and criminal sanctions.

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

For the amendments to the said Law published in the reported period see Clauses 6.3.13 above.

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

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

Regarding the above, see also the draft dated February 2017 regarding the default agreements in Clause 6.3.8 above.

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

These Regulations regulate the transfer of money between provident funds (henceforth: "**money transfer**"), and they include provisions regarding the following key issues: conditions and restrictions for money transfers, timetables for the transfers (including a compensation mechanism in case of a delay in transfer), the manner by which money is transferred, transfer of the insurance liability in case the transferring member had insurance coverage for disability or death risks, prevention of illegal tax planning by transferring monies, etc.

It should be noted that in August 2016 the Commissioner published a Draft for the **Amendment of the Supervision of Financial Services Regulations (Provident Funds) (Money Transfers between Provident Funds) – 2016**, dealing, *inter alia*, with adding the possibility to transfer monies by old age annuitants, as well as adding the possibility to transfer monies from one investment provident fund to another investment provident fund.

For additional details regarding the Amendment, see Clause 6.3.5 in Part B above.

26.5.8 **Enrolling to pension funds or provident funds**

In January 2017 the Commissioner published an **amending Circular regarding enrollment to Pension Funds or Provident Funds**. The Circular deals with enrolment to: pension funds, provident funds and educational funds. The amending Circular established the following key provisions: (1) enrolling members to pension funds or provident funds will be under conditions set forth in the Circular, including completing an enrollment form by the members themselves for members enrolling to a fund that is not a default fund; (2) managing companies will allow on-line enrollment, and will set a procedure for the authentication of members who filed an enrollment form on-line, pursuant to the provisions of the Law; (3) there are provisions regarding the enrollment of members who are employees or veterans to default funds; (4) there are procedures regarding the conduct of managing companies of the receiving pension funds, when accounts are consolidated upon the enrollment of a member to a pension fund. These procedures deal with the relations vis-à-vis the enrolling members, vis-à-vis the pension clearing house or the designated safe, through which the particulars of members will be transferred, and vis-à-vis other managing companies in which the member may mange inactive pension savings; (5) there are rules regarding the appointment of beneficiaries in pension funds, in provident funds and in educational funds; (6) there are rules regarding the update of personal details of existing members.

The Circular comes into effect on June 1st, 2017, except regarding the procedures dealing with the consolidation of accounts of members enrolling to a managing company, which came into effect on January 1st, 2017.

In the Company's opinion, the Circular will require operational preparations in order to adjust the current selling and operational procedures to the Circular's requirements.

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

In January 2017 the Supervision of Financial Services (Provident Funds) Law (Amendment No. 20) – 2017 was published in the official gazette. The Amendment deals with breaking the connection between the distribution commissions paid to the insurance agent who marketed the pension product to members, and the management fees the managing companies collect from the members.

In January 2017 the Commissioner published a consultation document for the public regarding the relation between distribution fees and management fees. The Commissioner mentions the Commissioner's opinion published last year, and Amendment No. 20 to the Law of Supervision published this year, and puts to the public's review several remuneration principles, regarding which the public is asked to state its opinion as to advantages and disadvantages and the extent of their applicability, as follows: (1) the commission is paid directly by customers to the license holder, as a lump-sum or as a fixed and continuous amount from their private accounts; (2) the commission is determined in an agreement between the license holders and customers, and it is paid from the management fees collected by the institutional entities. The commission is calculated as a percentage of the accrual and deposits, and it is lower than the maximum rate set forth in the Management Fees Regulations, regardless of the size of the management fees; (3) the commission is paid to license holders by institutional entities, as a percentage of the accrual and deposits, and at a standard rate from all institutional entities, and it is lower than the maximum rate set forth in the Management Fees Regulations; (4) the update of management fees for license holders for customers who enrolled will only be by way of a reduction of commission, with respect to future commissions only for at least three years after the enrollment to a pension product pursuant to the examination of all the transactions that were made as per the agreement in the examined period.

For additional details and the implications of the amendment on the Company, see Clause 32.2.2 (a) below.

26.5.10 **The reasoning document**

In February 2017 the Reasoning Document Circular was published. The Circular deals with the written document given to customers when a recommendation regarding the appropriate pension savings for them is given by the license holders, in which license holders detail the reasoning for their recommendation.

Inter alia, license holders must include the following in the document: details of the customers' current pension products; their recommendation; the existence of a yield guarantee for the pension product; the various management fees; the investment track's risk level; the considerations that guided license holders in making their recommendation, etc. Furthermore, the Circular places a requirement to apply to the clearing house in order to obtain the details of products held by customers in order to prepare a comprehensive reasoning document.

The Circular also establishes the list of cases in which a comprehensive reasoning document, a concise one or a summary of a conversation (a shorter document than the reasoning document) should be delivered. In the reasoning document, the duties of disclosure by license holders are imposed, such that they would have to specify whether the recommended product is part of a sales campaign; their remuneration and the conditions for receiving it, including the date of the end of the campaign; and their affiliation to institutional entities from which they receive the highest commissions for all the products of the type marketed by them in the passing calendar year. For this purpose, the institutional entities will have to transfer information regarding the commissions that were paid to each license holder no later than April 15th, in every calendar year. Also, there is a procedure that determines the way the reasoning document should be transferred and received when the activities in pension products are not conducted face-to-face. Also, the Circular includes specific provisions for the delivery of the reasoning document when actions are made in investment provident funds.

The Circular will come into effect on July 1st, 2017, but regarding investment provident funds, it will come into effect earlier, on January 1st, 2017.

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

Furthermore, the purpose of the Law is to improve the annuities market and create additional withdrawal products, such as the withdrawal of a lump-sum annuity[66] along with the purchase of life expectancy insurance, which may be transferred also after savers begin to receive annuities.

In addition, the Amendment to the Law strives towards solving the problem of savers who have many accounts due to the opining of new pension funds upon changing workplaces, by consolidating existing accounts in a pension fund through a mechanism that establishes that in the absence of another instruction by the members, their pension accounts will be consolidated into their active accounts.

Pursuant to the above, in June 2016 the Commissioner published a **Circular regarding the Consolidation of Existing Accounts in New Pension Funds**, as well as guidance for the preparation and a temporary order, setting practical instructions as to the consolidation of existing accounts in pension. *Inter alia*, the following provisions were set:

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

(b) In the case of members who will not express an objection, the managing companies will submit their information as detailed in the Commissioner's Circular, in a file as per the structure set forth in the Circular.

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

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

(e) If the transferred members do not express their objection to transferring monies from inactive accounts until the election date, the Company that is supposed to absorb inactive monies ("**receiving company**") will address the company that transfers inactive monies ("**transferring company**") with a transfer request.

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

[66] Lump-sum annuity is a periodic withdrawal from savings upon retirement, unlike "classic" annuity that converts savings into annuity for the entire life.

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

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

In this context, in November 2016 the **Supervision of Financial Services Regulations (Provident Funds) (Collection, Access and Control Upon Account Consolidation) (Temporary Order) – 2016** were published, with provisions as to how to collect information, access to information and information security and control within the implementation of the aforementioned Account Consolidation Circular. The Regulations will be effective until March 2018.

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

26.5.12 In April 2016, a **Draft Circular regarding Provisions for the Payment of Annuity from Savings Provident Funds** was published. The Draft establishes rules regarding the payment of annuities that include lump-sums from provident funds, then payments that are made throughout members' entire life from insurers, regarding the following matters:

(a) Conditions for receiving old age pension from savings provident funds, the time for paying old age pension and when they should start, as well as the way for calculating the first payment and restricting its sum.

(b) Updating the amount of old age payments from savings provident funds.

(c) Conditions for the acquisition of life expectancy insurance coverage.

(d) Payment to beneficiaries after the members' death.

If the Draft becomes a Circular, and if the Company decides to implement its provisions and develop an appropriate plan – provident members will be able to receive their money in monthly payments that will be calculated for annuity, subject to the compliance with the provisions of the Law and the Circular.

26.5.13 In July 2016 a **Draft Amendment of Income Tax Regulations (Rules for the Approval and Management of Provident Funds) – 2016 ("the Regulations")** were published. The Draft Amendment deals with the removal of barriers currently included under Regulation 19, regarding deposits to provident funds, and with the adjustment of the Regulations to the recent changes in the Provident Law, as follows: (1) Amending Regulation 19 such that wherever there is a duty to make deposits exceeding 5% of benefits at the same insurer ("**additional deposits**"), the duty will be cancelled and insureds/members may choose the provident fund in which they will deposit the additional deposits. The cancellation of this duty is aimed at allowing members to choose the provident fund which is best suited to them; (2) it is proposed to determine that it is possible to make severance pay deposits without making deposits at the same time of the benefits' component ("**cancellation of cross deposit**") if monies were deposited to the same fund, before the coming into effect of Amendment No. 13 to the Provident Funds Law, as per the dates set forth in the Regulation and in order to deposit monies in excess that may not be deposited in the provident fund to which the employers make deposits. It is proposed that the Amendment would come into effect immediately regarding additional deposits, and retrospectively on the coming into effect of Amendment No. 13 to the Provident Funds Law regarding cross deposits.

As of the date of this Report, the Company is unable to assess the Draft's implications, due to comments submitted to the Capital Market, Insurance and Savings Authority, pursuant to which an updated Draft regarding this matter is expected to be published.

26.5.14 In March 2017 the Commissioner published the **Second Draft for the Amendment of the Supervision of Financial Services Regulations (Provident Funds) (Amendment) – 2017**. These are the key suggested Amendments: (1) to apply the Regulations to pension insurance agents; (2) to expand the type of pension products in respect of which license holders may receive commissions, such that managers' insurance and investment provident funds will be included; (3) the distribution commission will be paid by way of money only, and not by other benefits; (4) allowing license holders to sign distribution agreements with managing companies, under various conditions, for various product groups; (5) it is suggested that the draft will come into effect on July 1st, 2017.

For details regarding the implications of said Draft on the Company, see Clause 6.3.16 above.

26.5.15 In September 2016 a **Circular regarding Guidelines for PHI Insurance Plans** was published. The Circular is aimed at creating a standard and modular structure for PHI insurance plans. The Circular lays down the rules and conditions for the basic plan, and insureds may add various appendices expanding the basic coverage, and in all circumstances "an appendix for partial disability", defined as a compulsory expansion will be added to every policy that will be purchased after the marketing starts, as per the conditions set forth in the Circular. The Circular will come into effect on May 1st, 2017, and its provisions shall apply to all the new plans that will be marketed by insurance companies thereafter (i.e., individual or collective plans), as well as PHI policy renewals that will be made after its coming into effect, including the extension of insurance periods in collective PHI policies.

The Company is of the opinion that the aforementioned changes may bring about an increase in the tariff of work-related PHI insurance, however, at this point it is still impossible to assess the impact of these changes on the Company's profitability.

26.5.16 In January 2017 the **Supervision of Financial Services Law (Insurance) (Amendment No. 33) (Safety Cushions for Old Pension Funds) – 2017** was amended. The Amendment is aimed at establishing provisions regarding the granting of governmental assistance – a separate additional safety cushion for every fund that is not included under the arrangement, in order to protect members' rights against interest risks. The safety cushion will be given to funds that introduced changes in their Articles of Association in order to reduce the funds' liabilities to members.

The information included under Clause 26.5 regarding the implementation and/or the Company's estimations regarding the implementation of the provisions detailed in this Clause, whether these are draft provisions or final provisions, is forward-looking information, and in the case of drafts, it relies on the provisions that are proposed now, and there is no certainty that this will be the final wording, and it is still unknown whether there will be additional amendments or not. Furthermore, the above is based on estimations and assumptions regarding the behavior that entities operating in the market may choose, these estimations may not realize if the provisions are changed or updated, or implemented in a different manner.

26.6 **The area of health insurance**

Presented below are material legal pronouncements and legislative arrangements published in the reported period until the report publication (including drafts)

26.6.1 In April 2016 the **Ruling in Principle regarding How to Market Personal Accidents Policies** was published. The Ruling was given in relation to the Commissioner’s findings, that certain insurance companies market personal accidents policies in a misleading manner, that prevents insureds from understanding their economic implications (for example, the policies that are marketed are new policies with a separate coverage, and their purchase imposes additional insurance fees on insureds). In light of the above, the Commissioner gave an across-the-board instruction to insurance companies, to check whether they marketed such policies. Furthermore, the Commissioner ordered insurance companies that found out that they misled insureds to address these insureds and allow them to cancel the policies or to continue. The Commissioner established a timetable for the implementation of the Ruling’s provisions and for the reporting on the various stages, as well as for the submission of an Audit Report regarding this matter. The Company is of the opinion that the implication of the Ruling on the Company is not material.

26.6.2 **LTC insurance**

(a) In December 2015 the **Supervision of Financial Services (Insurance) (Collective LTC Insurance for Members of Health Funds) Regulations – 2015** (henceforth: “**Collective LTC Insurance Regulations**”) were published. The Regulations set forth conditions that will be included in collective LTC insurance plans, the terms for enrolling, leaving or transferring of insureds, rules regarding continuity, rules for the transfer of monies between various insureds' funds, rules regarding insurers' obligations upon transfers between health funds, as well as rules regarding refunds from insurers to health funds.

(b) Pursuant to the above, in December 2016 the **Supervision of Financial Services (Insurance) (Collective LTC Insurance for Members of Health Funds) (Amendment) Regulations – 2016** were published. The Regulations are aimed at updating the definitions regarding eligible insureds, such that these insureds will be able to enroll to collective LTC insurance for members of health funds without undergoing underwriting, upon the end of the insurance period in their collective LTC insurance, also in cases in which the collective LTC insurance is extended, such that the determining insurance period will end not later than December 31st, 2017.

(c) In January 2016 the Commissioner published a **Circular regarding LTC Insurance for Members of Health Funds**. Within the Circular, there are rules for the participation of companies in the insurance risk, how insureds' monies should be managed in insureds' funds, rules for writing agreements between insurance companies and health funds, rules for the transfer of insureds between health funds, guidance as to proper disclosure, the manner by which insurers address eligible insureds and policyholders regarding eligible insureds, rules regarding providing information by the receiving fund to the adopted insured, as well as the annual reporting duty to the Commissioner regarding insureds who enrolled or left. In June 2016 the Commissioner published a Draft Circular amending the aforesaid Circular, by delaying the implementation date of certain provisions in the Circular, that are relevant to the Amendment of the Collective LTC Insurance Regulations, and delaying the implementation of Clause 2(a) to the Circular regarding the participation of insurance companies in the insurance risk.

(d) In March 2017 a Draft Amendment of the **Supervision of Financial Services (Insurance) (Collective LTC Insurance for Members of Health Funds) Regulations** was published. The Draft suggests another date for the possibility to enroll to a policy without examination of previous health condition, until December 31st, 2017, as well as for those whose enrollment to a health fund was cancelled pursuant to the National Health Insurance Law beginning from July 1st, 2016 and who did not enroll in another health fund (intended mostly for soldiers upon their enlistment to the army). In addition, there are amendments aimed at adjusting the provisions to the Circular regarding the definition of basic insurance approval and expanded insurance approval that would include information about insureds moving from one health fund to another. In addition, it is proposed to expand coverage in the policy by changing the definition of mobility and by expanding the coverage even if there was an insurance event in the first three years of the insured’s life. The above will apply to contracts for collective LTC insurance for members of health funds that will be written as from July 1st, 2017, except with respect to the possibility to enroll without examination of previous health condition will be permitted until January 1st, 2018.

For additional details regarding LTC insurance, see also Clause 9.3.2 in Part B above.

26.6.3 In January 2017 a **Circular regarding the Involvement of Entities that do Not Have Insurance Licenses in the Marketing and Sale of Insurance Products that Are Not Collective Insurance** was published. The provisions of the Circular are aimed at defining the cases and conditions in aggregate, whose existence will cause the involvement of an “external entity” (i.e., a non-supervised entity) in the marketing or sale of an individual insurance product to be permitted (for example, the following conditions are included within the conditions in aggregate: (1) the presentation or advertisement of information by the external entity will be made without receiving a benefit of any kind from the supervised entity, directly or indirectly; (2) the comparison of insurance products by the external entity (except pension products), of all the institutional entities that are interested in engaging for the sake of aforesaid comparison, and will be made by receiving identical consideration and by identical presentation of products, provided the engagement is with at least 75% of the institutional entities that offer the product for which the comparison is made).

Furthermore, the Circular establishes conditions and provisions regarding a supervised entity's engagement with an external entity in order to assist in the marketing of individual insurance products (for example, the following aggregate conditions are included: (1) in respect of assistance by the external entity in the marketing of an individual product, the external entity may receive only money, regardless of the characteristics of the policy being sold; (2) external entities are not allowed to represent the customers or the supervised entity, in all the stages of the engagement between them, and that (3) the workers of the external entity will not be employed by the supervised entity, and vice versa).

It should be noted that the largest implication of said Circular on the Company's activity is related to foreign travel policies, that are marketed, *inter alia*, by health funds, travel agencies and credit card companies (which are "external entities"), as well as by agents.

26.6.4 **The involvement of a sales supporter in the process of marketing and selling an insurance product**

In March 2017 the Draft Circular regarding Agents and Advisors, as to the Involvement of a Sales Supporter in the Procedure of Marketing and Selling an Insurance Product, was published. The Draft deals with regulating the activity of entities that do not hold a license for brokering in insurance and are involved in the selling process of insurance. These are the proposed provisions: (1) the selling support activity shall be carried out only in the premises where insurers or insurance agents conduct their businesses: (2) after completing a sales conversation with a sales supporter, a notice will be sent to the customers' e-mail or telephone, with the details set forth in the Draft, and a request for the customer's approval of the enrollment to insurance. Without a positive enrollment approval by candidates for insurance, the sale shall not be approved; (3) it is possible to receive an enrollment request from agents or sales supporters only if a recording of the sales conversation is attached to it; (4) insurance candidates who were enrolled by sales supporters may cancel the policy and receive a refund of the premiums within six months of the enrollment date; (5) the remuneration of sales supporters will be only monetary and will not depend on the characteristics of the policies or premiums paid in their respect; (6) insurance agents, business manager of corporate agencies and insurers shall supervise sales supporters' activity; (7) insurers will appoint Senior Officers who will be in charge of supervising the activities made on their behalf by sales supporters; (8) agents and insurers will set forth a control procedure with detailed conversation scenarios, listen and control all conversations in which a sale was completed by agents. If the conversations are deficient, the customers must be addressed again and the selling procedure corrected. Sales conversations and the correspondence with customers should be documented and kept until the end of the limitation period; (9) the Circular will apply to insurance agents and insurers, it will not apply to the pension insurance line and the general insurance line, except for mortgage policies, it will not apply to collective insurance and will not apply to conversations initiated by customers.

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

26.7 **The area of general insurance**

Presented below are material legal pronouncements and legislative arrangements (including drafts) published in the reported period and until the report's publication

26.7.1 **Circular regarding Riders and How They Are Marketed**

In December 2015 the Commissioner published a Circular regarding the Marketing of Riders. Riders are defined in the insurance Law as "a document attached to insurance policies, and includes conditions for providing services to insureds by service providers". The purpose of the Circular is to define the rules for the operation of riders. Within the Circular, the Commissioner states that insurance companies may market riders, provided they comply with the conditions set forth in the Circular, *inter alia*: (1) service under the rider will be provided in respect of insurance events defined in the insurance plan; (2) there is a direct relation between the service provided under the rider and the insurance plan; (3) riders shall not extend maintenance services, periodic services, preventive treatments or the repair of products: (4) exceptions shall be stated in the riders in a clear and salient manner; (5) a rider shall not include pre-conditions for its application, whose existence could have been clarified upon the purchase of the rider. Along with these conditions, the Commissioner also established general provisions regarding the marketing of riders. For example, the Circular states that the marketing of riders will be such that the cost will be presented separately, the purchase of a rider will not be a precondition for a part of an insurance plan, and the conditions of the riders will be provided in advance to potential insureds. Also, the Circular establishes that under certain conditions, agents may market riders without the involvement of insurers, and insurance companies bear the responsibility for providing the services pursuant to the riders.

The Circular came into effect in June 2016, except for the duty of marketing riders with two service providers, regarding which transitory provisions will be in effect until May 31st, 2017.

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

the provisions are changed or updated, or implemented in a different manner.

27. Entry and exit barriers

27.1 Entry barriers

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

27.1.1 Licenses and permits

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

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

In granting an insurance license, a corporate agent license, a holding permit or a control permit, the Commissioner takes into consideration a large variety of matters, including the action plans presented by 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 competition in the capital market, including the insurance market, and the 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 as to the existence of a fixed and stable controlling interest 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 conditions or restrictions as to the sale or transfer of the means of control to another party.

As per the Provident Funds Law, the engagement in the management of provident funds requires receiving a managing company license. Also, holding more than five percent of a certain type of control means in a managing company of provident funds, requires receiving a holding permit and/or a control permit, as the case may be. The aforementioned considerations as to granting licenses and permits in an insurer, also apply to provident funds, *mutatis mutandis*. Annuity provident funds have the same requirements as insurers.

Also, as per Clause 32 (c.1) to the Supervision Law, there is **a prohibition on having a material holding in the area of LTS**. A material holding was defined as holding a market share exceeding 15% of all LTS assets, as defined in the Supervision Law[67].

[67] 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 enrollment 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.

As per data published by the Commissioner, in a Circular dated December 2016, the total value of LTS assets, as of September 30th, 2016, is approx. NIS 910 billion. The maximal market share, as per the aforementioned calculation and as of that date is approx. NIS 137 billion.

The Group holds, as of September 30th, 2016, on the basis of the data on which the value of the assets was calculated as set forth above, approx. 16.8% of total LTS assets, pursuant to the exception in the Supervision Law, that states that the holding rate may deviate from the materiality threshold, if the deviation is because of a change in the value of assets managed by it or by the institutional entities controlled by it, or because of the enrollment of insureds or members enroll to insurance plans or provident funds or pension funds.

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

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

The control permit sets forth, *inter alia*, restrictions and limitations as to the way means of control in Eliahu Insurance, Migdal Holdings, Migdal Insurance, Migdal Makefet and Yozma are held, as to maintaining the control structure and the minimal holding rate in the entities mentioned above, regarding the sale or transfer or issuance of means of control in each of the above mentioned entities, including placing a lien[68] on them, regarding maintaining an equity ratio in all the institutional entities controlled by the controlling shareholders, as well as conditions pursuant to which the controlling shareholders and Eliahu Group may receive management fees from the institutional entities controlled by the Company, or provide services to institutional entities controlled by the Company.

At the same time, the Commissioner also gave Mr. Shlomo Eliahu a control permit for insurance agencies controlled by the Company.

Mr. Shlomo Eliahu gave the Commissioner a letter of undertaking signed on October 16th, 2012. Pursuant to that letter of undertaking (obtaining the control permit was conditioned upon providing this letter), Mr. Shlomo Eliahu, being the controlling shareholder in Eliahu Insurance, Migdal Insurance, Migdal Makefet and Yozma ("**the insurers**"), undertook to supplement Eliahu Insurance's and Migdal Insurance's equity to the amount set forth in the Regulations of Supervision on Insurance Businesses (Minimum Equity Required of Insurers) – 1998, or any other Regulation or Law that would supersede them, and supplement the equity of Migdal Makefet and Yozma to the amount set forth in the Regulations of Supervision of Financial Services (Provident Funds) (Minimum Equity Required of Managing Companies of Provident Funds or Pension Funds) – 2012, or any other Regulation or Law that would supersede them ("**Capital Regulations**"). This undertaking is irrevocable and will be in effect as long as Mr. Shlomo Eliahu controls, directly or indirectly, the insurers set forth above. For additional details see Note 38a to the Financial Statements. Also, regarding the minimum equity required of institutional organs, see Note 7c3 to the Financial Statements.

[68] 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 – prior to the Company acquisition finalization date, Mr. Shlomo Eliahu held, directly and indirectly, including via Eliahu Insurance, means of control in Bank Leumi and Israel Union Bank Ltd. ("**the banking corporations**"), pursuant to permits for holding means of control given to him as per the Banking Law (Licensing) – 1981, in banking corporations, referring, *inter alia*, to his holdings in banking corporations via Eliahu Group as well as via the Company and its subsidiaries. Under these permits, Mr. Shlomo Eliahu's holding rate in each of the banking corporations, via the Company and its subsidiaries, shall not exceed 5%, similar to the regulatory restrictions that currently apply to the Company regarding holding means of control in banking corporations (as of the date of this Report, the holdings of the Company and its subsidiaries in Union Bank are approx. 0.5%. To the Company's best knowledge, as of the date of this Report, Mr. Eliahu has no holdings in Bank Leumi)[69].

The Israel Antitrust Authority permit – on June 12th, 2012, the Israel Antitrust Authority General Director approved the merger between Mr. Shlomo Eliahu, Eliahu Insurance and the Company. The General Director's approval was amended on December 7th, 2014. As per the merger's conditions (including the Amendment dated December 7th, 2014): as of the transaction's finalization date, the Company shall not engage (directly and indirectly)[70], in an agreement with related trading companies[71] 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.

[69] In addition, to the Company's best knowledge, the BoI permit that was given to Mr. Shlomo Eliahu and Ms. Haya Eliahu regarding the holding of banking corporations, establishes 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.

[70] 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.

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

At the time of the acquisition of control, the provision applied to engagements with Bank Leumi and Union Bank. As of the date of this Report, the aforesaid provision applies only to engagements with Union Bank, see Note 38a2 to the Financial Statements.

(d) **Financial services activity**

Pursuant to the Joint Investments Trust Law – 1994, fund managers may not receive for their management a fund from another fund manager, if their market share after receiving the fund's management exceeds 20%. There is a prohibition to control fund managers, such that the total market share (the total market share of fund managers controlled by him/her) exceeds 20%, consequent to a fund manager controlled by him/her received control in a fund from another fund manager. It is not possible to receive a permit for the control and holding of means of control in a fund manager, if the total market share, after receiving the permit, exceeds 20%.

27.1.2 **Equity and restrictions on dividend distribution**

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

For information regarding equity required from institutional entities in the Group, and restrictions regarding dividend distribution, including surplus amounts that may not be distributed, see Clause 4.2 to the Board of Directors' Report and Note 7c to the Financial Statements.

In addition, beginning from June 3rd, 2017, the capital requirements in insurance companies will be amended and adjusted to the provisions of the Solvency II Directive ("**the Directive**"), which constitutes a fundamental and comprehensive change in the regulation regarding securing the solvency and capital adequacy of insurance companies.

For details regarding the aforesaid capital requirements and the Company's preparation towards the implementation of the Directive - see Clause 4.2 to the Board of Directors' Report, Clause 2.4.3 above and Clause 43 below, as well as Note 7c4 to the Financial Statements

In August 2016 the Commissioner published a letter regarding the distribution of dividend by insurance companies (henceforth: "**the letter**"), substituting the previous letter from December 2011. Pursuant to the letter, insurance companies are permitted to distribute a dividend only if after the distribution, the company has a recognized capital ratio to the required capital ("**solvency ratio**") of at least 115% as per the existing capital requirements (before the reduction in respect of a relief given in respect of the original difference attributed to the acquisition of the activity of provident funds and management companies), and solvency ratios of at least what is set forth below pursuant to the quantitative assessment drill updated to the new solvency governance implementation (**IQIS5**), or pursuant to instructions regarding the implementation of the first pillar in the new solvency governance, calculated without the transition provisions. The required new required solvency ratio, after the distribution, will be at least as follows:

(a) Until and including the Financial Statements as of December 31st, 2017 – 115%.
(b) Until and including the Financial Statements as of December 31st, 2020 – 120%.
(c) Until and including the Financial Statements as of March 31st, 2019 – 130%.

The IQIS5 drill reflects a solvency ratio of approx. 73%, when calculated including the transition provisions regarding certain types of investments, as described in Clause 4.2.1 above. The solvency ratio calculated without aforesaid transition provisions as set forth above is approx. 66%, lower than the solvency ratio required pursuant to the letter.

The abovementioned solvency ratio is based on the mix of investments and insurance liabilities as of December 31st, 2015, and does not include the changes recorded afterwards.

Insurance companies must submit to the Commissioner, within ten business days after the distribution, an annual income forecast of the Company for the next two years following the distribution; an updated debt service plan of the Company, approved by the Company's Board of Directors, as well as an updated debt service plan of the holdings company that holds the Company, approved by the holdings company's Board of Directors; a capital management plan approved by the Company's Board of Directors; minutes of the deliberation in the Company's Board of Directors meeting in which the dividend distribution was approved, plus background material for the deliberation.

27.1.3 **Expertise, knowledge and experience**

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

27.1.4 **Minimum size (critical mass)**

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

27.2 **Exit barriers**

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

27.2.1 **Insurance, pension and provident activity**

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

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

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

27.2.2 **Financial services**

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

In general, there are no significant exit barriers in this area. However, the liquidation of mutual funds managed by a fund manager is subject to arrangements under the Joint Investments Trust Law – 1994. As per this Law, the liquidation of a mutual fund may be performed only pursuant to the conditions set forth in the fund's agreement or through a Court and subject to the Joint Investments Trust Law.

Any sale or transfer of means of control in some of the companies in the area of financial services mandates the buyer to receive the permits set forth in Clause 25, *mutatis mutandis*.

28. Critical success factors

The factors presented below affect success factors in the Group’s activities ("**success factors**").

General success factors:

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

Success factors unique to the insurance and pension areas

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

29. Investments[72]

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

The investments in institutional entities in the Group are carried out by the Investment Division in which the information, expertise and personnel required for investment management are concentrated, see Clause 31.1 below.

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

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

In Migdal Makefet and Yozma there is an Investments Committee for the management of members' monies managed by Migdal Makefet and Yozma (the institutional entities' pension funds portfolio and provident funds portfolio). Beginning from February 2016, the membership of the Profit Participating Investment Committee is identical to that of the Investment Committee for the management of members' monies managed by Migdal Makefet and Yozma.

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

Pursuant to the legislative arrangement, the majority of the Investments Committees' members are external representatives, who comply with the eligibility requirements for External Directors pursuant to the Law.

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

Until the publication of the new provisions by the Commissioner at the end of February 2016 regarding credit extended by institutional entities ("**credit regulation update**"), the Group had a joint Credit Committee for all institutional entities, i.e., for Migdal Insurance (Members' Monies and Nostro), Migdal Makefet and Yozma, whose main role was to discuss credit transactions as set forth regarding this issue in the legislative arrangement that applies to institutional entities.

Upon the update of the credit regulation, a credit sub-committee was appointed in the Group (jointly for all the institutional entities), which is composed of members with proven expertise and experience in the area of credit, which meet the eligibility required by the Law for External Directors, and whose main role is discussing credit transactions and bad debts, as set forth in this respect in the legislative arrangement that applies to institutional entities. Furthermore, an internal credit committee was appointed, which includes members who are

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

Group employees with proven expertise and experience in extending credit or approving it, and whose main role is giving recommendations to the credit sub-committee and Investments Committees regarding adjusted loans.

The investments management in Migdal insurance is subject to regulatory provisions, including the Investment Rules Regulations and the Circular regarding Investment Rules, the Consolidated Circular – Chapter 4 – Investment Assets' Management (Investments Codex), and other Circulars published by the Commissioner regarding investment management by institutional entities. The regulatory provisions, as mentioned above, set forth various restrictions and frameworks adjusted to the type and nature of various liabilities of institutional entities (members' monies and Nostro monies).

As aforementioned, the investment management of the Nostro portfolio, the profit participating portfolio, the pension funds portfolio and the provident funds portfolio of institutional entities in the Group are concentrated in the Investments Division of the Migdal Group. The members' portfolios (profit participating portfolio, pension funds portfolio and the provident funds portfolio of institutional entities) have a designated investment manager who is in charge of the overall investment management of these portfolios, and the Nostro portfolio has a designated investment manager for this portfolio.

29.2 **Breakdown of assets under management**

Presented below is the breakdown of managed assets of the Group's institutional entities, as of December 31st, 2016 and December 31st, 2015 (NIS million):

<table>
<tr><th></th><th colspan="2">31.12.2016</th><th colspan="2">31.12.2015</th></tr>
<tr><th>Institutional entity</th><th>Nostro</th><th>Yield-dependent monies (1)</th><th>Nostro</th><th>Yield-dependent monies (1)</th></tr>
<tr><td>Migdal Insurance (2)</td><td>39,520</td><td>89,250</td><td>37,479</td><td>83,256</td></tr>
<tr><td>Migdal Makefet – pension funds</td><td rowspan="2">187</td><td>54,081</td><td rowspan="2">207</td><td>48,350</td></tr>
<tr><td>Migdal Makefet – provident funds</td><td>15,485</td><td>15,416</td></tr>
<tr><td>Yozma</td><td>11</td><td>1,737</td><td>11</td><td>1,698</td></tr>
<tr><td>Total</td><td>39,718</td><td>160,553</td><td>37,697</td><td>148,720</td></tr>
</table>

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

(2) As of December 31st, 2016 the total liabilities in respect of yield-dependent contracts in Migdal Insurance is approx. NIS 89,523 million, out of which: approx. NIS 87,844 million is in respect of yield-dependent insurance contracts and approx. NIS 1,679 million in respect of yield-dependent investment contracts, vs. the total liabilities in respect of yield-dependent contracts as of December 31st, 2015 of approx. NIS 83,313 million, out of which: approx. NIS 81,631 million in respect of yield-dependent insurance contracts and approx. NIS 1,682 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 of 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, see:

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/PensionSavings/pensia/Yozma/Pages/InvestPlicty.aspx

29.4 **Material investments in investees, partnerships and ventures which are not subsidiaries**[73]

The balance of the Group's investments in affiliates is approx. NIS 315 million as of December 31st, 2016, vs. approx. NIS 700 million as of December 31st, 2015. The change is mostly due to the loss of significant influence in Amot Investments Ltd, in the amount of approx. NIS 437 million due to its sale as described in Clause 29.4.2 below, as well as income of affiliates in the amount of approx. NIS 59 million, less dividends in the amount of approx. NIS 13 million, the balance of a loan extended in 2016 to Ramat Aviv Mall Ltd. in the amount of approx. NIS 19 million and another decrease of approx. NIS 13 million due to disposals, offset by new investments in affiliates. For additional information regarding affiliates and the amount of investment in them, see also Notes 7b and 38h to the Financial Statements.

The key affiliates are:

29.4.1 **Ramat Aviv Mall Ltd.** (formerly Meqarqee Merkaz Ltd**.) ("Mall Company")**

This is a private company whose shares are held at approx. 73.4% by Melisron Ltd., a public company, and at approx. 26.6% by Migdal Real Estate Holdings Ltd. (which is a subsidiary fully held by Migdal Insurance). The Mall Company owns the Ramat Aviv Mall, which includes retail areas and an adjacent office building and office spaces for rent.

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

29.4.2 **Amot Investments Ltd. ("Amot")**

On March 21st, 2016, Migdal Insurance engaged with a distributing entity for the sale of 26,000,000 ordinary shares of NIS 1 par value each of Amot Investments Ltd. ("**Amot**"), which constitute approx. 9.4% of Amot's issued and paid-up capital, which were held in Migdal Insurance's Nostro portfolio. As Migdal Insurance was informed, the distributing entity engaged with third parties in order to sell them the shares in off-floor transactions. The sale was completed on March 22nd, 2016

On the date of the sale, Amot ceased being an affiliate of Migdal Insurance, and the balance of the investment in Amot shares was handled

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

as a financial asset revalued at fair value through other comprehensive income.

For additional details regarding the sale, see Note 7b to the Financial Statements.

30 Reinsurance

30.1 General

As an integral part of its activity in insurance and risk management, the Group operates to cover some of the insurance risks it takes upon itself via foreign reinsurers. The balance of risk imposed on the insurance company after ceding part of the risk to reinsurers is called "**retention**".

The engagement with reinsurers has several advantages, mainly dispersing the insurance risks to which Migdal Insurance is exposed, as well as protecting Migdal Insurance's equity against high exposure risks and fluctuations in underwriting results. Reinsurance is adjusted to various risks according to the nature of risk and its level.

The acquisition of reinsurance is performed in policies or lines in which, in Migdal Insurance's estimation, it is more efficient to cede the risk than to use Migdal Insurance's equity. Internal actuarial estimations, various actuarial or statistical models and claims experience, help Migdal Insurance in assessing the required reinsurance level. It should be noted that reinsurance treaties do not release the insurance company from its obligations towards the insured.

Reinsurance transactions are signed in Migdal Insurance's various areas of activity, life assurance, health insurance and general insurance (property and liability insurances).

Every year, the Board of Directors of Migdal Insurance approves the reinsurance array and the policy for exposure to reinsurers in the coming year.

In light of Migdal Insurance's deployment towards meeting the capital objectives as per Solvency II governance, Migdal Insurance also examines its reinsurance treaties. Regarding this issue, see Note 7c to the Financial Statements.

Usually there are two types of engagements in reinsurance:

30.1.1 Contractual reinsurances

They are signed within reinsurance treaties, and pursuant to them the reinsurer receives in advance an agreed-upon part of the risks that the direct insurer took upon itself, included in various insurance policies in a pre-defined line/area, during the treaty period and in the insurance scopes defined in the treaty ("**reinsurance treaty**"). Reinsurance treaties are signed and/or renewed, usually every year (usually in the beginning of a calendar year), and they cover, in the conditions set forth in them, a variety of risks included in the various insurance policies, sold by Migdal Insurance during the activity period to which the treaty applies. Claims are paid under the reinsurance treaties and as per their conditions.

30.1.2 **Facultative reinsurances**

The engagement with the reinsurers is in order to cover risks in specific policies ("**facultative reinsurance**"). Usually businesses will have this type of insurance when the insurance amount exceeds the insurance amounts covered by the reinsurance treaties mentioned in the previous paragraph, and/or when the risk is excluded from the reinsurance treaty and/or due to specific underwriting discretions.

The customary structures of reinsurances are:

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

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

(2) **Surplus treaty**, in which the reinsurers' participation rate varies from one risk to another, depending on the insurance amount ceded to reinsurers beyond the retention. From the moment the rate of participation in risk is defined, the reinsurer participates in the same rate in premium, risk and claims.

(b) **Non-proportional reinsurances** – the share of the reinsurers is not proportional to their share in premium. Usually, reinsurers do not pay commissions in non-proportional treaties.

The main non-proportional reinsurance is **Excess of Loss**, in which reinsurers receive a payment deriving from the scope of the line being reinsured, in return for which they cover damages exceeding a certain amount, up to a cap, as determined in advance in the treaty.

Period of engagement:

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

In life assurance and health insurance, in which policies are for the long term, reinsurance treaties usually cover the policies sold in the activity period to which the treaty refers, but they will be effective throughout the entire life of the sold policies issued until their cancellation, even if the reinsurance treaties are not renewed (in respect of new business) in the following years. In some reinsurance treaties in health insurance (LTC insurance, medications insurance etc.), reinsurers may interrupt the insurance coverage during the agreement period, such that the agreement may not cover all the lives of issued policies, under certain conditions in the agreements. In some reinsurance treaties in health insurance, reinsurers may request changes in the treaties also in respect of existing insureds, under certain conditions in the agreements.

Settlement of accounts with reinsurers

In reinsurance transactions, Migdal Insurance pays reinsurers a premium less commissions, the reinsurers pay Migdal Insurance payments in respect of claims, depending on the structure of the reinsurance transaction. As aforementioned, usually, in non-proportional reinsurances, no commissions are paid by reinsurers.

The commissions received from reinsurers are usually set as a fixed share of the premium ceded to the reinsurers. Sometimes, the commission rate depends on the underwriting results (profitability) of the ceded businesses, therefore Migdal Insurance receives a profit commission, in addition to the fixed commission, calculated as part of the underwriting profit of the same risk (Sliding Scale).

Occasionally, when customers have a global activity (both in Israel and abroad), Migdal Insurance also executes more complex transactions, in which the insurance coverage is given not only to the Israeli activity but also to activity overseas ("**multi-national transaction**").

As set forth above, reinsurers' liabilities towards Migdal Insurance do not release Migdal Insurance from their liabilities towards their insureds, therefore reinsurers' financial strength affects Migdal Insurance – see Notes 37a3b and 37b.1.4 to the Financial Statements.

Presented below is a summary of reinsurance treaties at Migdal Insurance by areas of activity:

30.2 **Life assurance**

Migdal Insurance acquires reinsurance in respect of the risk component in life assurance policies (risks of death, disability and PHI). In 2016 the amount of reinsurance premiums in life assurance in Migdal Insurance was equal to approx. 2.4% of premium in life assurance[74].

Reinsurance treaties covering risks of death, disability and PHI are signed in surplus or Quota Share treaties, or a combination thereof, as detailed below:

Death risks – the Company has a Surplus treaty for death risk coverage.

PHI – the Company has a surplus treaty for PHI for Shalva policies (in which the definition of PHI is pursuant to the insureds' "education, training and experience"). In addition, Migdal Insurance has a reinsurance treaty for Migdal for Income policies (coverage of professional PHI), which is a combination of surplus and Quota Share reinsurance:

(a) For a monthly compensation cap of NIS 18,000, reinsurance is Quota Share.
(b) For a monthly compensation exceeding NIS 18,000, reinsurance is Surplus.

The Commissioner's Circular published in September 2016, regarding Guidelines for PHI Insurance Plans (for details see Clause 26.5.15 above), laid down the conditions for a plan that will be defined as a PHI insurance plan, which is also recognized as preferred insurance pursuant to the Income Tax Ordinance [New Version] – 1961, and which is partly different than the PHI insurance marketed by Migdal Insurance. As of the date of this Report, the Company is preparing towards signing new reinsurance treaties, which will be adjusted to the new PHI insurance that will be marketed pursuant to the said Circular. The Circular will come into effect on May 1st, 2017.

In addition, in 2016 Migdal Insurance had an Excess of Loss reinsurance treaty for covering death and permanent and total PHI in catastrophe events in the amount of approx. USD 150 million, beyond USD 40 million in the event of an earthquake and beyond USD 80 million in the event of any other catastrophe event, including war (including nuclear, biological and chemical war), but except

[74] Calculated as the rate of premiums earned by reinsurers to gross earned premium in life assurance.

plague. Migdal Insurance renewed this treaty for another two years, beginning from January 1st, 2016.

Also, Migdal Insurance has facultative reinsurance treaties, signed in order to cover risks embedded in specific policies.

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

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

		2016		2015	
Name of reinsurer	**Rating as per AM BEST[75]**	**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+	111.2	59	74.8	50
Munich Re	A+	33.1	18	29	19

Pension

(a) **Migdal Makefet Ishit**: Migdal Makefet Ishit Pension Fund has an Excess of Loss reinsurance treaty for the coverage of death and permanent disability in catastrophic events, including war (including nuclear, biological and chemical war) and earthquakes (but with no coverage of plagues), until the end of 2017. The total compensation is USD 100 million, over a retention of USD 20 million. The coverage cap per member is approx. USD 1 million. The reinsurance premium is paid from the fund assets.

(b) **Migdal Makefet Comprehensive:** Migdal Makefet Comprehensive Pension Fund has a Quota Share reinsurance treaty covering 90% in case of death and/or disability of the active fund members who are not in the basic old age track, paid as per the fund's Articles of Association ("**the insureds**"). Coverage is obligatory and is up to an amount at risk of approx. NIS 4.5 million in case of death and approx. NIS 7 million in case of disability, for each insured. The reinsurance premiums is paid from members' assets at a tariff of 90% of insurance fees paid by them pursuant to the fund's Articles of Association.

[75] The rating in the table was accurate just before the Report was published.

30.3 Health insurance

Migdal Insurance purchases reinsurance in respect of the risk element in health policies (transplant risks, dread diseases and LTC). In 2016, the amount of reinsurance premiums in Migdal Insurance's health insurance accounted for approx. 5.7% of premium in health insurance[76].

Reinsurance coverage for transplants is by a Quota Share treaty, in which reinsurance coverage has no cap.

Until January 31st, 2016, the reinsurance treaties for dread diseases was surplus reinsurance over NIS 150 thousand, and an additional layer of Quota Share reinsurance up to this amount. Accordingly, until that day, the Company marketed two products in the area of coverage for dread diseases, Mazor and Extended Mazor. Pursuant to the Commissioner's guidance, beginning from February 1st, 2016, the Company markets only the Extended Mazor policy. Accordingly, the Company is preparing towards signing a reinsurance treaty that matches only the Extended Mazor policy, which is Quota Share only, in which the coverage cap is approx. NIS 700 thousand.

For LTC insurance policies written beginning from January 1st, 2016, Migdal Insurance has a Quota Share reinsurance treaty, in which the monthly compensation cap is approx. NIS 20 thousand.

Furthermore, there are facultative reinsurances, which are signed to cover risks embedded in specific policies.

Migdal Insurance has a number of reinsurers, whose share of reinsurance premiums in health insurance constitutes 10% or more, as follows:

		2016		2015	
Name of reinsurer	Rating as per AM BEST[77]	Reinsurance premium ceded to reinsurer (NIS million)	Share of total reinsurance premiums in the area of health insurance in percent	Reinsurance premium ceded to reinsurer (NIS million)	Share of total reinsurance premiums in the area of health insurance in percent
Hannover Re	A+	35.6	53	35.8	52
Swiss Re	A+	25.1	37	24.2	35

30.4 General insurance

30.4.1 CMBI

Migdal Insurance's liabilities in the CMBI line in 2016 are covered by Excess of Loss reinsurance, with unlimited liability by most reinsurers, or, alternately, up to a liability limit that is considered sufficiently high.

[76] Calculated as the rate of premiums earned by reinsurers to gross earned premium in health insurance.
[77] The rating in the table was accurate just before the Report was published.

In this line, Migdal Insurance did not reach the caps set forth in reinsurance treaties in the reported period, and it does not have outstanding claims in an amount close to the set limits.

30.4.2 **Casco**

The line of Casco is characterized by a large dispersal and a relatively small variance in amounts of claims. In light of the above characteristics, Migdal Insurance does not purchase reinsurance in this line, except a specific reinsurance treaty for expensive cars.

30.4.3 **Other general insurance lines**

The main lines in which Migdal Insurance purchases reinsurances in the area are for coverage of different types of property lines, including: fire and related risks, contractors, engineering and marine and also for covering liability lines. Migdal Insurance's reinsurance array and policy in the area are very important to its ability to insure large or special risks. As a result of the various reinsurance treaties, Migdal Insurance's exposure in respect of a single claim is usually limited, according to the amounts agreed-upon between Migdal Insurance and the reinsurers, including the retained amounts. The maximum exposure and retained amounts are determined according to Migdal Insurance's estimation of the expected damages or events.

In businesses in which insurance amounts exceed the capacity set forth in the relevant treaty, and/or when risk is excluded from the treaty with the reinsurer and/or because of specific underwriting terms, with an adjustment to the frameworks and the treaties' conditions, facultative reinsurance is purchased.

In the property, contractors, engineering and marine insurance lines, Migdal Insurance purchases proportional reinsurances such as Quota Share and surplus insurances, in which the reinsurers’ participation is set as an equal percentage both in the premium and in the claim.

In property and contractors treaties, some of the reinsurers limit their participation in earthquake coverage to a rate (MPL) that exceeds, anyway, the maximum estimated damage assessed by Migdal Insurance.

In terror-related events there is a limitation which is below the treaty’s capacity.

In 2016, all the reinsurance commissions are at a fixed rate to premium, regardless of profitability.

In the liabilities lines - Migdal Insurance assesses risk based on actuarial or statistical models and claims experience, and it purchases protection over the retained amount and up to the required limit that is required, in its opinion, within the policies sold by Migdal Insurance.

In liability lines, Migdal Insurance purchases Excess of Loss reinsurance treaties, in which the retained amount is fixed and the reinsurers cover damage exceeding the set amount and up to the cap specified in the treaty, as well as the cap set forth in the limit of maximum aggregate claim amount during the treaty’s duration.

Migdal Insurance did not reach the caps set in the reinsurance treaties in the reported period, and has no outstanding claims in a scope which is close to the set limits.

30.4.4 **General**

Migdal Insurance has a few reinsurers, whose share of reinsurance premiums in general insurance in the reported year constitutes 10% or more, as follows:

		2016		2015	
Name of reinsurer	**Rating as per AM BEST[78]**	**Reinsurance premium ceded to reinsurer (NIS million)**	**Share of total reinsurance premiums in the area of general insurance in percent**	**Reinsurance premium ceded to reinsurer (NIS million)**	**Share of total reinsurance premiums in the area of general insurance in percent**
Generali	A	121	26	93	23
Swiss Re	A+	87	18	82	20

30.4.5 **Reinsurance treaty within the acquisition of the claims portfolio included in Eliahu Insurance's general insurance at Migdal Insurance**

Within an agreement signed with Eliahu Insurance for the absorption of Eliahu Insurance's general insurance portfolio at Migdal Insurance, a reinsurance treaty was signed between Migdal Insurance and Swiss Re ("**Swiss**"), pursuant to which Swiss will provide an insurance coverage to the insurance portfolio, covering all Migdal Insurance's insurance liabilities. The said engagement was completed on April 21st, 2106. For additional details see the Company's corrective Immediate Report dated December 29th, 2015, reference No. 2015-01-081583, the Company's Immediate Report dated April 24th, 2016, Reference No. 2016-01-068974, which are brought here by way of reference, as well as Note 38e2 to the Financial Statements.

30.5 Exposure policy to reinsurers

30.5.1 **General**

The exposure policy to reinsurers is approved every year by Migdal Insurance's Board of Directors.

There are two types of exposure to reinsurers:

(a) Exposure to open balances, and the risk that the reinsurer may not be able to cover its current and future liabilities. This exposure is managed via ongoing follow-up on the reinsurer condition in the global market, and on the compliance with its financial obligations to Migdal Insurance.

(b) Exposure to a single large damage or accumulation of damages in respect of an especially large event. The accrual is estimated based on the Maximum Possible Loss ("**MP**L") rate. This exposure is managed via an individual estimation of each of the reinsurers separately.

In order to decrease the risk related to exposures to reinsurers, Migdal Insurance operates pursuant to the following principles:

[78] The rating in the table was accurate just before the Report was published.

The basic rule guiding Migdal Insurance in determining the policy is the maximum dispersion of risk among various reinsurers. In addition, Migdal Insurance examines reinsurers' financial strength as expressed in their rating, based on A.M. BEST, which specializes in rating in the insurance sector. If the reinsurer does not have an A.M. BEST rating, it will be examined as per another rating company[79].

There are also exposure caps for reinsurers in respect of a single risk, as well as exposure caps for reinsurers per treaty, depending on the reinsurer's equity. In addition, the policy includes a maximum comprehensive exposure for the reinsurer (including exposure to earthquake) in facultative businesses and contracts, expressed as a percentage of the reinsurer's equity or a financial cap, the lower of the two, and it is derived from the reinsurer's rating. The policy also sets management and control mechanisms of exposure to reinsurers.

30.5.2 **Under the reinsurance policy, Migdal Insurance distinguishes between the following types of businesses:**

“Short tail”[80] businesses

These businesses include various types of property insurance, in respect of which Migdal Insurance purchases mostly proportional reinsurance. The accrued retention is protected against catastrophe events in an Excess of Loss treaty.

In these types of businesses, the engagements are made with insurers rated B or higher as per A.M. BEST's rating. As of the date of this Report, Migdal Insurance updated its policy, such that engagements are made with reinsurers rated B++ or higher as per A.M. BEST's rating.

“Long tail” businesses[81].

Covered risks are mainly liabilities and CMBI. Many of these claims end up in court, and sometimes, setting the liability and the indemnification amount may take many years. In "long tail" business, since Migdal Insurance must engage with reinsurers which, according to its estimation, will be solvent in the long term, the number of reinsurers which may be relied upon is quite limited. Therefore, Migdal Insurance's policy in these types of businesses is to engage with reinsurers rated A and higher as per A.M. BEST's rating.

For additional details regarding exposure to reinsurers, see also Note 37b1 4 to the Financial Statements.

30.6 **Exposure of reinsurers to catastrophe events - earthquake and natural hazards in general insurance**

In respect of catastrophic events (earthquake and natural hazards), beyond coverage under proportional reinsurance agreements, Migdal Insurance acquired Excess of Loss reinsurance for property, contractor, engineering and property lines in respect of the accrued retention, at an exposure–defined amount which shall derive from such event, based on Migdal Insurance estimation as to the expected damage or event due to catastrophe. In the risk estimation, as mentioned, Migdal Insurance used, *inter alia*, international designated software

[79] Sometimes, within comprehensive insurance arrangements, there are reinsurance treaties with unrated companies.

[80] **Short Tail** – lines in which the time gap between the insurance event and the final determination and payment of the damage is relatively short.

[81] **Long Tail** - lines in which the time gap between the insurance event and the final determination and payment of the damage is long.

based on mathematic models for catastrophic risk estimations. If an event occurs, whose extent of damage exceeds such estimation, Migdal Insurance shall be exposed to losses that are not covered by reinsurance.

In 2016, this treaty also covers the retention exposure to “additional insurance amount in houses”, which, under the new standard policy, replaces the "land value" coverage. Furthermore, beginning from 2017 this treaty covers also exposure in respect of Casco, which was not included in this treaty in the past.

According to the aforesaid models, Migdal Insurance protects itself against earthquake events of an intensity which occurs once in about 400 years

In 2016 Migdal Insurance purchased a non-proportional coverage of 1.8%, representing an MPL of 5.0% once every 400 years (before the insured’s deductible). In 2016, the insurance sums covered under proportional reinsurance against earthquake total approx. NIS 178 billion, while the insurance sums in retention which Migdal Insurance covers through non-proportional reinsurance, total approx. NIS 108 billion.

Exposure to earthquakes is mostly covered by reinsurers rated A- and higher as per A.M. BEST's rating, pursuant to the reinsurance policy detailed in Clause 30.5.1 above.

The three reinsurers participating in catastrophe reinsurance coverage, whose share of the total exposure exceeds 10%, are Swiss RE, Generali and Hanover Re.

30.7 Summary of reinsurance results in general insurance (NIS millions)

Areas of activity	CMBI (1) (2)			Casco (3) (4)			Other property lines (see breakdown by premium types below) (5) (6)		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Premiums ceded to reinsurers	10.9	11.5	11.9	5.5	2.9	0.6	370.8	319.6	318.1
Reinsurers' results - income	(2.6)	23.0	0.6	(1.4)	0.5	0.5	180.0	(17.1)	108.1

	Other liability lines (7) (8)			Total		
	2016	2015	2014	2016	2015	2014
Premiums ceded to reinsurers	84.8	76.8	75.9	472.0	410.8	406.5
Reinsurers' results – income/(loss)	(3.9)	122.6	(0.5)	172.1	129.0	108.7

Breakdown of other property lines by premium types	2016	2015	2014
Reinsurance premiums – proportional (8)	262.4	226.5	225.2
Reinsurance premiums – non-proportional (9)	1.2	1.8	3.0
Reinsurance premiums – coverage for catastrophe events (10)	107.2	91.3	89.9
Total reinsurance premiums	370.8	319.6	318.1

(1) In the CMBI and liability lines, until December 31st, 2015, the method used for the recognition of income was that of excess of revenues to expenses, therefore the reinsurance results in 2015 and 2014 mainly reflected the aggregate profit/(loss) of the underwriting year which ended three years prior to the reported year, loss, if at all, in respect of “open” years, as well as changes in outstanding claims of reinsurers in old underwriting years. On the other hand, from 2016, profit is recorded based on the best practice principles (see Note 37b3c)(5) to the Financial Statements), and reinsurers’ results reflect the profit/(loss) of the current underwriting year, as well as changes in outstanding claims of reinsurers in old underwriting years.

(2) The loss for reinsurers in the CMBI line in 2016 was affected by the implementation of the best practice principles, while the increase in reinsurers’ results in 2015 compared with 2014 was due to the update of the reinsurance claims estimation in old underwriting years.

(3) The increase in reinsurance premiums in Casco in 2014-2016 was mainly affected by the increase in the scope of insurance for expensive cars.

(4) The loss for reinsurers in the Casco line in 2016 compared with income in 2015 and 2014 was affected by an increase in claims in respect of expensive cars.

(5) The increase in reinsurance premiums in other property lines in 2016 compared with 2015 was mainly affected by an increase in the scope of premiums in these lines.

(6) In 2015, the loss to reinsurers was mainly affected by a large claim that was fully covered by reinsurance.

(7) The increase in reinsurance premiums in other liability lines in 2016 compared with 2015 was mainly affected by an increase in gross premiums in these lines.

(8) Regarding the method for recognition of profit in the liability lines – see Clause (1) above. The loss for reinsurers in the liability lines in 2016 was mainly affected by the update of the estimation of reinsurers’ claims. The significant increase in reinsurers’ results in 2015 compared with 2014 is due to the update of the estimation of reinsurers’ claims, including facultative reinsurance

(9) The premium includes all types of reinsurance arrangements for catastrophe risks coverage (proportional reinsurance, facultative reinsurance and Excess of Loss reinsurance in order to cover accrued retention).

31. Human capital

31.1 The Group’s organizational structure

As of just before the publication of this Report, the Group's organizational structure is as follows:

The Division of LTS, Health and Quality of Life – it centralizes the activity of life assurance, pension funds, provident funds and health insurance. *Inter alia*, this Division also centralizes the activity of institutional entities regarding the management of pension funds, provident funds and educational funds, the operation arrays of the area of LTS and health insurance, the handling of claims/rights payment in the areas of life assurance, pension, provident and health, as well as the activity of the Employers and Customers District.

Customers and Distribution Channels Division – it concentrates the activity vis-à-vis insurance agents/agencies/pension marketing agents of insurance and pension products via the regional districts and the national sales arrays of the Group's various distribution channels (except the Employers and Customers District), the activity of the service teams for agents, the Large Business unit and the Business and Medical Underwriting unit.

Beginning from March 2016, the activity of the sales call center for LTS and health products in Ihud Insurance Agencies Ltd. was absorbed into Migdal insurance and it is included under this Division by the name of "**Call Migdal**".

The General Insurance units – within the activity of the general insurance area, the following units are included:

(a) **The General Insurance Discipline** – that centralizes all the areas of Headquarters, products, surveyors and marketing in the area of general insurance.
(b) **The General Insurance Claims Discipline** – that centralizes the claims activity in this area.

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

The Finances and Actuarial Division – it concentrates the issues of finances and actuary in the area of life assurance and health insurance, and actuarial issues in general insurance as well as risk management.

The Technology Division - it coordinates the IT Services Unit which provides the Group's IT services through Migdal Technologies Ltd. ("**Migdal Technologies**") and the Information Security Unit. Until the end of February 2017 the Division (under its previous name, the Technology and Resources Division) also included the areas of administration, logistics and procurement.

The Headquarters Division – it is in charge of the activities of the internal enforcement and control units, service, the Human Resources Discipline, O&M, marketing, and the Customer Complaints Unit. Beginning from March 2017 the area of administration, logistics and procurement, which was included until then under the Technology and Resources Division, is also under the Headquarters Unit's responsibility.

The Reinsurance Unit – it concentrates Migdal insurance's reinsurance activity. Beginning from September 2016, the Unit reports directly to the Company's CEO, and until then it was included under the Customers and Distribution Channels Division.

The Company Secretariat and Legal Unit report directly to the Company's 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**[82]

Pursuant to the areas of activity set forth in Part B to this Report, there are various Divisions/Units (such as the employees in the Customers and Distribution Channels Division, Investments, Finances and Actuary, the Headquarters Unit. Technology and Resources, etc.), which provide services to more than one area of activity, therefore, in the Group there is no clear distribution of employees by the said areas of activity.

As of December 31st, 2016, the Group employed about 4,709 employees (out of whom about 60 are hired through manpower companies), vs. about 4,539 employees (out of whom about 28 employees were hired through manpower companies) as of December 31st, 2015[83].

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

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

[83] 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, 2016	No. of employees as of December 31st, 2015
Group management and HQ functions (1)	139	121
Division of LTS, Health and Quality of Life (2)	1,545	1,442
Customers and Distribution Channels Division (2) (3)	636	571
General Insurance Discipline	56	64
General Insurance Claims Discipline	165	164
Investments Division	83	84
Finances and Actuarial Division	223	226
Technology and Resources Division	450	418
Internal Audit Array	22	25
Financial Services Discipline – Migdal Capital Markets Group	157	164
The Group's insurance agencies (3)	1,073	1,046
Other (4)	160	214
Total	**4,709**	**4,539**

(1) The Group's management and HQ functions include the CEO of Migdal Insurance, the HQ Unit, the Company Secretariat and the Legal Unit, and beginning from September 2016, the Reinsurance Unit as well.

(2) During 2016, about 100 employees in the teams for service to agents were transferred from the Customers and Distribution Channels Division to the Division of LTS, Health and Quality of Life. On the other hand, about 25 employees in the Business and Medical Underwriting Unit were transferred from the Division of LTS, Health and Quality of Life to the Customers and Distribution Channels Division.

(3) During 2016, about 50 employees in the Call Migdal call center were transferred from the Group's insurance agencies (from Ihud Insurance Agencies Ltd.) to the Customers and Distribution Channels Division, as described in Clause 31.1 above.

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

Material changes in the manpower

Besides the changes in the organizational structure that were recorded in the reported year, as detailed in the notes attached to the table above, the increase in the number of employees in the end of 2016 compared with the end of 2015 is mostly due to a recruitment of employees for a limited period for the Customers and Distribution Channels Division, because the Company won a tender for insuring State employees' cars (for details see Clause 12.2.8 (b)), as well as due to an increase in the number of employees in the Division of LTS, Health and Quality of Life, because of an expansion of service in the operation and service arrays.

In addition, there was an increase in the manpower in the Technology and Resources Division due to the absorption of activities that were carried out in the past by service providers to the Company in the area of computerization. Furthermore, there was an increase in the number of employees in the Group's insurance agencies following the acquisition of the entire holding in Orlan Insurance Agencies (1994) Ltd., as well as due to the expansion of insurance agencies' activity.

On the other hand, in other units ("**Other**") there was a decrease in the number of employees because Pilat Hi-Capital Group Ltd. (which was held by Migdal Management) was sold at the end of 2016. This decrease was partly offset by the acquisition of NVE Movement Ltd[84] during 2016 (held by Migdal Health).

31.3 **Description of the Company's investments in training and organizational development**

The Group invests in professional trainings for employees and agents, depending on the employees' position and the Division in which they work, and it follows a training and organizational development program that supports achieving the business objectives set by it in all organizational units on a regular basis, with flexibility and depending on the needs, and *inter alia*, it sends employees to professional trainings, conferences and relevant instruction.

The Group has designated training programs for the promotion of the managerial and professional channel, as well as professional trainings for new workers in the service and operations arrays, that match the Group's professional needs. In addition, from time to time the Group provides enrichment workshops for the Group employees, regarding various issues.

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

Most of Migdal Insurance and Migdal Makefet workers are employed under a collective agreement, as detailed in Clause 31.4.1 below. The other workers in the Group are employed under personal employment agreements, as set forth in Clause 31.4.2 below.

31.4.1 **The collective agreement**

Migdal Insurance and Migdal Makefet have a collective agreement with the New General Federation of Labor, which was recognized as the representative organization among the workers of Migdal Insurance and Migdal Makefet.

The collective agreement applies to most workers of Migdal Insurance and Migdal Makefet employed by them when the agreement was signed, as well as to workers who will begin working in Migdal Insurance and Migdal Makefet after the signing of the collective agreement. The collective agreement 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. During this period the parties will maintain mutual industrial peace regarding the issues and subjects regulated by the agreement.

For more details regarding the salary conditions and main ancillary conditions included in the collective agreement, as well as the estimated costs in respect of the agreement's implementation, see the Company's Immediate Report dated February 17th, 2015, Reference No. 2015-01-033544, as well as Note 32 to the Financial Statements.

[84] The Company engages in providing sports services and operating gyms for corporations and institutions.

31.4.2 **Personal employment agreements**

The employment relations between the Group and its employees (except for employees covered by the collective agreement as detailed above) are based on personal employment agreements.

The personal employment agreements define the terms of employment, including basic salaries, social benefits and ancillaries, as well as the conditions for terminating employment.

The Group includes several employee groups who are remunerated beyond the basic salary by salary based on performance or meeting targets and subject to the Law (for example, some people employed in the sales array and some people working with investments in Migdal Capital Markets). For the remuneration of Senior Officers, see Clause 31.5 below.

31.5 **Policy and principles of the remuneration for Senior Officers**

31.5.1 **Change and update in the Company's remuneration policy for Senior Officers for the years 2017-2019**

On December 30th, 2016 the Company's General Meeting approved the change and update of the Company’s remuneration policy[85], *inter alia*, due to updates in the regulation that applies to the Company and to the institutional entities in the Group, as well as due to the Company’s desire to update the remuneration policy following issues that were raised during the implementation of the current policy (“**the updated remuneration policy**”).

The updated remuneration policy applies to all Senior Officers in the Company. It should be noted that all Senior Officers in the Company also serve, in addition to their office as Senior Officers in the Company, as Senior Officers in institutional entities in the Group and accordingly, they are also subject to the institutional entities' remuneration policy, described in Clause 31.5.2 below.

For details regarding the updated remuneration policy see the Company’s Immediate Report regarding convening a Shareholders’ General Meeting, dated December 22nd, 2016, Reference No. 2016-01-142339, as well as the Amending Immediate Report regarding the General Meeting’s results, dated January 15th, 2017, Reference No. 2017-01-006393.

31.5.2 **Institutional entities' remuneration policy**

On June 30th, 2014 the Boards of Directors of the institutional entities approved the remuneration policy for the years 2014-2016, further to the Circular issued by the Commissioner of Insurance dated April 10th, 2014 ("**Original Commissioner's Circular**"). During December 2015 and February 2016 the Boards of Directors of the institutional entities approved an update to such remuneration policy pursuant to the provisions of the Commissioner's Circular issued on October 7th, 2015 regarding the Remuneration Policy in Institutional Entities ("**the updated Circular**"). On November 24th, 2016 the Boards of Directors of the institutional entities approved the remuneration policy for 2017-2019 pursuant to the

[85] The Company's remuneration policy was approved for the first time by the Company's General Meeting on September 12th, 2013, for details see Immediate Reports dated September 2nd, 2013, Reference No. 2013-01-134847 as well as September 12th, 2013, Reference No. 2013-01-144555. On October 27th, 2014 the Company’s General Meeting approved a change and update of the Company’s remuneration policy. For details see the Immediate Reports dated September 22nd, 2014, Reference No. 2014-01-161913, and October 27th, 2014, Reference No. 2014-01-181653.

provisions of the Original Commissioner's Circular, the updated Circular and the Law regarding Remuneration for Senior Officers in Financial Institutions (Special Approval and the Disallowance of Tax Deductible Expenses due to Extraordinary Remuneration) – 2016. In the remuneration policy of institutional entities there are detailed provisions regarding the salary components of "key position holders", who were determined as such in the Commissioner's Circular.

For details regarding the key arrangements set forth in the remuneration policy, see also Note 38j3 to the Financial Statements.

The principles set forth in the remuneration policy are also published in the Company's website:

https://www.migdal.co.il/He/MigdalTeam/Investorsconnection/Pages/RewardPolicy.aspx

For the Draft Financial Services Supervision Regulations (Restrictions on the Appointment and Office of Key Position Holders in Institutional Entities) – 2016, see Clause 26.3.5 above.

31.6 **Senior Executive Officers' group**

As of the date of the Report, the group of Senior Executive Officers (who are not Directors) in the Group includes 17 workers, and it includes the Senior Executive Officers detailed in Regulation 26a in the Chapter of Additional Data on the Corporation ("**Executive Managers**").

The Senior Officers[86] are employed under personal agreements, detailing their terms of employment.

For details regarding wages and remunerations given in 2016, including the terms of employment of the persons receiving the highest wage among Senior Executive Officers in the Company and in Corporations controlled by it, see Regulation 21 in the Chapter of Additional Data on the Corporation.

The Company's General Meeting on December 30th, 2016 approved an amendment to the terms of employment of Mr. Yohanan Danino, the Chairman of the Board of Directors, Mr. Ofer Eliahu, Migdal Insurance's CEO, and Mr. Eran Czerninski, the Company's CEO. For details regarding such amendments see Regulation 21 in the Chapter of Additional Data on the Corporation.

31.7 **Changes in Senior Executive Officers**

31.7.1 In January 2016 Mr. Gil Yaniv, who serves as the Manager of the Division of LTS, Health and quality of Life and as the Head of the Strategy Discipline in Migdal Insurance, announced his desire to resign from his

[86] 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 require subordination to the CEO or regarding which there are regulatory provisions testifying that they hold a position which, from the material aspect, make them "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 "Senior Executive Officers of the Corporation", as detailed in Regulation 26a in the Chapter of Additional Data on the Corporation.

office in the Group. The date of resignation was set for April 4th, 2016. See also the Company's Immediate Report dated January 26th, 2016, Reference No. 2016-01-018058.

31.7.2 On January 6th, 2016 Migdal Insurance's Board of Directors approved the appointment of Mr. Emil Weinshel as Head of Customers and Distribution Channels Division in Migdal Insurance beginning from February 1st, 2016, see the Company's Immediate Reports dated January 6th and 7th, 2016, References No. 2016-01-004474 and 2016-01-005221, respectively.

31.7.3 On July 25th, 2016 Mr. Itzhak Ben Menahem, the Risk Manager of the Company, of Migdal Insurance and of Migdal Makefet and Yozma, terminated his employment in the Company. On the same day, Ms. Michal Gur-Kagan started her employment as the Risk Manager, after her appointment was approved by the Company's Board of Directors on May 31st, 2016, and after the Commissioner informed that she does not object to the appointment on June 14th, 2016.

See also the Company's Immediate Reports dated May 29th, 2016, Reference No. 2016-01-036126 and May 31st, 2015, Reference No. 2016-01-041244.

31.7.4 On September 1st, 2016 Mr. Yossi Peretz terminated his employment in Migdal Insurance as the Head of the General Insurance Division. On the same day, Mr. Nitzan Tza'ir Harim started to serve as the Head of the General Insurance Discipline in Migdal Insurance.

31.8 For details regarding the changes in the Company's Board of Directors in the reporting year, see Clause 2.4.7 (b) in Part A above.

32. Marketing and distribution

32.1 General

The Group's main marketing and distribution channels in the Company's areas of activity (excluding the area of financial services[87]) are as follows:

32.1.1 Insurance agents and agencies

Most of the Group's insurance plans are marketed via insurance agents and insurance agencies, including insurance agencies held by the Group.

The Group has business relations with about 2,700 insurance agencies (corporations[88]) and insurance agents ("**agents**") around the country. The Group is engaged with most agents in life insurance, pension and provident, health and general insurance business, and most of the Group's sales are made by them.

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 performed by insurance agencies controlled by the Group via Migdal Agencies. The most important agencies held by the Group are Mivtach Simon, Sagi Yogev and Shaham in the area of life assurance, LTS and health insurance and Peltours and Orlan in the area of general insurance.

[87] For details regarding marketing and distribution in respect of the area of financial services, see Clause 20 in Part B above.

[88] Some insurance agents are corporations employing workers, and the number of employees in the same agency is not included in the figure stated above.

32.1.2 **Direct distribution**

In this framework, the marketing and distribution of the Group's products is carried out directly, through the Group's employees. Most of the activity within the direct distribution channel is in the pension and provident lines, through pension marketing agents.

Within this distribution channel, there are direct engagements with employers and employees' organizations, which allow for direct enrollment of members to pension and provident funds managed by the Group, as well as through 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 addition, Migdal has a call center for the marketing of individual insurance (risk, death and health).

Most of the marketing and distribution activity in general insurance is with large customers such as companies dealing with vehicles, or having car fleets, mortgage banks, or participation in various customers' tenders.

32.1.3 **Banking corporations** – this distribution channel in pension and provident lines – is through pension advisors in bank branches (activity which is still non-material).

32.1.4 **Non-dependence on distribution channels**

In 2016 the Group does not have a single agent whose scope of sales exceeds 10% of the premiums in any relevant area of activity.

For details regarding the premiums and contributions that were received in 2016 via the agencies controlled by the Group see Clause 32.1.5 below.

32.1.5 **Rate of distribution and marketing activity by various channels**

In the pension and provident lines, where most of the direct sales activity takes place, the share of distribution channels in terms of premiums and contributions is as follows:

Pension – distribution via agents – approx. 69% of contributions in 2016, (similar to 2015 and 2014), direct distribution – approx. 30% in 2016 (similar to 2015 and 2014), and distribution via banking corporations – approx. 1% of contributions (similar to 2015 and 2014).

Provident – distribution via agents – approx. 44% of contributions in 2016 (vs. approx. 44% in 2015 and about 43% in 2014), direct distribution – approx. 43% (similar to 2015 and vs. approx. 44% in 2014), and distribution via banking corporations – approx. 11% of contributions (vs. approx. 13% in 2015 and 2014).

The premiums and contributions received in 2016 from the agencies controlled by the Group (including data regarding these agencies' sub-agents) are as follows:

Approx. 26% of the total life assurance businesses in 2016 (vs. approx. 27% in 2015 and approx. 29% in 2014), approx. 26% of the total pension businesses in 2016 (vs. approx. 27% in 2015 and about 29% in 2014), approx. 15% of provident businesses in 2016 (vs. [89] approx. 14% in 2015 and about 15% in 2014), approx. 25% of health businesses in 2016 (similar to 2015 and vs. approx. 28% in 2014), and approx. 8% of general insurance businesses in 2016 (similar to 2015 and vs. approx. 7% in 2014).

For details regarding the workforce of insurance agencies controlled by the Group, see the Table in Clause 31.2 above.

32.2 **Regulation of agents/pension marketing agents/pension 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 pension products), apply to their activity, including the licenses required for their activity and the way they operate.

The Regulations of the Supervision of Financial Services (Provident Funds) (Distribution Commissions) – 2006 set the maximal commission rates that will be paid to pension advisors for provident and pension products ("**the Distribution Regulations**"). It should be noted that a Draft for the Amendment of these Regulations is pending, proposing to regulate the payment of commissions to pension advisors in respect of insurance products included under the definition of pension products, and to establish that remuneration for license holders, pursuant to the Distribution Regulations, will be only in the form of monetary payment.

32.2.2 **Material changes in the Laws referring to distribution channels that were published in the reported period**:

(a) The separation between commissions and management fees

In January 9th, 2017 the Knesset approved Amendment No. 20 to the Supervision of Financial Services (Provident Funds) Law – 2017 ("the Amendment"). Within the Amendment, Clause 32 (e) to the Law was amended, and now it establishes that the distribution commission of provident funds will not be calculated and depend on the rate of management fees collected by managing companies from members. The Amendment also sets forth that calculating distribution commissions based on management fees will be considered an offense pursuant to Clause 49 (a) to the aforesaid Law, a violation thereof might entail one year imprisonment or a basic fine.

The Amendment to the Law will come into effect on April 1st, 2017. Furthermore, the penal Clause will not apply "on distribution commissions paid in respect of a member enrolled to a provident fund prior to the application date".

[89] The data for 2015 and 2014 were re-classified.

The Company is making preparations for the implementation of the Amendment. The distribution agreements, regarding the relevant products and plans, of the Company vis-à-vis insurance agents and agencies, will be amended to comply with the provisions of the Amendment and any terms which tie the calculation of commissions and management fees, if such existed before the Amendment comes into effect, will be deleted. At this point it is impossible to assess the implications of such change on the Company's activity in the relevant areas.

In this context, we would like to note that in January 2015 the Commissioner published a **Position Paper regarding Institutional Entities' Payment to License Holders**, pursuant to which institutional entities should strive towards changing their commission model, such that commissions would not be derived from the management fees rate. The Position Paper states that the Commissioner is of the opinion that paying brokerage fees that are derived from management fees paid by members or insureds encourages license holders to offer products with higher management fees to customers, and does not comply with the fiduciary duty imposed both on institutional entities and on license holders. The Position Paper was published, although the Draft Commissions Regulations for the Supervision of Financial Services (Insurance) (Brokerage Fees) – 2014, which has not yet been approved, is still pending.

In March 2015, a clarification to said Position Paper was published, stating that institutional entities and pension insurance agents should act immediately in order to amend the contracts that regulate the payment of brokerage fees, and that new contracts that do not comply with the Position should not be signed. Furthermore, the Commissioner stated that under these circumstances, and taking into account, *inter alia,* the scope of the current practice and the need to change the current contracts array, she does not intend to exercise her enforcement power regarding customers who enrolled to institutional entities prior to the Position's publication, and in the immediate subsequent period, according to the contracts array at the date of publication of the Position Paper.

The clarification also states that the above-mentioned position does not change the Commissioner's opinion, pursuant to which managing companies of institutional entities may set differential management fees up to the maximum cap set forth by the Law.

On June 24th, 2015, an originating motion was filed by the Association of Life Assurance Companies to the Tel Aviv District Court, requesting the Court to state that a remuneration deriving from management fees is not prohibited per se pursuant to the law, and that the engagement of institutional entities in agreements that include a remuneration deriving from management fees was not and is not a breach of any duty as per the Law.

On February 8th, 2016, the Tel Aviv District Court dismissed the originating motion in limine, claiming the lack of relevant jurisdiction. In its ruling, the Court stated that it is unauthorized to discuss issues included in the originating motion, and that the jurisdiction pertains to the High Court of Justice.

On March 22nd, 2016, the Association of Life Assurance Companies appealed to the Supreme Court regarding the District Court's ruling. Pursuant to the aforementioned Amendment to the Law, the Association asked to strike out the appeal, and on February 7th, 2017, the Supreme Court approved to strike it out.

(b) Regarding the regularization between operating entities and marketing entities, see Clause 6.3.13 above

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

32.3 **Description of the structure of commissions and average commission rates by areas of activity**

32.3.1 **Area of life assurance and LTS**

(a) Agents

The Group pays variable commissions to insurance agents in respect of marketing products, and the commission rate varies according to the plan sold and to individual agreements entered with the agents. Regarding the separation between commissions and management fees and the adjustments that will be required as part of the Company's preparations to the implementation of the Amendment to the Supervision of Financial Services (Provident Funds) Law (Amendment No. 20) – 2017, see Clause 32.2.2 above.

(1) **The commission structure in life assurance**:

- Current commissions - the commissions paid to agents are "flat commissions", i.e. the same commission is paid for several years, after which, in most agreements, a collection fee usually lower than the flat commission is paid (in most of the Group-marketed insurance plans, the commission is paid for 15 years). It should be noted that in certain life assurance products the commission is paid at a fixed rate throughout the entire insurance period, and variable commission rates may be paid throughout the insurance period. In addition, in certain products a fixed commission out of the management fees from accruals and/or from management fees on premiums is paid throughout the entire insurance period.

- Commissions in respect of sales – usually a non-recurring commission, which is usually derived from the scopes of sales and from the agents' meeting the sales objective set for them, and in some cases it is derived from the agents' compliance with portfolio persistency rate. In some life assurance policies, commission is calculated as a function of parameters that affect the product's profitability, and it is paid subject to arrangements that refer to policy cancellations in the said period. In addition, the Group has sales campaigns within which it remunerates the agents with prizes and/or additional grants.

In certain insurance products – commissions are paid deriving from the scope of transfer of savings monies from insurance funds and/or plans that are not of the Company and/or on the scope of one-time deposits.

(2) **The structure of commissions in respect of pension products' marketing**:

- Current commissions – commissions are paid from contributions at a fixed rate from the contribution actually paid, taking into account the product's profitability.

- Commissions in respect of sales – the Group pays a commission which is usually based on the amount of sales and the agents' meeting sales targets set for them, and in some cases the agents' meeting portfolio persistency targets as a function of parameters that affect the product profitability, and subject to cancellation of policies as described above regarding life assurance commissions. Furthermore, the Group holds sale campaigns under which it remunerates agents with additional prizes and/or grants.

(3) The structure of commissions in respect of marketing provident funds:

- Commissions paid to insurance agents in respect of marketing **provident funds** are, usually, at a fixed rate of the management fees on accrual actually collected.

- Commissions deriving from the scope of transfer of savings monies from funds not owned by the Company.

(b) **Pension marketing agents**

The Company remunerates the pension marketing agents in the lines of pension and provident, for complying with sales objectives that vary from time to time. The amount of commission paid to the marketing agent is composed of the marketing agents' rate of compliance with the set objectives, multiplied by the NIS commission target set for them.

(c) **Pension advisors**

Banking corporations are entitled to a distribution commission pursuant to the Distribution Commissions Regulations and the agreements signed with them. As detailed in Clauses 6.3.16 and 26.5.14, there is a pending Draft for the Regulations' amendment.

(d) **Average commission rate**s

Presented below are average commission rates (in percentage) in the area:

	2016	2015	2014
Life assurance			
Rate to premium	6.6	6.4	6.4
In the first year – rate from new annualized premium (1)	33.5	34.6	34.3
Pension funds			
Rate from contributions	1.9	2.6	2.7
Provident funds			
Rate from average AuM	0.2	0.2	0.2

(1) The rates of commission to annualized premium in life assurance in previous years were re-classified.

32.3.2 **Area of health insurance**

(a) In **individual health insurance** – the Group pays insurance agents variable commissions in respect of marketing products, and the commissions vary depending on the plan sold.

The commission structure is usually as follows:

(1) Current commissions – the commissions paid to agents are "flat commissions", and there is a possibility to pay variable management fees throughout the insurance period, as per individual agreements with agents.
(2) Commissions in respect of sales – some of the agreements with agents include a non-recurring commission deriving from the amount of sales and the agents' meeting the sales objectives set for them, and in some cases from the agents' meeting portfolio persistency targets set for them.
(3) Furthermore, the Group holds sale campaigns under which it remunerates agents with additional prizes and/or grants.

(b) In **collective insurances** – commissions at a specific rate of premiums are paid.

Presented below are average commission rates (in percentage) in the area:

	2016	2015	2014

Rate to premium	26.3	30.1	30.1

The decrease in the average commission rate in 2016 compared with 2015 was affected by a reduction in the scope of new sales. For details see Clause 3.5.3 to the Board of Directors' Report.

32.3.3 **Area of general insurance**

The commissions paid to agents in the area of general insurance are calculated at predetermined percentages of premium, and the commission rate varies depending on the specific line.

Presented below are average commission rates to premium (in percentage) in the area:

	2016	2015	2014
CMBI line	.47	4.8	4.7
Casco lines	14.4	17.7	17.9
Property lines (not motorcar)	15.8	15.9	15.8
Liability lines	13.6	14.2	14.8
Total	12.5	13.4	13.2

The decrease in the rate of commission in the Casco line in 2016 was affected by a change in the mix of insureds, and especially by the fact that Migdal Insurance won a tender for insuring State employees' cars, for details see Clause 12.2.8 (b) above.

32.3.4 **Extending loans to agents**

Occasionally, 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[90], which are selected based on the quality of service, availability, areas of expertise, the commercial conditions they offer, etc. Usually, such engagements are made for unlimited periods of time, and do not contain an exclusiveness arrangement (it should be noted that in general, the Group avoids "dependence on one supplier"[91], and acts towards creating diversification among its suppliers).

[90] It is hereby clarified that under suppliers and service providers, the Group does not include marketing agents/advisors, who are included in the distribution and marketing channel as described in Clause 32 above, and does not include reinsurers described in Clause 30 above.
[91] As defined in the Circular on Update of Instructions in Periodic Reports of Insurance Companies.

33.2 **Computerization and software providers**

The Group is engaged in various agreements with hardware, software and other computerization solutions suppliers, which provide it with diversified technological solutions for computerization equipment, including servers and end equipment, communications, operation systems and virtualization, storage and information management arrays, various types of software, databases, monitoring and control tools, information security and other professional services, including expert services. Some of these suppliers are companies specializing in designated hardware and software services, which the Company may need to collaborate with in the event of a crisis (including in the technological area). Ongoing payments to each of these suppliers are non-material. The suppliers included in this category, on which the Company depends, are: Hitachi Data Systems, Microsoft, Oracle, SPL Software, IBM, Hilan Tech, SAP and Neoxan.

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	60,795	The main office buildings of the Group, including most of the activity of insurance agencies held by the Group ("**Group Agencies**")	Owned
	4,691	Mostly offices used by the Group agencies	Rented
	4,354	Not yet completed/not yet populated	Owned
Rishon Lezion	1,004	The Group's agencies office buildings	Rented
Tel Aviv	3,461	Capital Markets Group's office buildings	Long term leasing
	1,164	Office buildings of companies held by Migdal Health	Rented
Jerusalem	1,000	The Group's agencies office buildings	Rented
	1,748	The Group's branch office in Jerusalem	Owned
Netanya	1,965	The Group's agencies office buildings	Rented
Haifa	2,527	The Group's branch office in Haifa	Owned
	1,874	The Group's agencies 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.

In September 2016 the Company engaged in a lease for 15 years (with extendable option) for offices of an area of approx. 2,900 square meters in Ashkelon, which will be occupied during 2017. The Company estimates that the investment in these offices is expected to reach about NIS 3 million. The Company's estimation regarding investment in the offices is forward-looking information, and it is based on the Company's programs for these offices. There is no certainty that investments in the offices will be carried out pursuant to the Company’s original programs, and that the costs upon which the investment estimate is made will not change.

The main computer center that serves the institutional entities in the Group is located in its offices in Petach Tikva. Pursuant to the Commissioner’s guidance regarding managing business continuity, the computer center has a remote backup site in Tirat Hacarmel, and another copy of the information is held around Jerusalem.

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[92]':

Location	Sq. m as of December 31st, 2016
Dan area	38,245
Northern area	35,688
Southern area	15
Lowland and Jerusalem	3,401
Total	**77,349**

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.

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 Group has IT systems that include hardware, software and additional equipment, whose amortized cost as of December 31st, 2016 totals approx. NIS 272 million, vs. approx. NIS 298 million as of December 31st, 2015.

In 2016 the Group’s investments in computers and development of IT systems amounted to NIS 126 million compared with NIS 135 million in 2015 – see Notes 4 and 6 to the Financial Statements.

[92] In addition, Migdal Insurance holds real estate assets managed for insureds, for details see Note 8 to the Financial Statements.

Investments in IT systems are designated both for supporting the Group's strategic objectives and supporting regulatory demands from time to time, including the pension clearing house and the Payments Regulations.

In the reported period, the Group's investments in computerized systems focused primarily on the following areas: developing service and sales systems for distribution channels, including digital business lines, improving the abilities of the service array to the Group’s customers, including via CRM systems and managing call centers, implementing various regulatory circulars, strengthening the selling abilities of the direct distribution arms, improving general insurance systems, supporting the development of products in life assurance, health insurance and general insurance, strengthening the ability to protect the Company's data, including against cyber threats and a continuous improvement in the availability and stability of production systems.

35. Seasonality

35.1 **LTS**

Revenues from life assurance (as well as in health insurance), and revenues from management fees from pension funds and provident funds are not characterized by seasonality. However, in December there is a certain increase in deposits of premiums/contributions to pension plans, compared with other months, in order to exhaust tax benefits embedded in deposits to pension savings.

In this context, it should be noted that in 3Q16 and 4Q16 there was an increase in deposits following the coming into effect of Amendment No. 16 to the Provident Funds Law, see Clause 6.3.2 (c) above.

Presented below is the breakdown of the quarterly gross premium earned in life assurance[93] in 2014, 2015 and 2016 (NIS million and percentage):

	2016		2015		2014	
	NIS million	**%**	**NIS million**	**%**	**NIS million**	**%**
First quarter	1,832	23.4	1,919	25.0	1,830	24.1
Second quarter	1,822	23.3	1,908	24.9	1,825	24.0
Third quarter	1,984	25.3	1,885	24.6	1,903	25.0
Fourth quarter	2,197	28.0	1,950	25.5	2,048	26.9
Total per year	**7,836**	**100.0**	**7,662**	**100.0**	**7,606**	**100.0**

[93] Excluding receipts in respect of investment contracts that totaled approx. NIS 447 million in 2016 vs. approx. NIS 846 million in 2015 and approx. NIS 808 million in 2014.

Presented below is the breakdown of the quarterly contributions in pension funds in 2014, 2015 and 2016 (NIS million and percentage):

	2016		2015[94]		2014	
	NIS million	**%**	**NIS million**	**%**	**NIS million**	**%**
First quarter	1,480	23.5	1,342	23.3	1,259	23.5
Second quarter	1,508	24.0	1,418	24.6	1,318	24.6
Third quarter	1,621	25.8	1,460	25.3	1,368	25.5
Fourth quarter	1,680	26.7	1,547	26.8	1,378	26.4
Total per year	**6,289**	**100.0**	**5,767**	**100.0**	**5,323**	**100.0**

Presented below is the breakdown of the quarterly contributions in provident funds in 2014, 2015 and 2016 (NIS million and percentage):

	2016		2015		2014	
	NIS million	**%**	**NIS million**	**%**	**NIS million**	**%**
First quarter	385	22.1	382	22.7	421	24.1
Second quarter	382	21.9	378	22.5	354	20.3
Third quarter	384	22.0	381	22.7	404	23.1
Fourth quarter	592	34.0	540	32.1	568	32.5
Total per year	**1,743**	**100.0**	**1,681**	**100.0**	**1,747**	**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 2016 there were winter-related damages in 1Q16 and 4Q16, estimated at approx. NIS 6 million in gross terms and approx. NIS 4 million in terms of retention most damages occurred in 4Q16). In 2015 there were winter-related damages in 1Q15, estimated at approx. NIS 14 million in gross terms and approx. NIS 5 million in terms of retention, and in 4Q15 - approx. NIS 33 million in gross terms and approx. NIS 21 million in terms of retention.

[94] Was reclassified pursuant to the instructions of the Capital Market, Insurance and Savings Authority in the Institutional Entities Circular 2016-9-3.

Presented below is the breakdown of the quarterly gross premiums in general insurance in 2014, 2015 and 2016 (in NIS million and percentage):

	2016		2015		2014	
	NIS million	**%**	**NIS million**	**%**	**NIS million**	**%**
First quarter	721	29.5	653	31.9	635	32.2
Second quarter	613	25.1	514	25.1	515	26.2
Third quarter	488	20.0	458	22.4	422	21.5
Fourth quarter	619	25.4	425	20.7	397	20.1
Total per year	**2,441**	**100.0**	**2,050**	**100.0**	**1,969**	**100.0**

The increase in the weight of premiums in 4Q16 compared with 4Q15 and 4Q14 was mainly affected by Migdal's winning of the tender for motorcar insurance for government employees for 2017, which came into effect at the end of 2016, for details see Clause 12.2.8(b) below

35.3 **Financial services**

As per the Company's estimation, the area of financial services is not characterized by seasonality.

36. Intangible assets

36.1 **General**

For its activity, the Group uses the companies' names and logos, some of which were registered as trademarks, such as: Migdal Holdings, Migdal Insurance, Migdal Makefet, etc.

36.2 **Data warehouses**

The institutional entities in the Group have various registered data warehouses, where the data submitted by the Group's customers are saved. The data stored in the warehouses, regarding customers, includes data submitted by them when acquiring one of the Group's products, as well as additional data submitted to the Group, or located by the Group in relation with services it provides (such as information about handling insurance claims etc.). Furthermore, the institutional entities in the Group have registered data warehouses regarding the Group's agents, suppliers, Group employees etc., whose storage and registration in a computerized repository are mandatory by law. The databases serve the Group in the ongoing operation of its businesses.

36.3 **Goodwill and initial difference**

The Company accumulated goodwill and initial difference, mainly upon the acquisition of insurance agencies, insurance portfolios, managing companies of pension funds, educational funds and activities of mutual funds.

In 2016 and 2015, an impairment was recorded in respect of goodwill allocated to the mutual funds activity in the amount of approx. NIS 21 million in 2016 and approx. NIS 13 million in 2015 (the value in books of the provident unit exceeded its recoverable amount, therefore impairment losses, fully attributed to goodwill, were recognized).

In addition, in 2105 an impairment of approx. NIS 26 million was recognized in respect of goodwill allocated to the mutual funds unit attributed to the financial services activity.

For details see Note 4 to the Financial Statements.

37. Discussion on risk factors

37.1 **Presented below is the table of risk factors regarding insurance and LTS activity**:

	The effect of risk factors on the Group's activity			
	Risk factors	**Great effect**	**Medium effect**	**Little effect**
Macro risks	Economic and employment situation		V	
	Market risks	V		
	- Interest rate risk	V		
	- Market risks (capital instruments real assets)	V		
	- Risks related to CPI		V	
	- Currency risk		V	
	Credit risks	V		
Sectorial risks	Insurance risks			
	- Life expectancy and annuity take-up rate	V		
	- Morbidity	V		
	- Earthquake risk		V	
	- Other insurance risks		V	
	Portfolio persistency level	V		
	Reinsurance		V	
	Competition and competitors	V		
	Public preferences		V	
	Regulatory changes	V		
	Legal precedents (class actions and Commissioner's authorities)	V		
Risks specific to the Group	Business mix	V		
	Liquidity risks			V
	Risks in adjusting assets to liabilities	V		
	Legal procedures including the Commissioner's authorities	V		
	Goodwill	V		
	Operational risks			
	- Dependence on IT	V		
	- Data security and cyber	V		
	- Other operation risks		V	
	Compliance risks		V	

The extent of the effect of risk factors on the Group is pursuant to the Group management's estimation, taking into account the scope and characteristics of its activity as of the date of this Report. The extent of effect may be different in reality, in light of changes in the characteristics of the Group's activity or market conditions and/or the behavior of regulatory entities supervising the Group's activity.

The Company manages its areas of activity using risk management methodologies. In its activity, the Group focuses on managing the risks to which it is exposed, in order to identify and assess the impact of such potential risks on the Group, with reference to the correlation between risks. Also, the Company's Board of Directors approved the risk appetite and risk tolerance to various risks. For the description of key risk factors in the Group's insurance activity and their management – see Note 37b3 to the Financial Statements.

37.2 **Key risk factors in the financial services activity**

The financial services area deals with various areas of the capital market, some of which are characterized by high volatility, *inter alia* due to the impact of political and economic events in Israel and abroad. The various risks to which the financial services area is exposed are related, *inter alia*, to trading activities in the accounts managed for the Group, to assets managed for various customers (mutual funds and portfolio management), to legal risks and additional risks related to operational exposures in activity.

It should be noted that as of the date of finalization of the merger of Migdal Stock Exchange Services with and into IBI Stock Exchange Services on October 28th, 2015 as detailed in Clause 16.2.3 above, the Company was still exposed to risks stemming from law suits, if such are filed against IBI, in respect of past activity of Migdal Stock Exchange Services (brokerage and custodian activity) where the cause for the claim precedes the merger, in respect of which Migdal Capital Markets gave a letter of indemnification to the merged company, pursuant and subject to the provisions of the merger.

For the description of exposure to market risks and the way they are managed, see Clause 6 to the Board of Directors' Report.

The key risks in the financial services activity are:

37.2.1 **Macro risks**

Market risks - political and economic events in Israel and abroad affect the scope of activity on the capital market, and as a result, the activity of the financial services' area, its assets and business results.

Companies engaged in the financial services area perform their own transactions in negotiable assets in Nostro accounts. These transactions expose the financial services area to risks stemming from trading fluctuations in the various channels of the capital markets (share, bonds, currency, interest rates etc.), including due to changes in interest rates and exchange rates, political, security-related and economic events.

37.2.2 **Sectorial risks**

(a) **Decrease in the value of assets under management and scopes of activity** – the results of the financial services area are directly affected by the total value of AuM managed by the financial services area. A decrease in the scope of AuM may materially affect the profitability of the financial services area. The volatility characterizing the primary market and changes in institutional entities' preferences may materially affect Migdal Underwriting's scope of activity.

(b) **Regulation** – the area of financial services is subject to very broad regulation, which is changed and updated frequently. Additional regulatory changes and/or more stringent demands with regard to existing regulatory requirements and/or non-compliance of financial services companies with regulatory demands might have a material impact on the businesses and/or results of the financial services area, and certain regulatory instructions have financial implications.

37.2.3 **Risks unique to the area of financial services**

(a) **Legal risks** – the financial services area is exposed to claims filed against it by customers, suppliers or third parties, claiming alleged incompliance with the provisions of the law and/or agreements and/or malpractice, including the exposure to class actions, and it is also exposed to fines and administrative enforcement measures that might be imposed by supervising authorities in case of a violation of legal provisions.

(b) **Liquidity risks** – companies that manage assets may hold assets in respect of which there are liquidity problems or difficulties in paying debt by issuers.

(c) **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.

(d) **Damage to goodwill** – the goodwill of the financial services area and its reputation are important factors in engaging with new customers and maintaining existing customers. Damage to reputation might affect the businesses of the financial services area.

37.2.4 **Presented below is the table of risk factors regarding the area of financial services:**

		The effect of risk factor on the activity of financial services		
	Risk factors	**Great effect**	**Medium effect**	**Little effect**
Macro risks	Capital markets risks	V		
Sectorial risks	Decrease in the value of AuM and scopes of activity	V		
	Regulation	V		
Risks specific to the area	Legal risks		V	
	Operational risks	V		
	Liquidity risks		V	
	Execution errors			V
	Damage to goodwill		V	

37.3 The activities of Migdal Health and Migdal Management are non-material, therefore in the Company's estimation, the risk in their respect is non-material.

38. Material agreements and collaboration agreements

38.1 Collective agreement

For the description of collective agreement signed between Migdal Insurance and Migdal Makefet and the New General Federation of Labor, which was recognized as the representative organization of Migdal insurance and Migdal Makefet employees - see Clause 31.4.1 above, Note 32 to the Financial Statements, as well as the Company's Immediate Report dated February 17th, 2015, Reference No. 2015-01-033544.

Part E – Corporate Governance Aspects[95]

[95] This Part and the description and data included thereof are brought pursuant to the Commissioner Circular regarding Corporation Businesses Description, Reference No. 2014-1-3.
For the attachment of the corporate governance questionnaire pursuant to the ISA's instruction as per Clause 36 a (b) to the Securities Law, see "Additional Data on the Corporation – corporate governance questionnaire".

39. External Directors

In Migdal Holdings and Migdal Insurance there are 3 External Directors. For details regarding the changes that occurred in the External Directors in the Company during the reported period, see regulation 26 in the Additional Data on the Corporation chapter.

40. Disclosure regarding the Internal Auditor[96]

The Company's Chief Internal Auditor as of the date of this Report is Ms. Michal Leshem, who entered this office on February 1st, 2014. She also serves as Migdal Insurance's Chief Internal Auditor. Previously, Ms. Leshem served as the Strategy, Control and Compliance Discipline Manager. The Chief Internal Auditor reports to the Chairman of the Board of Directors.

To the best knowledge of the Corporation, the Chief Internal Auditor does not hold securities of the Corporation, except option warrants and shares included within remuneration plans for Senior Officers in the Company, as set forth in Note 33 to the Financial Statement, which are not likely to affect the quality of work of the Internal Auditor[84].

Migdal Holdings' and Migdal Insurance's annual Work Plan regarding internal audit work is submitted by the Chief Internal Auditor, and is approved by the Audit Committee of the Company and of Migdal Insurance.

2016 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 constituted the basis for preparing the multi-annual Work Plan, together with 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 auditors 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 entities. 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 the Work Plan and as per generally accepted audit rules.

The Chief Internal Auditor’s reports are submitted in writing. In general, upon the publication of audit reports by the Internal Audit Array, and as part of the ongoing work, discussions are held with the audited persons regarding the audit reports. The audit reports are submitted on an ongoing basis to the Chairman of the Board of Directors, the CEO and the Heads of Divisions throughout the year. Audit reports submitted to subsidiaries are discussed in the subsidiaries’ Audit Committees.

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[96] The disclosure regarding the Chief Internal Auditor and the auditors as detailed herewith in this Part also refers to the area of financial services, and is brought pursuant to the Commissioner Circular mentioned in the introduction above.

[84] For details regarding shares and other securities held by Ms. Michal Leshem, as of December 2016 (to the best knowledge of the Corporation), see the Company's Immediate Report dated January 4th, 2017 Reference No. 2017-01-001851.

Furthermore, the Internal Audit gives the Chairman of the Board of Directors, the CEO and the Chairman of the Audit Committee a report regarding the follow up on the execution of the annual Work Plan (execution vs. planning).

Migdal Holdings' Audit Committee held 17 meetings in 2016, and Migdal Insurance's Audit Committee held 21 meetings. Audit reports were discussed in 12 of these meetings.

The Chief Internal Auditor is employed full-time and has a team of 30 Group employees who report to her. These include auditors in Group subsidiaries, which are required to appoint an Internal Auditor or which decided to appoint an auditor in light of the scope of activities and exposures. The Group's Chief Internal Auditor gives professional instructions to these auditors in order to maintain the general audit principles and professional standards implemented by her. In some of the tasks included in the Chief Internal Auditor's Work Plan, the Internal Audit is assisted by consultants and external experts depending on the type of activity and its complexity.

The table below presents details of the number of audit hours invested in the Group in 2016:

Overall scope of audit in the Group	Scope of audit in Migdal Insurance	Scope of audit in Migdal Makefet and Yozma	Scope of audit in Migdal Capital Markets	Scope of audit in agencies
54,538	29,866	13,192	4,000	7,480

The amount of internal audit hours is derived from the Company's Work Plan.

The Chief Internal Auditor is not assisted by other entities in the Group that are not the audit unit or professional employees working for it.

Remuneration

The Chief Internal Auditor is employed pursuant to a personal employment contract.

Total remuneration in respect of the employment of Ms. Michal Leshem as the Group's Chief Internal Auditor, as recognized in the 2016 Financial Statements, amounts to approx. NIS 1.2 million. See details in Regulation 21 regarding other Senior Officers in the Company.

In the Board of Directors' estimation, the Chief Internal Auditors' terms of remuneration as aforementioned comply with the Company's remuneration policy, and do not constitute a cause for concern regarding their impact on the Chief Internal Auditors' professional judgment.

41. Company's auditors

41.1 **The name of the Company's auditors and the name of the partner handling the audit**

The Company's auditors are Kost, Forer, Gabbay & Kasierer and Somekh Chaikin, who are joint auditors in all the Group's material companies.

The partner who handles the audit on behalf of Kost, Forer, Gabbay & Kasierer is Mr. Nir Mordechai, CPA, and the partner on behalf of Somekh Chaikin is Mr. Avraham Fruchtman, CPA.

The auditors started serving as joint auditors in April 1998.

In October 2016 the Company's General Meeting decided to re-appoint the joint auditors Somekh Chaikin and Kost, Forer, Gabbay & Kasierer, and to empower the Company's Board of Directors to set their fees for 2016. See also the Company's Immediate Report dated October 6th, 2016, Reference No. 2016-01-060534.

The table below presents details of the auditors fees (excluding VAT) for services provided by them for the years 2015-2016 and the number of hours invested:

	2016				
	Audit services (1)	**Audit-related services**	**Special tax services**	**Other services**	**Total (2)**
	Fees (NIS thousand)				
Migdal Insurance and investees	4,190	353	206	1,163	5,912
Migdal Capital Markets	352	39	128	-	519
The Company	160	79	--	--	239
Migdal Management Services and investees	93	-	-	-	93
Migdal Health and Quality of Life and investees	80	-			80
Total	**4,875**	**471**	**334**	**1,163**	**6,843**
	Hours				
Migdal Insurance and investees	20,963	1,431	515	3,587	26,496
Migdal Capital Markets	2,011	156	472	-	2,639
The Company	725	306	-	-	1,031
Migdal Management Services and investees	465	--	-	-	465
Migdal Health and Quality of Life and investees	619		-	-	619
Total	**24,783**	**1,893**	**987**	**3,587**	**31,250**

(1) Audit services include fees in respect of SOX audit.
(2) Referring to all hours and fees in their respect.

About 1.9% of fees in respect of audit services were paid to other CPAs.

	2015				
	Audit services (1)	**Audit-related services**	**Special tax services**	**Other services**	**Total (2)**
	Fees (NIS thousand)				
Migdal Insurance and investees	4,455	925	48	1,155	6,583
Migdal Capital Markets	484	11	18	98	611
The Company	160	6	--	-	166
Migdal Management Services and investees	80	-	-	-	80
Migdal Health and Quality of Life and investees	80	-	-	-	80
Total	**5,259**	**942**	**66**	**1,253**	**7,520**
	Hours				
Migdal Insurance and investees	20,466	4,158	121	5,769	30,514
Migdal Capital Markets	2,530	44	85	391	3,050
The Company	930	132	-	-	1,062
Migdal Management Services and investees	400	-	-	-	400
Migdal Health and Quality of Life and investees	623	-	-	-	623
Total	**24,949**	**4,334**	**206**	**6,160**	**35,649**

(1) Audit services include fees in respect of SOX audit.
(2) Referring to all hours and fees in their respect.

About 1.5% of fees in respect of audit services were paid to other CPAs.

42. Effectiveness of internal control over financial reporting and disclosure

Management, under the Board of Directors' supervision, conducted an examination and assessment of: Entity Level controls (ELC), controls on the closing and processing of reports, general controls over IT systems and controls over very critical processes (within Migdal Insurance).

In addition to the managers' statements and the Report regarding the Effectiveness of Internal Control required under the Securities Regulations, attached are statements, reports and disclosures regarding the internal audit in 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), which 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, 2016, there was no change in the Group’s institutional entities' internal control over financial reporting, which materially affected, or is likely to materially affect, the institutional entity’s internal control over financial reporting.

However, the institutional entities in the Group are developing, upgrading and/or replacing several information systems, inter alia, in order to improve and increase the efficiency of various processes and/or the internal control and/or service to customers.

Attached to the Group's institutional entities' Financial Statements are the required statements, reports and disclosures regarding the relevant processes, pursuant to the provisions of Management Responsibility Circulars and interim stages set forth in them for the Circulars' implementation.

At the same time, the Group's institutional entities continue to prepare for the implementation of the next stages included in the Management Responsibility Circular, regarding financial reports to members and insureds.

43. Preparation towards the implementation of the Solvency II Directive in Migdal Insurance

Since July 2008, the Commissioner has issued circulars and instructions regarding the preparation towards adopting the Solvency II provisions (“**the Directive**”).

During the preparations period, instructions are issued as to the calculation of capital requirements as per the Quantitative Impact Study (QIS), which includes a quantification of the various insurance and financial risks that the insurance companies face, as per the requirements set forth in the relevant Commissioner Circulars.

Within the preparations towards the first pillar, Migdal Insurance is studying the results of the Quantitative Impact Study and their expected effect on its activity, and it is examining the computerized and procedural deployment involved in its implementation.

Presented below are details regarding the Company's progress as to preparations towards the Directive's implementation during 2016:

During 2016 the Company held discussions in the Committee next to the Board of Directors established as per the Commissioner's instructions in order to supervise and control the process of preparations towards the Directive's implementation ("**Committee next to the Board of Directors for the Accompaniment of the Directive Implementation**"), and in the Board of Directors, regarding the progress in the preparations towards the Directive's implementation:

During the year, the Company prepared for the implementation of the Directive in various matters:

(a) The execution of a drill for the calculation of the solvency ratio for 2015 (**IQIS5**).
(b) The Company examined various means, financial and insurance-based, in order to reduce risk.
(c) The Company uses a model for forecasting the future capital situation, as a tool that supports capital management under the new governance, pursuant to its Work Plans, including the examination of sensitivity scenarios and their impact on the capital situation.
(d) The Company continues discussions with reinsurers regarding possible protections for capital in the Solvency II model.
(e) Within the Nostro Work Plan, the Company examines investments in financial instruments that include hedges in order to reduce risks and capital requirements.
(f) In 2016 the Company expanded its capital basis through a second and third tier capital raising in the amount of approx. NIS 0.9 billion. This is in addition to second and third tier capital in the amount of approx. NIS 2 billion raised in 2015. These capital raisings are in addition to private capital raisings performed in 2012, in the amount of approx. NIS 0.8 billion. For details see Note 24e to the Financial Statements.

For additional details, see Clause 4.2 to the Board of Directors' Report and Note 7c to the Financial Statements.

Migdal Insurance and Financial Holdings Ltd.

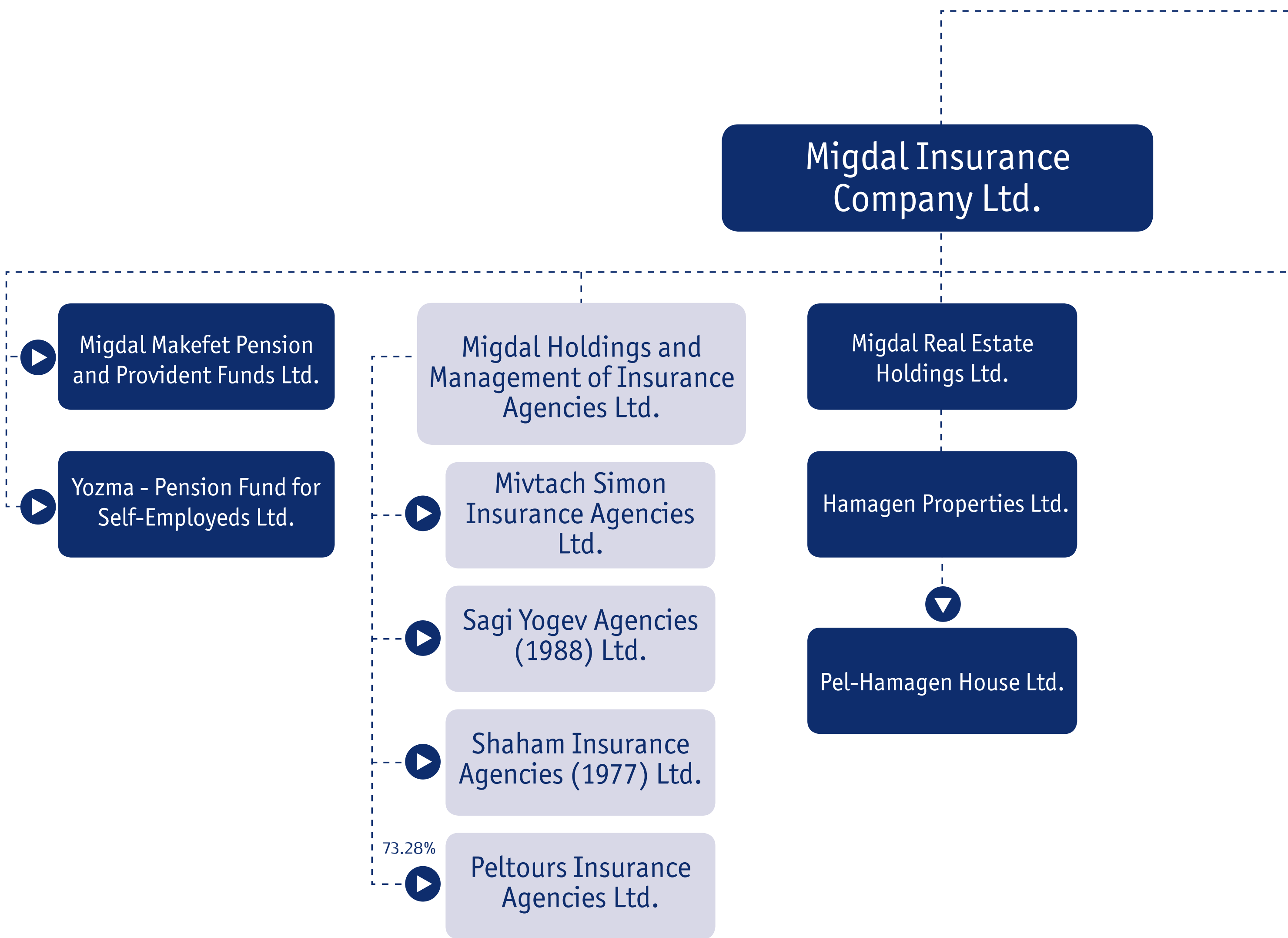
Yohanan Danino	**Eran Czerninski**
Chairman of the Board of Directors	CEO

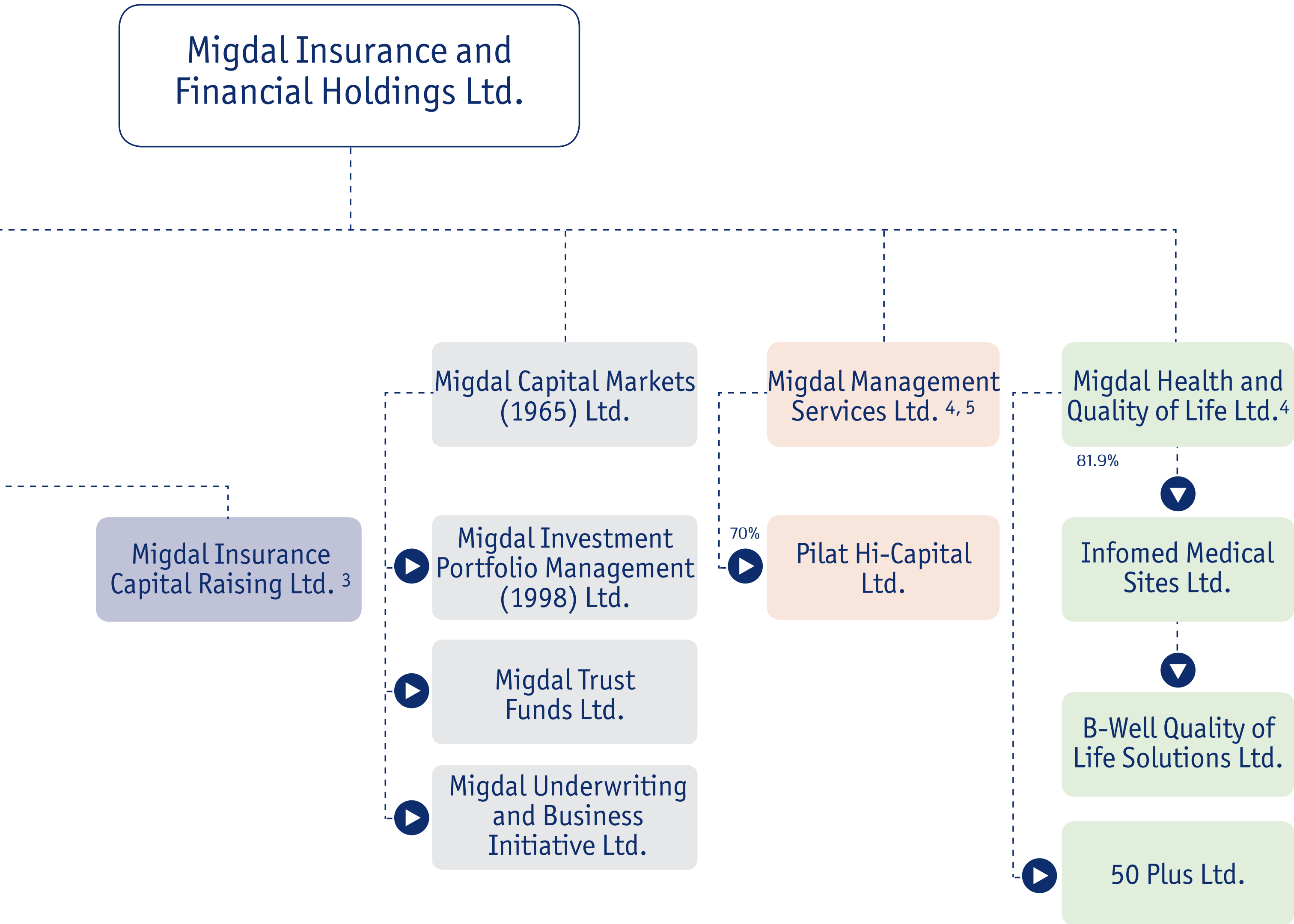
March 22nd, 2017

Group Holdings Structure

Group Holdings Structure

As of March 22nd, 2017

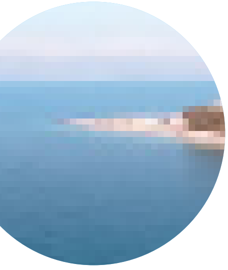
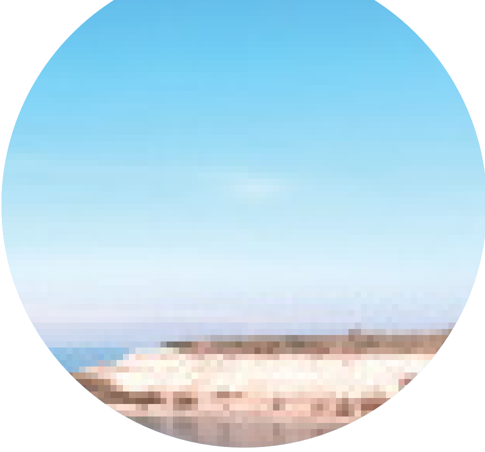




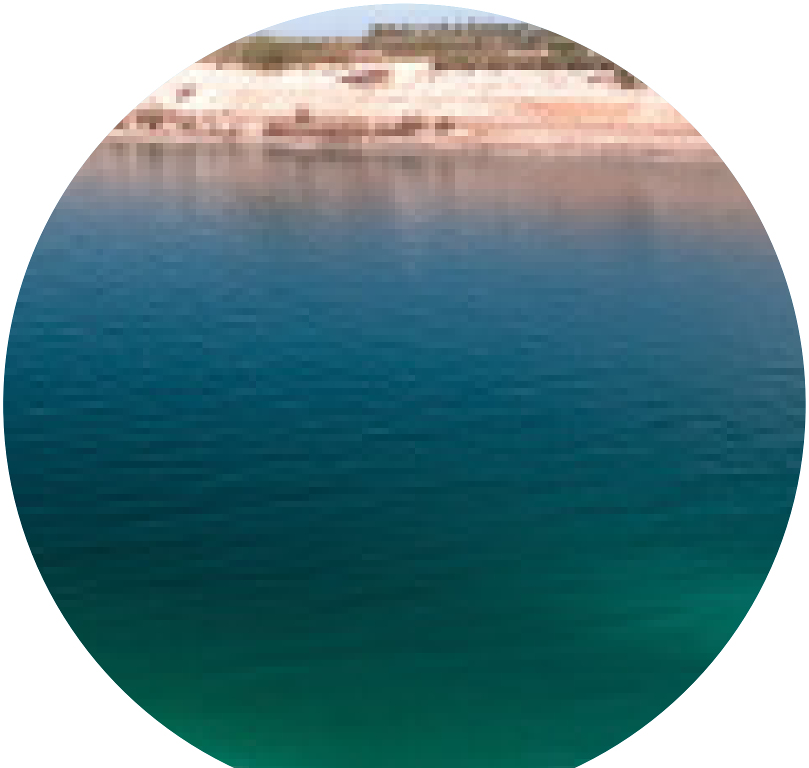
Notes:

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.
5. In December 2016 Pilat from Pilat Hi-Capital Ltd., which was held by Migdal Management Services Ltd., was sold.

MOUNTAIN GOATS | **RAMON CRATER**

BOARD OF DIRECTORS REPORT ON THE SITUATION OF THE CORPORATION BUSINESSES




DEAD SEA

Chapter 2 – Board of Directors Report on the Situation of the Corporation Businesses – Table of Contents

BOARD OF DIRECTORS' REPORT ON THE SITUATION OF THE CORPORATION BUSINESSES AS AT DECEMBER 31st, 2016

The Board of Directors' Report as at December 31st, 2016 reviews the main changes in the activities of Migdal Group in the reported period (hereinafter – "**the reported period**"). The Board of Directors' Report is an integral part of the Periodic Report including all its parts, and the Periodic Report should be read as a whole.

1. Company description

1.1 General

Migdal Insurance and Financial Holdings Ltd. ("**the Company**") is a public company whose shares are traded on the Tel Aviv Stock Exchange Ltd. The Company, via its subsidiaries ("**Migdal Group**", "**the Group**"), operates mainly in the area of insurance, pension, provident funds and financial services.

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

Migdal Insurance is the largest and leading insurance company in the area of life assurance and Long Term Savings in Israel[1].

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

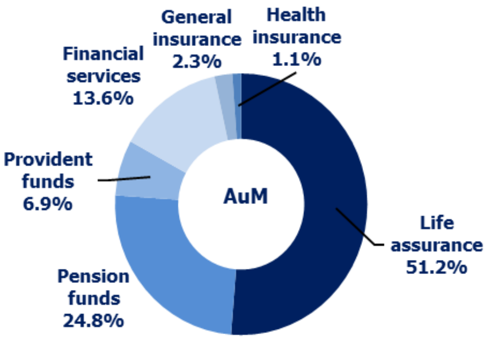
The financial services activity is carried out via Migdal Capital Markets (1965) Ltd. ("**Migdal Capital Markets**") and subsidiaries thereof.

As of the date of the Report, Eliahu 1959 Ltd. (previously "Eliahu Insurance Company Ltd.") ("**Eliahu**") holds approx. 69.19% of the Company's issued and paid-up share capital.

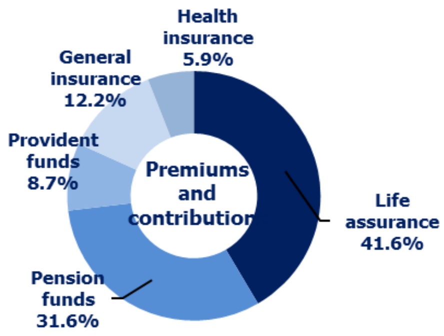
For additional details regarding the controlling shareholders' holdings in the Company see Clause 2.2 in Part A in the Periodic Report – Corporation Businesses Description ("**Corporation Businesses Description**"). For the Group's main holdings structure and the description of the Group's areas of activity, see Clauses 2.3 and 3 in Part A to the Corporation Businesses Description.

Presented below is the breakdown of (gross) insurance liabilities in insurance businesses and Assets under Management in pension funds, provident funds and financial services ("AuM"), as well as the breakdown of premiums, receipts in respect of investment contracts and contributions by areas / lines of activity

AuM as of December 31st, 2016



Premiums and contributions for 2016



[1] As of September 30th, 2016, based on insurance liabilities in life assurance and AuM in pension and provident funds.

The Company serves over 2 million private and business customers in the areas of insurance, pension and provident funds, it has business relations with approx. 2,700 insurance agencies and agents, and has over 4,700 employees.

1.2 Key developments since the last annual report

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

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

The year 2016 was characterized with marked fluctuations in the risk-free interest curve, which was mainly reflected in decrease in yields to maturity in 1H16, and on the other hand, an increase in yields to maturity in 2H16 (mainly in 4Q16), therefore by the end of the year there was a decline in the risk-free interest curve compared to the end of 2015. These fluctuations continue since 2015, by the end of which there was a certain decrease in the risk-free interest curve compared with the end of 2014.

These fluctuations affected the Company's insurance liabilities, and in 1H16 there was a significant increase in life assurance reserves, as well as an increase in insurance liabilities in general insurance, in the lines in which liabilities are calculated as per the best practice principles, and on the other hand, in 2H16 there was a decrease in reserves, which offset part of the above-mentioned increase.

In addition, the **National Insurance Institute Regulations (Discount) (Amendment) – 2016** (“**NII Regulations**”) were published in June 2016, pursuant to which, *inter alia*, the interest rate for the discount of annual annuities was reduced to 2% instead of 3%, and a mechanism was laid down for the update of the discount interest rate once every 4 years. Pursuant to the above, the Company updated its estimations in the area of general insurance, and as a result, it increased reserves in the CMBI and liability lines. For additional details, as well as regarding the deferral of the implementation date of these Regulations, see Clause 3.6.3 below, Clause 12.2.1 to the Corporation Businesses Description, and Note 37b3c(5) to the Financial Statements.

Total provisions recorded in 2016 (“**the reported year**”), as a result of the above, are approx. NIS 604 million before tax. In 4Q16 (“**the reported quarter**”) there was a decrease in these provisions, by approx. NIS 173 million before tax[2]. For details see Clauses 3.2 and 3.3 below, and Notes 37b3(b)(5) and 37b3c(5) to the Financial Statements.

Against the increase in special provisions as set forth above, in 2016 there was investment income stemming from price increases on capital markets, mainly in share indices. For details see Clauses 3.3 and 4.1.2 below.

For the sensitivity of profit (and loss) and insurance liabilities to the decrease in interest rate, see Note 37b1a) to the Financial Statements.

For developments after the date of the balance sheet and until the reporting date, see Clause 4.1.3 below.

The changes in the risk-free interest curve also affect the actuarial deficit in respect of all insureds in Old Yozma pension fund, for whom there was an increase in the actuarial deficit in the reported year, mainly due to a decrease in the risk-free interest curve used for the discount of liabilities towards them.

[2] After an increase of approx. NIS 148 million, mostly due to the update in annuity take-up assumptions performed in 4Q16, see Clause 3.2 below.

1.2.2 **Other developments in the business environment**

(a) **The area of life assurance and LTS**

The regulatory arrangements that were published in recent years in general and last year in particular, mostly aimed at consolidating, simplifying and increasing transparency of pension products, along with increasing competition, brought about material changes in the area of pension insurance, reflected in several trends: (1) an increase in sales of the pension product, along with a decrease in average management fees on the market; (2) a recent increase in life assurance products' sales (via agents), with lower management fees compared to the past.

For details regarding the main changes in the area, including the implications of the implementation of above-mentioned regulatory arrangement, see Clause 2.4.2 in Part A and Clauses 6.3 and 6.4 in Part B to the Corporation Businesses Description.

(b) **The area of health insurance**

In 2016 various regulatory provisions came into effect, affecting the features of private health insurance sold by insurance companies, the coverages and the way it is sold. The aim of the changes is, *inter alia*, increasing competition, creating uniformity in the various health insurance products, lowering their price and adjusting them to the changing needs in the area of health insurance.

For details regarding the key changes in the area, including the expected implications on the Company as a result of their implementation, see Clause 2.4.2 in Part A and Clause 9.3 in Part B to the Corporation Businesses Description chapter.

1.2.3 For the description of additional key developments in the Group that were recorded in the reported year and afterwards, see Clauses 2.4.3 to 2.4.9 in Part A to the Corporation Businesses Description chapter, as well as Note 40 to the Financial Statements.

2. Description of the business environment

For the description of the business environment, see Clause 4.1 below.

3. Board of Directors explanations to the Corporation's situation

3.1 Analysis of the financial situation and activity results

NIS million	2016	2015	Change in %	2014	10-12/16	10-12/15	Change in %
Area of Life Assurance and LTS							
Gross earned premium, receipts in respect of investment contracts and contributions (1)	16,314.2	15,955.9	2%	15,483.7	4,588.9	4,332.7	6%
Income for the period before tax	414.3	276.2		292.1	599.4	192.7	
Comprehensive income before tax	361.4	110.5		444.5	582.7	218.0	
Area of Health Insurance							
Gross earned premium	1,177.2	1,024.5	15%	879.9	309.1	268.5	15%
Income (loss) for the period before tax	6.2	(25.7)		75.3	18.7	(14.9)	
Comprehensive income (loss) before tax	2.8	(35.4)		82.3	18.4	(13.5)	
Area of General Insurance							
Gross earned premium	2,182.5	2,002.8	9%	1,939.9	558.1	506.8	10%
Gross premium	2,440.7	2,050.2	19%	1,968.9	618.7	424.9	46%
Premium in retention	1,968.7	1,639.4	20%	1,562.5	518.1	323.7	60%
Income (loss) for the period before tax	(155.9)	136.7		108.4	(18.5)	63.1	
Comprehensive income (loss) before tax	(178.0)	57.0		116.6	(33.4)	77.1	
Area of Financial Services							
Revenues	132.2	205.3	(36%)	209.6	32.2	61.7	(48%)
Income (loss) for the period before tax	0.5	(3.5)		0.5	(0.3)	6.7	
Comprehensive income (loss) before tax	0.6	(2.9)		2.1	(0.1)	6.8	
Total Areas of Activity							
Total gross earned premium, receipts in respect of investment contracts and contributions	19,673.8	18,983.1	4%	18,303.5	5,456.1	5,108.0	7%
Total gross premium, receipts in respect of investment contracts and contributions (2)	19,932.0	19,030.5	5%	18,332.5	5,516.7	5,026.1	10%
Total income for the period before tax	265.1	383.8		476.3	599.3	247.6	
Total comprehensive income before tax	186.8	129.2		645.5	567.6	288.4	
Other (3)							
Income (loss) for the period before tax	21.3	125.1		132.1	(6.1)	1.6	
Comprehensive income (loss) before tax	15.1	51.2		147.3	(26.0)	26.6	
Income for the period before tax	286.4	508.8		608.3	593.2	249.3	
Comprehensive income for the period before tax (4)	201.9	180.4		792.7	541.5	315.0	
Income tax							
Income tax – in terms of income for the period	81.2	155.8		185.5	202.1	84.3	
Income tax – in terms of comprehensive income	40.0	30.1		255.1	178.5	107.5	
Income for the period	**205.1**	**353.1**	**(42%)**	**422.8**	**391.1**	**165.0**	137%
Comprehensive income for the period	**161.9**	**150.3**	**8%**	**537.6**	**363.0**	**207.5**	75%
Return on equity (based on income for the period)(5)	**3.9%**	**6.9%**		**8.5%**	**7.8%**	**3.3%**	
Return on equity (based on comprehensive income)(5)	**3.1%**	**2.9%**		**10.8%**	**7.2%**	**4.1%**	
Return on equity in annual terms (based on comprehensive income) (6)	**3.1%**	**2.9%**		**10.8%**	**28.9%**	**16.5%**	

(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.
Data regarding pension contributions in 4Q15 were re-classified pursuant to the Commissioner's instruction in the Institutional Entities Circular 2016-9-3.
(2) In general insurance, including data of gross premiums, and in life assurance and health insurance, including gross earned premiums.
(3) The "Other" item mainly includes the results of activity of insurance agencies in the Group, activities related to the Group or interfacing with it, performed within Migdal Health and Migdal Management of an insignificant scope, as well as net investment income (including income from affiliates) not attributed to areas of activity, as well as adjustments within the reports' consolidation.
(4) The comprehensive income for the period includes the results of investment activity of available for sale financial assets (Nostro portfolio) that have not yet been realized, on the other hand, the income for the period includes the results of investment activity of securities that were realized in the reported year 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 and the reported quarter as to capital balances. The calculation was made based on adjusting the capital balance to dividend distribution during the reported period.
(6) Return on equity in the fourth quarter is calculated in annual terms (multiplied by 4).

The above Notes refer to the way the description is made throughout all the parts of the Board of Directors Report.

3.2 Description of the development of activity results in 4Q16

In the reported quarter there was a comprehensive income in the amount of approx. NIS 363 million, vs. a comprehensive income in the amount of approx. NIS 207 million in 4Q15.

The comprehensive income in the reported quarter was mostly affected by a decrease in special provisions in life assurance due to the increase in risk-free interest curve (partly offset due to the update in annuity take-up assumptions), as described below, as well as by a significant increase in income from risk in life assurance. In addition, income was affected by yields achieved by the Group in capital markets in light of an increase in share prices, partly offset due to a decrease in bond prices, which were lower than the yields achieved in 4Q15.

In life assurance, the increase in the risk-free curve brought about a decrease of approx. NIS 343 million in special provisions, out of which approx. NIS 87 million before tax in respect of Supplementary Annuity Reserve (SAR) and approx. NIS 256 million before tax in respect of Liability Adequacy Test (LAT). On the other hand, there was an increase of approx. NIS 148 million before tax in the provision, mainly due to the update in annuity take-up assumptions. By the end of 4Q16, there was a net decrease in these provisions, in the amount of approx. NIS 195 million before tax (approx. NIS 125 million after tax).

In general insurance, in the reported quarter the Company increased provisions in the CMBI and liability lines in the amount of approx. NIS 22 million, mainly due to the update in the discount interest rate following the publication of the NII Regulations.

On the other hand, in 4Q15 comprehensive income was affected by significant income from investments, as mentioned above, and was partly offset due to an increase in the Supplementary Annuity Reserve in life assurance, in the amount of approx. 148 million before tax (approx. 93 million after tax).

In the reported quarter, there was investment income[3] in the amount of approx. 1,931 million, compared with investment income in the amount of approx. NIS 2,062 in 4Q15. In the area of life assurance and LTS there was investment income in the amount of approx. NIS 1,879 million, vs. investment income in the amount of approx. NIS 1,893 million in 4Q15, in the area of general insurance there was investment income of less than NIS 1 million, vs. investment income in the

[3] Investment income (loss) includes net income (loss) and financing revenues, the Company's share in net results of associates as well as other comprehensive income (loss) before tax.

amount of approx. NIS 68 million in 4Q15, and in the area of health insurance there was investment income in the amount of approx. NIS 39 million, vs. investment income in the amount of approx. NIS 48 million in 4Q15.

It should be noted that most investment income is taken to insurance reserves, therefore the main impact on the Company's results is in the financial spread that is created net of amounts carried to insurance reserves.

As a result of the above, there was a decrease in the comprehensive financial spread from investments against guaranteed yield policies in life assurance compared with 4Q15, due to a decrease in the real yields achieved in investments that are not designated bonds. In addition, income from investments in the area of general insurance and the area of health insurance and income from investments against capital decreased, due to lower yields achieved by the Group in capital markets in 4Q16, vs. 4Q15.

In the reported quarter, variable management fees collected in profit participating policies written until 2004 in life assurance totaled approx. NIS 189 million before tax, vs. approx. NIS 222 million before tax in 4Q15.

In the reported quarter there was a 0.3% decrease in CPI, vs. a 0.7% decrease in 4Q15. It should be noted that changes in inflation affect investment income in respect of CPI-linked assets in the Nostro portfolio. Furthermore, inflation has an impact on the adjustment of CPI-linked insurance liabilities and financial liabilities, and an impact on variable management fees collected in profit participating policies written until 2004 due to the impact on real yields achieved in these policies.

In life assurance, in the reported quarter there was a marked increase in income from risk, mainly due to a decrease in claims and an update to the scope of current payments, that affects the calculation of occupational disability reserves in payment, following which the reserves decreased by approx. NIS 78 million, compared with an increase in the provision for occupational disability in the amount of approx. NIS 60 million before tax in 4Q15. The increase in the provision in 4Q15 is based on a study carried out by the Company regarding the duration of occupational disability claims, which affects the assumption regarding the cost of claims. In addition, in 4Q16 there was an increase in revenues from fixed management fees in profit participating policies following an increase in the scope of AuM.

In life assurance premium, including receipts in respect of investment contracts, there was an increase compared to 4Q15. In current premiums, there was an increase stemming mainly from an increase in contributions to pension savings pursuant to Amendment No. 16 to the Supervision of Financial Services (Provident Funds) Law – 2016 ("**Amendment No. 16**"). For details see Clause 6.3.2 (c) to the Corporation Businesses Description chapter. On the other hand, single premium in respect of insurance contracts and one-time receipts in respect of investment contracts decreased compared to 4Q15,

New sales (excluding increases) in the area of life assurance and LTS increased compared with 4Q15, wherein sales of life assurance plans increased significantly, and on the other hand pension sales decreased.

In the pension and provident lines there was a deterioration in results, affected by an erosion in the average management fees, as well as a provision for impairment of goodwill attributed to provident funds, in the amount of approx. NIS 21 million, vs. a provision for the impairment in the amount of approx. NIS 13 million in 4Q15. In addition, the trend of net transfer of assets under management to other institutional entities increased compared to 4Q15.

In the area of health insurance, there was an improvement in underwriting results vs. 4Q15, mainly reflected in the lines of LTC, personal accident insurance, and collective insurance due to a decrease in claims.

In the area of general insurance, underwriting results (excluding real investment income and the update of reserves following the publication of the NII regulations) decreased in CMBI, and on the other hand, they increased in liability lines. Underwriting results in Casco and other property lines remained unchanged compared to 4Q15.

In the area of financial services, the decrease in comprehensive income vs. 4Q15 was mainly due to a decrease in income, mostly from investment banking activity, which was partly offset due to a write-down of goodwill attributed to mutual funds activity in the Group in 4Q15.

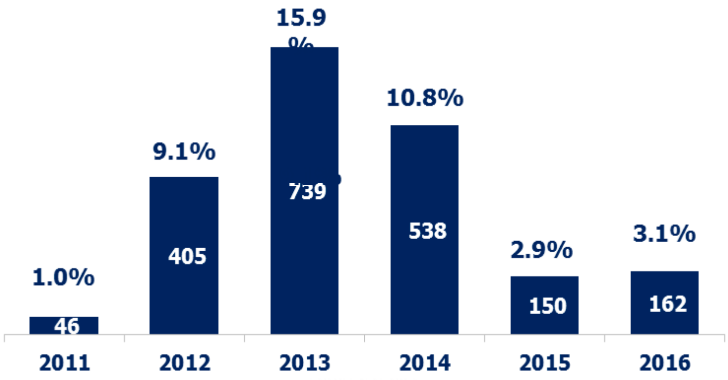
In the reported quarter, there was an increase of approx. NIS 31 million in comprehensive income, due to an update of the balance of deferred taxes in investee companies of the Company, following a decrease in companies tax, from 25% to 24% starting from January 2017, and to 23% starting from January 2018, pursuant to the coming into effect of the Economic Efficiency Law (Legislative Amendments to Implement the Economic Plan for 2018-2019), 2016 on January 1st, 2017. For details see Note 21c3 to the Financial Statements.

For additional details regarding the development of results in 4Q16, see within the areas of activity below.

For additional details regarding the development of premiums and income in quarters in 2016, 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 2011-2016:



In 2016 the Group recorded a comprehensive income of approx. NIS 162 million compared with a comprehensive income of approx. NIS 150 million in 2015. The comprehensive income was mostly affected by special provisions in the amount of approx. NIS 604 million before tax (approx. NIS 387 million after tax) recorded by the Company in life assurance and general insurance as detailed below. These provisions were higher than the special provisions recorded by the Company in life assurance in 2015, which totaled approx. NIS 363 million (approx. NIS 227 million after tax), and the provisions in 2014 which totaled approx. NIS 466 million before tax (approx. NIS 290 million after tax). Furthermore, in the reported year there was a significant increase in income from risk, and there was income from price increases in capital markets, mainly in share indices, but by the end of the reported year there was a decrease in the Company's investment income compared with 2015.

The aforementioned increase in income in 2016 followed a significant decrease in income in 2015 compared with 2014, which was mainly due to a significant decrease in yields achieved by the Group in capital markets.

In life assurance, the decrease in the risk-free interest rate curve in 2016 brought about an increase in special provisions in the amount of approx. NIS 437 million. On the other hand, there was a decrease of approx. NIS 6 million in the provision due to the update in annuity assumptions. By the end of 2016, there was a net increase in these provisions in the amount of approx. NIS 431 million before tax (approx. NIS 276 million after tax). Conversely, in 2015 there was an increase in provision in the amount of approx. NIS 363 million before tax, and in 2014 there was an increase of approx. NIS 466 million before tax. For details see Note 37b3b(5) to the Financial Statements.

In the area of general insurance, the Company updated its estimations in respect of the implications of the publication of the NII Regulations, pursuant to which, *inter alia*, the interest rate for the discount of annual annuities decreased to 2% instead of 3%, and a mechanism was established for the update of the discount interest rate once every 4 years. Pursuant to the above, the Company updated its provisions in the CMBI and liability lines, mainly in 1Q16, by approx. NIS 160 million in retention before tax (approx. NIS 103 million after tax). The decrease in the interest curve also brought about an increase in insurance liabilities in general insurance, by an amount of approx. NIS 13 million before tax (approx. NIS 8 million after tax) only in the lines in which liabilities in general insurance are calculated pursuant to the best practice principles. For details see Clause 3.6.3 below and Note 37b3c(5) to the Financial Statements.

In 2016 there was investment income[4] in the amount of approx. NIS 4,896 million, compared with approx. NIS 3,249 million in 2015. In the area of life assurance and LTS, investment income amounted to approx. NIS 4,592 million vs. approx. NIS 2,967 million in 2015. In the area of general insurance investment income amounted to approx. NIS 96 million, vs. approx. NIS 121 million in 2015, and in the area of health insurance investment income amounted to approx. NIS 96 million, vs. approx. NIS 60 million in 2015.

The comprehensive financial spread from investments against guaranteed yield policies in life assurance decreased compared with 2015, due to a decrease in the real yields achieved in investments that are not designated bonds. In addition, there was a decrease in real income from investments in the area of general insurance, as well as a decrease in income from investments against capital, due to a decline in yields achieved by the Group in capital markets compared with 2015. This decline follows a decrease in the comprehensive financial spread and in income from investments against capital in 2015 vs. 2014.

On the other hand, in 2016 there was an increase in variable management fees in profit participating policies in life assurance written until 2004, which totaled approx. NIS 331 million (before tax), vs. approx. NIS 232 million (before tax) in 2015, and compared with approx. NIS 384 million (before tax) in 2014, when higher yields were achieved by the Company.

In 2016 there was a 0.3% decrease in CPI, vs. a 0.9% decrease in 2015. Furthermore, changes in inflation affect investment income in respect of CPI-linked assets in the Nostro portfolio. Also, inflation has an impact on the adjustment of CPI-linked insurance liabilities and financial liabilities, and an impact on variable management fees collected in profit participating policies written until 2004 due to the impact on real yields achieved in these policies.

For additional details regarding the financial spread, including management fees, yields and management fees rates in the profit participating portfolio, see Note 18 to the Financial Statements, as well as Clauses 3.4.5 and 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 spreads 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 in capital markets in Israel and abroad, in the reported year and after the balance sheet date, see also Clause 4.1 below.

In life assurance, in the reported year there was a significant increase in income from risk, mainly due to a decrease in claims and an update to the scope of current payments, that affects the calculation of occupational disability reserves in payment, following which the reserves decreased by approx. NIS 78 million, compared with an increase in the provision for occupational disability in the amount of approx. NIS 60 million before tax in 2015, as mentioned in Clause 3.2 above, along with a deterioration in claims compared with 2014 (for details see Note 37b3b(5) to the Financial Statements). In addition, in the reported year there was an increase in income from fixed management fees in profit participating policies following an

[4] Investment income (loss) includes investment income (loss) and financing income, the Company’s share in net results of associates as well as other comprehensive income (loss) before tax.

increase in the scope of AuM, further to the increase in 2015 compared to 2014, as well as a decrease in G&A expenses compared to 2015.

In the pension and provident lines there was a deterioration in results, due to an erosion in the average management fees, as well as due to a provision for impairment of goodwill attributed to provident funds, in the amount of approx. NIS 21 million, vs. a provision for impairment in the amount of approx. NIS 13 million in 2015, and approx. NIS 14 million in 2014.

In the area of health insurance, in 2016 there was an improvement in underwriting results (excluding real investment income) vs. 2015, mainly due to an improvement in the lines of LTC and personal accident insurance due to a decrease in claims, partly offset by a deterioration in medical expenses insurance, including transplants. This improvement in results follows a deterioration in underwriting results in 2015 compared with 2014, reflected mainly in the LTC and personal accident insurance lines, due to a deterioration, in the development of claims as well as due to a loss in collective insurance. The underwriting results were also affected by an increase in G&A expenses recorded in 2015 and 2016.

In the area of general insurance, in 2016 underwriting results (excluding real investment income and the update of reserves following the recommendations of the Winograd Committee and the decrease in interest rate curve) decreased compared with 2015, mainly due to an increase in the underwriting loss in Casco, as well as due to a decrease in underwriting profit in CMBI. On the other hand, in liability lines the underwriting loss decreased compared with 2015. In 2015 there was a deterioration in underwriting results compared with 2014 in Casco and liability lines, which was partly offset by an increase in underwriting results in CMBI.

In the area of financial services, the move from comprehensive loss in 2015 to comprehensive income in 2016 was mostly due to the write-down of goodwill attributed to mutual funds' activity in the Group in 2015. On the other hand, in the reported year there was a decrease in income from investment banking activity, for details see Clause 3.7 below. The loss in 2015 compared with income in 2014 was mainly due to the write-down of goodwill recorded in 2015, and by the increase in investment banking income, as mentioned above.

In the results of other areas of activity, which mainly include the results of activity of insurance agencies in the Group, income remained unchanged compared to 2015, and in 2015 there was an increase in the comprehensive income compared with 2014, stemming mainly from a decrease in expenses.

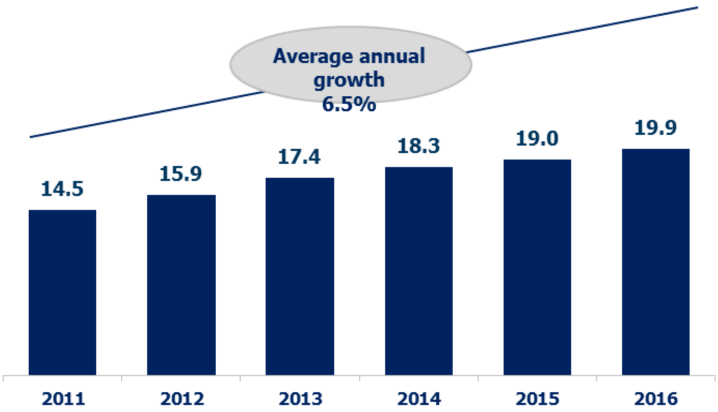
G&A expenses in the Group decreased in 2016 vs. 2015, compared with an increase in 2015 vs. 2014, for details see Clause 3.8 below and Note 32 to the Financial Statements.

Pursuant to the decrease from 26.5% to 25% in companies tax that came into effect on January 1st, 2016, and the decrease in companies tax, from 25% to 24% starting from January 2017, and to 23% starting from January 2018, in 2016 there was an increase of approx. NIS 62 million in comprehensive income due to a decrease in the balance of deferred taxes in investee companies of the Company. For details see Note 21c to the Financial Statements.

For details regarding the financial results in areas of activity, see below and 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 2011-2016 (NIS billion):



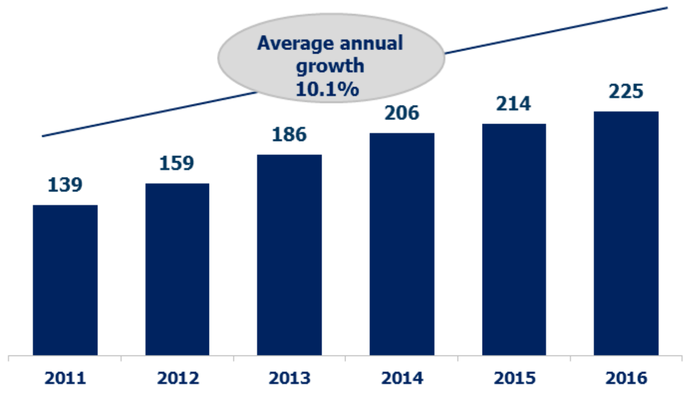
In 2016 the increase in premiums in the Group continued, including receipts in respect of investment contracts, and in contributions, reflected in all areas of activity, except in life assurance, as detailed below.

In life assurance premium, there was an increase in current premiums, due to an increase in contributions to pension savings pursuant to Amendment No. 16. For additional details, see Clause 6.3.2 (c) to the Corporation Businesses Description chapter. On the other hand, single premiums in respect of insurance contracts and single receipts in respect of investment contracts decreased compared to 2015. As a result, there was a certain decrease in total premiums in life assurance compared with 2015.

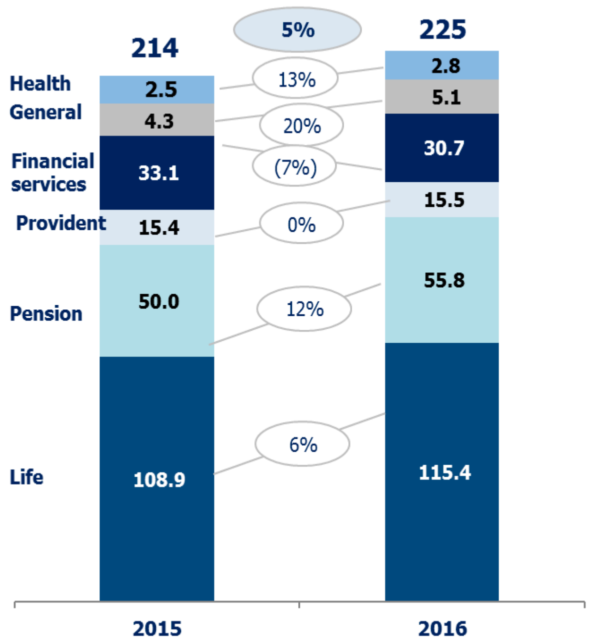
In light of the regulatory arrangements published in recent years, there has been an increase of the pension product within the new sales of LTS products, along with a decline in average management fees in the market. However, recently there has been a revival in the sale of life assurance products (managers' insurance), which carry lower management fees compared with products sold in the past. At the same time, there is a trend of decreasing sales in pension funds.

In 2016, total new sales (excluding increases) in the area of life assurance and LTS increased compared with 2015, following a slight increase in 2015 compared with 2014. Life assurance plans sales increased significantly in 2016 (compared with a slight decrease in 2015), while pension sales decreased in 2016 (following an increase in 2015). For additional details see Clause 3.4 below.

Presented below is the development of total AuM[5] as of December 31st, of the years 2011-2016 (NIS billion):



Presented below is the breakdown of AuM in the Group by area of activity as of December 31st, 2016, and December 31st, 2015 (NIS billion):



In 2016, in the pension line the trend of net transfer of assets under management to other institutional entities increased, while in the provident line net money transfers of assets under management remained at a high level, although they decreased compared with last year. For details see Clause 3.4 below.

[5] 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	2016	2015	Change in %	2014	10-12/16	10-12/15	Change in %
Life assurance							
Gross current earned premiums and current receipts in respect of investment contracts	7,105.7	6,828.5	4%	6,817.5	1,860.7	1,694.5	10%
Single premiums and receipts in respect of investment contracts	1,176.5	1,679.4	(30%)	1,596.2	456.2	551.2	(17%)
Gross earned premiums including investment contracts in life assurance	**8,282.2**	**8,507.9**	(3%)	**8,413.7**	**2,316.9**	**2,245.7**	3%
Management fees	995.2	857.9	16%	946.1	362.5	381.4	(5%)
Income for the period	379.2	196.3		192.4	610.7	186.1	
Comprehensive income (loss)	326.2	39.0		343.8	594.2	211.5	
Pension							
Contributions (1)	6,289.0	5,767.0	9%	5,323.0	1,680.0	1,547.0	9%
Management fees	343.7	348.6	(1%)	340.6	86.9	91.1	(5%)
Income for the period	42.5	70.5		83.4	8.0	15.3	
Comprehensive income	43.3	64.3		84.2	8.1	15.2	
Provident							
Contributions	1,743.0	1,681.0	4%	1,747.0	592.0	540.0	10%
Management fees	118.3	131.6	(10%)	138.1	28.9	31.8	(9%)
Income (loss) for the period	(7.9)	9.3		16.3	(19.3)	(8.7)	
Comprehensive income (loss)	(8.1)	7.2		16.4	(19.7)	(8.7)	
Total gross earned premiums, receipts in respect of investment contracts and contributions	**16,314.2**	**15,955.9**	**2%**	**15,483.7**	**4,588.9**	**4,332.7**	**6%**
Total management fees	**1,457.3**	**1,338.0**	**(9%)**	**1,424.8**	**478.2**	**504.3**	**(5%)**
Total income for the period	**414.3**	**276.2**		**292.1**	**599.4**	**192.7**	
Total comprehensive income	**361.4**	**110.5**		**444.5**	**582.7**	**218.0**	

(1) Data regarding contributions in pension for 4Q15 were re-classified pursuant to the Commissioner's instructions in the Institutional Entities Circular 2016-9-3.

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 2016 vs. the end of 2015, respectively:

NIS million	31.12.2016	31.12.2015	Change in %
Liabilities in respect of yield-dependent insurance and investment contracts	87,617	581,681	7%
Liabilities in respect of insurance and investment contracts that are not yield-dependent	27,819	27,342	2%
Total liabilities in respect of insurance and investment contracts – life assurance	115,437	108,923	6%
AuM in pension funds	55,818	50,048	12%
AuM in provident funds	15,485	15,416	0%
Total life assurance and LTS	**186,740**	**174,387**	**7%**

3.4.3 **Results of activity in the area of life assurance and LTS in 4Q16**

(a) Life assurance

Scope of activity

In 4Q16, there was a 10% increase in current premiums in respect of insurance contracts and in current receipts in respect of investment contracts, compared with 4Q15, which was mainly affected by an increase in the rate of deposits to pension savings pursuant to Amendment No. 16. For details see Clause 6.3.2 (c) to the Corporation Businesses Description chapter. On the other hand, single premiums in respect of insurance contracts and single receipts in respect of investment contracts decreased by approx. 17% compared with 4Q15.

The rate of surrenders to average reserve (in annual terms) in 4Q16 was approx. 1.8%, similar to 4Q15.

Comprehensive income before tax

The increase in comprehensive income in life assurance compared with 4Q15 was mostly affected by an increase in the risk-free interest curve, less the effect of the update in the annuity take-up rate, which brought about a decrease in special provisions, in the total amount of approx. NIS 195 million (before tax), compared with an increase of about NIS 148 million (before tax) in provisions in 4Q15. For details see Clause 3.2 above.

Furthermore, there was a significant increase in income from risk, mainly due to a decrease in claims and an update to the scope of current payments, that affects the calculation of occupational disability reserves in payment, following which the reserve decreased by approx. NIS 78 million, compared with an increase in the provision for occupational disability in the amount of approx. NIS 60 million before tax in 4Q15. For additional details see Clause 3.2 above. In addition, in 4Q16 there was an increase in revenues from fixed management fees in profit participating policies, following an increase in the volume of the managed assets, compared with 4Q15.

On the other hand, comprehensive financial spread from investments against guaranteed yield policies in life assurance decreased compared to 4Q15, due to a decrease in the real yields achieved by the Company in investments that are not designated bonds. In addition, there was a decrease in variable management fees recorded in 4Q16 in profit participating policies written until 2004, which amounted to approx. NIS 189 million (before tax), vs. approx. NIS 222 million (before tax) in 4Q15.

(b) Pension funds

Scope of activity

In 4Q16, there was an increase of about 9% in contributions compared with 4Q15, which was affected by new sales and salary increases, less cancellations, as well as by an increase in the rate of deposits to pension savings pursuant to Amendment No. 16. For details see Clause 6.3.2 (c) to the Company Businesses Description chapter.

Comprehensive income before tax

The decrease in comprehensive income in pension in 4Q16 vs. 4Q15 was mainly affected by a decrease in revenues from management fees due to a decrease in average management fees, as well as by an increase in the amortization of deferred acquisition expenses and an increase in expenses.

(c) Provident funds

Scope of activity

In 4Q16 there was an increase of about 10% in contributions compared with 4Q15, mainly due to an increase in provisions for severance pay in light of the Amendment to the Severance Pay and Deposits to Investment Provident Funds Law. For details see Clauses 6.3.14 and 6.3.19 to the Corporation Businesses Description chapter.

Comprehensive income before tax

The increase in comprehensive loss in 4Q16 vs. 4Q15 was affected by a goodwill write-down in the amount of approx. NIS 21 million, attributed to provident activity, compared with a goodwill write-down in the amount of approx. NIS 13 million that was recorded in 4Q15.

In addition, there was a decrease in income from management fees, mainly due to the decrease in average management fees, and there was also an increase in marketing expenses.

3.4.4 **Results of activity in reported year**

(a) Life assurance - scope of activity

In 2016, there was an increase of approx. 4% in current premiums in respect of insurance contracts and in current receipts in respect of investment contracts compared with 2015, which was affected by an increase in deposits to pension savings pursuant to Amendment No. 16. In 2015 current premiums remained unchanged compared to their level in 2014.

However, single premiums in respect of insurance contracts and single receipts in respect of investment contracts decreased by approx. 30% in 2016 compared with 2015, following an increase of approx. 5% in 2015 compared with 2014.

In 2016 there was an increase of approx. 30% in new sales in life assurance plans (including investment contracts) compared with 2015, vs. a decrease of approx. 4% in 2015 compared with 2014. The increase in sales of life assurance products (managers' insurance), via agents was due to lower management fees compared with the past, as well as due to an increase in deposits to pension savings pursuant to Amendment No. 16.

The rate of surrenders to average reserve in life assurance (including outgoing transfer of funds) totaled approx. 1.9% in 2016, vs. approx. 1.7% in 2015 and approx. 1.9% in 2014.

As per the Ministry of Finance data[6], in the first nine months of 2016 there was an increase of approx. 7.3% in the aggregate amount of premiums in the life assurance line (excluding receipts in respect of investment contracts) compared with the same period in 2015, vs. an increase of approx. 6.5% in the amount of premiums in the Group.

As a result, there was a slight decrease in the Group's market share in terms of premiums. For details see Clause 7.3 in Part B to the Corporation Businesses Description chapter.

As per the Ministry of Finance data[7], as of September 30th, 2016 there was an increase of approx. 7% in the scope of insurance liabilities in the life assurance line (excluding liabilities in respect of investment contracts) compared with September 30th, 2015, similar to the increase in the Group's insurance liabilities.

As per the Ministry of Finance data[8], as of December 31st, 2016, the scope of aggregate assets in profit participating life assurance totals approx. NIS 263 billion, an increase of approx. 9% vs. December 31st, 2015 (vs. an increase of approx. 7% in the Group).

Comprehensive income before tax

The increase in comprehensive income in the reported year compared with 2015 was affected by a significant increase in income from risk, mostly due to a decrease in claims and an update to the scope of current payments, that affects the calculation of occupational disability reserves in payment, following which the reserves decreased by approx. NIS 78 million, compared with an increase in the provision for occupational disability in the amount of approx. NIS 60 million before tax in 2015 (for details see Note 37b3b(5) to the Financial Statements), along with a deterioration in claims compared with 2014.

In the reported year there were special provisions in the total amount of approx. NIS 431 million before tax, stemming from a decrease in the risk-free interest curve less the update of annuity assumptions, compared with provisions in the amount of approx. NIS 363 million in 2015 and approx. NIS 466 million in 2014. For details see Clauses 1.2.1 and 3.3 above and Note 37b3(b)(5) to the Financial Statements.

Variable management fees collected in profit participating policies written until 2014 increased and they totaled approx. NIS 331 million (before tax) vs. approx. NIS 232 million (before tax) in 2015, and compared with approx. NIS 384 million (before tax) in 2014, in which higher yields were achieved by the Company.

On the other hand, the comprehensive financial spread from investments against guaranteed yield policies in life assurance decreased compared with 2015, due to a decrease in the real yields achieved in investments that are not designated bonds. This followed a decrease in the comprehensive financial spread in 2015 as compared with 2014.

Furthermore, in the reported year there was an increase in revenues from fixed management fees in profit participating policies, following an increase in the scope of AuM, further to an increase recorded in 2015 compared with 2014, as well as an increase in G&A expenses compared with 2015.

[6] The market data are based on the processing of the Ministry of Finance reports published on the website ("**Managerial Reports**").

[7] The market data are based on the processing of the Ministry of Finance reports published on the website ("**Managerial Reports**").

[8] Based on "Bituachnet" website and the Ministry of Finance monthly Investments Report.

Due to the increasing competition, there was a slight erosion in the rate of average management fees in life assurance plans. The average management fees collected in policies written from 2013 and thereafter by the Group, following the regularization of management fees, in 2016, totaled approx. 0.93% of the accrual and approx. 2.18% of the premium, as compared with 0.96% of the accrual and 2.26% of the premium in 2015 and 0.98% of the accrual and 2.49% of the premium in 2014. For details see Clause 6.3.4 in Part B to the Corporation Businesses Description chapter.

In 2016, average management fees collected in policies written from 2004 until the end of 2012 totaled approx. 1.22% of accrual and approx. 3.11% of premium, vs. average management fees of approx. 1.21% of accrual and approx. 3.29% of premium in 2015, and approx. 1.22% of accrual and approx. 3.42% of premium in 2014.

The rate of commissions, marketing expenses and other acquisition expenses to gross earned premium in 2016 totaled approx. 7.7% in 2016, vs. approx. 8.3% in 2015 and approx. 8.5% in 2014.

The rate of commissions to premiums totaled approx. 6.6% in 2016, vs. approx. 6.4% in 2015 and 2014. See also Clause 32.3.1 in Part D to the Corporation Businesses Description chapter.

G&A[9] expenses rate to gross earned premium totaled approx. 4.3% in 2016, vs. approx. 5.2% in 2015 and approx. 5.4% in 2014.

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 3.4.6 below, as well as Notes 18b and c to the Financial Statements.

(b) Pension - scope of activity

In the reported year there was an increase of approx. 9%in pension contributions, following an increase of approx. 8% in 2015, which was affected by new sales and salary increases, less cancellations, and by an increase in the rate of deposits to pension savings pursuant to Amendment No. 16, as set forth above.

New pension sales[10] decreased in 2016 by approx. 4% compared with 2015, and compared with an increase of approx. 5% in 2015 vs. 2014. The decrease in the reported year is partly due to the decrease in pension funds' sales, as set forth in Clause 3.3.

In 2016, in the pension line, there was an increase in the trend of net money transfers to other institutional entities[11]. Money transfers to the Group's new pension funds in 2016 totaled approx. NIS 728 million in 2015 (vs. approx. NIS 657 million in 2015 and approx. NIS 397 million in 2014), and on the other hand, money transfers from the Group's new pension funds to other funds totaled about NIS 1,828 million (vs. approx. NIS 1,263 in 2015 and approx. NIS 902 million in 2014). Net money transfers to other institutional entities, as set forth above, totaled approx. NIS 1,100 million in 2016 (vs. approx. NIS 606 million in 2015 and approx. NIS 505 million in 2014).

Surrender rates (including outgoing transfer) increased in 2014-2016, see Clause 8.4 in Part B to the Corporation Businesses Description chapter.

[9] 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.

[10] New sales in pension are attributed to active members who joined the fund during the year, as defined in Circular 2017-9-1, Update of Managing Companies' Periodic Report.

[11] Contributions in pension do not include money transfers in respect of members who moved from one fund to another.

As per the Ministry of Finance data[12] the aggregate amount of contributions in the line of new pension funds in 2016 totaled approx. NIS 32.4 billion, vs. NIS 28.4 billion in 2015, an increase of about 14% (vs. an increase of approx. 9% in the Group).

As per the Ministry of Finance data[13], as of December 31st, 2016, the aggregate scope of AuM in the pension funds line totals about NIS 255 billion, vs. approx. NIS 220 billion as of December 31st, 2015, an increase of approx. 16%.

The Group's AuM increased by approx. 12% in 2016, affected by an increase in net current accrual[14] as well as by investment income.

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 7.3 in Part B to the Corporation Businesses Description chapter.

Comprehensive income before tax

The decrease in comprehensive income in pension in 2016 compared with 2015 was affected by an increase in G&A expenses and a small decrease in income from management fees due to a decrease in the average management fees, in spite of an increase in the scope of AuM and contributions. On the other hand, there was a certain increase in income from investments in the Nostro portfolio compared with 2015.

The decrease in comprehensive income in pension in 2015 compared with 2014 was affected by an increase in expenses and a decrease in income from investments in the Nostro portfolio. On the other hand, there was an increase in income from management fees, due to an increase in the scope of AuM and contributions, partly offset by a decrease in average management fees.

For the continued decrease in average management fees, in light of the increased competition, see Clause 6.6 in Part B to the Corporation Businesses Description chapter.

The average commission rate to premium totaled approx. 1.9% in 2016, vs. approx. 2.6% in 2015 and approx. 2.7% in 2014. The decrease in the commission rate in 2016 was due to a decrease in commissions in respect of sales, partly affected by a decrease in the scope of new sales, as well as by a decrease in the current commission rate in pension plans sold in the past. For details see Clause 32.3.1 in Part D to the Corporation Businesses Description chapter.

The rate of expenses and acquisition costs to contributions of all activity in pension funds in the Group totaled approx. 4.9% in 2016, vs. approx. 5.0% in 2015 and approx. 4.9% in 2014.

For additional details regarding pension businesses' results, see Note 3c to the Financial Statements.

(c) Provident - scope of activity

Contributions in provident increased by approx. 4% in 2016 compared with 2015, mainly due to an increase in deposits for severance pay in light of the Amendment to the Severance Pay Law as set forth above, compared with a decrease of approx. 4% in contributions in 2015 vs. 2014.

In 2016, in the provident line net money transfers[15] to other funds remained at a high level, although they decreased compared with 2015. In 2016, money transfers to the Group's provident funds totaled approx. 358 million (vs. approx. 217 million in 2015

[12] Based on data published on the "Pensyanet" website.
[13] Based on data published on the "Gemelnet" website.
[14] Current accrual, net, is defined as contributions plus the net transfer of members, less surrenders and pension payments.
[15] Contributions do not include money transfers in respect of members who moved from one fund to another.

and approx. NIS 202 million in 2014), and on the other hand, money transfers from the Group's provident funds totaled approx. NIS 1,274 million (vs. approx. NIS 1,308 million in 2015 and approx. NIS 1,003 million in 2014). Net money transfers to other institutional entities, as aforesaid, totaled approx. NIS 916 million in 2016 (vs. approx. NIS 1,091 million in 2015 and approx. NIS 801 million in 2014).

Surrender rates (including outgoing transfer of funds) increased in 2014-2016, see Clause 8.4 in Part B to the Corporation Businesses Description chapter.

As per the Ministry of Finance data[16], as of December 31st, 2016, the aggregate scope of AuM in the line of provident funds totaled approx. NIS 396 billion, vs. approx. NIS 382 billion as of December 31st, 2015, an increase of approx. 4%.

The Group's AuM remained stable in 2016, affected mainly by investment income, less net money transfers in respect of members who transferred their monies to other institutional entities.

As a result of the above, in the reported year there was a decrease in the Group's market share, for details see Clause 7.3 in Part B to the Corporation Businesses Description chapter.

Comprehensive income before tax

The comprehensive loss in 2016 was affected by a provision for impairment of goodwill attributed to provident, in the amount of approx. NIS 21 million, following recording a provision in the amount of approx. NIS 13 million in 2015 and approx. NIS 14 million in 2014.

In addition, the decrease in income in 2016 compared with 2015 was affected by a decrease in revenues from management fees due to an erosion in the rate of average management fees, which was partly offset due to a decrease in G&A expenses.

The decrease in income in 2015 compared with 2014 was mainly due to a decrease in income from management fees due to an erosion in average management fees, as well as due to an increase in G&A expenses.

For additional details regarding the development of average management fees in provident funds, see Clause 6.6 in Part B to the Corporation Businesses Description chapter.

[16] Based on data published on the "Gemelnet" website.

3.4.5 **Additional information regarding life assurance businesses' results**

Presented below is additional information regarding life assurance businesses' results (Pursuant to Note 18 to the Financial Statements):

The Note analyses the Group's life assurance businesses by products with a savings component as per layers based on different underwriting years, and products with no savings component, with a separation between individual policies and collective policies.

NIS million	2016	2015	2014
Comprehensive income (loss) as per policy types			
Policies with a savings component			
Until underwriting year 1990	(211)	(117)	(19)
Until underwriting year 2003	299	239	261
From underwriting year 2004	98	(136)	(77)
Policies with no savings component			
Individual risk	153	79	160
Collective risk	(13)	(26)	19
Total comprehensive income	**326**	**39**	**344**
Out of which: financial spread including management fees [17]	1,251	1,213	1,417

The increase in comprehensive loss in 2016 compared with 2015 **for policies written until 1990** (mainly guaranteed yield and backed by Hetz bonds), was mainly affected by a decrease in the comprehensive financial spread from investments against guaranteed-yield policies.

The increase in comprehensive loss in 2015 compared with 2014 was mainly affected by an increase in annuity provisions and LAT provision, in the total amount of approx. NIS 411 million, compared with an increase in provision in the amount of approx. NIS 350 million in 2014. Furthermore, there was a decrease in the comprehensive financial spread from investments against guaranteed-yield policies.

The increase in income **in policies written until underwriting year 2003** (mainly profit participating policies) in 2016 vs. 2015 is mainly due to an increase in the collection of variable management fees, which totaled approx. NIS 331 million vs. approx. NIS 232 million in 2015, to an increase in income from risk that mainly stemmed from a decrease in claims, as well as due to an increase in fixed management fees. On the other hand, there were special provisions due to a decrease in risk-free interest curve, less the update of annuity assumptions, in the total amount of approx. NIS 109 million in 2016, compared with a decrease of approx. NIS 48 million in the provision in 2015.

The decrease in income in 2015 vs. 2014 was mainly due to the decrease in the collection of variable management fees, which totaled approx. NIS 232 million vs. approx. NIS 384 million in 2014. On the other hand, there was a decrease in the provision for annuities and for LAT due to the update of interest rate and annuity assumptions, as well as in the provision for LAT, in the total amount of approx. NIS 48 million in 2015, compared with an increase of approx. NIS 116 million in the provision in 2014, as well as an increase in fixed management fees.

[17] The financial spread including other comprehensive income (loss) taken to capital reserves.

In **underwriting years from 2004** both in profit participating policies and in guaranteed-yield policies, most of the profitability 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 shift from comprehensive loss in 2015 to comprehensive income in 2016 is mainly due to an increase in income from risk, affected by a decrease in the provision for occupational disability in payment, compared with 2015, when the provision for occupational disability increased, based on a study carried out by the Company regarding the duration of occupational disability claims, which affects the assumption regarding the cost of claims, as set forth in Note 37b3b(5) to the Financial Statements.

The increase in the loss in 2015 compared with 2014 was partly due to a decline in the income from risk caused by a provision for occupational disability made in 2015 as mentioned above. On the other hand, there was an increase in fixed management fees due to the increase in average reserves.

The increase in income from risk in 2016 compared with 2015 was affected by a decrease in occupational disability claims, following the increase in claims recorded in 2015. Furthermore, results are affected by changes in investment income in respect of assets held against reserves in these policies.

In the collective risk the decrease in comprehensive loss in 2016 compared with 2015 was mainly affected by an improvement in underwriting results, following a deterioration in results in 2015 compared with 2014, as well as by an increase in the provision for occupational disability in 2015, as set forth above.

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 average yields in profit participating policies (in %)

	Policies written in 1992-2003 (J Fund)		
	2016	**2015**	**2014**
Gross positive real yield	4.66	3.72	5.87
Net positive real yield	3.44	2.65	4.46
Gross positive nominal yield	4.35	2.79	5.77
Net positive nominal yield	3.12	1.73	4.36

	Policies written from 2004		
	2016	**2015**	**2014**
Gross positive real yield	3.69	2.65	5.23
Net positive real yield	2.45	1.43	3.95
Gross positive nominal yield	3.37	1.74	5.13
Net positive nominal yield	2.14	0.52	3.85

	Policies written in 1992-2003 (J Fund)				
	4Q16	**3Q16**	**2Q16**	**1Q16**	**4Q15**
Gross positive (negative) real yield	2.50	1.47	1.02	(0.42)	2.97
Net gross positive (negative) real yield	2.00	1.13	0.82	(0.57)	2.39
Gross positive (negative) nominal yield	2.19	1.88	1.54	(1.32)	2.25
Net positive (negative) nominal yield	1.69	1.53	1.34	(1.47)	1.68

	Policies written from 2004				
	4Q16	**3Q16**	**2Q16**	**1Q16**	**4Q15**
Gross positive (negative) real yield	1.94	1.37	0.92	(0.56)	2.80
Net positive (negative) real yield	1.62	1.05	0.61	(0.86)	2.49
Gross positive (negative) nominal yield	1.61	1.76	1.42	(1.46)	2.08
Net positive (negative) nominal yield	1.32	1.47	1.13	(1.76)	1.78

(b) Investment income credited to insureds in profit participating policies and management fees in their respect

Presented below are details regarding the estimated amount of investment income (loss) credited to insureds in profit participating life assurance and management fees calculated pursuant to the instructions set forth by the Commissioner of Insurance, based on yield and quarterly balances of insurance reserves in the Company's business reports:

	2016	2015	2014
		NIS million	
Investment income credited to insureds after management fees	2,378	925	2,914
Management fees	995	858	946

	4Q16	3Q16	2Q16	1Q16	4Q15
			NIS million		
Investment income (loss) credited to insureds after management fees	1,272	1,217	1,001	(1,113)	1,228
Management fees	363	281	194	158	382

(c) Weighted average yields in pension funds (in %)

	Migdal Makefet (Ishit) – general track		
	2016	2015	2014
Gross nominal yield	3.99	2.42	5.61

	Migdal Makefet (Ishit) – general track				
	4Q16	3Q16	2Q16	1Q16	4Q15
Gross nominal yield	1.69	1.98	1.49	(1.19)	1.94

3.5 Area of health insurance

3.5.1 Presented below are condensed results in the area of health insurance (NIS million):

	2016	2015	Change in %	2014	10-12/2016	10-12/2015	Change in %
Gross earned premiums	1,177.2	1,024.5	15%	879.9	309.1	268.5	15%
Income (loss) for the period	6.2	(25.7)		75.3	18.7	(14.9)	
Comprehensive income (loss) for the period	2.8	(35.4)		82.3	18.4	(13.5)	

Composition of premiums and income by the main insurance lines:

	2016	2015	Change in %	2014
LTC				
Gross premiums	314.7	276.7	14%	244.7
Income (loss) for the period	(19.1)	(37.4)		21.4
Comprehensive income (loss) for the period	(20.3)	(40.2)		22.9
Other				
Gross premiums	862.5	749.0	15%	636.2
Income for the period	25.3	11.7		53.8
Comprehensive income for the period	23.1	4.8		59.4

3.5.2 **Results of activity in 4Q15**

The increase in premiums in 4Q16 vs. 4Q15 is mainly due to an increase in premiums from individual insurance, due to the effect of new sales less cancellations, as well as a certain increase in premiums from collective insurance.

The shift to comprehensive income in 4Q16 from comprehensive loss in 4Q15 is mostly due to an improvement in underwriting results, reflected mainly in LTC, personal accident insurance and collective insurance, due to a decrease in claims. On the other hand, there was a certain decrease in real income from investments held against insurance liabilities.

3.5.3 **Results of activity in 2016**

Scope of activity

The continued increase in gross earned premiums in 2016 and 2015 is mainly due to premiums from individual insurance, due to the effect of new sales, less cancellations. The upwards trend in premiums is evident in all health products marketed by the Group. In addition, there was a certain increase in premiums from collective insurance.

New sales of health insurances in the Group decreased by approx. 12% in the reported year vs. 2015, following an increase of about 12% in 2015 compared with 2014. The decrease in sales in the reported year was affected by actions taken by the Company in personal accident insurance in order to improve underwriting results, within which it reduced and even discontinued work with agents (including sales call centers) with high cancellation rates, and as a result, there was a decrease in new sales in this line. Furthermore, the decrease in new sales is in light of the implementation of regulatory changes that came into effect this year. For details see Clause 1.2.2 (b) above and Clause 9.3 to the Corporation Businesses Description chapter.

New sales of LTC increased by approx. 5% in 2016 compared with 2015, following an increase of approx. 8% in 2015 compared with 2014. Other new sales in the area declined by about 17% compared with 2015, following an increase of approx. 13% in 2015 compared with 2014.

In 2016 there was a decrease in the cancellation rates in individual policies in LTC compared with 2015, and in 2015 there was an increase in cancellation rates compared with 2014. In other individual health policies, cancellation rates remained unchanged in 2014-2016. For details see Clause 11 in Part B to the Corporation Businesses Description chapter.

As per the Ministry of Finance data[18], in the first nine months of 2016, there was an increase of approx. 8% in the aggregate amount of premiums in the health insurance line compared with the first nine months in 2015, compared with an increase of approx. 15% in the Group in this period.

As a result, the Group's market share in health insurance increased, for details see Clause 10.2 in Part B to the Corporation Businesses Description chapter.

For details regarding data concerning premiums and new sales, see Note 19 to the Financial Statements.

Comprehensive income before tax

The shift from comprehensive loss in 2015 to comprehensive income in 2016 is mostly due to an improvement in underwriting results (excluding real investment income) in LTC and personal accident insurance due to a decrease in claims, which was partly offset due to a deterioration in medical expenses insurance, including transplants. In addition, there was a certain increase in real income on investments held against insurance liabilities, which mainly affected the results of the LTC line. Furthermore, the results were affected by an increase in G&A expenses.

In 2015 there was a deterioration in underwriting results compared with 2014, reflected mainly in LTC and personal accident insurance due to a deterioration in the development of claims, as well as due to an increase in loss from collective insurance. In addition, the results in 2015 were also affected by an increase in G&A expenses, as well as by a decrease in real income from investments held against insurance liabilities.

The rate of commissions, marketing expenses and other acquisition expenses to gross earned premium totaled approx. 29.4% in 2016, vs. approx. 28.6% in 2015 and approx. 28.8% in 2014.

The rate of commissions to premiums totaled approx. 26.3% in 2016, vs. approx. 30.1% in 2015 and 2014, For additional details see Clause 32.3.2 in Part D to the Corporation Businesses Description chapter. The decrease in the average commission rate in 2016 was affected by a decrease in new sales recorded this year.

The rate of G&A[19] expenses to gross earned premium totaled approx. 6.1% in 2016, vs. about 5.7% in 2015 and approx. 4.9% in 2014.

For additional details see Notes 3b and 19 to the Financial Statements.

[18] The market data are based on the processing of the Ministry of Finance reports published on the website ("**Managerial Reports**").

[19] 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 Presented below are details of the condensed results in the area of general insurance

NIS million	2016	2015	Change in %	2014	10-12/2016	10-12/2015	Change in %
CMBI							
Gross premiums	558.4	509.9	9%	540.0	144.3	98.9	46%
Premiums in retention	547.4	498.5	10%	528.2	140.0	94.7	48%
Income (loss) for the period	(67.5)	164.9		85.0	(9.0)	55.8	
Comprehensive income (loss)	(78.4)	122.0		89.4	(16.4)	62.7	
Casco							
Gross premiums	884.7	646.6	37%	553.5	290.1	135.7	114%
Premiums in retention	879.2	643.7	37%	552.9	289.2	135.1	114%
Income (loss) for the period	(79.4)	(46.0)		9.2	(11.2)	(6.0)	
Comprehensive income (loss)	(81.5)	(52.6)		9.9	(12.6)	(4.2)	
Other property							
Gross premiums	661.5	588.2	12%	571.1	128.6	123.8	4%
Premiums in retention	290.7	268.6	8%	253.0	58.8	56.7	4%
Income (loss) for the period	39.2	46.3		44.0	(1.4)	0.9	
Comprehensive income (loss)	38.2	42.7		44.4	(2.1)	1.7	
Liabilities							
Gross premiums	336.2	305.5	10%	304.2	55.7	66.4	(16%)
Premiums in retention	251.4	228.7	10%	228.4	30.1	37.2	(19%)
Income (loss) for the period	(48.3)	(28.5)		(29.8)	3.2	12.4	
Comprehensive income (loss)	(56.4)	(55.2)		(27.0)	(2.3)	16.9	
Total Area of general insurance							
Gross premiums	**2,440.7**	**2,050.2**	**19%**	**1,968.9**	**618.7**	**424.9**	**46%**
Premiums in retention	**1,968.7**	**1,639.4**	**20%**	**1,562.5**	**518.1**	**323.7**	**60%**
Income (loss) for the period	**(155.9)**	**136.7**		**108.4**	**(18.5)**	**63.1**	
Comprehensive income (loss)	**(178.0)**	**57.0**		**116.6**	**(33.4)**	**77.1**	

Below is information regarding underwriting profitability indices – Loss Ratio ("**LR**") and Combined Ratio ("**CR**") – in the property lines[20] [21]:

Casco line

	2016	2015	2014
Gross Loss Ratio	86.7%	82.2%	72.7%
Retention Loss Ratio	86.5%	82.2%	72.8%
Gross Combined Ratio	112.2%	109.1%	99.8%
Retention Combined Ratio	112.1%	109.1%	99.9%

Property lines (excluding motorcar)

	2016	2015	2014
Gross Loss Ratio	39.4%	69.5%	47.4%
Retention Loss Ratio	47.6%	45.4%	42.2%
Gross Combined Ratio	66.2%	96.1%	73.8%
Retention Combined Ratio	87.5%	84.8%	81.1%

3.6.2 Results of activity in 4Q16

Scope of activity

The significant increase in gross premiums in 4Q16 vs. 4Q15 was mainly reflected in motorcar insurance, and was mainly affected by the fact that Migdal Insurance won a tender for motorcar insurance for State employees in 2017, which came into effect at the end of 2016 and brought premiums of approx. NIS 147 million, out of which: approx. NIS 110 million in Casco and approx. NIS 37 million in the CMBI line, for details see Clause 12.2.8 (b) in the Corporation Businesses Description chapter. Furthermore, the increase in premiums in the Casco line is due to an increase in the number of policies and an increase in the average premium.

On the other hand, there was a decrease in premiums in the liability lines compared with 4Q15, mainly due to the change in the date of the renewal of policies, in which the insurance coverage exceeds one year, in several large businesses.

Comprehensive income before tax

The move from comprehensive income in 4Q15 to comprehensive loss in 4Q16 was mainly due to a significant decrease in real revenues from investments.

In addition, in 4Q16 the Company increased the provisions in the CMBI and liability lines by approx. NIS 22 million, mainly due to an update of the discount interest rate following the publication of the NII Regulations.

Presented below is a breakdown of underwriting results (excluding real investment income) by line:

[20] 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 expenses and between earned premiums.

[21] The data exclude a systematic amortization of intangible assets, recognized upon the acquisition of the Eliahu portfolio.

In the CMBI line underwriting results (excluding real investment income and excluding the update of reserves following the publication of the NII Regulations) were partly affected in part by a decrease in tariffs. Furthermore, until December 31st, 2015 the excess of income over expenses method was applied, whereas as from 2016 income is determined under the best practice principles, for details see Note 2j2 to the Financial Statements.

In the Casco line there was an underwriting loss (excluding real investment income) similar to 4Q15.

In the property lines (excluding motorcar) there was an underwriting loss (excluding real investment income), similar to 4Q15.

In the liability lines, besides the increase in reserves that was caused mainly by the publication of the NII Regulations as set forth above, in the reported quarter there was a significant improvement in underwriting results (excluding real investment income) compared with 4Q15, stemming mostly from the positive development in the claims experience in 4Q16, mainly in the lines of professional liability and product liability. On the other hand, in 4Q15 there was a deterioration in employers' liability and third party liability, which was partly offset by the positive trend in the claims experience in the professional liability and product liability.

3.6.3 **Results of activity in the reported year**

Scope of activity

In 2016 gross premiums increased compared with 2015, stemming partly from the fact that Migdal Insurance won a tender for motorcar insurance for State employees which came into effect at the end of 2016, as described in Clause 3.6.2 above, as well as from an increase in Casco premiums following an increase in the number of policies (both in individual insurance and collective insurance), and an increase in the average premium. Furthermore, there was an increase in premiums in other property insurances and in liability insurance, which was partly affected by an increase in the scope of policies and insured businesses, as well as a change in the date of renewal of policies, in which the insurance coverage exceeds one year, in several large businesses.

In 2015, the increase in gross premium compared with 2014 was reflected in Casco following an increase in the number of policies, as well as in other property insurances. On the other hand, in CMBI there was a decrease in premiums, in spite of an increase in the number of policies, which was affected by an erosion in tariffs due to the competition in the line.

As per the Ministry of Finance data[22], in the first nine months of 2016, there was an increase in the market of approx. 7% in the aggregate amount of gross premiums in the general insurance line compared with the first nine months in 2015 (vs. an increase of about 12% in the Group). In CMBI there was an increase of approx. 4% in the market (vs. an increase of 1% in the Group), in Casco insurance there was an increase of approx. 11% in the market (vs. an increase of approx. 16% in the Group), in other property insurance (excluding motorcar) there was an increase of about 5% in the market (vs. an increase of approx. 15% in the Group), and in liability insurances there was an increase of approx. 5% in the market (vs. an increase of approx. 17% in the Group).

As a result, in the first nine months of 2016, the Group's market share increased compared with the same period in 2015, after remaining unchanged in 2015 compared with 2014. In the Casco, other property lines and liability lines there was an increase in market share (following an increase in market share in the Casco and other property lines and a decline in market share in the liability lines in the first nine months of 2015), and on the other hand, there was decrease in the CMBI line market share, which follows the

[22] The market data are based on the processing of the Ministry of Finance reports published on the website ("**Managerial Reports**").

decrease in the first nine months of 2015). For details regarding the Group's market shares, see Clause 13.2 in Part B to the Corporation Businesses Description chapter.

For details regarding the breakdown of activity in general insurance by type of costumer, and regarding the increase in renewal rates in CMBI, Casco and homeowners insurance in 2016, see Clause 14 in Part B to the Corporation Businesses Description chapter.

Comprehensive income before tax

The move from comprehensive income in 2015 to comprehensive loss in 2016 was mainly due to an increase in actuarial reserves following the publication of the NII Regulations and a decrease in the discount rate curve, as described below.

In addition, there was a deterioration in underwriting results (excluding real investment income and the update of reserves following the recommendations of the Winograd Committee and the decrease in interest rate curve) compared with 2015, which was mainly affected by an increase in the underwriting loss in Casco, as well as a decrease in underwriting income in CMBI. On the other hand, in the liability lines the underwriting loss decreased compared with 2015. Also, there was a decrease in real income from investments.

Following the publication of the NII Regulations (further to the recommendations of the Winograd Committee), pursuant to which, *inter alia*, the interest rate for the discount of annual annuities decreased to 2% instead of 3%, and a mechanism for the update of the discount interest rate once every 4 years was set, the Company updated its estimations, and accordingly, increased its provisions in the CMBI and liability lines, mainly in 1Q16, by approx. NIS 160 million in retention before tax, out of which approx. NIS 115 million in the CMBI line and approx. NIS 45 million in the liability lines. The impact after tax in respect of these lines totaled approx. NIS 103 million. For details see Note 37b3c(5) to the Financial Statements.

Also, following the application of the Liability Adequacy Test in general insurance as per the best practice principles implemented since December 31st, 2015, there was an increase in insurance liabilities in the third party liability and employers liability lines, for which these principles apply, by an amount of approx. NIS 13 million before tax due to a decrease in the risk-free interest curve.

The decrease in comprehensive income in 2015 compared with 2014 was mainly affected by a significant decrease in real investment income as well as by a deterioration in underwriting results (excluding real investment income) in Casco and liability insurances, which was partly offset by an increase in underwriting income in CMBI.

Presented below is an analysis of underwriting results (excluding real investment income) by line:

In the CMBI line

In addition to the increase in reserves due to the publication of the NII Regulations as set forth above, in the reported year there was a decrease in underwriting income (excluding real investment income) compared with 2015, which was partly affected by a decrease in tariffs. Furthermore, until December 31st, 2015 the method used was excess of income over expenses method was applied, whereas from 2016 income is determined under the best practice principles, for details see Note 2j2 to the Financial Statements. For additional details see 37b3c(5) to the Financial Statements.

In 2015 underwriting results were affected by a positive development in the claims experience, which led to a decrease in the actuarial valuation attributed to "old" underwriting years in a larger scope than in 2014.

It should be noted that residual insurance ("**Pool**") losses decreased the Group's income in CMBI by approx. NIS 58 million in 2016 (including the impact of the NII Regulations), vs. approx. NIS 21 million in 2015 and by approx. NIS 14 million in 2014.

For details regarding the composition of income and the development of income by underwriting year in the CMBI line – see Note 17c5 and Note 17c7 to the Financial Statements.

In the Casco line

In the reported year there was an increase in underwriting loss (excluding real investment income) compared with 2015, which was affected mainly by a deterioration in claims experience, mostly because claims are more severe.

In 2015, an underwriting loss was recorded, vs. underwriting income in 2014, stemming from a deterioration in claims experience, as well as from the cost of the winter storms which occurred in 2015. It should be noted that the deterioration in the claims experience in 2015 was partly due to an increase in the number of vehicles declared as total loss due to the expansion of the list of types of vehicle damages that render them unsafe to drive and prohibit their continued use, pursuant to Amendment No. 5 to the Traffic Regulations – 1961, which came into effect in April 2014.

For the changes in underwriting profitability rates, see LR and CR data above.

In the property lines (excluding motorcar)

Total underwriting results (excluding real investment income) decreased slightly in 2016 compared with 2015, even though the cost of the fire and winter damages in the reported year was lower than the cost of winter storms in 2015. For details regarding the cost of winter storms, see Clause 35.2 to the Corporation Businesses Description chapter.

In 2015 underwriting results remained similar to 2014, in spite of an increase in the cost of claims due to the winter storms that occurred in 2015.

For the changes in underwriting profitability rates, see LR and CR data above.

In the liability lines

In 2016, besides the increase in reserves that was caused by the publication of the NII Regulations and the decrease in the interest curve as set forth above, underwriting loss (excluding real investment income) decreased compared with 2015. Underwriting loss in 2016 is due to a high level of damages, which is based on the development of claims in the past, plus a risk spread as per the best practice principles with adjustments to the mix of businesses that were accepted, as well as tariff changes made in the third party liability and employers' liability lines. For additional details see Note 37b3c(5) to the Financial Statements.

In 2015 there was an increase in the underwriting loss compared with 2014, mostly reflected in the employers' and third party liabilities due to a trend of deterioration in the rate of damages in retention, which brought about a negative development in actuarial valuations. On the other hand, in the professional and product liability lines there was an improvement in the claims experience trend, which led to a decrease in the actuarial valuation by an amount larger than in 2014.

For information regarding the composition of income and the development of income by underwriting years in liability lines – see Notes 17c6 and 17c8 to the Financial Statements.

The rate of commissions, marketing expenses and other acquisition expenses to gross premium totaled approx. 20.8% in 2016, similar to 2015, and vs. approx. 20.5% in 2014.

The rate of commissions to gross premium totaled approx. 12.5% in 2016, compared with 13.4% in 2015 and 13.2% in 2014. The decrease in commission rate in 2016 was affected by a change in the mix of insureds, and especially by the fact that Migdal won a tender to insure State employees. For details see Clause 32.3.3 to the Corporation Businesses Description chapter.

The rate of G&A expenses[23] to gross premium totaled approx. 2.1% in 2016, vs. about 2.4% in 2015 and approx. 2.3% in 2014. The decrease in the rate of expenses in 2016 was affected by an increase in earned premiums.

3.7 Area of financial services[24]

Presented below are details of the condensed results in the area of financial services (NIS million):

	2016	2015	Change in %	2014	10-12/2016	10-12/2015	Change in %
Revenues	132.2	205.3	(36%)	209.6	32.2	61.7	(48%)
Income (loss) for the period	0.5	(3.5)		0.5	(0.3)	6.7	
Comprehensive income (loss) for the period	0.6	(2.9)		2.1	(0.1)	6.8	

Presented below is a breakdown of AuM and total assets in the balance sheet in the area of financial services as of the end of 2016 and 2015, respectively (NIS million):

	31.12.2016	31.12.2015	Change in %
AuM	30,672	33,101	(7%)
Total assets in the balance sheet	668	636	5%

AuM – the decrease in the scope of AuM in the Group in the area of financial services was mainly affected by a decrease in the scope of mutual funds managed by the Group, as well as by a certain decrease in the scope of managed portfolios. For details see Clause 16.4 in Part B to the Corporation Businesses Description chapter.

Total assets in the balance sheet – the increase in total assets in the balance sheet in 2016 was affected by an investment carried out by Migdal Capital Markets in a fund that focuses in shares, and in order to hedge its exposure to this fund and to try to generate excess yield without direct exposure to the share market, Migdal Capital Markets made a short sale of shares in the amount of approx. USD 10 million. For details see Clause 6.4.2 below.

It should be noted that the scope of investments in securities, cash balances and cash equivalent of the area, vary depending on the situation in the capital markets.

3.7.1 Results of activity in 4Q16

In 4Q16 there was a decrease in revenues, mainly due to a decrease in revenues from investment banking activity as well as a decrease in revenues from mutual funds' management.

The decrease in comprehensive income in 4Q16 compared with 4Q15 was mainly affected by a decrease in income from the investment banking activity, which was partly offset by the write-down of goodwill attributed to the activity of mutual funds in the Group in the amount of approx. NIS 12 million in 4Q15.

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[23] 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.

[24] 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 Migdal Management, and other revenues/expenses.

3.7.2 Results of activity in 2016

Revenues

In 2016, there was a decrease in revenues, mainly due to the decrease in revenues from extending brokerage services, following the discontinuation of this activity in Migdal Capital Markets upon the completion of the merger of Migdal Stock Exchange Services (previously a subsidiary of Migdal Capital Markets) into IBI Stock Exchange Services in October 2015. In addition, there was a decrease in revenues from investment banking activity, as well as a decrease in revenues from mutual funds' management, that was affected by a decrease in the scope of AuM, and on the other hand, an increase in average management fees.

In 2015, there was a certain decrease in revenues, due to the decrease in revenues from brokerage services by Migdal Stock Exchange Services that was merged as set forth above, by a decrease in the revenues of Arxcis[25] and a certain decrease in revenues from management fees from mutual funds, due to a decrease in average management fees. On the other hand, there was an increase in revenues from commissions in respect of investment banking activity, as well as an increase in revenues from the area of distribution, mainly in respect of bond issuances by Migdal Insurance Capital Raising, as set forth in Note 24e to the Financial Statements.

Comprehensive income before tax

The shift from comprehensive loss to comprehensive income in 2016 was mainly affected by a goodwill write-down in the amount of approx. NIS 26 million performed in 2015, for details see Note 4 to the Financial Statements. On the other hand, there was a decrease in revenues as aforementioned, mostly offset by a decrease in expenses, mainly due to the discontinuation of brokerage activity as set forth above.

The shift from comprehensive income in 2014 to comprehensive loss in 2015 was mainly affected by a goodwill write-down attributed to mutual funds' activity that was performed in 2015, compared with a goodwill write-down in 2014, attributed to one of Migdal Capital Markets Group hedge funds, whose activity was discontinued in 2014, in the amount of approx. NIS 7 million. In addition, there was a certain decrease in the Company's revenues as aforementioned, partly offset by a decrease in expenses, mostly due to the discontinuation of brokerage activity.

3.8 G&A expenses

In 2016 the Group's G&A expenses[26] totaled approx. NIS 1,671 million vs. NIS 1,721 million in 2015 and approx. NIS 1,663 million in 2014.

The decrease in expenses in 2016 compared with 2015 was mainly affected by a decrease in financial services' expenses, upon the completion of the merger between Migdal Stock Exchange Services into IBI Stock Exchange Services as detailed in Clause 3.7 above, as well as by a decrease in expenses due to the implementation of the collective labor agreement for Migdal Insurance and Migdal Makefet employees, which totaled approx. NIS 50 million in 2016, vs. approx. NIS 60 million in 2015 (mainly in respect of one-time components recorded in 2015). On the other hand, there was a certain increase in expenses due to the increase in the number of employees.

The increase in expenses in 2015 compared with 2014 was affected mainly by an increase in the number of employees, as well as the coming into effect of a collective labor agreement, which increased the Group's expenses by approx. NIS 60 million in 2015, and was partly offset by a decrease in the variable salary component.

For additional information regarding G&A expenses, see Note 32 to the Financial Statements.

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[25] Arxcis was sold on March 31st, 2015, and as a result of the sale, a capital loss in a non-material amount was recorded.

[26] G&A expenses include expenses allocated to the item of change in liabilities and payments in respect of insurance contracts and to the item of commissions, marketing expenses and other acquisition expenses.

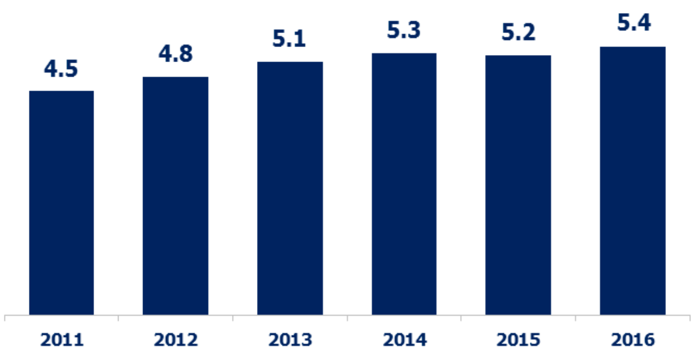
3.9 **Key balance sheet data from the Financial Statements**

NIS million	31.12.2016	31.12.2015	Change in %
Total balance sheet	135,138	126,342	7%
Total assets for yield-dependent contracts	90,083	83,644	8%
Total equity	5,392	5,229	3%
Total liabilities in respect of insurance and investment contracts	123,313	115,639	7%
Out of which:			
Liabilities in respect of yield-dependent insurance and investment contracts	89,523	83,312	7%
Liabilities in respect of insurance and investment contracts that are not yield dependent	33,790	32,327	5%

The increase both in the scope of assets and the scope of liabilities in respect of insurance contracts and investment contracts was affected by the increase in net accruals in the asset portfolio, as well as by the yields achieved by the Group in capital markets.

The decrease in cash and cash equivalent balances from approx. NIS 10 billion as of December 31st, 2015 to approx. NIS 9.2 billion as of December 31st, 2016 is mostly due to a decrease in net cash flows from operating activities, which was partly offset by an increase in cash flows from financing activities, following an issuance of bonds as set forth below, for details see the cash flow report in the Company's Financial Statements.

Presented below is the development in equity as of the end of the year, in 2011-2016 (NIS billion):



In 2016 Migdal Capital Raising Ltd. ("**Migdal Capital Raising**"), a subsidiary fully owned by Migdal Insurance, issued Series E bonds in the total par value of approx. NIS 901 million. The consideration in respect of these bonds was deposited in Migdal Insurance, and pursuant to the Commissioner's approval was recognized as hybrid second tier capital in Migdal Insurance, subject to the restrictions regarding maximum second tier capital. For details see Note 24e to the Financial Statements.

The increase in equity compared with December 31st, 2015 is mainly due to comprehensive income of approx. NIS 162 million in the reported year.

Equity in Migdal Insurance as of December 31st, 2016, pursuant to the Commissioner's Regulations and instructions, calculated as per the capital requirements is approx. NIS 8,084 million, including hybrid second and third tier capital of approx. NIS 3,233 million (less an amount of approx. NIS 372 million due to a restriction regarding the maximum hybrid second and third tier capital). Migdal Insurance has an equity surplus of about NIS 3,735 million over the required minimal equity.

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

For details regarding the preparation towards the implementation of Solvency II, see Clause 4.2 below as well as Note 7c4 to the Financial Statements.

3.10 Financing sources

NIS million	31.12.2016	31.12.2014
Financial liabilities	**3,882**	**3,018**
Long term loans (1)	3,618	2,730
Short term loans (2)	15	4
Derivatives and short sales(3)	249	284
Out of which:		
Short sales(4)	37	-
Derivatives in respect of liabilities for yield-dependent policies	169	237

(1) The balance of long-term loans as of December 31st, 2016 is composed mainly from issuances of Migdal Capital Issuance, whose balance in the Financial Statements (excluding payable interest) is approx. NIS 3,613 million. Said bonds serve as hybrid second and third tier capital in Migdal Insurance, as the case may be, subject to the restrictions regarding maximum second tier capital. The increase in the balance of long term loans in 2016 is due to the issuance of Series E in the total par value of approx. NIS 901 million as set forth in Clause 3.9 above. For details see Note 24e to the Financial Statements.

(2) In short term credit there are fluctuations pursuant to Migdal Capital Markets' current activity.

(3) The balance of derivatives included in the financial liabilities reflects the liability that was created as of the date of the balance sheet due to activity in derivatives, mainly regarding exposure to foreign exchange.

(4) The balance of short sales is attributed to Migdal Capital Markets activities in the management of share investment funds.

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[27].

4.1.1 Developments in the economy and employment

The Group operates within the Israeli economy, whose economic, political and security condition have an effect on sales in various areas, on the scope of insurance claims and on various costs involved in its operation. The level of salary and employment mainly affects the scope of life assurance businesses and long term savings in the Group.

[27] The review is based, *inter alia*, on the Bank of Israel publications as well as those of the CBS.

Global environment – in 2016 the moderate growth in the global economic activity continued, along with a slowing down in the increase in the pace of global trade. Furthermore, political uncertainty increased in light of unexpected developments in the global economy, including as a result of Britain's withdrawal from the European Union.

The Israeli economy - in 2016 there was a certain acceleration in the economic growth rate, and private consumption continued to support the growth in GDP, and in addition, there was a marked increase in investments in fixed assets. Furthermore, there was a mixed trend during the year in the export of goods and services, although by the end of the year there was an increase in exports, following a decrease in exports in 2015.

As per the estimations of the Central Bureau of Statistics for 2016[28], in 2016 the GDP increased by approx. 4.0%, following an increase of approx. 2.5% in 2015 and approx. 3.2% in 2014. GDP per capita increased by approx. 2.0% in 2016, following an increase of approx. 0.5% in 2015 and an increase of approx. 1.2% in 2014. In 2016 the business GDP increased by approx. 4.2%, following an increase of approx. 2.3% in 2015 and approx. 3.1% in 2014.

The increase in GDP in 2016 reflects an increase of approx. 6.3% in expense for private consumption (following an increase of approx. 4.3% in 2015), an increase of about 3.8% in expense for public consumption (following an increase of approx. 3.3% in 2015), an increase of about 11.3% in investments in fixed assets (following stability in 2015), as well as an increase of about 3.0% in the export of goods and services (vs. a decrease of approx. 4.3% in 2015). In the import of goods and services there was also an increase of approx. 9.5% (vs. a decrease of approx. 0.5% in 2015).

The analysis of development by quarter indicates that in 4Q16 GDP increased by approx. 6.5% in annual terms, following an increase of approx. 4.1% in 3Q16, an increase of approx. 5.3% in 2Q16 and an increase of approx. 3.5% in 1Q16. The increase in GDP in 4Q16 reflects significant increases in the export of goods and services and in investment in fixed assets, as well as increases in private and public consumption.

Job market – during 2016 the improvement in the employment market continued. The unemployment rate decreased to approx. 4.8% on average in 2016 compared with approx. 5.3% on average in 2015. There was an increase of approx. 3.0% in the average real wage compared with the average in 2015, and there was an increase of approx. 3.1% in the average number of positions.

4.1.2 **Capital market**

Insurance companies, pension funds and provident funds, and companies operating in the financial services area, invest the larger part of their asset portfolio in the capital market. Yields in the capital market in the various channels materially affect both the achieved yield for the Group customers and the Group's income, see also Clause 4.1.4 below.

During 2016 there was high volatility in capital markets in Israel and abroad.

In the beginning of the year, there was negative sentiment on the markets in light of concerns regarding a deterioration in China's debt, the sharp decrease in oil prices and the beginning of an upward trend in interest rates in the USA at the end of 2015. Towards the end of 1Q16, the trend reversed, due to expanding measures taken by central banks in the Eurozone, China and Japan, as well as the announcement made by the Federal Reserve regarding a slowing down in the expected interest rate increases. All the above brought about a quick recovery in the financial markets in Israel and abroad. Towards the end of 2Q16, following the results of the referendum in Britain, that led to the withdrawal from the European Union ("**the Brexit**"), there were significant price decreases in most equity markets, as well as sharp decreases in government bond yields. In 2H16, financial markets recovered, in light of estimations for reduced damage to the economic activity in the short term due to the Brexit, along with a continued expansionary monetary policy.

[28] As per the estimation of Israel National Accounts for 2016, published on March 9th, 2017.

The results of the November elections in the USA led to a sharp increase in bond yields, a significant strengthening of the US Dollar in the world, and an increase in the probability of changes in the fiscal policy in the USA, following the elected President's desire to carry out reforms in the tax system and to introduce regulatory reliefs in order to strengthen domestic production. In addition, in December 2016 the Federal Reserve decided to increase the interest rate.

Presented below are the main trends recorded in 2016 in the key investment channels, and their impact:

Inflation – in 2016 there was a decrease of approx. 0.3% 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 4Q16 the CPI decreased by approx. 0.3% as per the known index at the end of the month, and by approx. 0.2% as per the index in respect of the month.

Interest rate – the monetary interest rate for December 2016 was 0.1%, similar to its level in December 2015. By the end of 2016 inflation expectations[29] (for the next 12 months) were about 0.5%, compared with inflation expectations of 0.1% at the end of 2015. As a result, the real monetary interest rate as of the end of 2016 was negative, -0.4%, vs. a zero real interest rate at the end of 2015.

Government bonds – Following decreases in 1H16 in yield to maturity of government bonds (both non-linked and CPI-linked), in 2H16, including 4Q16, there were increases in yields to maturity in most ranges, which led to a decrease in the price of bonds.

By the end of 2016, there were increases in yields to maturity of NIS government bonds in most ranges, compared with a mixed trend in short and medium term CPI-linked bonds and a decrease in yields to maturity in the long term bonds.

As a result, YTD non-linked bonds with fixed interest rate recorded a real yield of approx. 1.7% on average, and CPI-linked bonds recorded a real yield of approx. 1.0% on average.

In 4Q16 non-linked bonds with fixed interest rate recorded an average real yield of approx. -0.8%, and CPI-linked bonds recorded an average real negative yield of approx. -1.4%.

Corporate bonds – in 2016 there was a decrease in yields to maturity in CPI-linked corporate bonds, compared with an increase in yields to maturity in corporate non-linked bonds, which was affected by an increase in the risk spread compared with non-linked State bonds.

In 4Q16 there was a decrease in yields to maturity in CPI-linked corporate bonds, and an increase in non-linked bonds, and there was a decrease in the risk spread to government bonds.

As a result, by the end of 2016, the corporate bonds index increased by approx. 4.3% in real terms, and in 4Q16 it increased by approx. 0.9% in real terms.

The changes in interest rates and in expected inflation, as aforementioned, 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 replenishing assets against liabilities, and decrease the life assurance portfolio EV, as well as future yield on members' monies. For the effect of interest rate on reserves in life assurance and the creation of an actuarial deficit in pension funds, see Clauses 1.2.1, 3.2 and 3.3 above.

[29] Inflation expectations are based on gaps in yields between CPI-linked and unlinked government bonds.

Shares (domestic market) – in 1H16 there were declines in the domestic share market, partly affected by sharp price decreases in the pharma sector, and partly by the decline in in 1H16 in leading European markets. On the other hand, in 2H16 there was a change in the trend and the domestic market recorded price increases, similar to the trend worldwide.

By the end of 2016, the TA-100 index decreased by approx. 2.2% in real terms, the TA-25 index decreased by approx. 3.5% in real terms, the TA-75 index increased by approx. 17.6% in real terms and the Yeter index increased by approx. 25.1% in real terms.

In 4Q16, the TA-100 index increased by approx. 1.9% in real terms, the TA-25 index increased by approx. 2.2% in real terms, the TA-75 index increased by approx. 6.1% in real terms and the Yeter index increased by approx. 2.7% in real terms.

Shares (foreign markets) – in 2016, share indices worldwide were very volatile. By the end of the year, there were price increases in Europe and in the USA, mainly occurring in 2H16.

In 2016, the MSCI worldwide share index increased by approx. 5.63% (an increase of approx. 4.1%, including exchange rate effect), the NASDAQ-100 index increased by approx. 4.6% (an increase of approx. 3.0% including exchange rate effect) and the Dow Jones index increased by approx. 13.8% (an increase of approx. 11.8% including exchange rate effect).

In 4Q16, the MSCI worldwide share index increased by approx. 0.8% (an increase of approx. 3.2% including exchange rate effect), the NASDAQ-100 index decreased by approx.0.2% in nominal terms (an increase of approx. 2.1% including exchange rate effect) and the Dow Jones index recorded a nominal increase of approx. 7.9% (an increase of approx. 10.4% including exchange rate effect).

Foreign exchange – by the end of 2016, the NIS had strengthened against the US Dollar, but it weakened in 4Q16, due to the strengthening of the US Dollar worldwide. During the year the NIS strengthened against the Euro, mainly following the monetary expansion performed by the European Central Bank, and the low growth environment in the Eurozone.

By the end of 2016, the NIS had strengthened by a nominal rate of approx. 1.5% against the US Dollar, strengthened by approx. 5.0% against the Euro, strengthened by approx. 22.3% against the GBP due to the Brexit, and weakened by approx. 1.8% against the Yen.

These changes include changes in exchange rates recorded in 4Q16, as follows: the NIS weakened against the US Dollar at a nominal rate of approx. 2.3%, on the other hand against the Euro it strengthened by approx. 3.9%, against the GBP it strengthened by approx. 3.5%, and against the Yen it strengthened by approx. 12.7%.

4.1.3 Developments in the macro-economic environment after the date of the balance sheet

After the date of the balance sheet and until just before the publication of the report, there were mixed trends in share indices in Israel and in share indices worldwide.

In Israel, the CPI in respect of January and February 2017 decreased by an aggregate rate of 0.2%.

According to the Bank of Israel estimations as of December 2016, in 2017 we expect an increase of 3.2% in GDP.

Pursuant to the forecast of the International Monetary Fund published in January 2017, global growth rates are expected to be approx. 3.4% in 2017, compared with approx. 3.1% in 2016.

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 the accrual (the amount of AuM), which do not depend on investment 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 the accrual, and the yield on investments, less management fees, is credited to the members. Therefore, the impact of yields on investments on the income of the managing company of the pension fund or the provident fund, is limited to the impact derived from the total scope of the accrual in the pension fund or the provident fund, from which the management fees of the managing company that manages the pension fund or provident fund insurers' are derived, as the case may be.

In profit participating policies written until December 31st, 2003, insurance companies are entitled to fixed management fees on the accrual, plus 15% of the real yield, less fixed management fees ("**variable management fees**"). If real losses were accrued, insurance companies are not entitled to variable management fees, up until the aggregate loss is covered as per a mechanism set forth in this respect, pursuant to the Commissioner's instruction. In these products, insurance companies' financial results are also affected by the fluctuations in the yield credited to insureds, since 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 Solvency II Directive

4.2.1 In February 2017, the provisions for the implementation of Solvency II (“**the updated provisions**”) were published and transferred to the Knesset’s Finance Committee.

The updated provisions are aimed at establishing a new solvency governance for insurance companies in Israel, based on the provisions of the EC/2009/138 Directive, called Solvency II (“**the Directive**”), that was adopted by the European Union and is implemented in all the countries that are members of the European Union beginning January 2016.

The Directive includes a comprehensive examination of the risks to which insurance companies are exposed, as well as standards for their management and measurement, and it is based on three pillars:

A first quantitative pillar regarding risk-based solvency ratio, a second qualitative pillar regarding internal control procedures, risk management, corporate governance and own risk self-assessment (ORSA), and a third pillar regarding the promotion of market discipline, disclosure and reporting.

The Commissioner intends to publish instructions regarding capital management and setting an internal capital objective, regarding a gap survey that insurance companies will have to conduct as to the risk management array, the controls and corporate management and a consultation document for the promotion of own risk self-assessment (ORSA).

The provisions are based on the quantitative pillar pursuant to the Directive and related provisions. As per the updated provisions, the quantitative pillar will be implemented in Israel from June 30th, 2017. However, at this stage, insurance companies will have to also comply with the existing capital requirements pursuant to the Capital Regulations.

As per the Directive, there are two levels of capital requirements:

(a) The capital required for maintaining insurance companies' solvency (Solvency Capital Requirement –"**SCR**"). SCR is sensitive to risks, and is based on forward-looking information based on the instructions for the implementation of the new solvency governance. This requirement is aimed at making sure that the supervision entities intervene in a precise and timely manner.
(b) Minimum Capital Requirement ("**MCR**" or "**capital threshold**").

The updated provisions include provisions regarding reporting to the Commissioner whenever the Company does not comply with aforesaid capital levels or is concerned that it may not comply, as well as provisions regarding submitting a program for making sure that it will comply with said capital levels.

Pursuant to the updated provisions, the capital threshold will be equal to the highest of the first tier capital required in insurance companies as per the capital regulations, and an amount calculated as a rate to SCR, not more than 45% of the SCR, and not less than the highest between 25% of the SCR or an amount derived from the amount of insurance reserves and premiums as defined in the updated instructions.

The updated instructions include, *inter alia*, transition provisions for the implementation of Solvency II, based on the Directive, mainly:

(1) Solvency Capital Requirement (SCR)
The capital required for insurance companies' solvency in the period between June 30th, 2017 and December 31st, 2021 ("**the transition period**") shall be no less than the following rates, that will be calculated based on:

	Rate to SCR
December 31st, 2016	60%
December 31st, 2017	65%
December 31st, 2018 and June 30th, 2019	70%
December 31st, 2019 and June 30th, 2020	80%
December 31st, 2020 and June 30th, 2021	90%
December 31st, 2021	100%

(2) A lower capital requirement on certain types of investments held by insurers at each reporting date, and this requirement will increase gradually during 7 years, until the full capital requirement in respect of these investments is reached.

As part of the preparation towards the model's implementation, the Ministry of Finance laid-down instructions for the performance of several drills (IQIS – simulations of Directive's impact on insurers' capital, taking into account its business mix and balance sheet), aimed at calibrating the model. The last drill performed referred to December 31st, 2015 (henceforth: "**IQIS5**"), and it was based on final regulations and technical instructions regarding the implementation, published by the European Commission, as well as on a Circular regarding Implementation, published by the Commissioner in April 2016.

Pursuant to the IQIS5 drill carried out by Migdal Insurance, based on the mix of investments and insurance liabilities as of December 31st, 2015, Migdal Insurance has a deficiency of approx. NIS 3.1 billion in equity. Such deficiency is after taking into account the Commissioner's transition provisions regarding the certain types of investments held by Migdal Insurance, for which the add-on requirement is approx. NIS 1.2 billion.

The capital deficiency as of December 31st, 2015, taking into account the second tier capital raised in 2016 in the amount of approx. NIS 0.9 billion, and the transition provisions regarding certain types of investments as aforesaid, is approx. NIS 2.2 billion.

The results of the abovementioned drills do not include the effect of Migdal Insurance's activity and results in 2016 on the mix of investments and insurance liabilities, as well as the exogenic influences such as the change in the risk-free interest rate curve and regulatory changes that affect the business environment.

The aforementioned result of the IQIS5 drill is based on the IQIS5 instructions and was not adjusted to the updated provisions, which are different regarding certain issues, compared with the provisions for the implementation of IQIS5.

It seems that the implementation of the updated provisions (excluding the transition provisions) on the IQIS5 drill will have a material positive impact on the capital deficiency. The final provisions may include additional changes compared with the instructions that served for the calculation of the IQIS5.

Taking into account the transition provisions for the compliance with SCR as included in the updated provisions that were submitted to the Knesset Finance Committee, and based on the results of the IQIS5 drill that refers to balances as of December 31st, 2015, Migdal Insurance does not have a capital deficiency (i.e., 60% of aforesaid SCR). Migdal Insurance will be required to supplement the required capital stemming from the drill to 100% of SCR, gradually, until December 31st, 2021 (see above).

The results of the IQIS5 drill include measures taken by Migdal Insurance in order to reduce capital deficiency, as reflected in previous drills, *inter alia*, via issuing second and third tier capital, and reducing financial risks. These measures were partly offset, *inter alia*, by an increase in capital requirements in respect of insurance risks following the publication of the Commissioner's clarifications as to insurance scenarios within the instruction for the execution of IQIS5.

Subject to the above, the IQIS5 drills' results constitute a certain indication as to the effect of the Solvency II based solvency governance, and mainly reflect higher capital requirements, compared with existing capital requirements in respect of financial risks (both in the Nostro and in the profit participating portfolio) and insurance risks (*inter alia*, longevity, cancellation and morbidity).

It should be emphasized that in its present form, the model has high sensitivity to changes in market and other variables, therefore the capital deficiency (surplus) reflecting from it may be very volatile. Furthermore, the drill is performed as preparation for applying the model in its current form, the understanding of new instructions and the completion of organizational and IT preparation.

As set forth in the Commissioner's instruction, several drills that constitute simulations of the impact of the Directive on insurers' capital, aimed at calibrating the model and adjusting it, were performed. Therefore, actual results may be different than the drills' results. However, and as detailed above, Migdal Insurance is preparing towards complying with the new capital governance as per the indications received from the drills' results.

Migdal Insurance is striving towards complying with capital objectives as per the new capital governance, by expanding its capital basis and adjusting the investment mix. Also, Migdal Insurance has taken additional measures for reducing capital requirements, such as reducing risks in the Nostro portfolio, acquiring reinsurance, etc. Such measures, as aforesaid, may have a material impact on Migdal Insurance's future profitability, and will be examined taking into account the alternative prices that will then exist, their economic benefit vs. existing alternatives, and their necessity.

4.2.2 **Dividend**

(a) On October 27th, 2015, the Board of Directors of Migdal Insurance declared the distribution of a dividend in the amount of NIS 185 million. On November 1st, 2015 Migdal Insurance received a letter from the Commissioner, stating, inter alia, that the dividend distribution, at that time, following the IQIS4 drill that was submitted in August 2015, and in light of the significant deficiency of several NIS billion in capital, might undermine the proper management of Migdal Insurance's businesses and its preparation towards the implementation of the new solvency governance. In light of the above, Migdal Insurance was asked to convene the Board of Directors and cancel the aforesaid dividend distribution.

Following the Commissioner's letter, the Board of Directors of Migdal Insurance re-examined its resolution dated October 27th, 2015, and did not find any flaw in this decision. All the considerations, including all the relevant aspects for the distribution of a dividend and solvency governance aspects pursuant to Solvency II were taken into account in making the resolution.

The Board of Directors of Migdal Insurance is of the opinion that Migdal Insurance has prepared and is preparing in a suitable and satisfactory manner towards Solvency II governance.

On November 18th, 2015, it was decided to postpone the dividend distribution to a future date, to be announced.

(b) In August 2016 the Commissioner published a letter regarding the distribution of dividend by insurance companies ("**the letter**"), substituting the previous letter from December 2011. Pursuant to the letter, insurance companies are permitted to distribute a dividend only if after the distribution, the company has a recognized capital ratio to the required capital ("**solvency ratio**") of at least 115% as per the existing capital requirements (before the reduction in respect of a relief given in respect of the original difference attributed to the acquisition of the activity of provident funds and management companies), and solvency ratios of at least what is set forth below pursuant to the quantitative assessment drill updated to the new solvency governance implementation (**IQIS5**), or pursuant to instructions regarding the implementation of the first pillar in the new solvency governance, calculated without the transition provisions. The required new required solvency ratio, after the distribution, will be at least as follows:

(1) Until and including the Financial Statements as of December 31st, 2017 – 115%.
(2) Until and including the Financial Statements as of December 31st, 2020 – 120%.
(3) Until and including the Financial Statements as of March 31st, 2019 – 130%.

The IQIS5 drill reflects a solvency ratio of approx. 73%, when calculated including the transition provisions regarding certain types of investments, as described in Clause 4.2.1 above. The solvency ratio calculated without the aforesaid transition provisions as set forth above is approx. 66%, lower than the solvency ratio required pursuant to the letter.

The abovementioned solvency ratio is based on the mix of investments and insurance liabilities as of December 31st, 2015, and does not include the changes recorded afterwards, as described in Clause 4.2.1 above.

Insurance companies must submit to the Commissioner, within ten business days after the distribution, an annual income forecast of the Company for the next two years following the distribution; an updated debt service plan of the Company, approved by the Company’s Board of Directors, as well as an updated debt service plan of the holdings company that holds the Company, approved by the holdings company’s Board of Directors; a capital management plan approved by the Company’s Board of Directors; minutes of the deliberation in the Company’s Board of Directors meeting in which the dividend distribution was approved, plus background material for the deliberation.

5. The Company's objectives and business strategy

The business environment and the increasing competition require the Company to examine, from time to time, the way it manages and prepares to meet objectives and business strategy. In light of material developments in the Company's business environment, including the increased competition, the change in pension products' mix and the increasing demand for pension products, the cut in interest rate and the change in customers' preferences, the Company carried out in 2015 a process of validation and update of its business strategy, including addressing the following key issues: the products mix marketed by the Company, pricing and conduct of business, the mix of distribution channels, the way investments are managed and the issue of the Company's equity.

Although the Group strives towards implementing its strategy, the exercise of the aforesaid strategic planning depends on many changing factors, including the economic and employment situation, capital markets, competition level, as well as regulatory developments in the Group's areas of activity.

The Group's main strategic objectives, as set forth by the Company's Board of Directors, are:

(1) Maintaining good profitability over time, along with strengthening the general insurance arm.

(2) Preserving and strengthening the Group's status as a leading entity in the area of life assurance and LTS.

(3) Constant improvement in the loyalty and satisfaction of customers and distribution channels.

The Group's business strategy as of the date of the Report is as follows:

From the Group's viewpoint, in order to maintain good profitability overtime, the Group will strive towards expanding and diversifying profit sources while adjusting the insurance and pension savings sales mix in order to improve profitability, improving operational efficiency and resource management along with improving service, as well as managing investments to provide returns in accordance with the risk level.

In the area of life assurance and LTS, the Company acts towards expanding pension sales via the various distribution channels. In addition, the Company focuses on the sale of risk and individual products, as well as the recruitment of customers for savings purposes, including the development of new products that will be adjusted to the changing regulatory and competitive reality in the area. In addition, the Group strives towards adapting the distribution systems to the changing needs in the market, in order to leverage sales abilities and assimilate digital sales tools. Furthermore, the Group strives towards expanding sales to existing customers along with preserving the life assurance and LTS portfolio and preventing the transfer of accrued savings to competitors, surrenders and policy cancellations.

In order to diversify the sources of profit, the Company strives towards expanding its activity in **the area of general insurance**, while trying to improve profitability in this area.

In the area of health insurance, the Company wants to expand its activity, while expanding the basis of its business activity and target populations (individual and collective insurance), including by developing new products while adjusting them to regulatory changes in the area, developing sales-supporting digital tools for the distribution channels and expanding services to its customers.

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 customer loyalty and satisfaction and distribution channels, which according to the Company's estimation, will be achieved by maintaining high level service to customers and distribution channels, and increasing customer share, while creating a long-term basis for its relations with the end customers. In order to increase 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, in accordance with the risk level. For this purpose, the Group strives towards diversifying its investments, including expanding investment activity in foreign markets and increasing investments in channels which in the Group's estimation, will have excess yields, *inter alia*, in the areas of real estate and credit.

The objectives mentioned above shall be examined in light of the Company's deployment towards meeting capital requirements pursuant to Solvency II governance, including adjusting the mix of investments and the execution of hedging activities in the Nostro portfolio, acquiring reinsurance, etc.

The information included in this Part above regarding the strategic plan includes forward-looking information that reflect the Group's estimations and plans as of the date of the Report publication of the Report, and it includes forecasts, estimations and other information about the Company regarding future events whose realization is uncertain and does not depend solely on the Company. The Group's estimations are based, *inter alia*, on all the facts and data detailed in this Part. Actual results may be different from estimations in a material way due to changes that may occur in any of the aforesaid facts and data, and/or as a result of changes that may occur in the risk factors applicable to the Group in general, detailed in Note 37 to the Financial Statements and in Clause 37 in Part D to the Corporation Businesses Description chapter.

6. Report regarding exposure to market risks and the manner of their management

The report enclosed herewith regarding risk management refers to the investments of the Company and its material consolidated companies, except insurance companies, pursuant to the Securities Regulations (Periodic and Immediate Reports) – 1970 ("**Reports Regulations**").

For details regarding Migdal Insurance's risk management, see Note 37 to the Financial Statements, as well as Clause 37 to the Corporation Businesses Description chapter.

6.1 Persons in charge of market risks management in the Corporation

The person in charge of market risks in the Company is Ms. Michal Gur Kagan, the risk manager of the Group’s institutional entities, working in the Group from July 25th, 2016.

In Migdal Capital Markets Group there is a Risk Management and Control Department, headed by a Chief Risk and Control Manager, who operates a plan of independent controls over Migdal Capital Markets' activities, including investment management and compliance with the Company’s risk policy and risk appetite as set forth.

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)

In general, the Company is exposed to market risks, such as: changes in interest rates, in CPI, in foreign exchange rates and in share prices in Israel and abroad, in light of its holdings in various financial assets.

As of December 31st, 2016, the Company's scope of financial assets is non-material, therefore the Company has no material exposure to market risks.

6.2.2 **Migdal Capital Markets**

Migdal Capital Markets Group is active in various areas of the capital market, characterized with volatility as a result of political and economic events in Israel and overseas. These fluctuations affect securities' prices on the Stock Exchange and the scope of activity on the capital market, and as a result, its activity, assets and business results. Furthermore, Migdal Capital Markets Group results are also affected by the decisions made by regulators and various legislative entities.

The tables below describe the impact of changes in market factors on the value of net financial assets of Migdal Capital Markets (NIS thousand):

Market factor – Foreign exchange

	Income (loss) from changes			Income (loss) from changes	
Sensitive instrument	**10% increase in market factor**	**5% increase in market factor**	**Fair value**	**10% decrease in market factor**	**5% decrease in market factor**
Cash and cash equivalent	26	13	264	(26)	(13)
Receivables and debit balances	4,713	2,357	47,130	(4,713)	(2,357)
Credit and loans	(1,054)	(527)	(10,541)	1,054	527
Payables and credit balances	(3,660)	(1,830)	(36,603)	3,660	1,830
Total	**25**	**13**	**250**	**(25)**	**(13)**

In the calculation of sensitivity to foreign exchange, Migdal Capital Markets' short-term investments in financial assets denominated in foreign currencies, against which it performs economic hedging for foreign exchange exposure by investing in Shekel-US Dollar options, have been neutralized.

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	455	227	4,549	(455)	(227)
Payable current taxes	127	64	1,274	(127)	(64)
Total	**582**	**291**	**5,823**	**(582)**	**(291)**

Market factor – interest rate (1)

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 (2) 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)
Short Term Loans	(0.2)	(0.1)	(22)	1,510	0.2	0.1	23
Total	**(0.2)**	**(0.1)**	**(22)**	**1,510**	**0.2**	**0.1**	**23**

(1) In interest rate scenarios - changes of 5% and 10% are changes of the interest rate itself (for example, at basic interest of 4% the 10% increase is to 4.4%), while a change of 2% is an additional change (for example, if the basic interest rate is 4%, the change is to 6%).

(2) The Company`s estimation is that 2% is the maximum representative increase rate over long periods

Market factor – capital instruments (4)

Sensitive instrument	Income (loss) from changes				Income (loss) from changes		
	Maximum increase in relevant market factor (11.6%)	10% increase in market factor	5% increase in market factor	Fair value	Maximum decrease in relevant market factor (11.6%)	10% decrease in market factor	5% decrease in market factor
Short term investments (3)	8,980	7,741	3,871	77,414	(8,980)	(7,741)	(3,871)
Short sales	(4,246)	(3,660)	(1,830)	(36,603)	4,246	3,660	1,830
Total	**4,734**	**4,081**	**2,041**	**40,811**	**(4,734)**	**(4,081)**	**(2,041)**

(3) Short-term investments include hedge funds, a fund that focuses on creating absolute yield in various market conditions, along with maintaining high liquidity and a fund focusing on investments in shares.

(4) Below is a list of risk factors in which the maximum daily change (in absolute terms) detected during the last ten years before the report date exceeds 10%, with the date of the report and the daily change.

Risk factor	Maximum change rate	Date of change
TA-75 Index	17.0%	21.9.2008
TA-100 Index	10.3%	21.9.2008
S&P - 500	11.6%	13.10.2008
S&P - 500	11.2%	13.10.2008
NASDAQ-100	12.6%	13.10.2008

6.2.3 **Assumptions used for sensitivity calculations – 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, 2016 is an additional (absolute) change of 2% in interest rate, pursuant to the provisions of the ISA regarding minimal extreme scenarios. This scenario was set after examining the databases of interest rate curves, which indicated that during the last 10 years there were no absolute changes exceeding 2% for a day horizon.

In several risk factors that are not interest rate and which were examined, we found changes exceeding 10% as set forth above.

6.2.4 **Other activity**
As of December 31st, 2016, the activity of Migdal Health and Migdal Management is not material, therefore according to the Company's assessment, the risk in their respect is not material.

6.3 **Fair value at risk**
As per the Securities Regulations (Periodic and Immediate Reports – 1970) the value at risk (VaR) for Migdal Capital Markets' Nostro portfolios is measured at a significance level of 95% as of December 31st, 2016.

The measurements of VaR results as of December 31st, 2016:

Investment in financial instruments abroad, approx. NIS 225 thousand.

The VaR presents a maximum loss at probability of 95% for the existing position as of the measurement date.

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 VaR measurements were performed via the Bloomberg system, with the Monte Carlo calculation system. The calculation is made by loading the positions to the system and creating various scenarios with risk factors. The income and loss created following these scenarios were ranked from the highest to the lowest (from income to loss), and the value at risk is calculated as per the extreme value pursuant to a 95% significance rate.

6.4 **Corporate policy in market risk management**

6.4.1 **Migdal Holdings**
The main risks to which the Group is exposed are related to insurance activity, which is the Group's main activity.

6.4.2 **Migdal Capital Markets**

Migdal Capital Markets and its subsidiaries, through their employees, supervise the various exposures stemming from market risks of Migdal Capital Markets Group as detailed hereinafter:

Exposure to inflation, changes in foreign exchange and interest rates – Migdal Capital Markets and its subsidiaries do not fully hedge themselves against an inflation environment, but partially (in scopes as per their discretion), by buying CPI-linked and foreign exchange-linked assets.

Capital market risks (Nostro and brokerage accounts) – in the reported period, the Company invested approx. USD 20 million in two foreign funds. The first fund focuses on making an absolute yield in various market conditions, while maintaining high liquidity. The second fund focuses on investing in shares. In order to hedge its exposure to this fund and to try create excess yield regardless of direct exposure to the share market, the Company sold shares in short in the value of approx. USD 10 million. The investment is in US Dollar and the Company hedges the impact of Forex via Shekel-US Dollar options.

Cases of insolvency to Israeli and foreign financial institutions due to holding assets – as of the date of the Report, Migdal Trust Funds' activity in foreign securities ("**the assets**"), for the mutual funds managed by it, is performed in banks in Israel, which hold the assets, for their customers, at foreign custodians. Migdal Trust Funds received from Israeli banks letters attesting that the assets are registered by the custodian in an account managed in the name of the Israeli bank for its customers, separately from the Israeli bank's Nostro account, and separately from the custodian's assets. Furthermore, these letters include details regarding how the custodian was chosen and various controls performed by the Israeli bank over the custodian's activity.

Past risks that were related with the Group's TASE member's activity – as set forth in Clause 16.2.3 to the Corporation Businesses Description chapter, on October 28th, 2015 the merger of Migdal Stock Exchange Services with and into Stock Exchange Services and Investment IBI Ltd. ("**the merger**") was completed.

Until the merger's completion, the Company was exposed to risks in respect of Migdal Stock Exchange Services' activity, including in relation to its activity for customers who receive brokerage services (including credit extended to customers), such as: insolvency of Israeli and foreign financial institutions due to holding assets, credit risks to customers, custodian clearance risks, credit risks in respect of activities in derivatives and execution errors.

Pursuant to the merger, and as of the date of the Report, the Company is not exposed to these risks, but it is exposed to legal claims that may originate from these risks, or part thereof, in respect of past activity, due to causes preceding the merger date, if the indemnification undertaking given by Migdal Capital Markets' towards the merged company applies to them, pursuant to and subject to the provisions of the merger agreement.

6.5 **Supervision of the market risks management policy and the way it is implemented**

6.5.1 **Migdal Holdings**

As mentioned above, as of the date of the report, the scope of financial assets in the Company is non-material.

6.5.2 **Migdal Capital Markets**

Migdal Capital Markets' Board of Directors receives a report regarding market risks once every quarter. Migdal Capital Markets' CEO and the CEOs of its subsidiaries receive an ongoing report regarding risks in the various areas from the Chief Risk and Control Manager.

6.6 **Linkage bases report as of December 31st, 2016**

For data regarding linkage bases, see Note 37c to the Financial Statements.

6.7 **Derivative data as of December 31st, 2016**

As of December 31st, 2016 and throughout the year, the Company did not hold derivatives in significant amounts.

As of December 31st, 2016 Migdal Capital Markets has a liability balance in respect of derivatives in the amount of approx. NIS 898 million, in respect of a foreign currency hedge of an investment in foreign mutual funds in the amount of approx. NIS 77 million.

7 Corporate governance aspects

7.1 Group companies' involvement in the community and donations

Migdal, as a leading company in the Israeli economy, strives towards improving the social condition in Israel and accelerating significant social changes, along with social involvement by its employees. In 2016 the Group donated and helped associations and organizations that increase the well-being of people in the Third and Fourth Age, associations that help strengthening the social sector, projects that help the community in Jerusalem and Haifa, plans that promote safe riding and driving among youngsters, as well as various social organizations that operate for the community. In 2016 the scope of donations totaled approx. NIS 6 million.

In addition, the Company sponsors sports associations and academic institutions in the amount of approx. NIS 1 million.

Pursuant to Regulation 10 (b)(6) to the Securities Regulations (Periodic and Immediate Reports) – 1970, donations exceeding NIS 50 thousand to entities related to the Company, to a Director, to the CEO, to the controlling shareholder or a relative thereof, as well as the type of relationship, are presented below

<table>
<tr><th>Donation recipient</th><th>Amount of donation in NIS thousand</th><th>Relation with the donation's recipient</th><th>Position in the Company</th></tr>
<tr><td>Vehadarta - the National Council for the Promotion of Senior Citizens' Status, a registered association</td><td>300</td><td rowspan="3">Israel Eliahu, the son of the Company's controlling shareholder, who serves in various positions in the Group, is a member of the Executive Board/Public Board, as the case may be</td><td rowspan="3">Chairman of the Board of Directors in Migdal Capital Markets, Director in Migdal holdings</td></tr>
<tr><td>Nova Project – Professionalism at the Service of the Community, a registered association</td><td>200</td></tr>
<tr><td>Lev Ohev Association next to Maccabi World Union, a registered association</td><td>130</td></tr>
<tr><td>The Hebrew University of Jerusalem</td><td>200</td><td>A relative of a Director is a member of the Board of Trustees of the University</td><td>Ronit Abramson, a Director in Migdal holdings, Migdal Insurance and Migdal Capital Markets</td></tr>
</table>

7.2 Report regarding Directors with accounting and financial expertise and independent Directors

For details regarding Directors with accounting and financial expertise, including their education, experience, expertise and knowledge, based on which the Board of Directors perceives them as Directors with accounting and financial expertise, see Regulation 26 and Clause 9 to the Corporate Governance Questionnaire in the Additional Data on the Corporation chapter. The Company's Articles of Association do not include a provision regarding the percentage of independent Directors.

7.3 Company policy regarding negligible transactions

For details regarding the Company's policy regarding negligible transactions, see Note 38b to the Financial Statements.

7.4 The Company's Chief Internal Auditor

For details regarding the Company's Chief Internal Auditor, see Clause 40 in Part E to the Corporation Businesses Description chapter.

7.5 The auditor

For details regarding the auditors, see Clause 41 in Part E to the Corporation Businesses Description chapter.

8. Developments after the date of the balance sheet

For details regarding material events after the date of the balance sheet, see Note 40 in the Financial Statements.

For details regarding developments in the macro-economic environment after the date of the balance sheet, see Clause 4.1.3 above.

The Board of Directors wishes to thank the managements of the Group companies, the Group employees and agents, for their contribution to the Group's achievements.

Yohanan Danino **Chairman of the Board**	**Eran Czerninski** **CEO**

March 22nd, 2017

CONSOLIDATED **FINANCIAL STATEMENTS**


JORDAN RIVER

Translated from the Hebrew original

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

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MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

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Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 6706703, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

Building a better working world

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006 Israel

Telephone 972 3 684 8000
Fax 972 3 684 8444
Internet www.kpmg.co.il

INDEPENDENT AUDITORS' REPORT

to the Shareholders of

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

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, 2016. 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, 2016.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 and our report dated March 22, 2017 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 22, 2017	Member of KPMG International	Member of Ernst & Young Global

Joint auditors

Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 6706703, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
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KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
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Telephone 972 3 684 8000
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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, 2016 and 2015, 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, 2016. The Company's board of directors and management are responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of certain investees accounted for at equity, the investment in which amounted to about NIS 312,131 thousand and NIS 698,104 thousand as of December 31, 2016 and 2015, respectively, and the Group's share of their earnings amounted to about NIS 58,112 thousand, NIS 91,270 thousand and NIS 80,009 thousand for each of the three years the latest of which ended on December 31, 2016. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2016 and 2015, 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, 2016, in conformity with International Financial Reporting Standards ("IFRS") and with the disclosure requirements of the Commissioner of the Capital Markets, Insurance and Savings Division according to the Control of Financial Services (Insurance) Law, 1981.

Moreover, in our opinion, the financial statements referred to above are prepared in accordance with the Israeli Securities Regulations (Annual Financial Statements), 2010, insofar as these Regulations apply to insurance companies.

Without qualifying our above opinion, we draw attention to Note 39(1) to the 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, 2016, and our report dated March 22, 2017 includes an unqualified opinion as to the effective maintenance of those components.

Tel-Aviv, Israel	SOMEKH CHAIKIN	KOST FORER GABBAY & KASIERER
March 22, 2017	Member of KPMG International	Member of Ernst & Young Global

Joint auditors

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Assets	Note	December 31, 2016	2016
		NIS in thousands	
Intangible assets	4	**1,224,390**	1,271,303
Deferred tax assets	21g	**10,665**	19,358
Deferred acquisition costs	5	**1,894,376**	1,833,422
Fixed assets	6	**677,120**	723,235
Investments in affiliates	7	**315,454**	700,214
Investment property for yield dependent contracts	8	**5,686,004**	5,328,453
Investment property - other	8	**600,576**	718,315
Reinsurance assets	15-16	**1,026,712**	754,293
Current tax assets		**312,241**	467,473
Debtors and receivables	9	**1,008,650**	481,420
Outstanding premiums	10	**719,100**	569,423
Financial investments for yield dependent contracts	11	**76,296,715**	70,126,455
Other financial investments:	12		
Quoted debt assets	12a	**8,954,701**	7,615,216
Unquoted debt assets	12b	**23,614,378**	22,037,200
Shares	12d	**1,106,966**	1,180,943
Others	12e	**2,476,913**	2,511,307
Total other financial investments		**36,152,958**	33,344,666
Cash and cash equivalents for yield dependent contracts	13	**7,267,318**	7,801,126
Cash and cash equivalents - other	13a	**1,945,842**	2,202,744
Total assets		**135,138,121**	126,341,900
Total assets for yield dependent contracts in an insurance subsidiary	11	**90,082,984**	83,643,694

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Equity and liabilities	Note	December 31, 2016	December 31, 2015
		NIS in thousands	
Equity	14		
Share capital		**110,629**	110,629
Share premium		**273,735**	273,735
Capital reserves		**242,934**	291,564
Retained earnings		**4,757,785**	4,550,144
Total equity attributable to equity holders of the Company		**5,385,083**	5,226,072
Non-controlling interests		**6,702**	2,482
Total equity		**5,391,785**	5,228,554
Liabilities			
Liabilities in respect of non-yield dependent insurance contracts and investment contracts	15	**33,789,715**	32,326,206
Liabilities in respect of yield dependent insurance contracts and investment contracts	16	**89,523,192**	83,312,486
Liabilities in respect of deferred taxes	21g	**466,704**	566,332
Liabilities in respect of employee benefits, net	22	**315,134**	312,637
Liabilities in respect of current taxes		**2,748**	34,287
Creditors and payables	23	**1,766,469**	1,543,660
Financial liabilities	24	**3,882,374**	3,017,738
Total liabilities		**129,746,336**	121,113,346
Total equity and liabilities		**135,138,121**	126,341,900

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

March 22, 2017			
Date of approval of the financial statements	Yohanan Danino Chairman of the Board	Eran Czerninski CEO	Eran Czerninski CFO

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

	Note	Year ended December 31, 2016	2015	2014
		NIS in thousands		
Gross premiums earned		11,194,490	10,688,814	10,425,571
Premiums earned by reinsurers		708,795	623,156	687,673
Premiums earned on retention	25	10,485,695	10,065,658	9,737,898
Net investment gains and finance income	26	4,921,136	3,485,333	5,614,282
Income from management fees	27	1,588,039	1,479,574	1,569,068
Income from commissions	28	317,861	342,596	368,529
Other income	29	108,243	41,732	42,956
Total income		17,420,974	15,414,893	17,332,733
Payments and change in liabilities in respect of gross insurance contracts and investment contracts		14,713,193	12,561,742	14,495,922
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts		335,885	347,310	383,737
Payments and change in liabilities in respect of insurance contracts and investment contracts on retention	30	14,377,308	12,214,432	14,112,185
Commissions, marketing expenses and other acquisition expenses	31	1,637,107	1,585,267	1,523,055
General and administrative expenses	32	971,285	1,038,443	1,041,169
Other expenses	34	102,898	101,801	76,628
Finance expenses	35	104,905	57,731	51,479
Total expenses		17,193,503	14,997,674	16,804,516
Share earnings of investees accounted for at equity	7b	58,887	91,598	80,112
Income before taxes on income		286,358	508,817	608,329
Taxes on income	21f	81,234	155,766	185,494
Profit for the period		205,124	353,051	422,835
Attributable to:				
Equity holders of the Company		203,265	351,869	422,031
Non-controlling interests		1,859	1,182	804
Profit for the period		205,124	353,051	422,835
Basic and diluted net earnings per share attributable to equity holders of the Company (in NIS)	36	0.19	0.33	0.40

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2016	2015	2014
		NIS in thousands		
Income for the period		205,124	353,051	422,835
Other comprehensive income (loss):				
Items of other comprehensive income (loss) that have been or will be reclassified from comprehensive income to profit and loss after initial recognition:				
Net change in fair value of available-for-sale financial assets allocated to other comprehensive income		61,201	143,120	587,082
Net change in fair value of available-for-sale financial assets transferred to profit and loss		(241,852)	(544,996)	(448,933)
Impairment loss of available-for-sale financial assets allocated to profit and loss		82,848	84,887	42,875
Group's share of other comprehensive loss of investee accounted for at equity		-	(1,755)	(183)
Foreign currency translation adjustment of foreign operation		854	(844)	(89)
Tax effect on available-for sale financial assets	21	45,113	121,737	(68,740)
Tax effect on other comprehensive income items	21	(305)	305	31
Total other comprehensive income (loss) for the period that has been or will be reclassified from comprehensive income to profit and loss after initial recognition, net of tax		(52,141)	(197,546)	112,043
Other items of other comprehensive income (loss) that will not be carried to profit and loss:				
Actuarial gain (loss) from defined benefit plan	22b	7,330	(8,831)	3,659
Revaluation of fixed assets carried to investment property		5,186	-	-
Tax effect	21	(3,563)	3,656	(911)
Total other comprehensive income (loss) for the period that will not be carried to profit and loss, net of tax		8,953	(5,175)	2,748
Total other comprehensive income (loss)		(43,188)	(202,721)	114,791
Total comprehensive income for the period		161,936	150,330	537,626
Attributable to:				
Equity holders of the Company		160,089	149,060	536,765
Non-controlling interests		1,847	1,270	861
Comprehensive income for the period		161,936	150,330	537,626

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to shareholders 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, 2016	110,629	273,735	283,079	6,989	(1,252)	(604)	3,352	4,550,144	5,226,072	2,482	5,228,554
Income for the period	-	-	-	-	-	-	-	203,265	203,265	1,859	205,124
Other comprehensive income (loss), net of tax	-	-	(52,690)	-	-	549	3,994	4,971	(43,176)	(12)	(43,188)
Total comprehensive income (loss)	-	-	(52,690)	-	-	549	3,994	208,236	160,089	1,847	161,936
Benefit in respect of options to employees	-	-	-	-	-	-	-	(595)	(595)	-	(595)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(2,415)	(2,415)
Acquisition of non-controlling interests					(483)	-	-	-	(483)	(393)	(876)
Exit from consolidation	-	-	-	-	-	-	-	-	-	5,181	5,181
Balance at December 31, 2016	110,629	273,735	230,389	6,989	(1,735)	(55)	7,346	4,757,785	5,385,083	6,702	5,391,785

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to shareholders of the Company										
	Share capital	Share premium	Capital reserves from available-for-sale assets	Reserve from revaluation of investment after achieving control	Capital reserve from transactions with non-controlling interests	Foreign currency translation adjustment of foreign operation	Revaluation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS in thousands										
Balance at January 1, 2015	110,629	273,735	480,086	6,989	(1,252)	(65)	3,352	4,402,316	5,275,790	2,283	5,278,073
Income for the period	-	-	-	-	-	-	-	351,869	351,869	1,182	353,051
Other comprehensive income (loss), net of tax	-	-	(197,007)	-	-	(539)	-	(5,263)	(202,809)	88	(202,721)
Total comprehensive income (loss)	-	-	(197,007)	-	-	(539)	-	346,606	149,060	1,270	150,330
Net cumulative effect of changes in insurance reserves for general insurance	-	-	-	-	-	-	-	1,082	1,082	-	1,082
Benefit in respect of options to employees	-	-	-	-	-	-	-	140	140	-	140
Dividend	-	-	-	-	-	-	-	(200,000)	(200,000)	-	(200,000)
Dividend to non-controlling interests								-	-	(1,155)	(1,155)
Transactions with non-controlling interests	-	-	-	-	-	-	-	-	-	84	84
Balance at December 31, 2015	110,629	273,735	283,079	6,989	(1,252)	(604)	3,352	4,550,144	5,226,072	2,482	5,228,554

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to shareholders of the Company										
	Share capital	Share premium	Capital reserves from available-for-sale assets	Reserve from revaluation of investment after achieving control	Capital reserve from transactions with non-controlling interests	Foreign currency translation adjustment of foreign operation	Revaluation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS in thousands										
Balance at January 1, 2014	110,628	273,735	367,985	6,989	(1,149)	(7)	3,352	4,377,484	5,139,017	1,384	5,140,401
Income for the period	-	-	-	-	-	-	-	422,031	422,031	804	422,835
Other comprehensive income (loss), net of tax	-	-	112,101	-	-	(58)	-	2,691	114,734	57	114,791
Total comprehensive income (loss)	-	-	112,101	-	-	(58)	-	424,722	536,765	861	537,626
Realization of employee options into shares	1	-	-	-	-	-	-	-	1	-	1
Benefit in respect of employees options	-	-	-	-	-	-	-	110	110	-	110
Dividend	-	-	-	-	-	-	-	(400,000)	(400,000)	-	(400,000)
Transactions with non-controlling interests	-	-	-	-	(103)	-	-	-	(103)	38	(65)
Balance at December 31, 2014	110,629	273,735	480,086	6,989	(1,252)	(65)	3,352	4,402,316	5,275,790	2,283	5,278,073

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended December 31,		
		2016	2015	2014
	Sch.	NIS in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES	A	**(1,801,101)**	3,575,245	(1,020,944)
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Investment in investees		**(5,687)**	(15,227)	(1,627)
Grant of loan to affiliate		**(23,408)**	(857)	-
Proceeds from the realization of investment in affiliate net of transaction costs		**344,104**	-	-
Cash derecognized due to acquisitions in business combinations, net	D	**(17,056)**	-	-
Cash derecognized due to realization of subsidiaries, net	E	**(630)**	(9,624)	-
Investment in fixed assets		**(29,306)**	(60,187)	(33,460)
Investment in intangible assets		**(109,741)**	(116,375)	(115,916)
Repayment of loans granted to subsidiaries		**4,836**	7,879	2,002
Dividend received from subsidiaries		**11,848**	33,887	25,095
Proceeds from sale of intangible assets		**285**	-	-
Proceeds from sale of fixed assets		**89**	870	1,300
Net cash from (used in) investment activities		**175,334**	(159,634)	(122,606)
CASH FLOWS FROM FINANCE ACTIVITIES				
Realizations of employee options into shares		**-**	-	1
Receipt of loans from banks and others		**2,574**	3,682	8,253
Proceeds from issue of debentures		**901,115**	1,902,809	-
Less issue expenses		**(10,877)**	(19,006)	-
Repayment of loans from banks and others		**(230)**	(2,007)	(46,039)
Change in short-term credit from banking institutions and others, net		**11,595**	(15,748)	13,151
Acquisition of non-controlling interests		**(1,458)**	-	-
Dividend to non-controlling interests		**(2,415)**	(1,155)	-
Dividend		**-**	(200,000)	(400,000)
Net cash from (used in) finance activities		**900,304**	1,668,575	(424,634)
Effect of exchange rate fluctuation on balances of cash and cash equivalents		**(65,247)**	(12,936)	43,522
Increase (decrease) in cash and cash equivalents		**(790,710)**	5,071,250	(1,524,662)
Balance of cash and cash equivalents at beginning of period	B	**10,003,870**	4,932,620	6,457,282
Balance of cash and cash equivalents at end of period	C	**9,213,160**	10,003,870	4,932,620

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2016	**2015**	**2014**
		NIS in thousands	
SCHEDULE A - CASH FLOWS FROM CURRENT ACTIVITIES BEFORE TAXES ON INCOME (1)			
Net income for the period	**205,124**	353,051	422,835
Items not involving cash flows:			
Company's share in results of subsidiaries, net	**(58,887)**	(91,598)	(80,112)
Net gains from financial investments for yield dependent insurance and investment contracts	**(2,930,362)**	(1,379,469)	(3,564,378)
Net losses (gains) from other financial investments:			
Quoted debt assets	**(218,033)**	(236,141)	(407,412)
Unquoted debt assets	**(1,064,041)**	(967,300)	(1,112,419)
Shares	**(34,176)**	(149,333)	(116,861)
Other investments	**(100,920)**	(218,351)	46,511
Finance expenses in respect of financial liabilities and others	**864**	(5,993)	26,762
Loss (profit) from realization:			
Intangible assets	**(1,140)**	-	-
Fixed assets	**360**	5	257
Investees	**(30,395)**	(2,966)	-
Loss from rise to control in affiliate	**1,951**	-	-
Change in fair value of investment property for yield dependent contracts	**(158,255)**	(104,572)	(75,285)
Change in fair value of other investment property	**(5,076)**	(48,898)	(13,799)
Impairment of intangible assets	**24,709**	38,927	24,478
Depreciation and amortization:			
Fixed assets	**64,070**	71,656	67,891
Intangible assets	**153,186**	163,838	176,673
Change in liabilities for yield dependent insurance and investment contracts	**6,210,706**	5,266,270	7,487,808
Change in liabilities for non-yield dependent insurance and investment contracts	**1,463,509**	1,034,871	1,276,172
Change in share-based payment transactions	**(595)**	140	110
Change in reinsurance assets	**(272,419)**	148,753	(22,589)
Change in deferred acquisition costs	**(60,954)**	(64,106)	(33,107)
Taxes on income	**81,234**	155,766	185,494
C/forward		3,611,499	3,866,194

(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,		
	2016	2015	2014
	NIS in thousands		
B/forward		3,611,499	3,866,194
SCHEDULE A - CASH FLOWS FROM CURRENT ACTIVITIES BEFORE TAXES ON INCOME (Cont.)			
Changes in other balance sheet items:			
Financial investments and investment property for yield dependent insurance and investment contracts			
Acquisition of investment property	**(199,296)**	(325,824)	(124,888)
Net acquisitions of financial investments	**(5,198,426)**	(1,654,610)	(6,458,675)
Other financial investments and investment property:			
Acquisition of investment property	**(12,640)**	(52,275)	(9,301)
Proceeds from sale of investment property	**130,000**	-	2,414
Net acquisitions of financial investments	**(2,829,646)**	(1,861,592)	(1,045,916)
Outstanding premiums	**(149,677)**	9,912	(62,813)
Debtors and receivables	**(520,588)**	497,464	(668,257)
Creditors and payables	**303,485**	(121,888)	(28,127)
Liabilities for employee benefits, net	**9,697**	55,777	(998)
Total adjustments required for presenting cash flows from current activities	**(5,401,755)**	158,463	(4,530,367)
Cash paid and received during the period for:			
Interest paid	**(59,507)**	(35,246)	(33,667)
Interest received	**2,632,306**	2,552,077	2,479,849
Taxes paid, net	**(9,604)**	(442,129)	(287,273)
Dividend received from financial investments	**832,335**	989,029	927,679
Net cash provided by (used in) current activities	**(1,801,101)**	3,575,245	(1,020,944)

(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,		
	2016	2015	2014
	NIS in thousands		
SCHEDULE B - CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD			
Cash and cash equivalents for yield dependent contracts	**7,801,126**	3,289,969	4,907,015
Other cash and cash equivalents	**2,202,744**	1,642,651	1,550,267
	10,003,870	4,932,620	6,457,282
SCHEDULE C – CASH AND CASH EQUIVALENTS AT END OF PERIOD			
Cash and cash equivalents for yield dependent contracts	**7,267,318**	7,801,126	3,289,969
Other cash and cash equivalents	**1,945,842**	2,202,744	1,642,651
	9,213,160	10,003,870	4,932,620
SCHEDULE D – CASH DERECOGNIZED DUE TO ACQUISITIONS IN BUSINESS COMBINATIONS, NET			
Intangible assets	**(23,524)**	-	-
Fixed assets	**(1,165)**	-	-
Investments in affiliates	**(238)**	-	-
Realization of equity rights in affiliate	**4,746**		
Debtors and receivables	**(8,190)**	-	-
Deferred tax liabilities	**1,854**	-	-
Liabilities for employee benefits, net	**550**	-	-
Current tax liabilities	**519**	-	-
Creditors and payables	**5,294**	-	-
Financial liabilities	**3,098**	-	-
	(17,056)	-	-
SCHEDULE E – CASH DERECOGNIZED DUE TO REALIZATION OF SUBSIDIARIES, NET			
Intangible assets	**4,356**	129	-
Fixed assets	**977**	1,018	-
Investment in affiliate	**248**	-	
Current tax assets	**-**	3,651	-
Debtors and receivables	**987**	9,310	-
Other financial investments	**4,630**	17,086	-
Liabilities for employee benefits, net	**(420)**	(1,075)	-
Non-controlling interests	**5,181**	-	
Creditors and payables	**(7,040)**	(26,016)	-
Financial liabilities	**(6,783)**	(13,081)	-
Capital loss	**(2,766)**	(646)	-
	(630)	(9,624)	-
SCHEDULE F – SIGNIFICANT ACTIVITIES NOT INVOLVING CASH FLOWS			
Acquisition of fixed assets, intangible assets and investment property against creditors	**24,124**	23,782	5,414
Dividend from affiliates	**693**	4,006	5,149
Repayment of capital notes against loans in affiliate	**-**	7,581	58,956
Proceeds not yet received in the sale of affiliate and insurance portfolio	**6,125**	4,832	-

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

NOTE 1: - GENERAL

a. The reporting entity:

Migdal Insurance and Financial Holdings Ltd. ("the Company") is a company incorporated and resident in Israel whose formal address is 4 Efal St., Kiryat Arie, Petach Tikva. The Company's consolidated financial statements as of December 31, 2016 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 1959 Ltd. (formerly – 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 1959 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 Financial Services Regulations (Insurance) (Minimum Shareholders' Equity required from an Insurer), 1998, as amended.
Ways of Investment Regulations	- Control of Financial Services (Provident Funds) (Investment Regulations Applying to Institutional Entities), 2012 and the Institutional Entities Circular "Investment Rules applying to Institutional Entities" issued by the Commissioner.
Report Regulations	- Control of Insurance Business Regulations (Details of Report) 1998, as amended
Insurance contracts	- Contracts under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
Investment contracts	- Policies which are not considered to be insurance contracts.
Yield dependent contracts	- Insurance contracts and investment contracts in the life assurance and health insurance segments, in which the liabilities, are linked to the investment portfolio's yield, due to the savings component or the risk therein (policies, participating in investment income).

NOTE 1: - GENERAL (Cont.)

Assets in respect of yield dependent contracts	-	Total assets held against liabilities derived from yield dependent contracts.
Reinsurance assets	-	Reinsurers' share in insurance reserves and outstanding claims
Liabilities for insurance contracts and investment contracts	-	Insurance reserves and outstanding claims in life assurance, general insurance, general insurance and health insurance segments of activity.
Premiums	-	Premiums including fees.
Earned premiums	-	Premiums relating to the reporting period.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES

a. Basis of measurement of the financial statements:

The consolidated financial statements have been prepared on a cost basis, with the exception of the following assets and liabilities: insurance liabilities, financial instruments measured at fair value through profit or loss, available-for-sale financial instruments and investment property, liability for employee severance benefits, deferred taxes and investments in affiliates.

For additional information regarding the measurement of these assets and liabilities see paragraphs i, j, k, m, r and v below.

b. Basis of preparation of the financial statements:

The consolidated financial statements have been prepared by the Group in accordance with IFRS.

Furthermore, the financial statements have been prepared in accordance with the disclosure requirements of the Control of Financial Services (Insurance) Law, 1981 and the regulations enacted thereunder, and in accordance with the provisions of the Securities Regulations (Annual Financial Statements), 2010, insofar as these regulations apply to insurance companies.

The accounting policies adopted in the financial statements were applied consistently for all the reported periods, unless stated otherwise.

Regarding initial recording of the accumulation and initial implementation of best practice in general insurance, see paragraph j.2.d)(4).

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. The significant judgments, estimates and assumptions used in the preparation of the financial statements:

The judgments

In the process of applying the Group's accounting policies, management has considered the following issues which have the most significant effect on the amounts recognized in the financial statements:

1. Classification and designation of financial investments:

   - Financial assets measured at fair value through profit or loss.
   - Investments held to maturity.
   - Loans and receivables.
   - Available-for-sale financial assets.

   See k(6) below.

2. Classification of insurance contracts and investment contracts:

   Insurance contracts are contracts in which the insurer takes a significant insurance risk from another party. Management examines whether each contract or a group of contracts involve taking a significant insurance risk and, therefore, whether they should be classified as an insurance contract or an investment contract.

Estimates and assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the adoption of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates in view of, among others things, extensive regulatory changes in the insurance branch and long-term savings that are likely to have significant implications that cannot be estimated at this stage.

The preparation of accounting estimates used in the preparation of the Company's financial statements requires management to make assumptions regarding circumstances and events that involve considerable uncertainty. Management of the Company prepares the estimates on the basis of past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate.

The basis of the estimates and assumptions are reviewed regularly. Changes in accounting estimates are recognized in the period in which the estimates are changed.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. The significant judgments, estimates and assumptions used in the preparation of the financial statements: (Cont.)

Critical estimates

Hereunder is information regarding critical estimates made during the application of the accounting policies and which have a significant effect on the financial statements:

- Liabilities in respect of insurance contracts and investment contracts – these liabilities are based on the actuarial valuation method and on valuations regarding demographic and economic variables. The actuarial valuations and the various assumptions are based on past experience and are mainly based on the fact that past behavioral patterns and claims represent future behavior. Change in the risk factors, frequency of events or their severity, as well as a change in the legal situation, might have a significant influence on the volume of liabilities for insurance contracts. For additional details see Note 37b.2 below.

  Regarding changes in main assumptions and estimates used in calculation of life assurance reserves, including supplementary reserve for annuity, see Note 37b(3)(b)(5) below.

Regarding the reserve adequacy test see paragraph j.1.g. below.

- Contingent liabilities – there are legal claims against the Group, as well as requests to approve the claims as class actions. For the estimates of the chances of the legal claims that were filed against the Group, the companies relied on the opinion of its legal advisors. The legal advisors' opinion is based on their professional judgment, taking into consideration the stage reached in the legal proceedings and the legal experience gained in various issues. Since the outcome of the claims will be determined in court, actual results could differ from these estimates.

  In addition to the applications to approve class actions, legal proceedings and other proceedings that were filed against the Group, there is a general exposure that cannot be estimated and/or quantified, stemming, among others, from the complexity of the services that the Group renders to its policyholders. Inherent in the complexity of these arrangements is, among others, the potential for disagreements regarding interpretations and other differences due to information gaps between the Group and third parties to insurance contracts pertaining to a long Series of commercial conditions and regulatory changes.

  For additional information see Note 39(1) below.

- Fair value measurements of unquoted debt assets - the fair value of unquoted debt assets measured at fair value through profit and loss and unquoted financial assets whose information for their fair value is given for disclosure purposes only, is calculated according to a model based on discounted cash flows in which the interest rates and price quotas used are determined by a company that provides them to institutional entities.

  For additional information see Note 12f below.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. The significant judgments, estimates and assumptions used in the preparation of the financial statements: (Cont.)

- Impairment of goodwill – the Group examines impairment of goodwill at least annually. The examination requires management to make an estimate of the future cash flows expected to be derived from continuing use of the cash generating unit (or group of cash generating units) to which goodwill is allocated. In addition, management is required to estimate the appropriate discount rates for these cash flows.

  For additional information see Note 4b below.

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

  For additional information see Note 5.

- Impairment of financial investments – when there is objective evidence that there is an impairment loss in respect of loans and debtors that are reported at amortized cost, or that the value of available for sale financial assets is impaired and there is impairment in their respect, the amount of loss is recognized in the statement of profit and loss. On the reporting date the Group examines whether such objective evidence exists.

  For additional information see Note 12.

- Determination of the fair value of investment property - investment property is reported at fair value as at the reporting date and changes in fair value are recognized in the statement of profit and loss. The fair value is determined by independent external appraisers based on economic value estimates that include assumptions regarding estimates of anticipated future cash flows that will be generated from the asset and an estimate of the appropriate discount rate for these cash flows as well as by reference to recent real estate transactions with similar characteristics and locations as the estimated asset.

  In measuring the fair value of investment property, the Group's management and appraisers are required to use certain assumptions regarding the rate of return required for Group assets, future rental prices, occupancy rates, contract renewals, the probability of renting vacant space, the costs of operating the properties, the financial health of the tenants and implications arising from investments required for future development so as to estimate the future cash flows from the assets.

  Sometimes, the fair value is determined based on a comparison to recent transactions that were executed in the real estate market with respect to similar properties.

  For additional information see Note 8 below.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Change in classification

Internal classifications were executed in the following Note components: 8, 16, 18, 20, 22, 24, 37.b.2 and 37.b.3.b)(7).
The above reclassifications had no effect on the equity, profit and loss or comprehensive income.

e. Financial statement structure and the operating cycle:

The Group's regular operating cycle usually exceeds one year, especially in relation to the following lines: life assurance and long-term savings, LTC, disease and hospitalization and general liability and motor act insurance.

The consolidated statements of financial position, which mainly include the assets and liabilities of an insurance subsidiary, are presented in order of liquidity with no distinction between current and non-current. This presentation provides more reliable and relevant information, consistent with International IAS 1, "Presentation of Financial Statements", and is in accordance with the directives of the Commissioner of Insurance.

f. Functional currency and foreign currency:

1. Functional and presentation currencies:

The consolidated financial statements are reported in New Israeli Shekels ("NIS"), and have been rounded to the nearest thousand. NIS is the Group's functional currency and is the currency that best reflects the economic environment in which the Group operates.

2. Transactions, assets and liabilities in foreign currency:

Foreign currency transactions are translated into the functional currencies of Group companies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency exchange difference in respect of the monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising from translation to the functional currency are usually recognized in profit or loss, except for differences arising on the translation of available-for-sale financial equity instruments which are recognized in other comprehensive income (except in cases of impairment when the translation differences recognized in the other comprehensive income are allocated to profit or loss).

Non-monetary items denominated in foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Functional currency and foreign currency: (Cont.)

2. Transactions, assets and liabilities in foreign currency: (Cont.)

The assets and liabilities of foreign activities are translated to NIS at the exchange rate at the reporting date. Income and expenses of foreign activities are translated at exchange rates at the dates of the transactions. Exchange rate differences from the translation of foreign activities are recognized in other comprehensive income and are presented in equity in translation reserve of foreign activities.

In general, exchange rate differences on loans received from or provided to foreign operations, including foreign operations that are subsidiaries, are recognized in the consolidated financial statements in profit or loss.

When the settlement of loans received or granted to a foreign operation is neither planned nor likely in the foreseeable future, profits and losses from exchange rate differences resulting from these monetary items are included as part of the investment in foreign operations, net, recognized in other comprehensive income and are presented as part of the foreign operation translation reserve.

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

g. Changes in accounting policies:

Effective from January 1, 2016, the Group adopts amendments to IAS 16 *Property, Plant and Equipment* and to IAS 38 *Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization*

The amendment to IAS 38 introduces 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 companies that want to continue amortizing an intangible asset using that method will have to show that the revenue and consumption of the economic benefits are highly correlated.

The amendment to IAS 16 explicitly states that the revenue-based method may not be applied to property, plant and equipment.

The amendments were applied on a prospective basis and their initial application did not have a material effect on the Company's financial statements.

h. Consolidated financial statements, business combinations and goodwill:

1. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

1. Consolidated financial statements: (Cont.)

Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

The financial statements of the Company and its subsidiaries are prepared as of the same dates and periods. The accounting policies in the financial statements of the subsidiaries have been consistently applied with those applied in the financial statements of the Company.

2. Business combinations and goodwill:

The Group implements the acquisition method regarding every business combination.

The Group recognizes goodwill upon acquisition according to the fair value of the consideration transferred including the amounts recognized in respect of any non-controlling interests in the acquired and the fair value as at the date of acquisition of the equity interests of acquire previously held by the purchaser, less the net amount related upon acquisition to identifiable assets acquired and for the liabilities assumed.

The acquirer recognizes at the acquisition date a contingent liability assumed in a business combination if there is a present obligation resulting from past events and its fair value can be measured reliably.

The consideration transferred includes the fair value of the assets transferred to the former owners of the acquiree, the liabilities incurred by the acquirer to the former owners of the acquiree and the equity instruments that were issued by the Group. In an acquisition achieved in stages, the difference between the acquisition date fair value of equity rights in the acquiree previously held by the Group and the carrying amount at that date is recognized in profit or loss under other income or expenses. In addition, the consideration transferred includes the fair value of any contingent consideration. After the acquisition date, the Group recognizes changes in fair value of the contingent consideration classified as a financial liability in profit or loss, whereas the contingent consideration which is classified as an equity instrument is not remeasured.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

2. Business combinations and goodwill: (Cont.)

Acquisition-related costs incurred by the acquirer in a business combination such as: brokers fees, consultation commissions, legal commissions, valuation and other fees for professional services or consulting services, except those related to issuing debt instruments or equity in connection with the business combination, are expensed during the period in which the services are received.

Regarding the testing of goodwill impairment, see paragraph p below.

When goodwill is allocated to cash-generating units upon realization of a cash generating unit, the difference between the consideration and the net assets plus the unamortized goodwill balance, is recognized in the statement of profit and loss. Profit or loss from the disposal of part of the cash generating unit includes part of the goodwill measured according to the proportion of the cash generating unit realized.

3. Non-controlling interests:

Non-controlling interests arise from the capital of a subsidiary which cannot be attributed directly or indirectly to the parent.

Measurement of non-controlling interests on the date of the business combination

Non-controlling interests, which are instruments that give rise to a present ownership and entitle the holder to a share of the net assets in the event of liquidation (e.g. ordinary shares), are measured at the date of the business combination at fair value or at their proportionate share of the identifiable assets and liabilities of the acquiree, on a per transaction basis. This accounting policy choice does not apply to other instruments that meet the definition of non-controlling interests (for example - options for ordinary shares). These instruments will be measured at fair value or in accordance with other relevant IFRS standards.

Allocation of the comprehensive income to the shareholders

The profit or loss and any component of other comprehensive income are attributed to the Company's owners and to non-controlling interests. The amount of comprehensive income is attributed to the Company's owners and non-controlling interests even when the result is a negative balance of the non-controlling interest.

Transactions with non-controlling interests, while retaining control

Transactions with non-controlling interests while retaining control are accounted for as equity transactions. Any difference between the consideration paid or received and the change in non-controlling interests is included in the owners’ share in equity of the Company directly in retained earnings.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

3. Non-controlling interests: (Cont.)

Loss of control

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

i. Investment in affiliates:

Affiliates are entities in which the Group has significant influence, but not control, over their financial and operating policy.

In assessing significant influence, holding rates, potential voting rights that are currently exercisable or convertible into shares of the investee are taken into account.

Investments in affiliates are accounted for using the equity method and are initially recognized at cost, including transaction costs. The investment includes initial differences calculated at the date of acquisition. The goodwill is calculated at the time of acquisition, and is not amortized systematically. The investment is reported net of accumulated losses from impairment. The consolidated financial statements include the Group's share of the income and expenses, profit or loss and other comprehensive income of affiliates, accounted for under the equity method, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences and until the date that significant influence ceases.

Unrealized gains from transactions with affiliates are eliminated pro rata to the Group's share of the investments therein. Unrealized losses are eliminated in the same manner as unrealized gains as long as there is no evidence of impairment.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including long-term investments, which are part of the investment in the investee, is reduced to nil and the Group does not recognize further losses unless the Group has an obligation or has made payments on behalf of the investee.

The financial statements of the Company and the affiliates are prepared at the same dates and for the same periods.

Loss of significant influence

The Group discontinues implementing the equity method from the date it loses significant influence or obtains control and it accounts for the remaining investment as a financial asset or as a subsidiary, as applicable.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Investment in affiliates: (Cont.)

Loss of significant influence (Cont.)

On the date on which the Group ceases to have a significant influence, the Group measures any investment that the Group still has in the former affiliate at fair value and recognizes in profit or loss any difference between the fair value of any remaining investment and any consideration from the partial realization of the investment in the affiliate and the carrying value of the investment at that time.

The amounts recognized in equity through other comprehensive income with respect to the same affiliate are reclassified to profit or loss or to retained earnings as would have been required if the affiliate had itself realized the related assets or liabilities.

Change in ownership interests in affiliates while retaining significant influence

When the Group increases its interest in an affiliate accounted for by the equity method while retaining significant influence, it implements the acquisition method only with respect to the additional interest obtained whereas the previous interest remains unchanged.

When there is a decrease in the interest in an affiliate accounted for by the equity method while retaining significant influence, the Group derecognizes a proportionate part of its investment and recognizes in profit or loss a gain or loss from the sale in the statement of profit and loss.

Furthermore, on the same date, a proportionate part of the amounts recognized in equity through other comprehensive income with respect to the same affiliate are reclassified to profit or loss or to retained earnings in the same manner that would have been applicable if the affiliate had itself realized the same assets or liabilities.

j. Insurance contracts and asset management contracts:

IFRS 4 which deals with insurance contracts allows the insurer to continue the accounting policies adopted before the transition to IFRS for insurance contracts it issues (including related acquisition costs and related intangible assets) as well as reinsurance contracts acquired.

Hereunder is a summary of the accounting principles relating to insurance contracts:

1. Life assurance and long-term savings:

   a) Revenue recognition - see paragraph t below.

   b) Liabilities in respect of life assurance contracts:

      Liabilities in respect of life assurance contracts are computed according to the Commissioner's directives (regulations and circulars), accounting principles and generally accepted actuarial methods. The liabilities are computed according to the relevant coverage data, such as: the age of the policyholder, number of years of coverage, type of insurance, amount of insurance, etc.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

Liabilities in respect of life assurance contracts are determined on the basis of actuarial assessments, carried out by Migdal Insurance's appointed actuary, Mr. Leibush Ulman who is an employee of Migdal Insurance. The reinsurers' share in liabilities for life assurance contracts is determined according to the conditions of the relevant contracts.

c) Liabilities in respect of life assurance contracts linked to the index and the investments linked to the index that are utilized to cover these liabilities are included in the financial statements according to the last index published prior to the balance sheet date, including liabilities for life assurance contracts with respect to policies that, according to their terms, are semi-annually linked.

d) The Commissioner's directives regarding liabilities for payment of annuities:

Circulars issued by the Commissioner regarding the calculation of liabilities for annuities in life assurance policies, determine instructions for the calculation of the provisions as a result of the rate of the improvement in life expectancy. The instructions require monitoring the sufficiency of the reserves with respect to insurance policies which allow receipt of an annuity and the supplementation of the reserves in an appropriate manner.

For further information see Note 37b(3)(b) below.

e) Deferred acquisition costs in life assurance:

(1) Deferred acquisition costs ("DAC") in respect of life assurance policies include commissions for agents 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.)

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

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

f) Deferred acquisition costs for the acquisition of asset management contracts:

Commissions paid to agents and acquisition supervisors for the purchase of asset-management contracts (pension funds and provident funds) are recorded as DAC if they can be identified separately and measured reliably and if their recoverability by way of management fees is expected. The DAC is amortized over the estimated period of receipt of revenues from management fees, and also considers cancellations. The actuary examines the recoverability of the DAC each year so as to reflect the value of the asset. The assumptions used in the examination include assumptions regarding cancellations, operating expenses, rate of return on assets, mortality and morbidity that are determined by the Company's actuary every year based on past experience and relevant up-to-date research studies.

g) Liability Adequacy Test in respect of life assurance contracts:

Migdal Insurance examines the sufficiency of the liabilities in respect of life assurance and health insurance contracts. If the examination shows that the premiums received are not sufficient to cover the expected claims, a special provision for the deficiency is recorded. The examination is performed separately for the individual policies and for group policies. In the case of group policies, the examination is performed for each group policy separately. The examination is performed for groups of policies that were defined by the Commissioner and in accordance with insurance circular 2014 and 2015 from August 2, 2016 with respect to LAT.

The assumptions used in the abovementioned examinations include assumptions regarding cancellations, operating and commission expenses, return on assets, interest rates, illiquid premiums, mortality rates, rehab and illness realization rates and taking into consideration fair value surplus of assets above their book value. The assumptions determined by the actuary every year based on examinations of past experience, other relevant research and regulatory provisions.

h) Outstanding claims:

Outstanding claims are computed on an individual case basis, according to the estimation of Migdal Insurance experts, on the basis of notifications regarding insurance events and sums insured.

The provisions for annuity payments and provisions for prolonged payment claims in payment for disability insurance, the direct and indirect expenses deriving from them, as well as the provisions for incurred but not yet reported claims (IBNR) are included under liabilities for insurance contracts.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

i) Investment contracts:

Receipts in respect of investment contracts are not included in the item of earned premiums, but are directly allocated to the item of liabilities for insurance and investment contracts. Surrenders and maturities of these contracts are not recognized in the statement of profit and loss, but are deducted directly from the liabilities for insurance and investment contracts.

Investment income, change in liabilities and payments in respect of insurance contracts, the policyholders' share in investment income, management fees, commissions to agents, and general and administrative expenses are recognized in the statement of profit and loss, in respect of these contracts.

j) Provision for profit participation of policyholders in group insurance:

The provision is included under the item "creditors and payables". Also, the change in the provision was offset from the gross premiums earned item.

2. General insurance:

a) Revenue recognition, see paragraph t below.

b) The item of payments and change in liabilities in respect of gross and retained insurance contracts includes, among others, settlement and direct handling costs of claims paid, indirect expenses for settlement of outstanding claims that occurred during the reported period, as well as an update of the provision for outstanding claims (which includes a provision for direct and indirect claims handling costs) reported in previous years.

c) Liabilities for insurance contracts and deferred acquisition costs:

The insurance reserves and outstanding claims, included in the item liabilities in respect of insurance contracts, and the reinsurers' share in reserves and outstanding claims, included in the item reinsurance assets and deferred acquisition costs in general insurance were computed in accordance with the Financial Services Regulations (Insurance) (Calculation of Reserves in General Insurance, 2013) ("Regulation for Calculation of Reserves"), the Commissioner's directives and generally accepted actuarial methods for computing outstanding claims which are applied according to the discretion of the appointed actuary, Mr. Stewart Coutts.

d) The item liabilities in respect of insurance contracts, is composed of insurance reserves and outstanding claims, as follows:

(1) Provision for the unearned premium reserve, reflects the insurance premiums relating to the insurance period after the balance sheet date.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

2. General insurance: (Cont.)

d) The item liabilities in respect of insurance contracts, is composed of insurance reserves and outstanding claims, as follows: (Cont.)

(2) Provision for premium deficiency. This provision is recorded in the event that the unearned premium reserve (net of deferred acquisition costs) does not cover the anticipated cost in respect of insurance contracts. In the motor casco, motor compulsory and comprehensive residential branches the provision is based, among others, on a model determined in Regulations for Calculation of Reserves.

(3) Outstanding claims are computed according to the methods detailed below:

3.1 Outstanding claims (including IBNR) and the reinsurers' share therein are included based on an actuarial valuation, except for the branches detailed in Section 3.2 below. Indirect expenses for the settlement of claims are included according to an actuarial valuation. The actuarial calculation for Migdal Insurance was made by the appointed actuary, Mr. Stewart Coutts, an external consultant.

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, and with the addition of IBNR where necessary.

3.3 Excess of income over expenses:

In businesses with long tail claims (branches in which the time required for issuing a notice of damage and/or determining damage and its compensation, is long and can be a number of years), such as the liability and motor act branches, the excess of income over expenses is calculated up until December 31, 2015, on a triennial cumulative basis (hereunder - "excess" or "accumulation").

The excess is calculated, according to the regulations for calculating reserves and the Commissioner's directives, on the basis of income from premiums, net of the acquisition and claims expenses, with the addition of investment income which is calculated at the rate of 3% per annum, in real terms (regardless of the actual yield from the investments) net of the reinsurers' share, for each insurance branch and underwriting year.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

2. General insurance: (Cont.)

d) The item liabilities in respect of insurance contracts, is composed of insurance reserves and outstanding claims, as follows: (Cont.)

(3) Outstanding claims are computed according to the methods detailed below: (Cont.)

3.3 Excess of income over expenses: (Cont.)

The excess accumulated until its release, from the beginning of the insurance, net of the provision for unearned premium less deferred acquisition costs and net of outstanding claims calculated as aforementioned, is included up to December 31, 2015, under liabilities for insurance contracts and a deficiency is recognized as an expense.

Regarding cancelation of excess see paragraph 4 below.

3.4 Subrogation and salvage are taken into account in the database used in the calculation of the actuarial valuations of outstanding claims.

3.5 In Migdal Insurance's estimation the outstanding claims are adequate, considering the fact that outstanding claims are mainly calculated on an actuarial basis and the remaining outstanding claims include adequate provisions for IBNR, where necessary.

(4) Changes in calculation of insurance reserves in general insurance beginning on December 31, 2015

In January 2013, the Financial Services Regulations (Insurance) (Calculation of Reserves in General Insurance), 2013 (hereunder – "the new regulations") and Circular, were published, which were updated in January 2015. In addition, in January 2015 the Commissioner's position regarding best practice for calculating insurance reserves in general insurance for the purpose of financial statements (hereunder collectively - "the amendment") was published.
The amendment cancels the Supervision of Insurance Business Regulations (Methods of Calculating Provisions for Future Claims in General Insurance), 1984, and the new regulations will replace them. The main change that took place when the regulations came into force is the cancellation of accumulation in the motor act and liability and the implementation of the Commissioner's position regarding the best practice described in Note 17.

The amendment was implemented in the financial statements as at December 31, 2015.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

2. General insurance: (Cont.)

d) The item liabilities in respect of insurance contracts, is composed of insurance reserves and outstanding claims, as follows: (Cont.)

4) Changes in calculation of insurance reserves in general insurance beginning on December 31, 2015 (Cont.)

As a supplementary measure to the amendment, in October 2015 the measurement directives included in the consolidated circular, regarding the reinsurers share in the deferred acquisition costs and unearned premiums in general insurance, were updated starting with the financial statements as of December 31, 2015.

The amendment was treated as a change in accounting policy that could not practically be applied retroactively, and therefore the effect of the change was recorded as an adjustment to retained earnings as at December 31, 2015 with no retroactive application.

The effect of the said amendment on the Company's financial statements as at December 31, 2015 was an increase in retained earnings in the amount of NIS 1,082 thousand.

e) Deferred acquisition costs in general insurance include agents' commissions and administrative and general expenses related to the acquisition of polices, in respect of unearned insurance premiums. The acquisition costs are calculated at the lower of the actual costs or standard rates, set by the Control Regulations, calculated as a percentage of unearned premiums separately for each branch.

f) Incoming business from the Managing Corporation of Compulsory Vehicle Insurance Pool Ltd. ("the Pool"), from other insurance companies (including co-insurance) and from underwriting agencies, is reported according to reports received up to balance sheet date with the addition of the relevant provisions, based on Migdal Insurance's rate of participation in them.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

3. Health insurance:

a) Revenue recognition – see paragraph t below.

b) Liabilities in respect of health insurance contracts:

The liabilities for health insurance contracts are computed according to the Commissioner's directives (Regulations and Circulars), generally accepted accounting principles and actuarial methods. The liabilities are computed according to relevant coverage data, such as age of policyholder, number of years of coverage, type of insurance and amount of insurance etc.

Liabilities for health assurance contracts and the reinsurers' share therein are determined on the basis of an actuarial assessment carried out by Migdal Insurance appointed actuary, Mr. Daniel Katzman, an employee of Migdal Insurance.

c) Outstanding claims:

The provisions for prolonged payment claims with respect to long-term care (LTC) insurance, direct and indirect expenses deriving from them, as well as provisions for incurred but not yet reported claims (IBNR) are included under the item of liabilities in respect of insurance contracts.

In the travel insurance branch, the actuary determined that the actuarial model cannot be applied due to a lack of statistical significance. The outstanding claims in this branch were calculated based on estimates prepared by external experts and Migdal Insurance employees who handle claims, and include IBNR where necessary.

d) Provision for policyholders' participation in profits in group insurance:

The provision is included under "creditors and payables". In addition, the change in the provision is offset from the earned premium item.

e) The unexpired risk reserve included under liabilities for insurance contracts includes, when necessary, a provision for anticipated loss on retention (premium deficiency) calculated on the basis of an actuarial valuation which is based on the cash flows estimate in respect of the contract.

f) Deferred acquisition costs:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

3. Health insurance: (Cont.)

f) Deferred acquisition costs: (Cont.)

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

The assumptions used for this examination, including assumptions in respect of cancellations, operating expenses, return on assets, mortality and morbidity, are determined by Migdal Insurance's actuary every year and are based on past experience and recent relevant research studies.

k. Financial instruments:

1. Non-derivative financial instruments:

Non-derivative financial instruments include both financial assets and financial liabilities. Financial assets include financial investments (quoted debt assets, unquoted debt assets, shares and others) and other financial assets such as: outstanding premiums, other debtors and cash and cash equivalents. In addition, financial instruments include financial liabilities such as loans and credit received, debt instruments, suppliers' credit and other creditors.

Initial recognition of non-derivative financial assets

The Group initially recognizes loans and receivables and deposits on the date incurred. The remaining financial assets acquired in a regular way purchase, including assets designated at fair value through profit or loss are initially recognized on the trade date in which the Group becomes a party to the contractual provisions of the instrument, meaning the date on which the Group has committed to buy or sell property

Non-derivative financial assets include investments in shares and debt instruments, customers, other receivables, and cash and cash equivalents.

Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. See paragraph 3 hereunder regarding the offset of financial assets and financial liabilities. Regular way sales of financial assets are recognized on the trade date, meaning on the date the Group undertook to sell the asset.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Financial instruments: (Cont.)

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

Financial assets are classified to the following categories

Cash and cash equivalents

Cash and cash equivalents include cash balances available for immediate withdrawal and call deposits that can be utilized on demand. Cash equivalents include short-term highly liquid investments (with original maturities of three months or less), which are readily convertible into known amounts of cash and are exposed to insignificant risks of changes in value.

Held-to-maturity investments

When the Group has the explicit intention and ability to hold debt securities to maturity, then such debt securities are classified as held-to-maturity. Held-to-maturity investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

Financial assets at fair value through profit or loss

A financial asset is classified as measured at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages this type of investment and makes purchase and sale decisions based on their fair value, in accordance with the Group's documented risk management or investment strategy, providing that the designation is intended to prevent an accounting mismatch or the financial instrument includes an embedded derivative. Attributable transaction costs are recognized in profit and loss as incurred. These financial instruments are measured at fair value, and changes therein are recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Financial instruments: (Cont.)

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified in any of the previous categories. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. In subsequent periods, these investments are measured at fair value and changes therein, other than impairment losses, profits or losses from changes in the CPI and in the foreign exchange rate and the accrual of effective interest on available-for-sale debt instruments, are recognized directly in other comprehensive income and presented within equity in a reserve for available-for-sale financial assets. A dividend received in respect of available-for-sale financial assets is recognized in profit or loss on the date the entity's right to receive the dividend is established. When an investment is derecognized, the cumulative gain or loss in the reserve for available-for-sale financial assets is transferred to profit or loss.

2. Non-derivative financial liabilities:

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

Financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Derecognition of financial liabilities

Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is discharged or cancelled.

3. Offsetting financial instruments:

Financial asset and liability are offset and the amounts are reported in their net value in the statement of financial position when the Group currently has the legal right to offset the amounts and intends to settle on a net basis or to realize the asset and to settle the liability simultaneously.

4. Derivative financial instruments:

Financial derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, the financial derivatives are measured at fair value and changes therein are recognized immediately in profit or loss as investment income, net and finance income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Financial instruments: (Cont.)

5. CPI-linked financial assets and financial liabilities not measured at fair value:

The value of CPI linked financial assets and financial liabilities, which are not measured at fair value, is remeasured every period in accordance with the actual increase or decrease in the CPI.

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

Assets included in the investment portfolios of policies participating in investment income

Most of these assets, that include quoted and unquoted financial assets, were designated at fair value through profit or loss, for the following reasons: These are managed portfolios, separate and identifiable, whose presentation at fair value significantly reduces accounting mismatch in measurement of financial assets and liabilities at different measurement bases. In addition, asset management is conducted at fair value, portfolio performance is measured at fair value according to a documented risk management strategy, and information regarding the financial instruments is reported to management (the relevant investment committee) internally on the basis of fair value.

Some unquoted debt instruments, included in investment portfolios of policies participating in investment income, are measured at amortized cost using the effective interest method, as allowed by the temporary provision published by the Commissioner and in accordance to the standard.

Financial instruments that include embedded derivatives requiring separation – these instruments were designated at fair value through profit or loss.

Quoted assets not included in investment portfolios held against profit participating policies (Nostro) which do not include embedded derivatives or do not constitute derivatives

These instruments were classified as available-for-sale financial instruments.

Unquoted assets not included in investment portfolios held against profit-participating policies (Nostro)

Assets meeting the criteria of loans and designated as loans and receivables, including Hetz bonds, were classified to this group and are measured at amortized cost, using the effective interest method.

Unquoted equity instruments were designated as available-for-sale financial instruments.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Financial instruments: (Cont.)

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

Investments in quoted securities in the financial statements of a subsidiary engaged in investment management

These assets were designated as fair value through profit or loss since they are held for trading.

7. Determination of fair value:

The fair value of investments traded actively in organized financial markets is determined by the market prices at the reporting date. For investments that do not have an active market, the fair value is determined by means of valuation methods. These methods are based on recent transactions under market conditions, reference to the current market value of another similar instrument, discounted cash flows or other valuation methods.

In determining fair value of an asset or a liability, the Group uses quoted market prices whenever possible. The measurement of fair value is divided into three levels on the basis of the data used in the measurement as follows:

- Level 1: fair value is measured using quoted prices (unadjusted) in active markets for identical instruments.
- Level 2: fair value is measured using inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly
- Level 3: fair value is measured using inputs that are not based on observable market data (unobservable inputs).

For additional information see Note 12f below.

8. Net investment income, finance income and expenses:

Investment income, net and finance income

Net investment income (losses) and finance income include income (losses) on the sale and impairment of available-for-sale financial assets, changes in fair value of financial assets and financial liabilities designated at fair value through profit or loss, income (losses) from foreign currency exchange rate and linkage differences on debt instruments, from realization of investments that are calculated as the difference between the proceeds from the sale and the initial or amortized cost and are recognized at the time of the sale, interest income in respect of amounts invested (including available for sale financial assets), income from dividends, changes in the fair value of investment property and rent from investment property. Interest income is recognized when accrued, using the effective interest method. Dividend income is recognized on the date the Group is granted the right to receive payment.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Financial instruments: (Cont.)

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

Finance expenses

Finance expenses include interest expenses, linkage and exchange rate differences on loans received, interest and exchange rate differences on reinsurers' deposits and balances, changes in the time value in respect of provisions. Short-term credit costs, which are not capitalized, are recognized in the statement of profit and loss when incurred.

l. Fixed assets:

1. Recognition and measurement:

Items of fixed assets are measured at cost less accumulated depreciation and accumulated impairment losses.

The cost of a number of items of fixed assets was determined at their fair value as at January 1, 2007, which is the date of transition to IFRS (deemed cost).

Cost includes expenditure which can be directly attributed to the purchase of the asset. The cost of software purchased, which constitutes an integral part of the operation of the related equipment, is recognized as part of the cost of such equipment.

Gain or loss from disposal of an item of fixed assets is determined by comparing the consideration from disposal of the asset with the carrying amount of the asset, and are recognized net under "other income" or "other expenses", as relevant, in profit or loss.

2. Subsequent costs:

The cost of replacing part of fixed assets and other subsequent expenses are capitalized if it is probable that the future economic benefits affiliated with them will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Ongoing maintenance costs are charged to profit or loss as incurred.

3. Depreciation:

Depreciation is recognized in the statement of profit and loss on a straight-line basis over the estimated useful lives of each part of fixed assets, since this method reflects the projected pattern of consumption of future economic benefits embodied in the property in the best way.

Freehold land is not depreciated.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Fixed assets: (Cont.)

1. Depreciation (Cont.)

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

	%
Buildings	2-4
Leasehold improvements	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 and adjusted if appropriate.

m. Investment property:

Investment property is property (land or building – or part of a building - or both) held (by the Group as the owners or under a finance lease) either to earn rental income or for capital appreciation or for both but not for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business.

Furthermore, leased properties that are leased by the Group under an operating lease and are intended for rent to a third party, are classified and treated as investment property.

Investment property is initially measured at cost with the addition of transaction costs directly attributable to the acquisition. In subsequent periods the investment property is measured at fair value, with changes therein recognized in the statement of profit and loss.

In order to determine the fair value of the investment property the Group uses the valuations performed by external independent appraisers who are experts in the valuation of real estate and possess the knowledge and experience required.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Investment property: (Cont.)

Investment property is derecognized when it is either realized or when it is no longer utilized and no future economic benefits are expected from its sale. The difference between the net proceeds from sale of the asset and the balance in the financial statements is recognized in profit and loss in the period in which the asset is derecognized.

The transfer of an asset from investment property to fixed assets is performed when there is a change in use, such as the beginning of use of the asset by the owners.

The deemed cost of the asset transferred from investment property to fixed assets is the fair value on the date of the transition.

When the use of a property changes from owner-occupied to investment property, which is measured at fair value, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognized in other comprehensive income and presented within equity in a revaluation reserve that will never be transferred to profit or loss, unless the gain reverses a previous impairment loss on the specific property, in which case the gain is first recognized in profit or loss. Any loss is recognized directly in profit or loss.

Investment property in development intended for use as investment property is measured at fair value, as mentioned above, if and when the fair value can be measured reliably. If fair value cannot be measured reliably, due to the characteristics and the amount of risk in the project, the property is measured at cost, less losses from impairment, if they exist, until the earlier between, when fair value may be measured reliably and when construction is completed. Cost of investment property under development includes the cost of the real estate, direct additional cost of planning and development and brokerage for contracts for the rental of the property.

For additional information, see Note 8 below.

n. Leases:

The tests for classifying leases as finance or operating leases are based on the nature of the agreements and they are examined at the date of the transaction according to the provisions of IAS 17:

The Group as lessee

1. Finance leases:

Under finance leases, all the risks and benefits related to the ownership of the leased asset, were actually transferred to the Group. Upon initial recognition the leased assets are measured and a liability is recognized at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The lease payments are apportioned between finance expenses and repayment of the lease liability using the effective interest method.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Leases: (Cont.)

2. Operating leases:

Lease agreements which do not transfer substantially all the risks and rewards from ownership of the leased asset are classified as an operating lease. However, this is except for operating leases of real estate assets which the Group chose to classify as investment property. Lease payments are recognized as an expense in the statement of profit and loss on a straight-line basis over the lease term.

The Group as lessor

Operating leases:

Leases in which the Group does not transfer to the lessee substantially all the risks and rewards incidental to ownership of the leased asset are classified as operating leases. Rental income is recognized in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in respect of the lease agreement are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the rental income. Contingent rent is recognized as income in the statement of profit and loss when the Company is entitled to receive such income.

o. Intangible assets:

Intangible assets acquired separately are measured upon initial recognition at cost with the addition of direct acquisition costs. Intangible assets acquired in business combinations are measured at fair value on the acquisition date.

Subsequent to initial recognition, intangible assets are measured at cost, less accumulated amortization and accumulated impairment losses.

Intangible assets with indefinite useful lives are not systematically amortized and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable. If the events and circumstances do not continue to support the assessment, as mentioned above, the change in the useful life assessment from indefinite to finite is accounted for as prospective change in accounting estimate and on that date the impairment of the asset is tested and it is amortized systematically over its useful economic life.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Intangible assets: (Cont.)

Intangible assets with finite useful lives are amortized over their useful life and are reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits from the asset are accounted for as prospective changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized in the statement of profit and loss.

1. Goodwill:

Goodwill arising on the acquisition of a business combination is presented in the framework of intangible assets. For information regarding the measurement of goodwill at initial recognition see paragraph h(2) above.

In subsequent periods goodwill is measured at cost less accumulated impairment losses.

2. Software development costs:

Software development costs are capitalized only if the development costs can be measured reliably; the technical and economic feasibility of the software can be demonstrated, future economic benefits are probable and the Group has the intention and sufficient resources to complete development and to use the software. The capitalized costs include the cost of materials, direct salaries and overhead costs that are directly attributable to preparation of the asset for its intended use. Other software development costs are recognized in profit or loss as incurred.

In subsequent periods, capitalized software development costs are measured at cost less accumulated amortization and impairment losses.

3. Software:

The Group's assets include computer systems comprising hardware and software. Software forming an integral part of the hardware to the extent that the hardware cannot function without the programs installed on it, is classified as fixed assets. In contrast, software that adds functionality to the hardware is classified as an intangible asset.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Intangible assets: (Cont.)

4. Subsequent expenditure

Subsequent expenditure is capitalized as an intangible asset only when it increases the future economic benefit embodied in the asset to which it relates. All other expenditure, including expenditure related to goodwill or brands that were developed by the Company are allocated to profit and loss as incurred.

5. Amortization:

Amortization is recognized in the income statement over the estimated useful life of the intangible assets from the date the assets are available for use. Goodwill is not amortized when it is an asset with an indefinite useful life.

The estimated useful lives for the current and comparative periods are as follows:

a) The excess of cost created upon the acquisition of insurance agencies or from business combinations acquired from insurance agencies that are mainly attributed to commission portfolios is amortized at equal annual rates over a period of ten years.

b) Future management fees – initial difference relating to future management fees anticipated from educational funds and portfolio management is amortized according to the anticipated period of receiving the management fees:

- In educational funds – over 20 years with a variable amortization rate while taking into account the cancellation rate.

- Portfolio management – over 10 years while taking into account the cancellation rate.

c) Brand – amortized on a straight line basis over 5-10 years.

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Impairment:

1. Financial assets:

A financial asset not measured at fair value through profit or loss is tested for impairment when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy or the disappearance of an active market for a security and observable date that indicates that there is a measurable decrease in expected cash flows from a group of financial assets.

Evidence of impairment of available-for-sale financial assets

When testing for impairment available-for-sale financial assets that are equity instruments, the Group also examines the difference between the fair value of the asset and its original cost while taking into consideration the volatility of the instrument's price, the length of time the fair value of the asset is lower than its original cost and changes in the technological, economic or legal environment or in the market environment in which the issuer of the instrument operates. In addition, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Impairment: (Cont.)

1. Financial assets: (Cont.)

Evidence of impairment of debt instruments

The Group considers evidence of impairment of loans and receivables at both the individual asset and collective level. All individually significant loans and receivables are assessed for specific impairment. Loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has occurred but not yet identified.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Treatment of impairment losses of financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected as a provision for loss against the balance of these financial assets.

Treatment of impairment losses of available-for-sale financial assets

Impairment losses are recognized by transferring the cumulative loss that has been recognized in a capital reserve, in respect of available for sale assets, to profit or loss. The cumulative loss which is transferred to profit and loss is the difference between the acquisition cost net of any principal repayments and amortization, and the current fair value less any impairment previously recognized in profit or loss.

Reversal of impairment losses

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale debt securities, the reversal is recognized in profit or loss. For available-for-sale equity securities, the reversal is recognized directly in other comprehensive income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Impairment: (Cont.)

2. Reinsurance:

a) The reinsurers' liabilities towards Migdal Insurance do not release it from its liabilities towards policyholders insured under the insurance policies.

Reinsurers who do not fulfill their obligations under the reinsurance treaties may cause losses to the Group.

b) Migdal Insurance records an allowance for doubtful accounts in respect of reinsurers' debts whose collection is doubtful on the basis of individual risk estimates and based on the depth of the debts.

In addition, in determining the reinsurers' share in the insurance liabilities, the Company takes into consideration, among others, the likelihood of collection from the reinsurers. When the reinsurers' share is calculated on an actuarial basis, the share of reinsurers in difficulty is calculated according to the actuary's recommendations, which takes all the risk factors into consideration. Furthermore, when Migdal Insurance records the provisions, it takes into consideration, among others, the willingness of the parties to reach agreements terminating engagements by way of final settlement of the debts (cut-off) in order to reduce the exposure.

3. Outstanding premiums in general insurance:

The allowance for doubtful accounts in respect of outstanding premiums in general insurance is calculated based on estimates of the depth of the debt in arrears and actual rates of policy cancellations in previous years.

4. Non-financial assets:

Timing of impairment testing

The carrying amounts of the Group's non-financial assets, other than deferred acquisition costs, investment property, assets arising from employee benefits, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there are any indications of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The Group tests the impairment of goodwill once a year, on a fixed date or more frequently if events or changes in circumstances indicate that impairment exists.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Impairment: (Cont.)

4. Non-financial assets: (Cont.)

Measurement of recoverable amounts

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less realization costs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("cash-generating unit"). For the purposes of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment of goodwill is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes but in any event not larger than a business segment before aggregation of similar segments. Goodwill acquired in a business combination is allocated to groups of cash-generating units, including those existing in the Group before the business combination, which are expected to benefit from the synergies of the combination.

Affiliates

Goodwill that forms part of an investment in an affiliate is not recognized separately, and therefore is not tested separately for impairment. Instead, the entire amount of the investment in an affiliate is tested for impairment as a single asset when there is objective evidence indicating impairment.

Recognition of an impairment loss

An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

Reversal of an impairment loss

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset after reversal of the impairment loss does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Share capital:

Ordinary shares are classified as equity.

r. Employee benefits:

The Group has a number of employee benefit plans.

The classification of employee benefits for measurement purposes as short-term benefits or long-term benefits is determined on the basis of the Group's forecasts of the date when the benefits are expected to be fully settled.

1. Short-term benefits:

Short-term employee benefits are benefits which are expected to be settled fully, up to 12 months from the end of the annual reporting period in which employees provide related services.

These employee benefits include salaries, recreation, vacation and social security payments that are measured on an undiscounted basis and are recognized as expenses as the services are rendered or upon the actual absence of the employee when the benefit is not accumulated (such as maternity leave). A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-employment benefits:

a) Defined contribution plan:

The Group has defined contribution plans pursuant to Section 14 of the Severance Pay Law, 1963 (in this section - "the Law"), in which it pays regular contributions without having a legal or constructive obligation to pay further amounts, even if the amounts accrued in the fund are insufficient to pay all the employee benefits relating to the employee's service in the current and previous periods.

Deposits in the defined contribution plan for severance pay or pension are recognized as an expense when the money is deposited in the plan, in the period during which related services are rendered by employees, and no additional provision in the financial statements is necessary.

b) Defined benefit plans:

The Group operates a defined benefit plan for the payment of severance pay in accordance with the law. By law employees are entitled to severance pay when they are dismissed or on retirement.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Employee benefits: (Cont.)

2. Post-employment benefits: (Cont.)

b) Defined benefit plans: (Cont.)

The Group's obligation in respect of defined benefit plans regarding post-employment benefits is calculated separately for each plan by estimating the amount of future benefit that is due to the employees in return for their service in the current and prior periods. This benefit is reported at its present value less the fair value of the plan's assets. The Group determines the net interest expense on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual periods. The discount rate is the yield at the reporting date of high quality corporate bonds denominated in the same currency, and which have maturity dates approximating the terms of the Group's obligations. The calculations are made by a qualified actuary using the projected unit credit method.

Remeasurement of the net defined benefit liability (asset) comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). Remeasurement are recognized immediately directly in retained earnings through other comprehensive income.

Interest costs on a defined benefit obligation, interest income on plan assets and interest from the effect of the asset ceiling that were recognized in profit or loss are presented under general and administrative expenses.

When the benefits of a plan are improved or curtailed, the portion of the increased benefit relating to past service by employees or the gain or loss on curtailment are recognized immediately in profit or loss when the plan improvement or curtailment occurs.

Assets held against the compensation component in policies issued by Migdal Insurance, do not constitute defined benefit plan assets and are offset from liabilities in respect of insurance contracts.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Employee benefits: (Cont.)

3. Other long-term employee benefits:

The Group's net obligation in respect of long-term employee benefits other than employment benefit plans is the amount future benefit that employees have earned for service rendered in current and prior periods. This benefit is discounted to its present value and the fair value of related assets is deducted from said amount. The discount rate is determined by reference to the yields at the reporting date on high-quality corporate bonds whose currency and maturity dates are consistent with the terms of the Group's obligation. The calculation is performed using the projected unit credit method. Actuarial gains and losses are recognized in profit or loss in the period in which they arise.

The Group's employees are entitled to benefits in respect of sick leave and some of them are entitled to long service grants. These benefits are accounted for as other long-term benefits since the Group estimates that these benefits will be used subsequent to one year from the reporting date.

4. Termination benefits:

Employee termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

5. Share-based payment transactions:

Equity-settled transactions

The grant date fair value of share-based payment awards granted to employees is recognized as a salary expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense in respect of share-based payment awards that are conditional upon meeting service and non-market performance conditions, is adjusted to reflect the number of awards that are expected to vest.

For share-based payment awards with non-vesting conditions or with market performance vesting conditions, the grant date fair value of the share-based payment awards is measured to reflect such conditions, and therefore the Group recognized an expense in respect of the awards whether or not the conditions have been met.

When the Group makes changes in the terms of grants settled by equity instruments, an additional expense, beyond the original expenditure that was calculated in respect of any modification that increases the total fair value of compensation granted or which benefits the employee/other service provider is recognized at fair value at the time of change.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Employee benefits: (Cont.)

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

Equity-settled transactions (Cont.)

If a grant of an equity instrument is cancelled, it is accounted for as if it had vested on the cancellation date and any expense not yet recognized for the grant is recognized immediately. However, if a new grant replaces the cancelled grant and is identified as a replacement grant on the grant date, the cancelled and new grants are accounted for as a modification of the original grant, as described above.

Transactions in which the parent company grants the Group's employees' rights to its equity instruments are treated as equity-settled share-based payment transactions. In other words, the fair value of the grant is recognized directly in equity, as aforementioned.

Cash-settled transactions

The cost of a transaction that is settled in cash is measured at fair value at the time of the transaction. For further details, see Note 33. The fair value is recognized as an expense over the vesting period with a corresponding increase in liabilities. The liability is remeasured at each reporting date at the fair value until it is settled. Any changes in the fair value of the liability are recognized in the income statement, taking into account the amount of services provided by the employees up until that time.

s. Provisions:

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The carrying amount of the provision in respect of a long term liability is adjusted each period to reflect the passage of time.

Legal claims

A provision for claims is recognized if the Group has a present obligation (legal or constructive) as a result of a past event; it is more likely than not that the Group's economic resources will be required to settle the obligation; and the obligation can be estimated reliably. When the value of time is material, the provision is measured at its present value. The Group management is assisted by its legal advisors in examining the necessity of making provisions and in quantifying them.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Provisions: (Cont.)

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets affiliated with that contract.

t. Revenue recognition:

1. Premiums:

a) Premiums in life assurance and health insurance segments, including savings premiums but excluding receipts in respect of investment contracts are recorded as income when due.

Cancellations are recorded upon receipt of notice from the policyholder or initiated by Migdal Insurance due to arrears in payments, subject to legal provisions. The participation in profit of group insurance policyholders is deducted from the item gross earned premiums.

b) General insurance premiums are accounted for as income based on monthly new business reports. Insurance premiums usually refer to an insurance period of one year. Gross income from premiums and changes in unearned premium are included in the item gross earned premiums.

Since in the motor act line of insurance, the insurance comes into effect only after payment of the insurance premium, the premium is accounted for on the date of payment.

Premiums from policies that will be in force after the reporting date are reported as prepaid premiums.

Income included in the financial statements is after cancellation notices received from policyholders and after the deduction of cancellations and provisions due to the non-payment of premiums, subject to legal provisions and net of the policyholders' participation in profits, based on the agreements that are in force.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Revenue recognition: (Cont.)

2. Management fees:

a) Management fees in respect of yield dependent insurance and investment contracts:

Management fees are calculated in accordance with the Commissioner's directives on the basis of the yield and the accumulated savings of policyholders in the profit-participating portfolio.

Management fees include the following components:

For policies sold from January 1, 2004 – fixed management fees only.

For policies sold up to December 31, 2003 – fixed and variable management fees.

The fixed management fees are calculated at fixed rates from the accumulated savings and are recorded on an accrual basis.

Variable management fees are calculated as a percentage of the annual yield, in real terms (from January 1 and up to December 31) credited to the policy after deducting the fixed management fees collected from that policy.

During the year the variable management fees are reported on an accumulated basis in accordance with the real monthly yield, as long as the yield is positive. During the months that the real yield is negative, the variable management fees are reduced to the amount of the cumulative variable management fees recorded from the beginning of the year. Negative yields in respect of which reductions in management fees have not been made in the current year, will be deducted for the purpose of calculating management fees from positive yields in subsequent periods.

b) Management fees from pension and provident funds:

Income from the management of pension and provident funds is recognized on the basis of the balances of the assets managed and on the basis of member contributions, according to the Commissioner's directives.

c) Management fees from mutual funds and from management of customers' portfolios:

Income from mutual funds management fees and income from management of investment portfolios are recognized on the basis of the balances of the managed assets.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Revenue recognition: (Cont.)

3. Commissions:

Revenues from general insurance commissions in insurance agencies are recognized as income when incurred.

Revenues from life assurance commissions in insurance agencies are recognized on the basis of entitlement dates for payment of the commissions, according to the agreements with the insurance companies, less provisions for commission refunds due to cancellations of insurance policies.

4. Net investment gains (losses), finance income and finance expenses - see paragraph k(8) above.

In the statement of cash flows, the Company chose to present interest received, dividend received and interest paid in cash flows from current activities. Dividends paid are presented in cash flows from finance activities.

u. General and administrative expenses:

General and administrative expenses are classified to indirect expenses for settlement of claims (that are included under payments and change in liabilities in respect of the insurance and investment contracts), to expenses relating to acquisitions (included under commissions, marketing, and other acquisition expenses) and to the balance of administrative and general expenses that are included under this item. The classification is made according to the Group's internal models that are based on direct expenses and allocated indirect expenses.

v. Taxes on income:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or are recognized directly in equity or in other comprehensive income.

Current taxes

Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates applicable under laws enacted or substantively enacted at the reporting date and adjustments required in relation to the payment of tax liability for previous years.

Deferred taxes

Deferred taxes are recognized with respect to temporary differences between the carrying amounts of the assets and liabilities for financial reporting and their value for tax purposes. The Group does not recognize deferred taxes for the following temporary differences: Initial recognition of goodwill, initial recognition of assets and liabilities in a transaction that does not constitute a business combination and does not affect accounting income and income for tax purposes, and provisions deriving from investment in subsidiaries and affiliates, if it is not expected that they will be reversed in the foreseeable future and to the extent the Group controls the date of reversal.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

v. Taxes on income: (Cont.)

Deferred taxes (Cont.)

The deferred taxes in respect of investment property held for the purpose of recovering substantially all of the economic benefits embodied in it by way of realization and not by way of use, are measured according to the manner of the expected settlement of the underlying asset, on the basis of realization and not on the basis of use.

Deferred taxes are measured at the tax rates that are expected to apply to the temporary differences on the date they are realized, based on the laws that have been enacted or substantially enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each balance sheet date, and are reduced to the extent that it is no longer probable that the related tax benefits will be realized.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale.

Offsetting of deferred tax assets and liabilities

Deferred tax assets and liabilities are offset if there is a legal enforceable right to offset current tax assets and liabilities and they relate to the income taxes levied by the same tax authority and in respect of the same taxable entity, or in different tax entities, when they intend to settle current tax assets and liabilities on a net basis or if the current tax assets and liabilities will be realized simultaneously.

Tax addition in respect of dividend distribution

In the calculation of deferred taxes provisions are not made for tax liabilities in respect of the realization of investments in investee companies, if the realization of the investment is not expected in the foreseeable future. In addition, provisions for deferred taxes are not made for distribution of dividends by investee companies when the distribution of the dividend does not result in additional taxes or since the Group's policy is to not initiate the distribution of a dividend by a subsidiary which results in an additional tax liability.

Intercompany transactions

Deferred tax in respect of intercompany transactions in the consolidated financial statements is recorded at the tax rate applicable to the purchasing company.

Uncertain tax positions

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

w. Earnings per share:

The Group presents basic and diluted earnings per share data with respect to its Ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to the ordinary shareholders of the Group by the weighted average number of Ordinary shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of Ordinary shares outstanding, after adjustment for the effects of all dilutive potential Ordinary shares which comprise share options granted to employees.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. New standards not yet adopted:

1. IFRS 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. This guidance is in addition to IFRS 9 (2013) which was issued in 2013.

Classification and measurement

According to the Standard, there are three main categories for measuring financial assets: amortized cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVTOCI). The classification of debt instruments is based on the entity's business model for managing financial assets and the contractual cash flow features of the financial asset. Investment in equity instruments is measured at FVTPL (unless the company chose to present the changes in fair value in OCI upon initial recognition).
As a rule, the Standard requires recognizing changes in the fair value of financial liabilities designated at FVTPL and attributed to the change in own credit risk in OCI.

Impairment of financial assets

The Standard provides a new expected credit loss model for the majority of financial debt assets. The new model presents a dual impairment measurement method: if the credit risk attributed to the financial asset has not significantly increased since the initial recognition date, a provision for loss will be recorded in the amount of the expected credit losses due to failure events whose occurrence is possible in the 12 months after the reporting date. If the credit risk has significantly increased, in most cases, the provision for impairment will increase and be recorded in the amount of the expected credit losses over the entire life of the financial asset.

The Standard will be adopted in annual periods beginning on January 1, 2018 with a possibility for early adoption.

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

1. IFRS 9 (2014), "Financial Instruments" (Cont.)

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

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

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

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

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

The Company meets the aforesaid criteria and therefore expects to defer the application of IFRS 9 until the initial application date of the new standard on insurance contracts.

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

IFRS 15 (hereinafter – the Standard) was issued by the IASB in May 2014. The Standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, IFRIC 13 *Customer Loyalty Programs*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC 31 *Revenue – Barter Transactions including Advertising Services*.

The Standard introduces a five step model for recognizing revenue from contracts with customers:
- Step 1 - Identifying the contract with the customer, including reference to combining contracts and the treatment of contract modifications.
- Step 2 - Identifying distinct performance obligations in the contract.
- Step 3 - Determining the transaction price, including reference to variable consideration, a significant financing component, non-cash consideration and consideration payable to the customer.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

- Step 4 - Allocating the transaction price to each distinct performance obligation on the basis of the relative standalone selling price using observable prices if available, or estimates and assessments.
- Step 5 - Recognizing revenue when the performance obligations are satisfied, while distinguishing between obligations satisfied at a point in time and obligations satisfied over time.

IFRS 15 is applicable on a retrospective basis for annual periods beginning on or after January 1, 2018 and earlier application is permitted. IFRS 15 allows choosing partial retrospective application with certain expedients, of applying IFRS 15 to existing contracts as from the initial application date without a restatement of comparative data.

The Standard is not expected to affect the recognition of revenue from policies in the scope of IFRS 4. The Group is examining the possible effect of the Standard on the recognition of revenue from other contracts.

3. Amendments to IAS 7, “Statement of Cash Flows”, regarding additional disclosures of financial liabilities:

In January 2016, the IASB issued amendments to IAS 7, "Statement of Cash Flows", ("the amendments") which require additional disclosures regarding financial liabilities. The amendments require presenting the movement between the opening balance and the closing balance of financial liabilities, including changes from financing cash flows, from obtaining or losing control in investees, from changes in foreign exchange rates and from changes in fair value.

The amendments are applicable for annual periods beginning on or after January 1, 2017. Comparative information for periods prior to the effective date of the amendments is not required. Early application is permitted.

The Group will include the necessary disclosures in the financial statements when applicable.

4. IFRS 16, “Leases”

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

4. IFRS 16, “Leases” (Cont.)

The highlights of the new standard are as follows:

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

The new standard is applicable for annual periods beginning on or after January 1, 2019. Early application is permitted, if at the same time the company also applies IFRS 15, *Revenue from Contracts with Customers*.

The new standard permits lessees to choose between full retrospective application or partial retrospective application with certain expedients in respect of leases that existed at the transition date, by which a restatement of the comparative data is not required.

The Group is examining the possible effect of the standard.

5. Amendments to IAS 40, “Investment Property” – Transfers of Investment Property

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

5. Amendments to IAS 40, "Investment Property" – Transfers of Investment Property (Cont.)

The amendments are applicable on a retrospective basis for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The amendments permit choosing partial retrospective application by which the amendments are applied to transfers that occurred after the date of initial application without the restatement of comparative data. In this case, adjustments to the carrying amount of assets at the date of initial application of the amendments are recognized directly in equity.

6. Amendment to IAS 12, "Income Taxes": Recognition of Deferred Tax Assets for Unrealized Losses

The Amendment clarifies that for purposes of recognizing a deferred tax asset, the effect of reversal of deductible temporary differences should be excluded when assessing future taxable profit. This assessment should be made separately for different types of deductible temporary differences if tax laws contain restrictions on the types of taxable profit from which losses can be deducted.
Moreover, the Amendment provides that probable future profits may include profits from the recovery of assets at more than their carrying value, if there is sufficient supporting evidence.

The Amendment is applicable retrospectively for annual periods beginning on or after January 1, 2017 with early adoption being permitted.

The Group is examining the effects of the Amendment on the financial statements and is of the opinion that its application will not have a material effect on the financial statements.

7. IFRIC 22, "Foreign Currency Transactions and Advance Consideration"

The interpretation provides that the date of the transaction for the purpose of determining the exchange rate for recording a foreign currency transaction that includes advance consideration is the date of initial recognition of the non-monetary asset/liability from the prepayment. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

IFRIC 22 is applicable for annual periods beginning on or after January 1, 2018 and earlier application is permitted. IFRIC 22 includes various alternative transitional provisions, so that companies can choose between one of the following alternatives at initial application: retrospective application; prospective application from the first reporting period the entity initially applied IFRIC 22; or prospective application from the first reporting period presented in the comparative data in the financial statements for the period the entity initially applied IFRIC 22.

The Group has examined the effects of IFRIC 22 on the financial statements, and is of the opinion that its application will not have a material effect on the financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

y. Below are changes in the CPI and exchange rate of the dollar:

	Consumer Price Index		Representative exchange
	Index in respect of	Known index	rate of the USD
		%	
Year ended December 31, 2016	(0.2)	(0.3)	(1.5)
Year ended December 31, 2015	(1.0)	(0.9)	0.3
Year ended December 31, 2014	(0.2)	(0.1)	12.1

NOTE 3:- OPERATING SEGMENTS

a. General

The operating segments Note includes a number of sectors that constitute strategic business units of the Group. These business units include a variety of products and are managed separately for the purpose of allocating resources and assessing performance. The products at the base of each segment is substantially similar with regard to the nature, manner of distribution, customer mix, the essence of the supervisory environment and economic and demographic characteristics of long-term exposure to derivatives with similar characteristics to insurance risks. In addition, the results of the investment portfolio held against insurance liabilities could have a significant impact on profitability.

Results, assets and liabilities in each segment include items directly attributable to a segment and items that can be attributed on a reasonable basis.

The accounting principles applied in segment reporting correspond to the accounting principles applied in the preparation and presentation of the Group's financial statements.

1. The life assurance and long-term savings segment:

   The life assurance and long-term savings segment includes the lines of life assurance, pension and provident funds and it concentrates mainly on long-term savings (in the framework of various types of insurance policies, pension and provident funds including educational funds), as well as insurance coverage for various risks such as: death, disability, occupational disability, etc. According to the Commissioner's directives, the life assurance and long-term savings segment is broken down into life assurance, pension and provident funds.

2. Health insurance segment:

   The health insurance segment consolidates the Group's entire activities in health insurance – the segment includes long-term care insurance, medical expense insurance, operations, transplants, dental insurance, etc.

NOTE 3:- OPERATING SEGMENTS (Cont.)

a. General (Cont.)

3. General insurance segment:

The general insurance segment includes the liability and property branches. Under the Commissioner's directives, the general insurance segment is broken down into the lines of motor act, motor casco, other property branches, other liability branches.

- The motor act insurance line of insurance

  The motor act insurance line of business focuses on coverage whose acquisition by the owner of the vehicle or the driver is compulsory by law and which provides coverage for bodily injuries (to the driver of the vehicle, the passengers in the vehicle or to pedestrians), as a result of the use of the motor vehicle.

- The motor casco line of insurance

  The motor casco line of business focuses on the property damage coverage for the insured vehicle and property damages that the insured vehicle will cause to a third party.

- Other liability branches

  The liability branches are intended for the coverage of the policyholders' liabilities for any damage that he will cause to a third party. These lines of business include: third party liability, employers' liability, professional liability, product warranty, marine hull and aviation hull.

- Property and other branches

  The other general insurance branches that are not vehicles and liabilities, including property loss, comprehensive business premises, comprehensive residential, mortgage banks, personal accidents, cargo in transit, engineering insurance and other risks.

NOTE 3:- OPERATING SEGMENTS (Cont.)

a. General (Cont.)

4. Financial services segment:

This segment mainly includes financial assets management services and marketing for investments (mainly management of mutual funds and portfolio management), stock exchange brokerage in regulated markets[1], market making of various securities as well as other services.

5. Other operating segments

Other operating segments include mainly operating results of insurance agencies.

6. Activities not attributed to operating segments

This includes part of the Group's headquarters not attributable to the operating segments, related activities/launch the Group's operations and the assets and liabilities held against Migdal Insurance equity in accordance with the Capital Regulations.

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

NOTE 3:- OPERATING SEGMENTS (Cont.)

b. Reportable segments:

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

*) Derived from income from commissions received by agencies owned by the Group, from activities in life assurance and long-term savings in the amount of NIS 107,362 thousand, in health insurance in the amount of NIS 27,712 thousand and in general insurance in the amount of NIS 19,294 thousand and in the financial services in the amount of NIS 3,583 thousand.

**) See Note 38.e.2 regarding the acquisition of a run-off general insurance portfolio.

NOTE 3:- OPERATING SEGMENTS (Cont.)

b. Reportable segments:

	Year ended December 31, 2015							
	Life assurance and long-term savings	Health	General insurance	Financial services	Other operating segments	Unallocated to operating segments	Adjustments and offsets	Total
	NIS in thousands							
Gross premiums earned	7,661,558	1,024,474	2,002,782	-	-	-	-	10,688,814
Premiums earned by reinsurers	149,693	69,590	403,873	-	-	-	-	623,156
Premiums earned on retention	7,511,865	954,884	1,598,909	-	-	-	-	10,065,658
Net investment income and finance income	3,080,924	70,059	182,340	6,079	3,634	170,051	(27,754)	3,485,333
Income from management fees	1,338,043	-	-	141,531	-	-	-	1,479,574
Income from commissions	53,765	15,868	58,453	55,562	334,057	-	(175,109) *)	342,596
Other income	-	-	-	2,169	3,630	66,631	(30,698)	41,732
Total income	11,984,597	1,040,811	1,839,702	205,341	341,321	236,682	(233,561)	15,414,893
Payments and change in liabilities in respect of insurance and investment contracts, gross	10,355,974	779,039	1,453,183	-	-	-	(26,454)	12,561,742
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts	66,198	64,625	216,487	-	-	-	-	347,310
Payments and change in liabilities in respect of insurance and investment contracts on retention	10,289,776	714,414	1,236,696	-	-	-	(26,454)	12,214,432
Commissions, marketing expenses and other acquisition expenses	831,369	293,467	416,237	65,422	139,296	-	(160,524)	1,585,267
General and administrative expenses	597,811	58,582	47,575	115,891	157,285	78,410	(17,111)	1,038,443
Other expenses	20,253	-	16,376	27,524	7,702	30,853	(907)	101,801
Finance expenses	21,058	-	4,360	28	1,893	47,779	(17,387)	57,731
Total expenses	11,760,267	1,066,463	1,721,244	208,865	306,176	157,042	(222,383)	14,997,674
Share of earnings of investees accounted for at equity	51,882	-	18,267	-	1,894	19,555	-	91,598
Income (loss) before taxes on income	276,212	(25,652)	136,725	(3,524)	37,039	99,195	(11,178)	508,817
Other comprehensive income (loss) before taxes on income	(165,682)	(9,724)	(79,761)	643	(160)	(73,735)	-	(328,419)
Total comprehensive income (loss) for the period before taxes on income	110,530	(35,376)	56,964	(2,881)	36,879	25,460	(11,178)	180,398

*) Derived from income from commissions received by agencies owned by the Group, from activities in life assurance and long-term savings in the amount of NIS 122,384 thousand, in health insurance in the amount of NIS 24,895 thousand and in general insurance in the amount of NIS 18,206 thousand and in the financial services in the amount of NIS 9,624 thousand.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016

NOTE 3:- OPERATING SEGMENTS (Cont.)

b. Reportable segments: (Cont.)

	Year ended December 31, 2014							
	Life assurance and long-term savings	Health	General insurance	Financial services	Other operating segments	Unallocated to operating segments	Adjustments and offsets	Total
	NIS in thousands							
Gross premiums earned	7,605,774	879,877	1,939,920	-	-	-	-	10,425,571
Premiums earned by reinsurers	190,767	64,167	432,739	-	-	-	-	687,673
Premiums earned on retention	7,415,007	815,710	1,507,181	-	-	-	-	9,737,898
Net investment income and finance income	5,166,123	105,857	180,879	14,471	2,361	173,176	(28,585)	5,614,282
Income from management fees	1,424,781	-	-	144,287	-	-	-	1,569,068
Income from commissions	65,498	13,567	73,675	43,533	346,994	-	(* (174,738)	368,529
Other income	-	-	-	7,267	-	37,753	(2,064)	42,956
Total income	14,071,409	935,134	1,761,735	209,558	349,355	210,929	(205,387)	17,332,733
Payments and change in liabilities in respect of insurance and investment contracts, gross	12,437,303	617,439	1,443,244	-	-	-	(2,064)	14,495,922
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts	79,286	54,149	250,302	-	-	-	-	383,737
Payments and change in liabilities in respect of insurance and investment contracts on retention	12,358,017	563,290	1,192,942	-	-	-	(2,064)	14,112,185
Commissions, marketing expenses and other acquisition expenses	829,345	253,214	397,913	70,319	142,538	-	(170,274)	1,523,055
General and administrative expenses	592,201	43,360	43,982	127,276	172,742	74,095	(12,487)	1,041,169
Other expenses	22,702	-	17,851	8,315	10,666	17,094	-	76,628
Finance expenses	20,480	-	13,906	3,124	3,178	31,151	(20,360)	51,479
Total expenses	13,822,745	859,864	1,666,594	209,034	329,124	122,340	(205,185)	16,804,516
Share of earnings of investees accounted for at equity	43,461	-	13,217	-	1,611	21,823	-	80,112
Income before taxes on income	292,125	75,270	108,358	524	21,842	110,412	(202)	608,329
Other comprehensive income before taxes on income	152,325	7,028	8,266	1,562	1,549	13,681	-	184,411
Total comprehensive income for the period before taxes on income	444,450	82,298	116,624	2,086	23,391	124,093	(202)	792,740

*) Derived from income from commissions received by agencies owned by the Group, from activities in life assurance and long-term savings in the amount of NIS 126,988 thousand, in health insurance in the amount of NIS 23,050 thousand and in general insurance in the amount of NIS 20,438 thousand and in the financial services in the amount of NIS 4,262 thousand.

NOTE 3:- OPERATING SEGMENTS (Cont.)

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

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

NOTE 3:- OPERATING SEGMENTS (Cont.)

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

	Year ended December 31, 2015			
	Life assurance	Pension funds	Provident funds	Total
	NIS in thousands			
Gross premiums earned	7,661,558	-	-	7,661,558
Premiums earned by reinsurers	149,693	-	-	149,693
Premiums earned on retention	7,511,865	-	-	7,511,865
Net investment income and finance income	3,069,656	8,523	2,745	3,080,924
Income from management fees	857,895	348,592	131,556	1,338,043
Income from commissions	53,765	-	-	53,765
Total income	11,493,181	357,115	134,301	11,984,597
Payments and change in liabilities for insurance and investment contracts, gross	10,355,974	-	-	10,355,974
Reinsurers' share in payments and change in liabilities for insurance contracts	66,198	-	-	66,198
	10,289,776	-	-	10,289,776
Payments and change in liabilities for insurance and investment contracts on retention				
Commissions, marketing expenses and other acquisition expenses	637,142	149,047	45,180	831,369
General and administrative expenses	400,748	137,540	59,523	597,811
Other expenses	-	-	20,253	20,253
Finance expenses	21,058	-	-	21,058
Total expenses	11,348,724	286,587	124,956	11,760,267
Group's share of earnings of investees accounted for at equity	51,882	-	-	51,882
Income before taxes on income	196,339	70,528	9,345	276,212
Other comprehensive loss before taxes on income	(157,351)	(6,228)	(2,103)	(165,682)
Total comprehensive income for the period before taxes on income	38,988	64,300	7,242	110,530

NOTE 3:- OPERATING SEGMENTS (Cont.)

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

	Year ended December 31, 2014			
	Life assurance	Pension funds	Provident funds	Total
	NIS in thousands			
Gross premiums earned	7,605,774	-	-	7,605,774
Premiums earned by reinsurers	190,767	-	-	190,767
Premiums earned on retention	7,415,007	-	-	7,415,007
Net investment income and finance income	5,157,219	7,368	1,536	5,166,123
Income from management fees	946,081	340,621	138,079	1,424,781
Income from commissions	65,498	-	-	65,498
Total income	13,583,805	347,989	139,615	14,071,409
Payments and change in liabilities for insurance and investment contracts, gross	12,437,303	-	-	12,437,303
Reinsurers' share in payments and change in liabilities for insurance contracts	79,286	-	-	79,286
	12,358,017	-	-	12,358,017
Payments and change in liabilities for insurance and investment contracts on retention				
Commissions, marketing expenses and other acquisition expenses	647,374	136,793	45,178	829,345
General and administrative expenses	409,045	127,756	55,400	592,201
Other expenses	-	-	22,702	22,702
Finance expenses	20,480	-	-	20,480
Total expenses	13,434,916	264,549	123,280	13,822,745
Group's share of earnings of investees accounted for at equity	43,461	-	-	43,461
Income before taxes on income	192,350	83,440	16,335	292,125
Other comprehensive income before taxes on income	151,443	800	82	152,325
Total comprehensive income for the period before taxes on income	343,793	84,240	16,417	444,450

NOTE 3:- OPERATING SEGMENTS (Cont.)

d. Additional information regarding the general insurance segment:

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

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

Other liability branches mainly include the results of employers' liability insurance, third party liability and professional liability branches whose activities constitute about 87% of the total premiums in these branches.

**) See Note 38.e.2 regarding the acquisition of a run-off general insurance portfolio.

NOTE 3:- OPERATING SEGMENTS (Cont.)

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

	Year ended December 31, 2015				
	Motor act	Motor casco	Property and other branches *)	Other liability branches *)	Total
	NIS in thousands				
Gross premiums	509,942	646,605	588,162	305,488	2,050,197
Reinsurance premiums	11,495	2,872	319,588	76,808	410,763
Premiums on retention	498,447	643,733	268,574	228,680	1,639,434
Change in unearned premium balance, on retention	5,296	(37,631)	(6,302)	(1,888)	(40,525)
Earned premiums on retention	503,743	606,102	262,272	226,792	1,598,909
Net investment income and finance income	96,402	14,856	11,018	60,064	182,340
Income from commissions	-	(365)	51,806	7,012	58,453
Total income	600,145	620,593	325,096	293,868	1,839,702
Payments and change in liabilities for insurance contracts, gross	350,549	499,421	405,253	197,960	1,453,183
Reinsurers' share in payments and in change in liabilities for insurance contracts	(11,459)	1,239	286,137	(59,430)	216,487
Payments and change in liabilities for insurance contracts on retention	362,008	498,182	119,116	257,390	1,236,696
Commissions, marketing expenses and other acquisition expenses	60,515	151,429	142,411	61,882	416,237
General and administrative expenses	16,744	11,883	12,560	6,388	47,575
Other expenses	4,979	6,430	2,683	2,284	16,376
Finance expenses	847	149	2,830	534	4,360
Total expenses	445,093	668,073	279,600	328,478	1,721,244
Share of earnings of investees accounted for at equity	9,808	1,510	840	6,109	18,267
Income (loss) before taxes on income	164,860	(45,970)	46,336	(28,501)	136,725
Other comprehensive loss before taxes on income	(42,822)	(6,591)	(3,670)	(26,678)	(79,761)
Total comprehensive income (loss) for the period before taxes on income	122,038	(52,561)	42,666	(55,179)	56,964
Liabilities in respect of gross insurance contracts at December 31, 2015	1,735,607	440,936	567,267	1,512,579	4,256,389
Liabilities in respect of insurance contracts on retention at December 31, 2015	1,718,804	439,650	202,958	1,279,389	3,640,801

*) Property and other branches mainly include the results of comprehensive residential, comprehensive business premises, engineering and cargo in transit insurance branches, whose activities constitute about 96% of the total premiums in these branches.

Other liability branches mainly include the results of employers' liability insurance, third party liability and professional liability branches whose activities constitute about 86% of the total premiums in these branches.

NOTE 3:- OPERATING SEGMENTS (Cont.)

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

	Year ended December 31, 2014				
	Motor act	Motor casco	Property and other branches *)	Other liability branches *)	Total
	NIS in thousands				
Gross premiums	540,042	553,535	571,116	304,218	1,968,911
Reinsurance premiums	11,874	618	318,110	75,865	406,467
Premiums on retention	528,168	552,917	253,006	228,353	1,562,444
Change in unearned premium balance, on retention	4,368	(2,996)	(44,362)	(12,273)	(55,263)
Earned premiums 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.)

e. Details on segment assets and liabilities:

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

NOTE 3:- OPERATING SEGMENTS (Cont.)

e. Details on segment assets and liabilities:

	December 31, 2015							
	Life assurance and long-term savings	Health	General insurance	Financial services	Other operating segments	Unallocated to operating segments	Adjustments and offsets	Total
	NIS in thousands							
Assets								
Intangible assets	344,133	-	221,218	352,600	105,752	249,393	(1,793)	1,271,303
Deferred acquisition costs	1,295,400	416,676	186,499	-	-	-	(65,153)	1,833,422
Investments in affiliates	407,978	-	148,225	-	8,515	135,496	-	700,214
Investment property for yield dependent contracts	5,217,710	110,743	-	-	-	-	-	5,328,453
Investment property - other	523,445	15,521	172,904	-	-	6,445	-	718,315
Reinsurance assets	104,214	34,491	615,588	-	-	-	-	754,293
Outstanding premiums	190,514	25,475	353,434	-	-	-	-	569,423
Financial investments for yield dependent contracts	68,580,067	1,546,388	-	-	-	-	-	70,126,455
Other financial investments:								
Quoted debt assets	3,240,261	56,389	1,625,523	1,513	2,777	2,688,753	-	7,615,216
Unquoted debt assets	21,076,455	382,843	533,917	6,731	4,797	141,807	(109,350)	22,037,200
Shares	626,057	11,205	253,096	70,338	2	220,245	-	1,180,943
Other	1,547,229	27,662	468,342	122	290	467,662	-	2,511,307
Total other financial investments	26,490,002	478,099	2,880,878	78,704	7,866	3,518,467	(109,350)	33,344,666
Cash and cash equivalents for yield dependent contracts	7,638,992	162,134	-	-	-	-	-	7,801,126
Cash and cash equivalents – other	633,611	15,678	206,063	176,779	45,154	1,125,459	-	2,202,744
Other assets	662,138	109,405	91,980	28,283	152,676	1,876,064	(1,229,060)	1,691,486
Total assets	112,088,204	2,914,610	4,876,789	636,366	319,963	6,911,324	(1,405,356)	126,341,900
Total assets for yield dependent contracts	81,927,664	1,716,030	-	-	-	-	-	83,643,694
Liabilities								
Liability due to non-yield dependent insurance and investment contracts	27,342,062	727,755	4,256,389	-	-	-	-	32,326,206
Liability due to yield dependent insurance and investment contracts	81,580,815	1,731,671	-	-	-	-	-	83,312,486
Financial liabilities	253,114	7,387	11,709	580	110,856	2,737,399	(103,307)	3,017,738
Other liabilities	1,397,845	31,121	608,691	114,121	209,107	1,350,807	(1,254,776)	2,456,916
Total liabilities	110,573,836	2,497,934	4,876,789	114,701	319,963	4,088,206	(1,358,083)	121,113,346

NOTE 4:- INTANGIBLE ASSETS

a. Composition:

	Goodwill	Initial difference attributed to value of insurance portfolios	Future management fees	Brand name	Computer software	Customer portfolio	Other	Total
	NIS in thousands							
Cost								
Balance at January 1, 2015	1,069,209	741,466	213,623	10,939	1,230,259	81,115	22,829	3,369,440
Acquisitions and internal development (1)	-	-	-	-	114,302	-	-	114,302
Disposals during the year	-	-	-	-	(20,534)	-	-	(20,534)
Exit from consolidation	-	-	-	-	(1,894)	-	-	(1,894)
Balance at December 31, 2015	1,069,209	741,466	213,623	10,939	1,322,133	81,115	22,829	3,461,314
Acquisitions in business combinations	**13,146**	**859**	**970**	**-**	**2**	**-**	**8,547**	**23,524**
Acquisitions and internal development (1)	**-**	**-**	**-**	**-**	**111,814**	**-**	**-**	**111,814**
Disposals during the year	**-**	**(1,823)**	**-**	**-**	**(64,350)**	**-**	**-**	**(66,173)**
Exit from consolidation	**(1,372)**	**-**	**-**	**(1,967)**	**(6,306)**	**-**	**-**	**(9,645)**
Balance at December 31, 2016	**1,080,983**	**740,502**	**214,593**	**8,972**	**1,363,293**	**81,115**	**31,376**	**3,520,834**
Accumulated amortization and impairment losses								
Balance at January 1, 2015	133,114	715,287	164,590	9,387	956,144	18,066	12,957	2,009,545
Amortization recognized during the year	-	7,702	7,788	504	129,962	12,904	4,978	163,838
Impairment	38,927	-	-	-	-	-	-	38,927
Disposals during the year	-	-	-	-	(20,534)	-	-	(20,534)
Exit from consolidation	-	-	-	-	(1,765)	-	-	(1,765)
Balance at December 31, 2015	172,041	722,989	172,378	9,891	1,063,807	30,970	17,935	2,190,011
Amortization recognized during the year	**-**	**4,489**	**5,680**	**258**	**127,301**	**11,431**	**4,027**	**153,186**
Impairment	**24,709**	**-**	**-**	**-**	**-**	**-**	**-**	**24,709**
Disposals during the year	**-**	**(1,823)**	**-**	**-**	**(64,350)**	**-**	**-**	**(66,173)**
Exit from consolidation	**-**	**-**	**-**	**(1,314)**	**(3,975)**	**-**	**-**	**(5,289)**
Balance at December 31, 2016	**196,750**	**725,655**	**178,058**	**8,835**	**1,122,783**	**42,401**	**21,962**	**2,296,444**
Net carrying amount								
At December 31, 2016	**884,233**	**14,847**	**36,535**	**137**	**240,510**	**38,714**	**9,414**	**1,224,390**
At December 31, 2015	897,168	18,477	41,245	1,048	258,326	50,145	4,894	1,271,303

(1) In respect of computer software, an amount of about NIS 83 million was included in each of the years 2016 and 2015 in respect of internal development.

NOTE 4:- INTANGIBLE ASSETS (Cont.)

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

In order to examine the impairment of goodwill as of December 31, 2016, the goodwill was allocated to the following cash generating units: pension funds, provident funds, general insurance, financial services and others (insurance agencies and activities not allocated to operating segments).

Hereunder is the carrying amount of the goodwill that was allocated to the following cash generating units:

	December 31,	
	2016	**2015**
	NIS in thousands	
Pension funds	**190,866**	190,866
Provident funds	**92,142**	112,671
Financial services	**349,886**	349,856
General insurance	**168,470**	168,470
Other	**82,869**	75,305
	884,233	897,168

In order to examine the impairment of the goodwill, the recoverable amount of the cash generating unit to which the goodwill was allocated, is examined in relation to its carrying amount. If the recoverable amount of the cash generating unit is higher than its carrying amount, the value of the unit and the assets allocated to it will be considered unimpaired.

The recoverable amount of the pension unit is determined on the basis of forecast revenues less expenses expected from the existing pension portfolio based on the embedded value of that portfolio, according to economic discount rates and rates of return. The recoverable amount exceeds the carrying amount of the unit.

The recoverable amount of the provident fund unit is determined on the basis of the estimated future cash flows deriving from the activities of the unit.

As at December 31, 2016, mainly due to the decrease in management fee rates and the increase in expenses, it was found that the carrying amount of the unit of provident funds exceeded its recoverable amount which is NIS 172,665 thousand and therefore an impairment loss of NIS 20,529 thousand was recognized (in 2015 – NIS 13,087 thousand). The impairment loss was fully allocated to goodwill.

The recoverable amount of the financial services unit based on its fair value less realization costs and is determined based on the estimated future cash flows derived from the overall activities of the unit.

NOTE 4:- INTANGIBLE ASSETS (Cont.)

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

As at December 31, 2016 the unit’s recoverable amount exceeds its carrying amount. In the year 2015, the financial services unit includes mutual funds, in the year 2014 this unit also included a hedge fund. During the year 2015, following the fluctuations in the capital market and the volume of redemptions in the mutual fund branch during the reporting period, it was found that the carrying amount of the trust funds unit was higher than its recoverable amount, and therefore an impairment loss was recognized in the amount of NIS 25,840 thousand.

The recoverable amount of the unit of general insurance is based on its value in use and determined on the basis of estimated future cash flows of the general insurance lines. The unit's recoverable amount exceeds its carrying amount.

The other units relate to the activity of the Group's insurance agencies and activities not allocated to operating segments.
The recoverable amount of each of the other units is based on their value in use and determined based on the estimated future cash flows of each unit.

As at December 31, 2016, an impairment loss has been recognized in an immaterial amount.
As at December 31, 2015, the recoverable amount exceeds the carrying amount of each of the other units.

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

Fair value measurements are classified as Level 3 in the fair value hierarchy, see the definition of the fair value hierarchy in Note 2k(7) regarding determination of the fair value.

The key assumptions used for the calculation of the recoverable amount

The calculation of the recoverable amount of the unit of provident funds is based on the following main assumptions:

Pre-tax nominal discount interest rate of about 13% and post-tax discount rate of about 10% (in the year 2015 the nominal pre-tax discount interest rate was about 14.8% and post-tax about 10%). This rate was determined using the WACC model, on the basis of parameters characteristic of this type of activity.

Nominal long-term growth rate – about 3% (in 2015 a nominal long term growth rate of about 3%). This rate was determined on the basis of the average long-term growth rate for this type of activity.
The cash flow forecast was built for 12 years

NOTE 4:- INTANGIBLE ASSETS (Cont.)

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

The key assumptions used for the calculation of the recoverable amount (Cont.)

The calculation of the recoverable amount of the unit of mutual funds is based on the following main assumptions:

Pre-tax real discount interest rate of about 14.2% and post-tax real discount rate of about 10.2% (in the year 2015 pre-tax real discount interest rate of about 15.6% and post-tax discount rate of about 10.8%). This rate was determined using the WACC model, on the basis of parameters characteristic of this type of activity.

Real long-term growth rate of about 2% (in the year 2015 real long-term growth rate of about 2%). The rate was determined on the basis of the average long-term growth rate for this type of activity.

Average management fee rates in long term mutual funds about 0.55% (in the year 2015 about 0.56%).

The cash flow forecast was built for five years.

The calculation of the recoverable amount of the general insurance unit is based on the following main assumptions:

Nominal pre-tax discount interest rate of about 14.9% and post-tax discount rate of about 9.7 % (in the year 2015 real pre-tax discount rate of about 15% and post-tax about 9.6%), the cash flow forecast was built for five years, overall damage ratio in the various general insurance lines of 87.5%-134% (in the year 2015 80%-118%); long-term premium growth rate in the motor act line of about 1.5% and long-term premium growth rate in the other lines of about 3.3% (in the year 2015 1.5% in motor act and 3.3% in remaining lines).

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

Pre-tax discount interest rate of about 16% and post-tax discount rate of about 13% (in the year 2015 about 16% pre-tax and about 12% post-tax) and long-term growth rate mainly of about 1%-2.5% (in the year 2015 1.5%-2.5%).

These rates were determined on the basis of parameters characteristic of this type of activity.

NOTE 5:- DEFERRED ACQUISITION COSTS

a. Composition:

	December 31, 2016	December 31, 2015
	NIS in thousands	
Life assurance and long-term savings:		
Life assurance	**1,018,581**	1,012,228
Pension and provident funds	**236,709**	228,953
	1,255,290	1,241,181
Health insurance	**433,576**	405,742
General insurance	**205,510**	186,499
	1,894,376	1,833,422

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, 2015	1,047,849	198,563	1,246,412	351,170	1,597,582
Additions:					
Acquisition commissions	94,117	56,138	150,255	121,373	271,628
Other acquisition expenses	85,164	10,882	96,046	40,110	136,156
Total additions	179,281	67,020	246,301	161,483	407,784
Current amortization	129,594	18,320	147,914	77,984	225,898
Amortization due to cancellations	85,308	18,310	103,618	28,927	132,545
Balance at December 31, 2015	1,012,228	228,953	1,241,181	405,742	1,646,923
Additions:					
Acquisition commissions	**117,603**	**40,038**	**157,641**	**91,639**	**249,280**
Other acquisition expenses	**79,306**	**13,046**	**92,352**	**56,577**	**148,929**
Total additions	**196,909**	**53,084**	**249,993**	**148,216**	**398,209**
Current amortization	**122,440**	**20,305**	**142,745**	**88,554**	**231,299**
Amortization due to cancellations	**68,116**	**25,023**	**93,139**	**31,828**	**124,967**
Balance at December 31, 2016	**1,018,581**	**236,709**	**1,255,290**	**433,576**	**1,688,866**

NOTE 6:- FIXED ASSETS

a. Composition and movement:

2016

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

NOTE 6:- FIXED ASSETS (Cont.)

a. Composition and movement: (Cont.)

2015

	Land and office buildings	Computers and software	Motor vehicles	Furniture and equipment	Leasehold improvements	Total
	NIS in thousands					
Cost						
Cost as at January 1, 2015	752,367	232,129	1,866	206,523	28,934	1,221,819
Additions during the year	34,121	20,364	145	11,024	1,079	66,733
Disposals during the year	(780)	(6,104)	(1,142)	(7,800)	(4,098)	(19,924)
Transfer from investment property	13,748	-	-	-	-	13,748
Exit from consolidation	-	(6,381)	(21)	(1,224)	(463)	(8,089)
Cost as at December 31, 2015	799,456	240,008	848	208,523	25,452	1,274,287
Accumulated depreciation						
Accumulated depreciation as at January 1, 2015	164,617	184,803	923	132,501	21,519	504,363
Additions during the year	28,656	27,692	143	12,593	2,572	71,656
Disposals during the year	(768)	(6,056)	(588)	(7,541)	(2,943)	(17,896)
Exit from consolidation	-	(5,898)	(13)	(822)	(338)	(7,071)
Accumulated depreciation as at December 31, 2015	192,505	200,541	465	136,731	20,810	551,052
Carrying amount as at December 31, 2015	606,951	39,467	383	71,792	4,642	723,235

NOTE 6:- FIXED ASSETS (Cont.)

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

	December 31, 2016	December 31, 2015
	NIS in thousands	
Freehold	**540,660**	561,733
Capitalized leased *)	**35,348**	45,218
	576,008	606,951

*) Assets under capitalized lease amount to NIS 23,858 thousand (2015 - NIS 34,004 thousand) with a remaining leasehold period of up to 16 years.

Assets under capitalized lease in the amount of NIS 11,490 thousand (2015 - NIS 11,214 thousand) with a remaining leasehold period of over 45 years.

c. Additional information:

The Group has fully depreciated assets which are still operating. The original cost of these assets as of December 31, 2016 is about NIS 212 million (December 31, 2015 - about NIS 163 million).

In the year 2016, the Group derecognized fully depreciated fixed assets that are not utilized by the Group with an original cost of about NIS 26 million (December 31, 2015 - about NIS 17 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, 2016	2015
		%	
Migdal Insurance Company Ltd.	Israel	**100**	100
Migdal Makefet Pension and Provident Funds Ltd.	Israel	**100**	100
Yozma Pension Fund For the Self Employed Ltd.	Israel	**100**	100
Migdal Holdings and Insurance Agency Management Ltd.	Israel	**100**	100
Mivtach Simon Insurance Agencies Ltd.	Israel	**100**	100
Sagi Yoav Insurance Agencies (1988) Ltd.	Israel	**100**	100
Shacham Insurance Agencies (1977) Ltd.	Israel	**100**	100
Peltours Insurance Agencies Ltd.	Israel	**73.28**	73.28
Ihud Insurance Agencies Network Ltd.	Israel		
Orlan Insurance Agency (1994) Ltd.	Israel		
Migdal Health and Quality of Life Ltd.	Israel	**100**	100
Infomed Medical Sites Ltd.	Israel	**100**	81.9
B-Well Quality of Life Solutions Ltd.	Israel	**100**	81.9
Migdal Capital Markets (1965) Ltd.	Israel	**100**	100
Migdal Management Services Ltd. (1)	Israel	**100**	100

Business combinations in the current period

On December 31, 2016 a sub-subsidiary of the Company, Migdal Holdings and Insurance Agency Management Ltd. (hereinafter: “Migdal Agencies”) acquired 70% of the shares and voting interests in Orlan Insurance Agency (1994) Ltd. (hereinafter: “Orlan”). As a result of the acquisition, the interest of Migdal Agencies in Orlan increased from 30% to 100%.

Presented hereunder is information regarding the consideration transferred, and amounts of assets and liabilities that were recognized at the acquisition date:

1. Business combination consideration

	NIS thousands
Cash	13,194
Fair value of pre-existing interest in Orlan	4,746
	17,940

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

a. Details of subsidiaries: (Cont.)

2. Identifiable assets acquired and liabilities assumed

	NIS thousands
Cash and cash equivalents	4
Debtors and receivables	4,970
Investments in affiliates	238
Intangible assets	6,823
Fixed assets	1,013
Financial liabilities	(1,912)
Creditors and payables	(3,477)
Liabilities in respect of current taxes	(519)
Liabilities in respect of employee benefits, net	(224)
Liabilities in respect of deferred taxes	(1,307)
Net identifiable assets	5,609

3. The aggregate cash flows derived for the Group as a result of the acquisition

	NIS thousands
Cash and cash equivalents paid	13,194
Cash and cash equivalents of Orlan	(4)
	13,190

4. Goodwill

Goodwill was recognized as a result of the acquisition as follows:

	NIS thousands
Consideration transferred	13,194
Fair value of pre-existing interest in Oraln *)	4,746
Less fair value of identifiable assets, net	(5,609)
Goodwill	12,331
Impairment recognized **)	(2,119)
Goodwill after impairment	10,212

*) The acquisition created a loss of NIS 1,951 thousand, which represents the loss from re-measurement to fair value of 30% of the shares of Orlan that were held Migdal Agencies before it obtained control. This loss was recognized as part of the other expenses item in the statement of income.

**) See Note 4 regarding intangible assets with respect to goodwill impairment.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

a. Details of subsidiaries: (Cont.)

5. Business combination related expenses

Migdal Agencies incurred an immaterial amount of direct expenses attributable to the acquisition that were included in general and administrative expenses in the statement of income.

Additional business combinations of an immaterial amount occurred during the period.

b. Details of affiliates:

1. Composition of affiliates:

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

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

b. Details of affiliates: (Cont.)

1. Composition of affiliates: (Cont.)

	December 31, 2015				
	Main place of operation	**Company's equity and voting rights**	**Loans and capital notes provided by the Company to affiliates**	**Scope of investment in affiliates**	**Total**
		%	**NIS in thousands**		
Ramat Aviv Mall Ltd.	Israel	26.60	(3) -	240,167	240,167
Amot Investments Ltd.	Israel	(4) 13.31	-	428,314	428,314
			-	668,481	668,481
Other affiliates			9,851	21,882	31,733
Total affiliates			9,851	690,363	700,214

(1) In September 2016 a sub-subsidiary of the Company, Migdal Real Estate Holdings Ltd., granted a loan in the amount of NIS 23 million to Ramat Aviv Mall Ltd. (hereinafter: “the Mall”). The loan was granted to the Mall by its shareholders on a pro-rata basis. The loan bears annual interest of 4% and is payable out of the Mall’s cash surpluses as they are from time to time. An amount of NIS 4.8 million was repaid in the fourth quarter of 2016.

(2) On March 21, 2016 Migdal Insurance entered into a transaction with a distributor for the sale of 26,000,000 ordinary shares of NIS 1 par value each of Amot Investments Ltd. ("Amot"), representing 9.4% of Amot's issued and paid-up share capital and held for Migdal Insurance's nostro account. Migdal Insurance was informed that the distributor has entered into agreements with third parties to sell them the shares in transactions outside the stock exchange. The sale was made at a price of NIS 12.68 per share (ex dividend) and for an overall net consideration of NIS 329 million. Migdal Insurance recognized a pre-tax gain in the amount of NIS 33 million.

On the date of the sale Amot ceased being an affiliate of Migdal Insurance, and the remaining investment in shares of Amot was accounted for as a financial asset measured at fair value through other comprehensive income. Migdal Insurance has undertaken towards the distributor that during the next three months it would not sell the balance of the Amot shares held by it in a transaction on the stock exchange or by distribution to the public, except at conditions determined between the parties.

(3) In June 2009, capital notes in the amount of about NIS 76 thousand were issued for a minimum period of five years, bearing no interest or linkage. During the year 2014, capital notes in the amount of about NIS 61 thousand were repaid. During the year 2015 the remaining capital notes in the amount of about NIS 15 million were repaid. The capital notes are presented in the financial statements at their present value.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

b. Details of affiliates: (Cont.)

1. Composition of affiliates: (Cont.)

(4) Until the date of the sale mentioned in comment (2) above, Migdal Insurance had 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, was 20%.
The fair value of these shares on the TASE as of December 31, 2015 was about NIS 457 million.

(5) 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.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

b. Details of affiliates: (Cont.)

2. Composition of investment in affiliates:

	December 31, 2016	December 31, 2015
	NIS in thousands	
Cost of shares	**138,184**	434,421
The Company's share in profits and capital reserves accrued from the date of acquisition, less dividends	**158,337**	255,942
Other investments - capital notes and loans	**18,933**	9,851
	315,454	700,214
Goodwill included in the investment	**6,112**	12,382

3. Group's share of operating results of affiliates:

The data are presented according to the percentage of holding in the affiliates:

	Year ended December 31, 2016	2015	2014
	NIS in thousands		
Group's share of net income *)	**58,887**	91,598	80,112
Group's share of other comprehensive income (loss)	**854**	(2,599)	(282)

*) Including amortization of original differences.

c. Capital management and requirements in the Group companies:

1. Management's policy is to maintain a strong capital base in order to preserve the Company's ability to continue its operations in order to generate returns for its shareholders and in order to support future business activities. The subsidiaries of the Company which are institutional entities are subject to capital requirements laid down by the Commissioner of Insurance.

   Pursuant to the policy, as stated, it was resolved in the board of directors of Migdal Insurance Company Ltd. (hereunder - "Migdal Insurance"), among others, that Migdal Insurance will strive to maintain existing capital in accordance with the capital requirements, which will not be less than 110% of the capital required based on the capital requirement regulations.

   It is clarified that the above policy does not constitute a determination of mandatory capital, and there is no certainty that Migdal Insurance will comply with this target at all times.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

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

2. Hereunder are details with respect to the required and existing capital of Migdal Insurance pursuant to the Control of Financial Services (Insurance) Law (Minimum Shareholders' Equity required from an Insurer), 1998, (hereunder "the Capital Regulations"), and the Commissioner's directives.

	December 31,	
	2016	2015
	NIS in thousands	
Amount required as per the Capital Regulations and the Commissioner's directives (a)	**4,349,580**	4,317,670
Total existing amount calculated as per the Capital Regulations:		
First tier capital - basic	**4,851,362**	4,679,651
Complex second tier capital (b)	**2,901,210**	2,013,033
Complex third tier capital (b)	**703,630**	702,615
Deduction due to restriction on maximum rate of complex second and third tier capital (c)	**(372,000)**	-
Total recognized second and third tier capital	**3,232,840**	2,715,648
Total existing capital calculated as per the Capital Regulations	**8,084,202**	7,395,299
Surplus as of the reporting date	**3,734,622**	3,077,629
Amount of investments required against capital surplus based on the Commissioner's directives which represent restricted surplus	**265,885**	245,924
The amount of reduction in capital requirements in respect of the cost of acquisition of provident funds which constitutes restricted surplus	**63,929**	63,929
Surplus after deduction of restricted surplus, see also paragraph 5 below	**3,404,808**	2,767,776
(a)The required amount includes capital requirements in respect of:		
Activity in general insurance	**449,177**	402,356
Long-term care insurance activity	**39,238**	34,370
Extraordinary risks in life assurance	**457,257**	446,478
Deferred acquisition costs in life assurance and insurance for diseases and hospitalization	**1,519,140**	1,480,531
Requirements in respect of yield-guaranteed plans	**11,691**	12,724
Inadmissible assets as defined in the Capital Regulations	**11,795**	10,037
Investment in insurance subsidiaries and consolidated managing companies	**323,740**	319,864
Decrease in capital requirements in respect of the cost of acquisition of provident funds	**(63,929)**	(63,929)
Investment assets and other assets	**976,745**	972,349
Catastrophe risks in general insurance	**333,054**	416,883
Operating risks	**289,744**	284,277
Guarantees	**1,928**	1,730
Total amount required according to the Capital Regulations and the Commissioner's directives	**4,349,580**	4,317,670

b) As for bonds that serve as complex second and third tier capital of Migdal Insurance, see Note 24.

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

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

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

3. The capital requirements from management companies include capital requirements according to the scope of assets under management and annual expenses, but not less than the primary capital of NIS 10 million. As at the date of this report, these companies comply with the capital regulations.

4. In February 2017 guidelines regarding the application of a solvency regime based on Solvency II (hereinafter – the revised guidelines) were issued and transferred to the Knesset Finance Committee.
The purpose of the revised guidelines is to establish a new solvency regime for insurance companies in Israel that is based on the provisions in Directive EC/2009/138, which is called Solvency II (hereinafter – the Directive), and was adopted by the European Union and is applied at from January 2016 in all its member countries.

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

The Commissioner intends to publish guidelines relating to capital management and targeting internal capital, with regard to gaps survey which the insurance companies will need to perform with respect to risk management, controls and corporate governance and a consultation paper to promote the process of self-assessment of risks and solvency (ORSA).

The revised guidelines are based on the quantitative pillar of the Directive and its related guidelines. According to the revised guidelines, the quantitative pillar will come into effect in Israel on June 30, 2017. Nevertheless, the insurance companies will be required, at this stage, to comply also with the existing regime pursuant to the Capital Regulations.

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

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

The revised guidelines include reporting to the Supervisor in cases that the company does not comply with the aforesaid required capital levels or fears that it will not comply with them, and guidelines for submitting a plan to ensure its compliance with the aforesaid required capital levels.

According to the revised guidelines, the capital threshold will be equal to the higher of the tier 1 capital required from an insurance company according to the Capital Regulations, and the amount calculated as a percentage of the SCR (no more than 45% of the SCR and no less than the higher of 25% of the SCR and an amount deriving from the amount of insurance reserves and premiums as defined in the revised guidelines).

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

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

4. (Cont.)

The revised guidelines include, inter alia, application instructions for the transition to Solvency II that are based on the Directive, which are mainly:

a) Compliance with the SCR:
The solvency capital requirement of an insurance company in the period from June 30, 2017 to December 31, 2021 (hereinafter – the application period) shall be no lower than the following rates that will be calculated according to the data for:

	Percentage from SCR
December 31, 2016	60%
December 31, 2017	65%
December 31, 2018 and June 30, 2019	70%
December 31, 2019 and June 30, 2020	80%
December 31, 2020 and June 30, 2021	90%
December 31, 2021	100%

b) A reduced capital requirement with respect to certain types of investments held by the insurer at each reporting date, with this requirement increasing gradually over 7 years until the capital requirement in respect of these investments reaches its full rate.

As part of the preparation for applying the model, several exercises (IQIS – simulations of the Directive's effect on an insurer's capital given its existing business mix and balance sheet) were held according to the instructions of the Ministry of Finance for the purpose of calibrating the model. The last exercise that was performed related to December 31, 2015 (hereinafter – IQIS5) and was based on final regulations and technical application guidance published by the European Commission and on an application guidance circular that was published by the Commissioner in April 2016.

According to the IQIS5 exercise that was performed by Migdal Insurance, which is based on the mix of investments and insurance liabilities as at December 31, 2015, Migdal Insurance has a significant deficiency in capital.

The results of the IQIS5 exercise include actions of Migdal Insurance to reduce the deficiency in capital that was found in the previous exercises by, inter alia, issuances of second and third tier capital and by reducing financial risks. These actions were somewhat offset by, inter alia, higher capital requirements for insurance risks following the issuance of the Commissioner's clarifications regarding insurance scenarios in the instruction regarding the execution of IQIS5. In 2016 subordinate liability certificates in the amount of NIS 0.9 billion were issued.

Subject to the aforesaid, the results of the IQIS exercises constitute some indication of the effect of a Solvency II based solvency regime and mainly reflect higher capital requirements than the existing capital requirements in respect of financial risks (both in the Nostro portfolio and the participating portfolio) and insurance (among other things longevity, cancellations and morbidity).

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

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

4. (Cont.)

Migdal Insurance is acting to comply with the capital targets according to the new capital regime by expanding its capital base and adjusting the mix of its investment. Migdal Insurance also has other measures for reducing the capital requirements such as continuing to reduce risks in the Nostro portfolio, acquiring reinsurance and more. The use of such measures may have a significant impact on the future profitability of Migdal Insurance, and will be examined considering alternative prices prevailing at the time, their economic benefits versus existing alternatives if necessary.

It should be noted that the model, in its present form, has a very high sensitivity to changes in market and other variables and therefore the reflected capital situation may be very volatile. Also, the exercise is carried out as part of the preparations for the implementation of the model in its present form as applicable, understanding the new guidelines and completing the organizational and computerized preparations.

As required in the Commissioner’s guidelines, several exercises were held that were simulations of the effect of the Directive on the insurer’s capital for the purpose of calibrating the model and adapting it. Therefore, actual results may be different from the results of the exercises. Nonetheless, and as described above, Migdal Insurance is preparing to meet the new capital regime according to the indications obtained from the results of the exercises.

The revised guidelines that were transferred to the Finance Committee together with the actions that were taken by Migdal Insurance, as aforesaid, may significantly reduce the deficiency in capital.

5. Dividend

a) On October 27, 2015 the Board of Directors of Migdal Insurance approved the distribution of a dividend of NIS 185 million.

On November 1, 2015 Migdal Insurance received a letter from the Supervisor which stated, among others, that the distribution of the dividend, at this time, following the exercise IQIS4 filed in August 2015 and in light of the substantial capital of several NIS billion, it can impair the proper management of Migdal Insurance Business and their preparations for the implementation of a new solvency regime. Given this Migdal Insurance was requested to convene the Board of Directors and cancel the aforementioned dividend distribution.

Further to the Supervisor's letter, the Board of Directors of Migdal Insurance reexamined the decision from October 27, 2015 and found that there was a flaw in this decision. Including all the above considerations relevant aspects for the purpose of dividend distribution and aspects of the solvency regime in accordance with Solvency II, were taken into account in making the decision.
Migdal Insurance's Board of Directors believes that Migdal Insurance is preparing properly and sufficiently towards the new regime.

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

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

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

5. Dividend (Cont.)

b) In August 2016 the Commissioner issued a letter regarding the distribution of dividends by insurance companies (hereinafter – "the letter") which replaces a previous letter from December 2011. According to the letter, an insurance company may not distribute a dividend unless after the distribution the company has a ratio of recognized capital to required capital ("solvency ratio") of at least 115% according to the existing capital regulations (before the reduction in respect of the mitigation that was granted for an original difference attributed to acquisition of the operation of provident funds and management companies) and a minimum solvency ratio at the rates indicated hereunder according to a recent quantitative assessment exercise for application of the new solvency regime (IQIS5), or according to the application guidelines of the first pillar in the new solvency regime, calculated without the transitional provisions. The new required minimum solvency ratio, after executing the distribution, will be as follows:

- Up to and including the financial statements as at December 31, 2017 – 115%.
- Up to and including the financial statements as at December 31 2018 – 120%.
- As from the financial statements as at March 31, 2019 – 130%.

The IQIS5 exercise reflects a solvency ratio that is lower than the solvency ratio required in the letter.

The aforesaid solvency ratio is based on the mix of investments and insurance liabilities as at December 31, 2015, without taking into account the changes that took place after then as described in paragraph 4 above.

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

NOTE 8:- INVESTMENT PROPERTY

a. Composition and movement:

	For yield dependent contracts					
	Leased for retail use		Leased for office and other use		Total	
	2016	2015	2016	2015	2016	2015
	NIS in thousands					
Balance at January 1,	**1,401,473**	1,344,544	**3,926,980**	3,553,513	**5,328,453**	4,898,057
Additions during the year:						
Purchases	**36,048**	22,807	**161,205**	282,471	**197,253**	305,278
Capitalized costs and expenses	**1,094**	235	**949**	20,311	**2,043**	20,546
Total additions	**37,142**	23,042	**162,154**	302,782	**199,296**	325,824
Disposals during the year:						
Realizations	**-**	-	**-**	-	**-**	-
Total disposals	**-**	-	**-**	-	**-**	-
Changes in fair value (unrealized)	**27,404**	33,887	**130,851**	70,685	**158,255**	104,572
Balance at December 31,	**1,466,019**	1,401,473	**4,219,985**	3,926,980	**5,686,004**	5,328,453

	Investment property - other					
	Leased for retail use		Leased for office and other use		Total	
	2016	2015	2016	2015	2016	2015
	NIS in thousands					
Balance at January 1,	**149,302**	145,590	**569,013**	485,300	**718,315**	630,890
Additions during the year:						
Purchases	**2,453**	2,558	**11,619**	46,401	**14,072**	48,959
Capitalized costs and expenses	**54**	108	**578**	3,208	**632**	3,316
Transfer from fixed assets	**-**	-	**12,481**	-	**12,481**	-
Total additions	**2,507**	2,666	**24,678**	49,609	**27,185**	52,275
Disposals during the year:						
Realizations	**-**	-	**(150,000)**	-	**(150,000)**	-
Transfer to fixed assets	**-**	-	**-**	(13,748)	**-**	(13,748)
Total disposals	**-**	-	**(150,000)**	(13,748)	**(150,000)**	(13,748)
Changes in fair value (unrealized)	**623**	1,046	**4,453**	47,852	**5,076**	48,898
Balance at December 31,	**152,432**	149,302	**448,144**	569,013	**600,576**	718,315

b. Investment property is measured at fair value and classified as Level 3 in the fair value hierarchy.

NOTE 8:- INVESTMENT PROPERTY (Cont.)

c. Data regarding fair value measurements of investment property:

Type of asset	Valuation techniques to determine fair value	Significant non-observable data	Interactions between unobservable significant data and the fair value measurement
Assets for rent for commercial / office use	The fair value is estimated using the discounted income technique: The valuation model is based on the estimated present value of the operating income resulting therefrom. Real estate valuation is based on the net annual cash flows discounted using a discount rate that reflects the specific risks inherent in them. When actual lease agreements are signed, which have payments which are unreasonable when compared to market rates; adjustments are made to reflect the actual rental payments during the contract period or alternatively determining the discount rate which reflects specific risk.. The valuations take into account the type of tenants actually leased or responsible for meeting lease commitments or likely to be in occupation after letting vacant premises and a general assessment regarding their creditworthiness and the remaining economic life of the asset, in those places where these parameters are relevant. Sometimes the fair value is determined based on a comparison to recent transactions in similar properties in the real estate market in relation to similar real estate and similar location of the real estate owned by the Group, if there are any such transactions, and sometimes by performing a combination of comparing transactions of similar properties and the discounted income valuation technique.	• The market value of the lease payments. • Discount rate of cash flows (6% to 15 %, weighted average 7.33% in 2016 and 2015)	Estimated fair value will increase if: • The market value of the lease payments increases. • The discount rate of the cash flows decreases.

NOTE 8:- INVESTMENT PROPERTY (Cont.)

Type of asset	Valuation techniques to determine fair value	Significant non-observable data	Interactions between unobservable significant data and the fair value measurement
Investment property under construction	The valuation is based on estimating the fair value of investment property after completion, less reasonable entrepreneurial profit and cost of construction estimate, taking into account discount rate adjusted for the relevant risks and characteristics of the property.	• Market value of the lease payments. • NIS construction costs per square meter (NIS 3,275 and NIS 6,800 depending on the location, weighted average cost NIS 5,200 in 2016 and 2015). • Entrepreneurial profit (5% and in 2015 - 15%). • Discount rate of cash flows (7.25% to 8.25%, weighted average 7.68%, in 2015 - 7.75% to 8.25%, weighted average 7.83%).	Estimated fair value will increase if: • The market value of lease payments increases. • Construction costs per square meter decrease. • Profit margins on construction activity and development decrease. • The discount rate of the cash flows decreases.

NOTE 8:- INVESTMENT PROPERTY (Cont.)

d. Sensitivity analysis:

The discount rate represents a major estimate in determining fair value since any changes therein materially affect the fair value of investment property. Nevertheless, it should be noted that a change in the fair value of investment property for part of the insurance contracts (yield dependent contracts) does not completely affect the Group's profit or loss since in respect of which most of the change in value is allocated to the rights of members..

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

NIS in thousands	Increase (decrease) in fair value at December 31		Increase (decrease) in profit and loss before tax	
	2016	**2015**	**2016**	**2015**
0.5% increase	**(332,805)**	(311,427)	**(69,973)**	(73,652)
0.5% decrease	**378,265**	364,022	**80,611**	84,108

e. Evaluation processes adopted by the Company:

The fair value of investment property is determined based on valuations performed by independent external appraisers who hold recognized and relevant professional qualifications and who have up-to-date experience regarding the location and type of the property being valued. The valuations are examined by the responsible officers in the Company.

f. Transactions for the acquisition of investment property

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

g. Operating lease agreements

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

NOTE 8:- INVESTMENT PROPERTY (Cont.)

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

	Year ended December 31,		
	2016	**2015**	**2014**
	NIS in thousands		
Rental income from investment property	**418,659**	416,803	370,082
Direct operating expenses	**(45,908)**	(48,326)	(39,520)
	372,751	368,477	330,562

*) Of this NIS 673 thousand, NIS 368 thousand and NIS 286 thousand in the years 2016, 2015 and 2014 respectively, in respect of direct operating expenses arising from investment property that did not produce rental income during the period.

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

	December 31,	
	2016	**2015**
	NIS in thousands	
Freehold	**3,052,225**	2,843,285
Capitalized leases	**3,234,355**	3,203,483
	6,286,580	6,046,768

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

The remaining lease periods in years:

	December 31,	
	2016	**2015**
	NIS in thousands	
Up to 15 years	**255,720**	110,079
15-50 years	**706,683**	923,128
More than 50 years	**2,271,952**	2,170,276
Total	**3,234,355**	3,203,483

NOTE 9: - DEBTORS AND RECEIVABLES

a. Composition:

	December 31, 2016	December 31, 2015
	NIS in thousands	
Government authorities and institutions	**6,218**	7,390
Income receivable	**45,153**	51,697
Prepaid expenses	**26,510**	20,903
Employees	**29,639**	28,328
Advances to suppliers	**24,811**	17,532
Receivables for the TASE Securities and Clearing House	**661,346**	150,494
Advances on account of commissions to insurance agents	**7,589**	7,061
Insurance companies and insurance brokers	**53,381**	66,267
Other *)	**154,447**	132,000
Less - allowance for doubtful accounts	**(444)**	(252)
	1,008,650	481,420

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

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

b. Movement in provision for doubtful accounts:

	2016	2015
	NIS in thousands	
Balance at January 1,	**(252)**	(95)
Change in provision during the period	**(192)**	(157)
Balance at December 31,	**(444)**	(252)

NOTE 10: - OUTSTANDING PREMIUMS

a. Composition:

	December 31, 2016	December 31, 2015
	NIS in thousands	
Outstanding premiums *)	**727,464**	576,389
Less - allowance for doubtful accounts	**(8,364)**	(6,966)
Total outstanding premiums	**719,100**	569,423
*) Including checks receivable and standing orders	**226,608**	187,024

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

NOTE 10: - OUTSTANDING PREMIUMS (Cont.)

b. Aging:

	December 31, 2016	December 31, 2015
	NIS in thousands	
Unimpaired outstanding premiums:		
Without arrears *)	**509,440**	343,636
In arrears **)		
Less than 90 days	**45,162**	83,264
Between 90 – 180 days	**31,730**	33,996
Over 180 days	**130,245**	106,136
Total unimpaired outstanding premiums	**716,577**	567,032
Impaired outstanding premiums	**2,523**	2,391
Total outstanding premiums	**719,100**	569,423

*) The increase in the outstanding premiums not in arrears is mainly due to a transaction that was signed at the end of the year with a large group.

**) Includes an amount of NIS 176,337 (as at December 31, 2015 – NIS 190,514 thousand) of debts in arrears in the life assurance segment. These debts are mainly backed by the policy's redemption value.

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

	2016	2015
	NIS in thousands	
Balance at January 1,	**(6,966)**	(7,985)
Change in provision in the period	**(1,398)**	1,019
Balance at December 31,	**(8,364)**	(6,966)

NOTE 11:- ASSETS FOR YIELD DEPENDENT CONTRACTS

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

	December 31, 2016	December 31, 2015
	NIS in thousands	
Investment property	**5,686,004**	5,328,453
Financial investments:		
Quoted debt assets	**29,277,685**	27,477,247
Unquoted debt assets *)	**12,342,415**	8,395,427
Shares	**17,301,490**	16,024,532
Other financial investments	**17,375,125**	18,229,249
Total financial investments	**76,296,715**	70,126,455
Cash and cash equivalents	**7,267,318**	7,801,126
Other	**832,947**	387,660
Total assets for yield dependent contracts	**90,082,984**	83,643,694

*) Including unquoted debt assets totaling NIS 905,756 thousand measured at amortized cost and classified to the category of "loans and receivables" (in 2015 - NIS 908,891 thousand) whose fair value is NIS 1,093,158 thousand (2015 - NIS 1,133,546 thousand).

Regarding exposure in respect of yield dependent policy assets see Note 37.b.1 below.
Regarding details of linkage of debt assets see Note 37d1 below.
Regarding price quotes and interest rates used to determine the fair value of the unquoted debt assets see Note 12f below.

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

b. Fair value levels of financial assets distributed into levels:

The table below analyses assets held against insurance contracts and investment contracts that are presented at fair value through profit or loss.

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

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Financial investments:				
Quoted debt assets *)	23,686,872	3,790,375	-	27,477,247
Unquoted debt assets	-	7,110,598	375,938	7,486,536
Shares	14,459,682	-	1,564,850	16,024,532
Other financial investments	15,351,297	97,146	2,780,806	18,229,249
Total financial investments	53,497,851	10,998,119	4,721,594	69,217,564
Unquoted debt assets for which disclosure of fair value is provided (11a above)	-	1,133,546	-	1,133,546

*) Reclassified.

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

c. Level 3 financial assets carried at fair value:

	Fair value measurement on the reporting date				
	Financial assets at fair value through profit or loss				
	Quoted debt assets	Unquoted debt assets	Shares	Other financial investments	Total
	NIS in thousands				
Balance as January 1, 2016	-	**375,938**	**1,564,850**	**2,780,806**	**4,721,594**
Total gains (losses) recognized in profit and loss	-	**(42,373)**	**21,744**	**(188,987)**	**(209,616)**
Investments	-	**550,103**	**157,508**	**445,824**	**1,153,435**
Realizations	-	-	**(101,908)**	**(909,803)**	**(1,011,711)**
Surrenders	-	**(17,650)**	-	-	**(17,650)**
Transfers to Level 3	-	**96,596**	-	-	**96,596**
Transfers from Level 3	-	**(94,707)**	**(23,570)**	-	**(118,277)**
	-				
Balance at December 31, 2016	-	**867,907**	**1,618,624**	**2,127,840**	**4,614,371**
Total earnings in the period included in profit and loss for assets held at December 31, 2016	-	**(43,131)**	**9,720**	**(147,474)**	**(180,885)**

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

	Fair value measurement on the reporting date				
	Financial assets at fair value through profit or loss				
	Quoted debt assets	Unquoted debt assets	Shares	Other financial investments	Total
	NIS in thousands				
Balance as January 1, 2015	-	49,248	1,196,739	3,674,016	4,920,003
Total gains recognized in profit and loss	-	(40,015)	8,180	(119,255)	(151,090)
Investments	-	199,899	515,597	639,018	1,354,514
Realizations	-	(1,032)	(155,666)	(1,412,973)	(1,569,671)
Surrenders	-	(6,139)	-	-	(6,139)
Transfers to Level 3	-	190,836	-	-	190,836
Investments	-	(16,859)	-	-	(16,859)
Balance at December 31, 2015	-	375,938	1,564,850	2,780,806	4,721,594
Total earnings (losses) in the period included in profit and loss for assets held at December 31, 2015	-	(40,895)	1,035	(134,681)	(174,541)

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

NOTE 12:- DETAILS OF OTHER FINANCIAL INVESTMENTS

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

	December 31, 2015			
	Presented in fair value through profit or loss	Available for sale	Loans and receivables	Total
	NIS in thousands			
Quoted debt assets (a)	1,513	7,613,703	-	7,615,216
Unquoted debt assets (b)	790	-	22,036,410	22,037,200
Shares (d)	130,718	1,050,225	-	1,180,943
Other (e)	22,192	2,489,115	-	2,511,307
Total	155,213	11,153,043	22,036,410	33,344,666

a. Quoted debt assets:

Composition

	December 31,	
	2016	2015
	NIS in thousands	
Government bonds:		
Presented at fair value through profit and loss held for trade	**1,510**	1,513
Available for sale	**4,190,207**	4,723,666
Total government bonds	**4,191,717**	4,725,179
Other debt assets:		
Unconvertible:		
Presented at fair value through profit and loss - held for trade	**-**	-
Available for sale	**4,762,984**	2,890,037
Total other unconvertible debt assets	**4,762,984**	2,890,037
Total quoted debt assets	**8,954,701**	7,615,216
Impairment allocated to profit and loss (accumulated)	**382**	2,415

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

b. Unquoted debt assets:

Composition:

	December 31,			
	Carrying amount		Fair value	
	2016	2015	2016	2015
	NIS in thousands			
Government bonds - designated bonds *)	**20,450,242**	19,780,084	**26,514,946**	25,487,339
Other unconvertible debt assets:				
Presented at fair value through profit and loss	**552**	790	**552**	790
Presented as loans and receivables, excluding bank deposits	**1,904,337**	1,566,296	**2,112,050**	1,788,875
Bank deposits	**1,259,247**	690,030	**1,459,988**	913,824
Total unconvertible debt assets	**3,164,136**	2,257,116	**3,572,590**	2,703,489
Total unquoted debt assets	**23,614,378**	22,037,200	**30,087,536**	28,190,828
Impairment allocated to profit and loss (accumulated)	**46,222**	25,375		

*) 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,	
	2016	2015
	%	
Quoted debt assets:		
Linkage basis:		
Linked to the CPI	**1.1**	1.3
In NIS	**2.1**	1.3
Linked to foreign currency	**4.1**	4.5
Unquoted debt assets:		
Linkage basis:		
Linked to the CPI	**5.1**	5.1
In NIS	**1.0**	0.8
Linked to foreign currency	**5.2**	5.5

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

d. Shares:

	December 31, 2016	December 31, 2015
	NIS in thousands	
Quoted:		
Presented at fair value through profit and loss - held for trade	-	18,542
Presented at fair value through profit and loss designated for the first time	**10,440**	60,380
Available for sale	**993,305**	979,940
Total quoted shares	**1,003,745**	1,058,862
Unquoted:		
Presented at fair value through profit and loss	**49,190**	51,796
Available for sale	**54,031**	70,285
Total unquoted shares	**103,221**	122,081
Total shares	**1,106,966**	1,180,943
Impairment allocated to profit and loss (accumulated)	**88,388**	123,593

e. Other financial investments:

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

	December 31, 2016	December 31, 2015
	NIS in thousands	
Quoted:		
Presented at fair value through profit and loss - held for trade	**77,414**	-
Available for sale	**1,831,306**	2,011,046
Derivative instruments (e1)	**6,378**	7,404
Total quoted financial investments	**1,915,098**	2,018,450
Unquoted:		
Available for sale	**522,907**	478,069
Derivative instruments (e1)	**38,908**	14,788
Total unquoted financial investments	**561,815**	492,857
Total other financial investments	**2,476,913**	2,511,307
Impairment allocated to profit and loss (accumulated)	**298,601**	256,730

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,	
	2016	2015
	NIS in thousands	
Shares	**51,119**	111,715
Quoted	**50,017**	109,394
Foreign currency	**(4,321,865)**	(2,433,391)
Interest	**856**	(15,109)

f. The interest rates used for determining fair value:

The fair value of the unquoted debt assets that are measured at fair value through profit or loss and the unquoted financial debt assets for which information regarding the fair value is given for disclosure purposes only is determined by discounting their estimated anticipated cash flows. The discount rates are based on yields of government bonds and the spreads of corporate bonds, as measured on the TASE. The price quotations and interest rates used for discounting are determined by the company which won the tender published by the Ministry of Finance for the construction and operation of price quotations and discount rates pool for institutional entities.

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

	December 31,	
	2016	2015
	%	
AA and above	**0.5**	0.5
A	**2.0**	2.1
BBB	**4.9**	5.1
Lower than BBB	**60.3**	6.1
Not rated	**3.0**	9.8

(*) The sources for the level of rating in Israel are the rating companies of Ma'alot and Midroog and internal rating. The data from Midroog were transferred to the rating categories according to the generally accepted conversion coefficients. Each rating includes all the ranges: for example, rate A includes A- up to A+.

Regarding internal rating, see Note 37b(4)b)(1).

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

g. Fair value levels of financial assets:

Hereunder an analyses of financial assets that are presented at fair value.

The balance in the financial statements of cash and cash equivalents, outstanding premiums, and debtors and receivables are the same or proximate to their fair value.

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

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Quoted debt assets	6,472,512	1,142,704	-	7,615,216
Unquoted debt assets	-	-	790	790
Shares	1,058,862	-	122,081	1,180,943
Other	2,018,450	12,817	480,040	2,511,307
Total	9,549,824	1,155,521	602,911	11,308,256
Unquoted debt assets for which disclosure of fair value is provided (12b above)	-	28,102,926	87,112	28,190,038

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

g. Fair value levels of financial assets: (Cont.)

Financial assets measured at fair value at level 3

	Fair value measurement on the reporting date – Financial assets at fair value through profit or loss and available-for-sale financial assets				
	Quoted debt assets	Unquoted debt assets	Shares	Other financial investments	Total
	NIS in thousands				
Balance as January 1, 2016	**-**	**790**	**122,081**	**480,040**	**602,911**
Total gains (losses) recognized:					
In profit and loss		**(62)**	**(14,463)**	**(40,347)**	**(54,872)**
In other comprehensive income	**-**	**-**	**(3,484)**	**9,893**	**6,409**
Investments	**-**	**-**	**1,094**	**76,158**	**77,252**
Realizations	**-**	**(176)**	**(2007)**	**(2,537)**	**(4,720)**
Balance at December 31, 2016	**-**	**552**	**103,221**	**523,207**	**626,980**
Total gains (losses) in the period included in profit and loss for assets held at December 31, 2016	**-**	**(62)**	**(14,463)**	**(40,365)**	**(54,890)**

	Fair value measurement on the reporting date – Financial assets at fair value through profit or loss and available-for-sale financial assets				
	Quoted debt assets	Unquoted debt assets	Shares	Other financial investments	Total
	NIS in thousands				
Balance as January 1, 2015	-	1,750	70,962	380,365	453,077
Total losses recognized:					
In profit and loss	-	(204)	(9,122)	(27,336)	(36,662)
In other comprehensive income	-	-	9,471	32,596	42,067
Investments	-	-	52,032	95,915	147,947
Realizations	-	(756)	(1,262)	(1,500)	(3,518)
Balance at December 31, 2015	-	790	122,081	480,040	602,911
Total gains (losses) in the period included in profit and loss for assets held at December 31, 2015	-	(179)	(8,997)	(27,729)	(36,905)

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

h. Aging of investments in unquoted debt assets:

	December 31,	
	2016	2015
	NIS in thousands	
Government bonds - bonds designated	**20,450,242**	19,780,084
Unimpaired debt assets:		
Without arrears	**3,129,187**	2,195,894
In arrears *):		
Less than 90 days	**3,527**	3,651
Between 90 – 180 days	**1,737**	191
Over 180 days	**4,298**	5,645
Total unimpaired debt assets	**3,138,749**	2,205,381
Impaired assets, gross		
Specifically impaired assets, gross	**71,609**	77,110
Impairment allocated to profit and loss (accumulated)	**(46,222)**	(25,375)
Total debt assets specifically impaired	**25,387**	51,735
Total unquoted debt assets	**23,614,378**	22,037,200

It should be noted that the amounts presented above do not represent the actual amount in arrears but rather the outstanding debt in arrears.

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

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

	December 31,	
	2016	2015
	NIS in thousands	
Cash and deposits for immediate withdrawal	**7,267,318**	7,801,126
Short-term deposits	**-**	-
Cash and cash equivalents	**7,267,318**	7,801,126

The cash in the banking corporations as of the reporting date bear current interest based on the interest rate in respect of daily bank deposits at the average rate of about 0.07% - (2015 - about 0.07%).

Short-term deposits that were made during the year and were for a period of between one week and three months bore interest at the average rate of 0.07%.

Regarding the linkage terms of the cash and short-term deposits, see Note 37d(1) below.

NOTE 13a:- CASH AND CASH EQUIVALENTS - OTHERS

	December 31,	
	2016	2015
	NIS in thousands	
Cash and deposits for immediate withdrawal	**1,799,860**	2,054,713
Short-term deposits	**145,982**	148,031
Cash and cash equivalents	**1,945,842**	2,202,744

The cash in the banking corporations as of the reporting date bear current interest based on the interest rate in respect of daily bank deposits at the average rate of about 0.7% - (2015 - about 0.07%).

Short term deposits deposited in banking corporations are for periods of one week to three months. The deposits bear an average interest rate of about 0.07% (2015 - about 0.07%).

Regarding the linkage terms of the cash and short term deposits, see Note 37c below.

NOTE 14:- EQUITY

a. Composition of share capital:

	December 31, 2016		December 31, 2015		December 31, 2014	
	Authorized	Issued and paid up *)	Authorized	Issued and paid up *)	Authorized	Issued and paid up *)
	NIS in thousands					
Ordinary shares of NIS 0.01 par value each	**15,000**	**10,539**	15,000	10,539	15,000	10,539

*) In nominal values.

b. Movement in share capital:

1. There was no change in the Company's authorized share capital during the year.

2. The issued and paid up share capital:

	Number of shares	NIS in thousands par value
Balance at January 1, 2014	1,053,811,054	10,538
Realization of employees options into shares	97,180	1
Balance at December 31, 2014	1,053,908,234	10,539
Realization of employees options into shares	-	-
Balance at December 31, 2015	1,053,908,234	10,539
Realization of employees options into shares	-	-
Balance at December 31, 2016	**1,053,908,234**	**10,539**

Regarding share-based payments, see Note 33 below.

c. Rights attached to the shares:

1. Voting rights in the general assembly, right to receive dividends, rights when the Company is liquidated and right to appoint the Company's directors.

2. Traded on the TASE.

NOTE 14:- EQUITY (Cont.)

d. Distributed dividends:

The following dividends were distributed by the Company:

	Year ended December 31, 2016	2015	2014
	NIS in thousands		
Total dividend	-	(* 200,000	(** 400,000

*) NIS 0.19 per share.

**) NIS 0.38 per share (the dividend was distributed on two dates during the year, NIS 0.19 per share on each date)

On October 27, 2015, the Company's Board of Directors decided to distribute a dividend in the amount of NIS 200 million, subject to the approval of the general assembly.

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

For information regarding the proposal of a dividend subsequent to the reporting date, see Note 40.a.

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

	December 31, 2016	2015	2016	2015	2016	2015
	Gross		Reinsurance		On retention	
	NIS in thousands					
Life assurance and long-term savings:						
Insurance contracts	**27,647,390**	27,133,549	**108,136**	100,181	**27,539,254**	27,033,368
Investment contracts	**240,480**	277,325	**-**	-	**240,480**	277,325
	27,887,870	27,410,874	**108,136**	100,181	**27,779,734**	27,310,693
Less - amounts deposited in the Group under defined benefit plan for the Group's employees	**68,610**	68,812	**-**	-	**68,610**	68,812
Total life assurance and long-term savings	**27,819,260**	27,342,062	**108,136**	100,181	**27,711,124**	27,241,881
Insurance contracts included in the health insurance segment	**862,120**	727,755	**32,384**	31,790	**829,736**	695,965
Insurance contracts included in the general insurance segment	**5,108,335**	4,256,389	**878,030**	615,588	**4,230,305**	3,640,801
Total liabilities in respect of non-yield dependent insurance and investment contracts	**33,789,715**	32,326,206	**1,018,550**	747,559	**32,771,165**	31,578,647

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

	December 31,					
	2016	2015	2016	2015	2016	2015
	Gross		Reinsurance		On retention	
	NIS in thousands					
Life assurance and long-term savings:						
Insurance contracts	**86,081,025**	80,035,981	**4,023**	4,033	**86,077,002**	80,031,948
Investment contracts	**1,678,850**	1,681,695	**-**	-	**1,678,850**	1,681,695
	87,759,875	81,717,676	**4,023**	4,033	**87,755,852**	81,713,643
Less - amounts deposited in the Group under defined benefit plan for the Group's employees	**142,572**	136,861	**-**	-	**142,572**	136,861
Total life assurance and long-term savings	**87,617,303**	81,580,815	**4,023**	4,033	**87,613,280**	81,576,782
Insurance contracts included in the health insurance segment	**1,905,889**	1,731,671	**4,139**	2,701	**1,901,750**	1,728,970
Total liabilities in respect of yield dependent insurance and investment contracts	**89,523,192**	83,312,486	**8,162**	6,734	**89,515,030**	83,305,752

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,					
	2016	2015	2016	2015	2016	2015
	Gross		Reinsurance		On retention	
	NIS in thousands					
Motor act and liability branches						
Provision for unearned premium	**429,144**	370,522	**43,053**	40,140	**386,091**	330,382
Outstanding claims and provision for premium deficiency *)	**3,469,543**	2,877,664	**507,492**	209,853	**2,962,051**	2,667,811
Total motor act and liability branches (see b1 below)	**3,898,687**	3,248,186	**550,545**	249,993	**3,348,142**	2,998,193
Of which: liabilities in respect of the motor act branch (see c3 and c4 below)	**2,212,892**	1,735,607	**248,765**	16,803	**1,964,127**	1,718,804
Property and other branches:						
Provision for unearned premium ***)	**721,447**	521,847	**154,708**	139,389	**566,739**	382,458
Provision for premium deficiency ****)	**10,222**	10,507	**-**	-	**10,222**	10,507
Outstanding claims **)	**479,028**	475,849	**172,777**	226,206	**306,251**	249,643
Total property and other branches (see b2 below)	**1,210,697**	1,008,203	**327,485**	365,595	**883,212**	642,608
Total liabilities in respect of insurance contracts included in the general insurance segment	**5,109,384**	4,256,389	**878,030**	615,588	**4,231,354**	3,640,801
Deferred acquisition costs:						
Motor act and liability branches	**61,702**	57,503	**6,563**	6,275	**55,139**	51,228
Property and other branches	**143,808**	128,996	**31,469**	27,104	**112,339**	101,892
Total deferred acquisition costs	**205,510**	186,499	**38,032**	33,379	**167,478**	153,120
Liabilities in respect of general insurance contracts less deferred acquisition costs:						
Motor act	**2,179,831**	1,705,146	**248,765**	16,803	**1,931,066**	1,688,343
Other liabilities branches	**1,657,154**	1,485,537	**295,217**	226,915	**1,361,937**	1,258,622
Property and other branches	**1,066,889**	879,207	**296,016**	338,491	**770,873**	540,716
Total liabilities in respect of general insurance contracts less deferred acquisition costs	**4,903,874**	4,069,890	**839,998**	582,209	**4,063,876**	3,487,681

* The increase in gross outstanding claims in 2016 in the motor act and liability branches is due to the acquisition of a run-off general insurance portfolio see Note 38e2 (the effect on the retention is insignificant), and to an increase in outstanding claims following the changes expected in the discount rate of the benefits paid by the National Insurance Institute as a result of the recommendations of the Vinograd committee which also had an effect on the retention.

** The increase in outstanding claims on retention in the property branches is mainly due to the motor casco branch.

*** The increase in the provision for unearned premiums is mainly due to the motor casco branch following the joining of a large group at the end of the year.

**** The provision for premium deficiency did not change significantly regardless of the increase in the insurance portfolio following an underwriting improvement in the branch.

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,					
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
	Gross		**Reinsurance**		**On retention**	
	NIS in thousands					
Actuarial valuations:						
Dr. Stewart Coutts						
Total actuarial valuations	**3,509,034**	3,119,660	**261,435**	219,915	**3,247,599**	2,899,745
Provisions on the basis of other valuations:						
Claims department valuation in respect of known outstanding claims	**444,300**	238,321	**415,914**	212,694	**28,386**	25,627
Addition to outstanding claims due to claims incurred but not yet reported (IBNR)	**5,459**	6,039	**2,920**	3,450	**2,539**	2,589
Provision for unearned premium	**1,150,591**	892,369	**197,761**	179,529	**952,830**	712,840
Excess of income over expenses (accumulation)	**-**	-	**-**	-	**-**	-
Total insurance liabilities in respect of insurance contracts included in the general insurance segment	**5,109,384**	4,256,389	**878,030**	615,588	**4,231,354**	3,640,801

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,					
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
	Gross		**Reinsurance**		**On retention**	
			NIS in thousands			
Balance at the beginning of the year (1)	**3,190,683**	3,428,445	**243,718**	517,278	**2,946,965**	2,911,167
Accumulated claims cost in respect of the current underwriting year (2)	**903,386**	712,002	**49,221**	35,771	**854,165**	676,231
Change in balances at the beginning of the year as a result of linkage to the index	**(8,778)**	(26,366)	**(673)**	(3,273)	**(8,105)**	(23,093)
Change in accumulated claims cost estimate in respect of previous underwriting years (3)	**69,194**	(181,335)	**36,595**	(116,864)	**32,599**	(64,471)
Total change in accumulated claims cost	**963,802**	504,301	**85,143**	(84,366)	**878,659**	588,667
Payments for settlement of claims during the year (4)						
In respect of current underwriting year	**8,120**	7,055	**116**	109	**8,004**	6,946
In respect of previous underwriting years	**576,017**	665,223	**42,108**	102,066	**533,909**	563,157
Total payments for the period (5)	**584,137**	672,278	**42,224**	102,175	**541,913**	570,103
Accumulation in respect of current underwriting year (6)	**-**	33,816	**-**	30,717	**-**	3,099
Accumulation recognized in profit in respect of the released underwriting year	**-**	(55,208)	**-**	(37,461)	**-**	(17,747)
Balance of change in the accumulation	**-**	64,003	**-**	25,666	**-**	38,337
Total change in the accumulation for the period	**-**	42,611	**-**	18,922	**-**	23,689
Changes allocated directly to equity (7)	**-**	(112,396)	**-**	(105,941)	**-**	(6,455)
Change following acquisition of a run-off general insurance portfolio (8)	**266,637**	-	**257,345**	-	**9,292**	-
Balance at the end of the year (1)	**3,836,985**	3,190,683	**543,982**	243,718	**3,293,003**	2,946,965

NOTE 17:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

b. Movement in liabilities in respect of insurance contracts included in the general insurance segment, net of deferred acquisition costs: (Cont.)

1. Motor act and liability branches: (Cont.)

Comments:

(1) The opening and closing balances include: outstanding claims, provision for premium deficiency, the accumulation and unearned premium, net of deferred acquisition costs.

(2) The ultimate claims cost is: outstanding claims balance (without the accumulation), provision for premium deficiency, unearned premium net of deferred acquisition costs with the addition of the total claims payments including direct or indirect expenses for claims settlement. The ultimate claims cost is updated based on the model in light of actual claims development.

(3) The change in the estimate of the cumulative cost of claims in respect of underwriting years before 2016 stems mainly from motor act, third party. The change in amounts of outstanding claims is due to adjustments for the expected decrease in the discount rate of the National Insurance Institute following the recommendations of the Vinograd committee. The change was partly offset be a decrease in the provisions in the professional liability and product warranty branches.
Last year, the change in the estimate of the cumulative cost of claims in respect of previous underwriting years was due to the release of reserves in the motor act, professional liability and product warranty branches.

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

(5) In 2015 a payment was made for a large claim that was largely covered by reinsurers.

(6) As regards cancellation of the accumulation method and the transition to applying the Commissioner’s approach regarding the best practice, see Note 2.j.2.d) (4).

(7) See comment (6) above.

(8) Relates to the acquisition of a run-off general insurance portfolio, see Note 38.e.2.

NOTE 17:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

b. Movement in liabilities in respect of insurance contracts included in the general insurance segment, net of deferred acquisition costs: (Cont.)

2. Property and other branches:

	December 31,					
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
	Gross		**Reinsurance**		**On retention**	
	NIS in thousands					
Balance at the beginning of the year (1)	**879,207**	780,433	**338,491**	319,992	**540,716**	460,441
Accumulated claims cost in respect of events during the reporting year (2)	**853,639**	942,192	**127,551**	311,420	**726,088**	630,772
Change in accumulated claims cost in respect of events prior to the reporting year (3)	**2,149**	(48,025)	**(14,962)**	(24,045)	**17,111**	(23,980)
Payment to settle claims during the year (4)						
In respect of events during the reporting year	**546,912**	635,330	**61,500**	196,279	**485,412**	439,051
In respect of events prior to the reporting year	**312,761**	204,816	**111,402**	68,783	**201,359**	136,033
Total payments	**859,673**	840,146	**172,902**	265,062	**686,771**	575,084
Change in provision for unearned premium, net of deferred acquisition costs (5)	**184,788**	34,246	**10,955**	907	**173,833**	33,339
Change in provision for premium deficiency (6)	**(285)**	10,507	**-**	-	**(285)**	10,507
Changes allocated directly to equity (7)	**-**	-	**-**	(4,721)	**-**	4,721
Change following acquisition of a run-off general insurance portfolio (8)	**7,064**	-	**6,883**	-	**181**	-
Balance at the end of the year (1)	**1,066,889**	879,207	**296,016**	338,491	**770,873**	540,716

Comments:

(1) The opening and closing balances include: outstanding claims with the addition of provision for premium deficiency and, unearned premium, net of deferred acquisition costs.

(2) The cumulative cost of claims in respect of events in the reporting year include the balance of outstanding claims at the end of the reporting year plus the total claims payments during the reporting period, including direct and indirect expenses for settling claims.

(3) The change in estimate of cumulative claims costs is mainly due to the motor casco branch in which there was a negative development in claims experience.

(4) Payments for claims settlement during the year include payments in respect of events in the reporting year and events preceding the reporting year.
The payments for claims settlement include direct and indirect expenses attributed to the years of damage.
In 2015 a large claim was paid that was largely covered by reinsurance.
In 2016 the increase in retention is mainly due to an increase in business in the motor casco branch.

(5) The increase in the provision for unearned premiums compared to last year is due to the joining of a large group that was signed at the end of the year.

(6) The provision for premium deficiency is in the motor act branch. The premium deficiency did not change significantly regardless of the increase in the insurance portfolio following an underwriting improvement.

(7) As regards cancellation of the accumulation method and the transition to applying the Commissioner's approach regarding the best practice, see Note 2.j.2.d) (4).

(8) Relates to the acquisition of a run-off general insurance portfolio, see Note 38.e.2.

NOTE 17:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

c1. Examination of development in valuation of liabilities in respect of insurance contracts net of deferred acquisition costs, gross in the motor act and liability branches:

	December 31, 2016										
	Underwriting year										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
	NIS in thousands adjusted to the CPI of November 2015 **)										
Claims paid (accumulated) at the end of the year:											
After the first year	10,731	11,791	9,406	6,538	5,830	4,943	6,631	6,656	6,975	8,120	
After two years	62,632	78,106	47,826	31,997	28,685	29,000	42,563	57,740	62,856		
After three years	129,308	132,339	90,200	77,843	68,379	76,620	144,156	162,176			
After four years	184,537	186,691	139,169	135,842	132,049	140,768	243,520				
After five years	234,899	246,694	202,491	184,301	212,825	192,244					
After six years	292,098	300,570	247,835	241,540	275,230						
After seven years	348,876	358,552	308,998	290,198							
After eight years	383,455	413,117	345,896								
After nine years	416,241	448,921									
After ten years	438,363										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	577,881	578,146	529,236	476,611	462,964	437,961	707,712	734,901	721,825	903,386	
After two years	588,966	598,464	543,660	494,036	478,122	453,430	755,206	737,011	764,427		
After three years	603,914	619,274	558,006	504,830	497,149	471,185	703,842	722,946			
After four years	529,706	553,802	479,657	429,363	456,670	407,221	689,747				
After five years	531,648	531,692	459,114	438,208	463,224	423,000					
After six years	519,976	508,891	442,838	417,720	464,304						
After seven years	511,356	523,778	441,657	435,679							
After eight years	499,266	524,019	455,124								
After nine years	489,219	534,422									
After ten years	491,231										
Excess (deficiency) after release of accumulation (1)	38,475	19,380	24,533	(6,316)	(7,634)	(15,779)	14,095	14,065	(42,602)		38,217
The rate of deviation in relation to the first year that does not include accumulation, in percentage	7.26%	3.50%	5.11%	(1.47%)	(1.67%)	(3.87%)	2.00%	1.91%	(5.90%)		0.76%
Accumulated claims cost as at December 31, 2016	491,231	534,422	455,124	435,679	464,304	423,000	689,747	722,946	764,427	903,386	5,884,266
Accumulated payments up to December 31, 2016	438,363	448,921	345,896	290,198	275,230	192,244	243,520	162,176	62,856	8,120	2,467,524
Outstanding claims balance	52,868	85,501	109,228	145,481	189,074	230,756	446,227	560,770	701,571	895,266	3,416,742
Outstanding claims in respect of the years up to and including the underwriting year 2006 (2)											181,807
Payments for acquisition of general insurance portfolio	2,423	6,487	4,651	9,004	19,715	13,875	50				
Estimate of accumulated claims in respect of acquisition of general insurance portfolio	13,989	26,040	33,934	48,185	89,281	82,901	311				
Balance of outstanding claims in respect of acquisition of general insurance portfolio (3)	11,566	19,553	29,283	39,181	69,566	69,026	261				238,436
Total liability in respect of insurance contracts in the motor act and liability branches net of deferred acquisition costs at December 31, 2016											3,836,985

(1) Up to and including the 2012 underwriting year – the gap between the accumulated claims estimate in the first year that does not include the accrual to the accumulated claims estimate.
2013-2015 underwriting years – the gap is between the accumulated claims estimate for the 2015 fiscal year and the current estimate (due to changes in the method of estimating reserves in general insurance, see Notes 2.j.2.d)(3), 2.j.2.d)(4). Most of the change is due to increasing the amounts of outstanding claims as a result of the expected change in the discount rate of the benefits paid by the National Insurance Institute following the recommendations of the Vinograd committee.

(2) Includes also data regarding the acquisition of a general insurance portfolio for the years preceding the 2007 underwriting year that were added during the year (see Note 38.e.2)

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

Comments

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

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

NOTE 17:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

c2. Examination of development in valuation of liabilities in respect of insurance contracts net of deferred acquisition costs on retention in the motor act and liability branches:

	December 31, 2016										
	Underwriting year										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
	NIS in thousands adjusted to the CPI of November 2015 **)										
Claims paid (accumulated) at the end of the year:											
After the first year	10,700	10,997	9,341	6,048	5,684	4,827	6,380	6,471	6,866	8,004	
After two years	59,962	61,212	46,381	30,600	27,103	27,591	41,375	57,180	61,537		
After three years	123,226	114,408	87,654	74,110	65,149	74,156	142,726	160,947			
After four years	177,044	167,532	135,131	129,371	118,127	137,884	238,958				
After five years	226,365	223,735	195,172	175,999	183,900	187,350					
After six years	281,593	275,108	238,467	226,333	240,411						
After seven years	329,931	330,818	297,330	270,943							
After eight years	362,521	384,009	331,353								
After nine years	392,991	417,339									
After ten years	413,281										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	474,488	482,444	448,481	392,098	388,090	386,439	645,857	669,086	692,378	854,165	
After two years	477,215	488,174	453,409	393,810	386,578	391,285	681,046	694,591	721,413		
After three years	489,281	501,623	464,952	401,615	402,241	406,713	622,400	679,207			
After four years	472,296	493,607	436,141	387,057	391,588	390,111	660,110				
After five years	475,597	477,709	419,593	397,026	403,028	395,829					
After six years	470,332	453,908	405,532	398,581	402,175						
After seven years	461,385	468,166	421,583	402,731							
After eight years	449,752	485,670	425,582								
After nine years	460,577	489,737									
After ten years	459,400										
Excess (deficiency) after release of accumulation (1)	12,896	3,870	10,559	(15,674)	(10,587)	(5,718)	(37,710)	15,384	(29,035)		(56,015)
The rate of deviation in relation to the first year that does not include accumulation, in percentage	2.73%	0.78%	2.42%	(4.05%)	(2.70%)	(1.47%)	(6.06%)	2.21%	(4.19%)		(1.22%)
Accumulated claims cost as at December 31, 2016	459,400	489,737	425,582	402,731	402,175	395,829	660,110	679,207	721,413	854,165	5,490,349
Accumulated payments up to December 31, 2016	413,281	417,339	331,353	270,943	240,411	187,350	238,958	160,947	61,537	8,004	2,330,123
Outstanding claims balance	46,119	72,398	94,229	131,788	161,764	208,479	421,152	518,260	659,876	846,161	3,160,226
Outstanding claims in respect of the years up to and including the underwriting year 2006 (2)											130,490
Payments for acquisition of general insurance portfolio	-	-	-	-	-	-	-				
Estimate of accumulated claims in respect of acquisition of general insurance portfolio	115	196	229	383	743	621	-				
Balance of outstanding claims in respect of acquisition of general insurance portfolio (3)	115	196	229	383	743	621	-				2,287
Total liability in respect of insurance contracts in the motor act and liability branches net of deferred acquisition costs at December 31, 2016											3,293,003

(1) Up to and including the 2012 underwriting year – the gap between the accumulated claims estimate in the first year that does not include the accrual to the accumulated claims estimate.
2013-2015 underwriting years – the gap is between the accumulated claims estimate for the 2015 fiscal year and the current estimate (due to changes in the method of estimating reserves in general insurance, see Notes 2.j.2.d)(3), 2.j.2.d)(4). Most of the change is due to increasing the amounts of outstanding claims as a result of the expected change in the discount rate of the benefits paid by the National Insurance Institute following the recommendations of the Vinograd committee.

(2) Includes also data regarding the acquisition of a general insurance portfolio for the years preceding the 2007 underwriting year that were added during the year (see Note 38.e.2)

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

Comments

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

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

NOTE 17:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

c3. Examination of development in valuation of liabilities in respect of insurance contracts net of deferred acquisition costs on retention in the motor act and liability branches:

	December 31, 2016										
	Underwriting year										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
	NIS in thousands adjusted to the CPI of November 2015 **)										
Claims paid (accumulated) at the end of the year:											
After the first year	8,596	8,427	6,962	3,796	3,726	2,907	3,589	3,517	5,094	5,367	
After two years	48,112	42,181	33,390	15,881	13,402	15,440	26,430	41,778	45,590		
After three years	91,011	78,990	61,198	41,155	35,440	44,155	103,944	124,116			
After four years	124,722	110,302	92,665	70,549	60,042	83,437	175,541				
After five years	155,852	144,791	130,889	96,602	100,226	111,654					
After six years	187,300	176,378	161,752	132,737	132,911						
After seven years	212,059	215,270	206,659	160,249							
After eight years	233,932	249,330	230,695								
After nine years	254,556	270,398									
After ten years	264,519										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	327,875	339,089	309,067	250,983	241,009	240,702	480,022	472,963	449,584	561,750	
After two years	324,872	338,704	309,996	247,089	239,648	244,103	496,212	477,903	468,328		
After three years	329,261	345,110	318,986	251,751	245,894	250,580	505,975	429,965			
After four years	313,222	324,807	285,414	230,339	219,713	208,802	433,975				
After five years	304,343	305,331	268,481	222,839	203,383	219,371					
After six years	293,050	283,595	257,701	202,399	212,789						
After seven years	283,862	285,721	268,176	214,851							
After eight years	279,630	292,984	278,086								
After nine years	282,697	300,900									
After ten years	285,867										
Excess (deficiency) after release of accumulation (1)	27,355	23,907	7,328	15,488	6,924	(10,569)	72,000	47,938	(18,744)		171,627
The rate of deviation in relation to the first year that does not include accumulation, in percentage	8.73%	7.36%	2.57%	6.72%	3.15%	(5.016%)	14.23%	10.03%	(4.17%)		5.69%
Accumulated claims cost as at December 31, 2016	285,867	300,900	278,086	214,851	212,789	219,371	433,975	429,965	468,328	561,750	3,405,882
Accumulated payments up to December 31, 2016	264,519	270,398	230,695	160,249	132,911	111,654	175,541	124,116	45,590	5,367	1,521,040
Outstanding claims balance	21,348	30,502	47,391	54,602	79,878	107,717	258,434	305,849	422,738	556,383	1,884,842
Outstanding claims in respect of the years up to and including the underwriting year 2006 (2)											83,355
Payments for acquisition of general insurance portfolio											
Estimate of accumulated claims in respect of acquisition of general insurance portfolio	2,410	5,265	4,426	8,325	19,561	12,976	50				
Balance of outstanding claims in respect of acquisition of general insurance portfolio (3)	12,215	22,496	30,353	42,669	82,419	74,184	311				
Outstanding claims in respect of the years up to and including the underwriting year 2005 ****)	9,805	17,231	25,927	34,344	62,858	61,208	261				211,634
Total liability in respect of insurance contracts in the motor act and liability branches net of deferred acquisition costs at December 31, 2016											2,179,831

(1) Up to and including the 2012 underwriting year – the gap between the accumulated claims estimate in the first year that does not include the accrual to the accumulated claims estimate.
2013-2015 underwriting years – the gap is between the accumulated claims estimate for the 2015 fiscal year and the current estimate (due to changes in the method of estimating reserves in general insurance, see Notes 2.j.2.d)(3), 2.j.2.d)(4). Most of the change is due to increasing the amounts of outstanding claims as a result of the expected change in the discount rate of the benefits paid by the National Insurance Institute following the recommendations of the Vinograd committee.

(2) Includes also data regarding the acquisition of a general insurance portfolio for the years preceding the 2007 underwriting year that were added during the year (see Note 38.e.2)

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

Comments

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

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

NOTE 17:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

c4. Examination of development in valuation of liabilities in respect of insurance contracts net of deferred acquisition costs on retention in the motor act and liability branches:

	December 31, 2016										
	Underwriting year										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
	NIS in thousands adjusted to the CPI of November 2015 **)										
Claims paid (accumulated) at the end of the year:											
After the first year	8,596	8,427	6,962	3,796	3,726	2,907	3,589	3,517	5,094	5,367	
After two years	48,112	42,181	33,390	15,881	13,402	15,440	26,430	41,778	45,590		
After three years	91,011	78,990	61,198	41,155	35,440	44,155	103,944	124,116			
After four years	124,722	110,302	92,665	70,549	60,042	83,437	175,540				
After five years	155,852	144,791	130,889	96,602	100,226	111,654					
After six years	187,300	176,378	161,752	130,674	132,912						
After seven years	212,059	215,270	206,659	157,249							
After eight years	233,932	249,330	230,695								
After nine years	254,556	270,398									
After ten years	264,520										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	320,004	331,908	302,331	245,189	235,988	236,411	473,441	465,124	440,870	558,644	
After two years	317,281	330,387	303,036	241,382	234,065	238,301	485,426	453,645	465,222		
After three years	321,970	336,545	311,816	245,872	240,142	244,604	442,800	426,859			
After four years	307,110	319,635	280,353	226,689	218,139	207,120	430,555				
After five years	299,226	301,536	265,689	221,261	201,793	217,996					
After six years	289,721	280,369	255,815	200,337	214,350						
After seven years	281,270	283,530	267,716	212,774							
After eight years	277,862	292,984	278,736								
After nine years	282,697	301,360									
After ten years	286,117										
Excess (deficiency) after release of accumulation (1)	20,993	18,275	1,617	13,915	3,789	(10,876)	12,245	26,786	(24,352)		62,392
The rate of deviation in relation to the first year that does not include accumulation, in percentage	6.84%	5.72%	0.58%	6.14%	1.74%	(5.25%)	2.77%	5.90%	(5.52%)		2.15%
Accumulated claims cost as at December 31, 2016	286,117	301,360	278,736	212,774	214,350	217,996	430,555	426,859	465,222	558,644	3,392,613
Accumulated payments up to December 31, 2016	264,520	270,398	230,695	157,249	132,912	111,654	175,540	124,116	45,590	5,367	1,518,041
Outstanding claims balance	21,597	30,962	48,041	55,525	81,438	106,342	255,015	302,743	419,632	553,277	1,874,572
Outstanding claims in respect of the years up to and including the underwriting year 2006 (2)											54,539
Payments for acquisition of general insurance portfolio	-	-	-	-	-	-	-				
Estimate of accumulated claims in respect of acquisition of general insurance portfolio	92	160	198	322	655	528	-				
Balance of outstanding claims in respect of acquisition of general insurance portfolio (3)	92	160	198	322	655	528	-				1,955
Total liability in respect of insurance contracts in the motor act and liability branches net of deferred acquisition costs at December 31, 2016											1,931,066

(1) Up to and including the 2012 underwriting year – the gap between the accumulated claims estimate in the first year that does not include the accrual to the accumulated claims estimate.
2013-2015 underwriting years – the gap is between the accumulated claims estimate for the 2015 fiscal year and the current estimate (due to changes in the method of estimating reserves in general insurance, see Notes 2.j.2.d)(3), 2.j.2.d)(4). Most of the change is due to increasing the amounts of outstanding claims as a result of the expected change in the discount rate of the benefits paid by the National Insurance Institute following the recommendations of the Vinograd committee.

(2) Includes also data regarding the acquisition of a general insurance portfolio for the years preceding the 2007 underwriting year that were added during the year (see Note 38.e.2)

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

Comments

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

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

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NOTE 17:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

c5. Cumulative data regarding underwriting years in the motor act insurance branches:

	Underwriting year						
	2016	2015	2014	2013	2012	2011	2010
	NIS in thousands						
Year ended December 31, 2016: Gross premiums	565,777	508,839	528,212	547,154	267,263	255,658	256,050
Cumulative comprehensive income (loss) on retention in respect of the underwriting year **)	(66,531)	(18,589)	62,881	99,684	53,018	56,352	64,251
**) Including excess of income over expenses on retention that were recognized in 2015 directly to retained earnings of	-	889	12,514	52,222	-	-	-
Cumulative effect of investment income on cumulative comprehensive income on retention in respect of the underwriting year	8,610	23,208	43,898	74,986	53,712	61,071	67,432

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

	Underwriting year						
	2016	2015	2014	2013	2012	2011	2010
	NIS in thousands						
Year ended December 31, 2016: Gross premiums	330,456	302,190	305,618	283,167	243,026	270,499	268,350
Cumulative comprehensive income (loss) on retention in respect of the underwriting year **)	(99,716)	(62,715)	(50,469)	(36,256)	(1,639)	(5,890)	(9,738)
**) Including excess of income over expenses on retention that were recognized in 2015 directly to retained earnings of	-	2,210	4,831	6,638	-	-	-
Cumulative effect of investment income on cumulative comprehensive income on retention in respect of the underwriting year	4,586	12,322	21,309	31,063	36,334	40,802	44,822

NOTE 17:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

c7. Composition of comprehensive income (loss) on retention in the motor act insurance branch:

	Income (loss) in respect of current underwriting year	Comprehensive income in respect of open years	Comprehensive income in respect of underwriting year released in the reporting year (1)	Adjustments for previous underwriting years	Activity not included in calculation of reserves	Comprehensive income
	NIS in thousands					
Year ended December 31:						
2016	(66,531)	-	-	(11,837)	-	(78,368)
2015	-	14,933	44,356	67,728	(4,979)	122,038
2014	-	28,317	32,544	36,232	(7,740)	89,353

(1) The underwriting years released in the reporting years of 2015 and 2014 are 2012, and 2011, respectively.

See Note 2.j.2.d)(4) regarding changes in the calculation of reserves in general insurance as from December 31, 2015.

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

	Income (loss) in respect of current underwriting year	Comprehensive income in respect of open years	Comprehensive income in respect of underwriting year released in the reporting year (1)	Adjustments for previous underwriting years	Activity not included in calculation of reserves	Comprehensive income
	NIS in thousands					
Year ended December 31:						
2016	(99,716)	-	-	43,345	-	(56,371)
2015	-	(109,283)	(1,437)	57,825	(2,284)	(55,179)
2014	-	(39,278)	(4,819)	25,742	(8,647)	(27,002)

(1) The underwriting years released in the reporting years of 2015 and 2014 are 2012 and 2011, respectively.

NOTE 18:- ADDITIONAL INFORMATION REGARDING THE LIFE ASSURANCE SEGMENT AND LONG TERM SAVINGS

a. Details of the liabilities in respect of insurance contracts and investment contracts according to exposure

	Data for December 31, 2016						
	Policies with savings component (including riders) according to policy's date of issue				Policies without savings component		Total
			From 2004		Risk sold as separate policy		
	Up to 1990 *)	Up to 2003	Non yield dependent	Yield dependent	Individual	Group	
	NIS in thousands						
(a) According to insurance exposure:							
Liabilities in respect of insurance contracts:							
Annuity without guaranteed coefficients	-	-	-	1,247,905	-	-	1,247,905
Annuity with guaranteed coefficients:							
Up to May 2001	19,273,646	42,980,143	-	-	-	-	62,253,789
From June 2001	-	9,385,327	75,333	24,578,848	-	-	34,039,508
Annuity in payment	4,232,090	2,563,842	283,624	573,655	-	-	7,653,211
Equity (without annuity option)	1,305,707	1,210,638	-	14,852	-	-	2,531,197
Supplementary annuity reserve **)	2,836,638	700,175	-	1,237	-	-	3,538,050
Other risk components	197,051	835,521	-	768,007	467,587	196,589	2,464,755
Total in respect of insurance contracts	27,845,132	57,675,646	358,957	27,184,504	467,587	196,589	113,728,415
Liabilities in respect of investment contracts	-	646	239,834	1,678,850	-	-	1,919,330
Total	27,845,132	57,676,292	598,791	28,863,354	467,587	196,589	115,647,745
(b) According to financial exposure:							
Non yield dependent	26,321,616	291,785	598,791	338,551	267,283	69,844	27,887,870
Yield dependent	1,523,516	57,384,507	-	28,524,803	200,304	126,745	87,759,875
Total	27,845,132	57,676,292	598,791	28,863,354	467,587	196,589	115,647,745

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

**) In addition to the supplementary annuity reserve included in the liabilities for insurance contracts there is a provision in the amount of NIS 2,822 million that will be recognized in profit or loss over the remaining life of the policy until the age of retirement, see Note 37.b.3)b)(6) on risk management for more details.

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

a. Details of the liabilities in respect of insurance contracts and investment contracts according to exposure (Cont.)

	Data for December 31, 2015						
	Policies with savings component (including riders) according to policy's date of issue				Policies without savings component		Total
			From 2004		Risk sold as separate policy		
	Up to 1990 *)	Up to 2003	Non yield dependent	Yield dependent	Individual	Group ***)	
	NIS in thousands						
(a) According to insurance exposure:							
Liabilities in respect of insurance contracts:							
Annuity without guaranteed coefficients	-	-	-	713,442	-	-	713,442
Annuity with guaranteed coefficients:							
Up to May 2001	19,224,682	41,200,396	-	-	-	-	60,425,078
From June 2001	-	9,055,137	82,443	22,429,245	-	-	31,566,825
Annuity in payment	3,628,941	2,001,387	300,089	411,546	-	-	6,341,963
Equity (without annuity option)	1,434,544	1,242,903	-	15,370	-	-	2,692,817
Supplementary annuity reserve **)	2,447,791	489,761	-	1,085	-	-	2,938,637
Other risk components	206,126	925,599	-	744,089	425,429	189,525	2,490,768
Total in respect of insurance contracts	26,942,084	54,915,183	382,532	24,314,777	425,429	189,525	107,169,530
Liabilities in respect of investment contracts	-	708	276,617	1,681,695	-	-	1,959,020
Total	26,942,084	54,915,891	659,149	25,996,472	425,429	189,525	109,128,550
(b) According to financial exposure:							
Non yield dependent	25,671,947	327,302	659,149	341,310	221,641	189,525	27,410,874
Yield dependent	1,270,137	54,588,589	-	25,655,162	203,788	-	81,717,676
Total	26,942,084	54,915,891	659,149	25,996,472	425,429	189,525	109,128,550

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

**) In addition to the supplementary annuity reserve included in the liabilities for insurance contracts there is a provision in the amount of NIS 3,182 million that will be recognized in profit or loss over the remaining life of the policy until the age of retirement, see Note 37.b.3)b)(6) on risk management for more details.

***) As the result of an examination that was performed by the Company in 2016, it was found that the balance of NIS 189,525 thousand as at December 31, 2015 should be classified as follows: an amount of NIS 79,050 thousand as non-yield dependent and an amount of NIS 110,475 thousand as yield dependent. This classification had no effect on the equity, profit or loss or comprehensive income. The comparative data as December 31, 2015 were not amended due to the insignificant effect on classification as non-yield dependent and yield dependent of the balances of liabilities for insurance contracts and investment contracts.

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

b. Details of results according to types of policies:

	Data for the year ended December 31, 2016						
	Policies with savings component (including riders) according to policy's date of issue				Policies without savings component		Total
			From 2004		Risk sold as separate policy		
	Up to 1990	Up to 2003	Non yield dependent	Yield dependent	Individual	Group	
	NIS in thousands						
Gross premiums:							
Traditional/endowment	39,548	29,667	-	-	-	-	69,215
Savings component	309,044	2,171,700	-	3,887,584	-	-	6,368,328
Other	56,609	277,028	-	509,928	484,858	65,321	1,393,744
Total	405,201	2,478,395	-	4,397,512	484,858	65,321	7,831,287
Financial margin including management fees	248,959	677,483	10,425	314,379	-	-	1,251,246
Payments and change in liabilities in respect of gross insurance contracts	1,763,374	5,034,918	4,938	4,981,616	219,542	77,789	12,082,177
Payments and change in liabilities in respect of investment contracts	-	21	(2,877)	48,092	-	-	45,236
Income (loss) from life assurance business	(171,210)	301,204	23,995	83,769	153,498	(11,598)	379,658
Other comprehensive loss from life assurance business	(39,869)	(1,755)	(7,709)	(1,817)	(786)	(1,507)	(53,443)
Total comprehensive income (loss) from life assurance business	(211,079)	299,449	16,286	81,952	152,712	(13,105)	326,215
Profit from pension and provident funds							34,610
Other comprehensive loss from pension and provident funds							577
Total comprehensive income from life assurance and long term savings							361,402
Receipts in respect of investment contracts allocated directly to insurance reserves	-	-	2,329	444,996	-	-	447,325
Annualized premium in respect of insurance contracts – new business	-	-	-	396,220	112,721	-	508,941
One time premium in respect of insurance contracts	83	-	-	879,425	-	-	879,508
Annualized premium in respect of investment contracts – new business	-	-	-	58,851	-	-	58,851
One time premium in respect of investment contracts	-	-	2,329	294,631	-	-	296,960
Transfers to the Company of insurance and investment contracts	-	-	-	242,229	-	-	242,229
Transfers from the Company of insurance and investment contracts	11,693	263,412	-	308,588	-	-	583,693

Comments:

1. The products issued up to 1990 (including their increases) were mainly guaranteed yield and are mainly backed up by designated bonds.
2. Increases in existing policies are not included in the framework of the annualized premium in respect of new business, but in the framework of the original policy's activity results.
3. The financial margin includes gains (losses) from investments that were recognized in other comprehensive income, does not include additional income of Migdal Insurance collected as a percentage of the premium and calculated before deduction of investment management expenses. The financial margin in policies with a guaranteed yield is based on actual investment income for the reported year, net of the multiplication of the guaranteed rate of annual yield by the average reserve for the year, in various insurance reserves. In respect of yield dependent policies, the financial margin is the total of the fixed and variable management fees calculated on the basis of the yield and the average balance of the insurance reserves.
4. Payments and change in liabilities in respect of investment contracts include only the amount of the gains (losses) from investments in respect of investment contracts.

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

b. Details of results according to types of policies: (Cont.)

	Data for the year ended December 31, 2015						
	Policies with savings component (including riders) according to policy's date of issue				Policies without savings component		Total
			From 2004		Risk sold as separate policy		
	Up to 1990	Up to 2003	Non yield dependent	Yield dependent	Individual	Group	
	NIS in thousands						
Gross premiums:							
Traditional/endowment	48,315	34,633	-	-	-	-	82,948
Savings component	316,849	2,116,879	380	3,763,791	-	-	6,197,899
Other	62,362	291,720	-	489,013	464,747	75,328	1,383,170
Total	427,526	2,443,232	380	4,252,804	464,747	75,328	7,664,017
Financial margin including management fees	363,247	571,663	(1,536)	279,695	-	-	1,213,069
Payments and change in liabilities in respect of gross insurance contracts	1,622,393	3,947,332	(3,321)	4,465,721	203,463	99,653	10,335,241
Payments and change in liabilities in respect of investment contracts	-	216	2,145	18,372	-	-	20,733
Income (loss) from life assurance business	6,764	244,290	23,532	(138,359)	82,450	(22,338)	196,339
Other comprehensive loss from life assurance business	(123,512)	(5,327)	(16,061)	(5,226)	(3,307)	(3,918)	(157,351)
Total comprehensive income (loss) from life assurance business	(116,748)	238,963	7,471	(143,585)	79,143	(26,256)	38,988
Profit from pension and provident funds							79,873
Other comprehensive loss from pension and provident funds							(8,331)
Total comprehensive income from life assurance and long term savings							110,530
Receipts in respect of investment contracts allocated directly to insurance reserves	-	-	141,683	704,632	-	-	846,315
Annualized premium in respect of insurance contracts – new business	-	-	-	253,179	92,843	-	346,022
One time premium in respect of insurance contracts	7	-	380	944,887	-	-	945,274
Annualized premium in respect of investment contracts – new business	-	-	-	91,789	-	-	91,789
One time premium in respect of investment contracts	-	-	141,683	592,446	-	-	734,129
Transfers to the Company of insurance and investment contracts	-	-	-	91,245	-	-	91,245
Transfers from the Company of insurance and investment contracts	14,614	224,243	-	236,854	-	-	475,711

Comments:

1. The products issued up to 1990 (including their increases) were mainly guaranteed yield and are mainly backed up by designated bonds.
2. Increases in existing policies are not included in the framework of the annualized premium in respect of new business, but in the framework of the original policy's activity results.
3. The financial margin includes gains (losses) from investments that were recognized in other comprehensive income, does not include additional income of Migdal Insurance collected as a percentage of the premium and calculated before deduction of investment management expenses. The financial margin in policies with a guaranteed yield is based on actual investment income for the reported year, net of the multiplication of the guaranteed rate of annual yield by the average reserve for the year, in various insurance reserves. In respect of yield dependent policies, the financial margin is the total of the fixed and variable management fees calculated on the basis of the yield and the average balance of the insurance reserves.
4. Payments and change in liabilities in respect of investment contracts include only the amount of the gains (losses) from investments in respect of investment contracts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016

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

b. Details of results according to types of policies: (Cont.)

	Data for the year ended December 31, 2014						
	Policies with savings component (including riders) according to policy's date of issue				Policies without savings component		Total
			From 2004		Risk sold as separate policy		
	Up to 1990	Up to 2003	Non yield dependent	Yield dependent	Individual	Group	
	NIS in thousands						
Gross premiums:							
Traditional/endowment	57,528	40,399	-	-	-	-	97,927
Savings component	331,052	2,116,175	-	3,656,307	-	-	6,103,534
Other	68,532	316,457	-	466,052	469,486	83,957	1,404,484
Total	457,112	2,473,031	-	4,122,359	469,486	83,957	7,605,945
Financial margin including management fees	428,565	707,527	32,780	248,451	-	-	1,417,323
Payments and change in liabilities in respect of gross insurance contracts	1,806,630	5,499,777	22,263	4,813,752	195,107	64,190	12,401,719
Payments and change in liabilities in respect of investment contracts	-	5,544	(7,218)	37,258	-	-	35,584
Income (loss) from life assurance business	(142,826)	255,464	15,518	(107,779)	157,074	14,899	192,350
Other comprehensive income from life assurance business	123,400	5,064	11,003	4,496	3,346	4,134	151,443
Total comprehensive income (loss) from life assurance business	(19,426)	260,528	26,521	(103,283)	160,420	19,033	343,793
Profit from pension and provident funds							99,775
Other comprehensive income from pension and provident funds							882
Total comprehensive income from life assurance and long term savings							444,450
Receipts in respect of investment contracts allocated directly to insurance reserves	-	-	10,459	797,476	-	-	807,935
Annualized premium in respect of insurance contracts – new business	-	-	-	297,657	109,158	-	406,815
One time premium in respect of insurance contracts	131	16,179	-	825,956	-	-	842,266
Annualized premium in respect of investment contracts – new business	-	-	-	50,890	-	-	50,890
One time premium in respect of investment contracts	-	-	10,459	743,512	-	-	753,971
Transfers to the Company of insurance and investment contracts	-	-	-	154,365	-	-	154,365
Transfers from the Company of insurance and investment contracts	7,458	133,675	-	242,827	-	-	383,960

Comments:

1. The products issued up to 1990 (including their increases) were mainly guaranteed yield and are mainly backed up by designated bonds.
2. Increases in existing policies are not included in the framework of the annualized premium in respect of new business, but in the framework of the original policy's activity results.
3. The financial margin includes gains (losses) from investments that were recognized in other comprehensive income, does not include additional income of Migdal Insurance collected as a percentage of the premium and calculated before deduction of investment management expenses. The financial margin in policies with a guaranteed yield is based on actual investment income for the reported year, net of the multiplication of the guaranteed rate of annual yield by the average reserve for the year, in various insurance reserves. In respect of yield dependent policies, the financial margin is the total of the fixed and variable management fees calculated on the basis of the yield and the average balance of the insurance reserves.
4. Payments and change in liabilities in respect of investment contracts include only the amount of the gains (losses) from investments in respect of investment contracts.

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

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, 2016
	2016	2015	2014	2013	2011	Before management fees	After management fees	
	In percentage							NIS in thousands
"Yud" Fund (Fund No. 10)	4.35	2.79	5.77	12.44	11.25	7.25	5.87	660,365
General track for policies beginning from the year 2004	3.37	1.74	5.13	11.71	10.64	6.45	5.15	240,473
Other								94,360
Total								995,198

d. Details of transfer of funds:

	Year ended December 31, 2016	2015	2014
	NIS in thousands		
Transfer to the Company from other entities			
Transfers from other insurance companies	**49,811**	22,643	70,997
Transfers from pension funds	**109,003**	7,225	12,824
Transfers from provident funds	**83,415**	61,377	70,544
Total transfers to the Company	**242,229**	91,245	154,365
Transfers from the Company to other entities			
Transfers to other insurance companies	**113,295**	64,763	126,355
Transfers to pension funds	**200,421**	147,897	109,210
Transfers to provident funds	**269,977**	263,051	148,395
Total transfers from the Company	**583,693**	475,711	383,960
Transfers, net	**(341,464)**	(384,466)	(229,595)

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, 2016				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Yield dependent	132,693	17,296	12,858	-	162,847
Other	1,838,594	6,681	746,518	13,369	2,605,162
Total	1,971,287	23,977	759,376	13,369	2,768,009

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

	Data as at December 31, 2015				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Yield dependent	1,550,057	-	181,614	-	1,731,671
Other	181,945	21,606	513,558	10,646	727,755
Total	1,732,002	21,606	695,172	10,646	2,459,426

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

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

	Data as at December 31, 2015				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Annuity being paid	113,471	16,265	14,828	-	144,564
Other risk components	1,618,531	5,341	680,344	10,646	2,314,862
Total	1,732,002	21,606	695,172	10,646	2,459,426

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

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

**) Including policy riders.

NOTE 19:- DETAILS OF THE INSURANCE LIABILITIES FOR INSURANCE CONTRACTS INCLUDED IN THE HEALTH INSURANCE SEGMENT (Cont.)

b. Details of the results according to policy type: (Cont.)

	Data for the year ended December 31, 2015				
	Long term care		Other*)		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Gross premiums	263,190	13,478	722,157	26,887	1,025,712
Payments and change in liabilities in respect of insurance contracts, gross	256,360	13,356	488,937	20,386	779,039
Profit (loss) from health insurance business	(38,118)	729	14,525	(2,788)	(25,652)
Other comprehensive loss from health insurance business	(2,368)	(406)	(6,909)	(41)	(9,724)
Total comprehensive income (loss) from health insurance business	(40,486)	323	7,616	(2,829)	(35,376)
Annualized premium - new **)	54,934	-	178,417	-	233,351

*) The most significant coverage included in other long-term health insurance is medical expenses, and in short term travel insurance.
Of this, individual premiums in the amount of NIS 657,756 thousand and group premiums in the amount of NIS 91,288 thousand.

**) Including policy riders.

	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
Payments and change in liabilities in respect of insurance contracts, gross	213,953	8,817	388,156	6,513	617,439
Profit 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
The comprehensive income from health insurance business	21,556	1,297	6,350	(905)	82,298
Annualized premium - new **)	50,760	-	158,110	-	208,870

*) The most significant coverage included in other long-term health insurance is medical expenses, and in short term travel insurance.
Of this, individual premiums in the amount of NIS 574,901 thousand and group premiums in the amount of NIS 61,259 thousand.

**) Including policy riders.

NOTE 20:- MOVEMENT IN LIABILITIES IN REPSECT OF LIFE ASSURANCE CONTRACTS, INVESTMENT CONTRACTS AND HEALTH INSURANCE

	Life assurance and long term savings			
	Insurance contracts	Investment contracts	Total	Health insurance
	NIS in thousands			
Balance as at January 1, 2015	101,606,211	1,498,521	103,104,732	2,149,158
Interest, linkage differences and investment income (1)	1,543,114	7,423	1,550,537	30,918
Increase in respect of premiums and deposits allocated to liabilities (2)	6,095,266	846,315	6,941,581	193,393
Decline in management fees from accrued savings				
Decrease in respect of claims, surrenders and maturities	(2,749,247)	(353,300)	(3,102,547)	(34,586)
Other changes (3)	635,297	(1,050)	634,247	120,543
Balance as at December 31, 2015	107,130,641	1,997,909	109,128,550	2,459,426
Interest, linkage differences and investment income (1)	4,029,340	49,221	4,078,561	45,262
Increase in respect of premiums and deposits allocated to liabilities (2)	6,399,227	447,325	6,846,552	229,498
Decline in management fees from accrued savings	(979,464)	(15,734)	(995,198)	-
Decrease in respect of claims, surrenders and maturities	(3,273,037)	(516,517)	(3,789,554)	(34,484)
Other changes (3)	382,819	(3,985)	378,834	68,307
Balance as at December 31, 2016	113,728,415	1,919,330	115,647,745	2,768,009

Comments:

1. Interest, linkage differences and investment income – this item includes interest, linkage differences and investment income in respect of the balance as at the beginning of the year, with the addition of interest, linkage differences and investment income in respect of premiums for savings only recorded during the reported period.
2. Increase in respect of premiums allocated to liabilities – this premium does not include the entire premium recorded as income in the Company. The premium includes the premium for savings and part of the premium in products with fixed premium.
3. Other changes – In 2016 and 2015, immediate provisions in the amount of about NIS 431 million and NIS 363 million, respectively, were recorded following a study of the adequacy of the life assurance reserves including the supplementary reserve for annuity (see Note 37b(3)(b)(5)(a) below). The item includes changes in reserve in respect of outstanding claims, reserve for future claims, IBNR, annuities in payment, etc. (according to assumptions used at the end of the previous year). In addition, the 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.

NOTE 21:- TAXES ON INCOME

a. General:

The income of the Company and all other Group companies is subject to corporate tax according to the Income Tax Ordinance (New Version), 1961 ("the Ordinance"). Furthermore, the income of Group companies that are classified as "financial institutions" as defined in the Value Added Tax Law, 1975 is subject to profit and salary tax. It is noted that the activity of companies classified as financial institutions in the insurance, pension and the finance branches constitute the major part of the Group's operations.

b. Tax arrangements that are unique to the insurance industry:

An industry agreement was signed between the Association of Life Assurance Companies and the Tax Authorities that arranges the unique issues of the insurance business, as described below.

The most recent industry agreements that were signed between the Tax Authorities and the Association of Life Insurance Companies are for tax years 2013 up to and including 2015. Some of the provisions of these agreements, as described hereunder, are valid also for the years after 2015. The taxes in the financial statements for the year 2016 are based on the aforementioned agreements.

The sector agreements relate, among others, to the following matters:

1. Deferred acquisition costs (DAC) – expenses incurred in the acquisition of life assurance policies up to and including the year 2014 are deductible for tax purposes in equal portions over a period of four years and for the underwriting years 2015 to 2020 over ten years. Such expenses relating to life assurance contracts have been canceled will be deductible in the year of the cancellation

   Acquisition expenses of pension and provident funds contracts (as defined in the agreement) for the underwriting years 2015 up to and including 2020 will be deductible for tax purposes equally over ten years, or by the rate of reduction in the financial statements, as chosen by the Company. Introduction expense will not be allowed in respect of pension and provident funds canceled.

   Deferred acquisition costs in sickness and hospitalization costs are amortized over a period of six years, similar to the reduction in the financial statements.

2. Allocation of expenses to preferred income – expenses will be allocated to tax exempt income received by insurance companies ("preferred income"), which means that part of the preferred income becomes income subject to the full rate of tax, according to the rate of allocation. The rate of allocation provided in the industry agreement depends on the source of the money creating the preferred income.

NOTE 21:- TAXES ON INCOME

b. Tax arrangements that are unique to the insurance industry:

The sector agreements relate, among others, to the following matters: (Cont.)

3. Provision for indirect expenses to settle claims – partial adjustment of the provision for indirect expenses to settle claims in the general insurance and health fields, for each underwriting year beginning from the year 2013 up to the year 2020. The adjusted amount will be recognized for tax purposes over three years beginning from the year after the adjustment.

4. Taxation of income from assets held as investments overlapping yield-dependent liabilities – in order to prevent possible tax distortions it was agreed that the taxation of profits from quoted securities and of profits from the revaluation and realization of real estate will be performed such that there is a matching of income to expenses

5. The tax applicable to the cancellation of the reserve for extraordinary risks in life assurance – the Arrangements in the State Economy Law (Legislative Amendments for Attaining the Budget Goals and the Economic Policy for the Fiscal Year 2007), 2007, dated January 11, 2007, prescribed regulations for the tax applicable due to the cancellation of the reserve for extraordinary risks in life assurance that was included in the financial statements as at December 31, 2006. According to the regulations, a portion of the reserve which is calculated at the rate of 0.17% of the insurance risk amount, on retention, in life assurance and for which a capital requirement was defined, will be exempt from tax. In the branch taxation agreement it was noted that the basis for the exemption is the capital requirement, as mentioned above, and in the event of a cancellation or decrease in the capital requirement, the parties will discuss the consequent tax implications, if any.

In January 2017, subsequent to the date of the financial statements, the Board of Directors of Migdal Insurance decided to withdraw from the Association of Insurance Companies in Israel (RA) and from the Association of Life Insurance Companies, effective as from the end of 2017. Even so, according to the decision that was made, Migdal Insurance does not intend to handle the various regulatory issues by means of these bodies and the position of these bodies will not represent its position. In the opinion of Migdal Insurance, the withdrawal will not have material effects on the tax items in the Company's financial statements.

c. The tax rates:

1. The statutory tax applicable to financial institutions which constitute the Group's main activities is comprised of corporate tax and profit tax.

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

NOTE 21:- TAXES ON INCOME

c. The tax rates: (Cont.)

3. In December 2016 the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016 was approved, effective as from January 1, 2017. The amendment prescribes, inter alia, a reduction in the corporate tax rate from 25% to 24% as from January 2017 and to 23% as from January 2018. According to the aforesaid amendment the overall tax rate applicable to financial institutions, will be 35.04% in 2017 and 34.19% as from January 2018.

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

5. In November 2015 Value Added Tax Order (Tax Rate for Non-Profit Organizations and Financial Institutions) (Amendment) 2015, was published, which stated that the payroll tax rate applicable to financial institutions will be 17% of the salary paid for the work in October onwards and the profit tax rate will be 17% of the income generated. The directive with regard to profit tax in the 2015 tax year shall apply to the proportionate part of the profit for that year.
The effect in 2015 of the decrease in the profit tax from 18% to 17%, as aforesaid, was a decrease in deferred tax balances of the Company’s investee companies in the amount of NIS 10,826 thousand, against a decrease in tax expenses in the amount of NIS 5,242 thousand and against an increase in other comprehensive income in the amount of NIS 5,584 thousand.

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

Year	Corporate tax rate	Profit tax rate	Overall tax rate in financial institutions
		%	
2014	26.50	18.00	37.71
2015	26.50	(* 17.75	(** 37.58
2016	25.00	17.00	35.90
2017	24.00	17.00	35.04
2018 and thereafter	23.00	17.00	34.19

*) Weighted tax rate.

**) The deferred taxes as at December 31, 2015 were calculated according to the effective tax rate of 37.18% for financial institutions and according to the corporate tax of 25.5%, as were in force at the date of the financial statements.

NOTE 21:- TAXES ON INCOME

d. Tax assessments

Corporate tax assessments

1. Migdal Insurance has final tax assessments up to and including the year 2012, other than a matter for which no understanding has been reached, as described hereunder:

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

   Migdal Insurance's management believes that no tax provision is required in addition to that already recorded in the financial statements.

2. In November 2012, Migdal Real Estate Ltd., a wholly owned subsidiary of Migdal Insurance (hereunder in this subsection - "the Company") received best judgment assessments for the years 2007, 2009 and 2010 whereby the dividend income received from its affiliate, who's origin is in revaluation profits of real estate assets, are taxable. The tax liability results from these assessments (including interest and linkage differences as at the date of publication of the financial statements) amounts to about NIS 70 million.

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

   Company management estimates, based on legal counsel, that it is more likely than not that the Company's defense claims of this procedure will be accepted. The Company believes that no tax provision is required beyond that recorded in the financial statements.

3. The Company and the other subsidiaries of the Company received final tax assessments by agreement or under the statute of limitations up to and including the year 2012, except for a subsidiary with final tax assessments up to and including the year 2013.

NOTE 21:- TAXES ON INCOME (Cont.)

e. Carryforward losses for tax purposes and other temporary differences:

The Group's has carryforward business losses for tax purposes in the amount of about NIS 229 million as of December 31, 2016 (December 31, 2015 - about NIS 248 million) in respect of which deferred tax assets of about NIS 53 million (December 31, 2015 - about NIS 65 million) were recognized in the financial statements.

Deferred tax assets relating to carryforward business losses of about NIS 74 million and capital losses for tax purposes of about NIS 77 million (December 31, 2015 - about NIS 77 million and NIS 73 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,		
	2016	**2015**	**2014**
	NIS in thousands		
Current taxes	**116,160**	188,651	163,038
Deferred taxes relating to the creation and reversal of temporary differences *)	**(24,085)**	(21,705)	31,625
Taxes in respect of previous years	**16,618**	(5,938)	(9,169)
Effect of change in tax rates	**(27,459)**	(5,242)	-
Taxes on income	**81,234**	155,766	185,494

*) See also paragraph g hereunder.

NOTE 21:- TAXES ON INCOME (Cont.)

g. Deferred taxes:

Composition:

	Deferred acquisition costs	Available for sale financial assets	Fixed assets and investment property	Investments in affiliates	Intangible assets	Losses for tax purposes	Others	Total
	NIS in thousands							
Balance of deferred tax asset (liability) as at January 1, 2015	(322,931)	(230,910)	(79,765)	(45,853)	(135,328)	65,090	53,729	(695,968)
Changes recognized in profit and loss	24,182	7,265	23,201	(10,090)	(21,790)	3,290	(4,353)	21,705
Changes recognized in other comprehensive income	-	121,205	-	837	-	-	3,656	(* 125,698
Effect of reduction in profit tax rate	4,541	(1,023)	47	171	1,801	42	(337)	5,242
Exit from consolidation	-	-	-	-	-	(2,864)	(787)	(3,651)
Balance of deferred tax asset (liability) as at December 31, 2015	(294,208)	(103,463)	(56,517)	(54,935)	(155,317)	65,558	51,908	(546,974)
Changes recognized in profit and loss	26,754	(20,738)	(3,215)	25,253	(10,697)	(4,555)	11,283	24,085
Changes recognized in other comprehensive income	-	45,113	(1,193)	(305)	-	-	(2,370)	(** 41,245
Effect of reduction in corporate tax rate	22,384	(3,352)	7,868	515	13,285	(8,484)	(4,757)	27,459
Exit from consolidation	-	-	-	-	(2,027)	173	-	(1,854)
Balance of deferred tax asset (liability) as at December 31, 2016	(245,070)	(82,440)	(53,057)	(29,472)	(154,756)	52,692	56,064	(456,039)

*) Includes the effect of the reduction in the profit tax rate in the amount of NIS 5,584 thousand.

**) Includes the effect of reduction in the corporate tax rate in the amount of NIS 10,286 thousand.

NOTE 21:- TAXES ON INCOME (Cont.)

g. Deferred taxes: (Cont.)

The deferred taxes are reflected in the statement of financial position as follows:

	December 31, 2016	December 31, 2015
	NIS in thousands	
Deferred tax assets	**10,665**	19,358
Liabilities in respect of deferred taxes	**(466,704)**	(566,332)
	(456,039)	(546,974)

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, 2016	2015	2014
	NIS in thousands		
Income before taxes on income	**286,358**	508,817	608,329
Overall statutory tax rate applicable to financial institutions (see c above)	**35.90%**	37.58%	37.71%
Tax computed at the overall statutory tax rate	**102,803**	191,213	229,401
Deduction in respect of companies that are not financial institutions	**(8,923)**	(15,529)	(8,846)
Increase (decrease) in taxes on income resulting from the following factors:			
Non-deductible expenses	**6,328**	7,554	7,155
Exempt dividend income	**(13,850)**	(17,964)	(15,496)
Group's share of earnings of affiliates	**(18,242)**	(17,413)	(17,738)
Effect of increase in tax rates on deferred taxes	**(27,459)**	(5,242)	-
Increase (decrease) in losses for tax purposes for which no deferred taxes were allocated and utilization of losses for tax purposes from previous years, for which no deferred taxes were allocated in the past	**7,145**	12,658	708
Temporary differences for which deferred taxes are not provided	**11,142**	-	-
Taxes in respect of previous years	**16,618**	(5,938)	(9,169)
Other	**5,672**	6,427	(521)
Taxes on income	**81,234**	155,766	185,494
Effective tax rate	28.37%	30.61%	30.49%

NOTE 22:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES

Employee benefits include short term benefits, post-employment benefits, other long term benefits, termination benefits, as defined in IAS 19, and share based payments.

For additional details on accounting policy for these benefits see Note 2r above. See Note 33 below regarding share-based payments.

Regarding benefits for those who hold key management positions see Note 38j below, in respect of related and interested parties.

Labor laws and the Severance Pay Law in Israel require the Company to pay severance pay to an employee upon dismissal or retirement or to make current deposits in a defined contribution plan, according to Section 14 as described below. The Company's liabilities in this respect are treated as a post-employment benefit.

The calculation of the Group’s liability for employee benefits after termination of employment is made in accordance with a valid employment contract and is based on the Group’s forecast of the employee's salary at the time of dismissal or retirement.

Post-employment benefits to employees are generally financed by deposit amounts in insurance policies and are classified as defined contribution plans or defined benefit plan as follows:

Defined contribution plans

The provisions of Section 14 to the Severance Pay Law, 1963 ("Section 14") apply to a portion of the severance pay obligations. According to Section 14, the Group's current contributions in insurance companies' policies and/or in pension funds, release it from any additional liability for severance pay to employees in respect of whom amounts were deposited, as mentioned above. These deposits and deposits in respect of provident benefits constitute a defined contribution plan. In 2016, 2015 and 2014, the expenses in respect of the defined contribution plans amounted to NIS 52,526 thousand, NIS 49,608 thousand and NIS 54,761 thousand, respectively, and were included under general and administrative expenses.

As for the cancellation for most of the employees of the Section 14 arrangement in Migdal Insurance and Migdal Makefet based on a collective agreement signed on February 17, 2015, see Note 32 below under general and administrative expenses.

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, 2016	December 31, 2015
	NIS in thousands	
Liabilities in respect of defined benefit plan which is not financed	**13,388**	13,638
Liability in respect of financed defined benefit plan	**366,037**	351,926
Total liability in respect of defined benefit plan – see b1	**379,425**	365,564
Less - fair value of the plan's assets – see b1 and d below	**137,278**	123,889
Total net liability in respect of defined benefit plans	**242,147**	241,675
Short term benefits – provision for vacation	**47,835**	45,707
Other long term benefits – see c below	**25,152**	24,303
Share based payment settled in cash	**-**	952
Total liabilities for employee benefits, net	**315,134**	312,637

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

b. Information regarding defined benefit plans:

1. Changes in the present value of the liability for defined benefit plan and movement in the fair value of the plan assets:

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

*) The expenses are included in wages and related expenses in general and administrative expenses, see Note 32.
**) Other than amounts recognized in interest expenses, net.

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

b. Information regarding defined benefit plans: (Cont.)

1. Changes in the present value of the liability for defined benefit plan and movement in the fair value of the plan assets: (Cont.)

		Expenses (income) allocated to profit or loss *)					Gain (loss) from re-measurement in other comprehensive income						
	Balance at January 1, 2015	Past service cost	Interest expenses, net	Current service cost	Total	Payments from the plan	Yield on plan assets **)	Changes in demographical assumptions	Changes in financial assumptions	Other actuarial loss (gain)	Total	Employer contributions to plan	Exit from consolidation	Balance at December 31, 2015
Defined benefit liabilities	286,367	46,903	14,281	35,646	96,830	(24,777)	-	97	3,885	5,388	9,370	-	(2,226)	365,564
Fair value of plan assets	(87,882)	(24,574)	(4,731)	-	(29,305)	10,354	345	-	-	(884)	(539)	(17,885)	1,368	(123,889)
Net liability (asset) from defined benefit	198,485	22,329	9,550	35,646	67,525	(14,423)	345	97	3,885	4,504	8,831	(17,885)	(858)	241,675

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

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

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

b. Information regarding defined benefit plans: (Cont.)

2. The main actuarial assumptions in determining liabilities in respect of defined benefit plans:

	2016	2015	2014
		%	
Discount rate on December 31*)	**4.46**	4.18	4.25
Anticipated real salary increase	**3.91**	3.91	3.04

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, 2016		December 31, 2015	
	+1%	-1%	+1%	-1%
	NIS in thousands			
Future increase in salary costs	15,084	(9,388)	15,312	(9,566)
Discount rate	(9,209)	14,754	(8,921)	14,295

3. Actual yield:

	Year ended December 31,		
	2016	2015	2014
		%	
Actual yield on plan assets	3.55	3.64	8.43

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

- The Group estimates the expected deposits in plan assets in 2017 to fund the defined benefit plan to amount to about NIS 22,564 thousand.
- The Group estimates the weighted average life of the plan at the end of the reporting period to be 11 years and at the end of last year to be 10 years.

c. Other long-term benefits:

	December 31,	
	2016	2015
	NIS in thousands	
Liability for sick pay	**4,607**	4,112
Jubilee grant	**20,545**	20,191
	25,152	24,303

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

d. Composition of plan assets

	December 31, 2016	December 31, 2015
	NIS in thousands	
Central severance pay fund	**7.8**	8.4
Executive insurance	**24.8**	24.4
Provident funds and pension funds	**67.4**	67.2
	100	100

NOTE 23:- CREDITORS AND PAYABLES

	December 31, 2016	December 31, 2015
	NIS in thousands	
Stock Exchange Clearinghouse and securities	**64,413**	66,214
Employees and other salary-related liabilities	**81,294**	88,422
Expenses payable	**169,666**	165,788
Suppliers and service providers	**121,613**	118,341
Government authorities and institutions	**36,903**	24,486
Deferred acquisition costs in respect of reinsurance	**38,043**	33,388
Insurance companies and brokers:		
Deposits by reinsurers *)	**284,194**	51,845
Other accounts	**114,336**	112,075
Total insurance companies and brokers	**398,530**	163,920
Insurance agents	**393,117**	392,339
Policyholders and members	**341,794**	343,935
Provision for profit participation of policyholders	**6,385**	8,458
Prepaid premium	**44,750**	62,302
Others *)	**69,961**	76,067
Total creditors and payables	**1,766,469**	1,543,660

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

*) As for transactions with a controlling shareholder, see Note 38e regarding 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	
	2016	2015	2016	2015
	NIS in thousands			
1. Financial liabilities at amortized cost:				
Loans from banking institutions	**6,085**	9,585	**6,085**	9,585
Loans from non-banking institutions	**14,388**	2,173	**14,364**	1,953
Subordinated liability certificates (hereinafter: “bonds”) *)	**3,677,789**	2,746,454	**3,765,238**	2,835,808
Total financial liabilities reported at amortized cost	**3,698,262**	2,758,212	**3,785,687**	2,847,346
2. Financial liabilities at fair value through profit or loss:				
Derivatives for yield dependent contracts	**168,947**	236,983	**168,947**	236,983
Derivatives for non-yield dependent contracts	**43,674**	47,305	**43,674**	47,305
Short sales	**36,603**	-	**36,603**	-
Total financial liabilities reported at fair value through profit and loss ****)	**249,224**	284,288	**249,224**	284,288
Total	**3,947,486**	3,042,500	**4,034,911**	3,131,634
Less accrued interest on subordinated liability certificate presented in the balance sheet under the creditors item	**65,112**	24,762		
Total financial liabilities	**3,882,374**	3,017,738		

*) The fair value of the unquoted bonds is provided for disclosure purposes only based on the data of Fair Spread, see Note 12f above.
The fair value of the quoted bonds, which is provided for disclosure purposes only, was determined according to their price at the closing of trade on the reporting date.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

b. Financial liabilities at amortized cost:

1. Details of interest and linkage:

	Effective interest December 31, 2016	Effective interest December 31, 2015
	%	%
Linkage basis		
The Consumer Price Index	**3.2**	3.2
In NIS	**3.6**	3.7
Foreign currency	**3.5**	-

2. Maturity dates:

	December 31, 2016	December 31, 2015
	NIS in thousands	NIS in thousands
First year	**81,233**	29,501
Second year	**838,247**	2,810
Third year	**208**	838,569
Fourth year	**124**	1,182
Fifth year and thereafter	**2,778,450**	1,886,150
Total	**3,698,262**	2,758,212

See details of maturity dates of non-capitalized financial liabilities in Note 37b(2) below.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

c. Fair value levels of financial liabilities presented at fair value through profit or loss:

Following is an analysis of financial liabilities that are presented at fair value.
The carrying amount of creditors and payables approximates their fair value.

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

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Derivatives	71,464	212,824	-	284,288
Short sales	-	-	-	-
Total financial liabilities	71,464	212,824	-	284,288
Financial liabilities whose fair value is disclosed (Note 24a above)	1,957,589	889,757	-	2,847,346

d. Interest rates used in determining fair value:

	December 31,	
	2016	2015
	%	
Loans	**3.5**	3.6
Bonds constituting second tier capital	**2.9**	2.5
Bonds constituting third tier capital	**2.9**	3.3
Other financial liabilities	**(1.0)**	(0.3)

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e. Issue of bonds:

In 2012, Migdal Capital Raising completed two private placements to classified investors which were listed on the TACT institutional system, as detailed below (the data in the table are presented in NIS in thousands):

	Series A bonds	Series B bonds
Class of capital	Second tier hybrid capital in Migdal Insurance	Second tier hybrid capital in Migdal Insurance
Date of issue	1.2012	12.2012
Amount of issue NIS 1 par value	500,000	324,656
Nominal value	500,000	324,656
Nominal value according to linkage terms	511,758	327,566
Issue proceeds (*)	497,529	322,942
Nominal interest rate	Fixed, 3.5%	Fixed, 2.35%
Effective interest rate	3.61%	2.46%
Linkage to CPI	Capital and interest linked to the increase in the CPI published in December 2011 for November 2011	Capital and interest linked to the increase in the CPI published in December 2012 for November 2012
Contractual maturity date	12.2021	12.2024
Interest payment dates (**)	2 equal semi annual payments on June 30 and December 31 of each of the years 2012-2021 (inclusive)	2 equal semi annual payments on June 30 and December 31 of each of the years 2013-2021 (inclusive)
Midroog Ltd. rating (***)	Aa3	Aa3
First possible early repayment date	7 years after issue	6 years after issue
Trade on the Stock Exchange	If the bonds are listed on the stock exchange, the interest rate will be reduced by 0.2%	If the bonds are listed on the stock exchange, the interest rate will be reduced by 0.2%
Pledge of bonds	Not secured under any pledge	Not secured under any pledge
Carrying amount as at December 31, 2016		
Accrued interest as of December 31, 2016		
Fair value as of December 31, 2016		
Carrying amount as at December 31, 2015	510,620	326,686
Accrued interest as of December 31, 2015	-	-
Fair value as of December 31, 2015	546,550	331,669
Balance of deferred issue expenses (****)		
December 31, 2016	1,248	956
December 31, 2015	1,505	1,169

(*) The issue proceeds are net of deferred issue expenses amortized by the effective interest method.

(**) The last interest payment will be paid together with the principal repayment.

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

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

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e. Issue of bonds: (Cont.)

In 2015, Migdal Capital Raising completed two issues on the Tel Aviv Stock Exchange, as detailed below (the data in the table are presented in NIS in thousands):

	Series C bonds	**Series D bonds**
Class of capital	Second tier hybrid capital in Migdal Insurance	Second tier hybrid capital in Migdal Insurance
Date of issue	6.2015	12.2015
Amount of issue NIS 1 par value	1,191,594	711,215
Nominal value	1,191,594	711,215
Issue proceeds (*)	1,174,891	702,580
Nominal interest rate	Fixed, 3.58%	Fixed, 2.39%
Effective interest rate	3.74%	3.53%
Linkage to CPI	Not linked	Not linked
Contractual maturity date	12.2027	12.2027
Interest payment dates (**)	One annual payment, on March 31 of each of the years 2016-2027	One annual payment, on March 31 of each of the years 2016-2027
Midroog Ltd. rating (***)	Aa3	Aa3
First possible early repayment date	3.2023	3.2023
Pledge of bonds	Not secured under any pledge	Not secured under any pledge
Carrying amount as at December 31, 2016		
Accrued interest as of December 31, 2016		
Market value as at December 31, 2016		
Carrying amount as at December 31, 2015	1,179,711	704,674
Accrued interest as of December 31, 2015	23,375	1,387
Market value as at December 31, 2015	1,239,973	717,616
Balance of deferred issue expenses (****)		
December 31, 2016		
December 31, 2015	11,883	6,541

(*) The issue proceeds are net of deferred issue expenses amortized by the effective interest method.

(**) The last interest payment will be paid together with the principal repayment.

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

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

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e. Issue of bonds: (Cont.)

In September 2016, Migdal Capital Raising completed an issue of Series E bonds on the Tel Aviv Stock Exchange,:

	Series E bonds	
Class of capital	Second tier hybrid capital in Migdal Insurance	
Date of issue	9.2016	
Amount of issue NIS 1 par value		
Nominal value		
Issue proceeds (*)		
Nominal interest rate	Fixed, .329%	
Effective interest rate	.351%	
Linkage to CPI	Not linked	
Contractual maturity date	6.2029	
Interest payment dates (**)	One annual payment, on June 30 of each of the years 2016-2029	
Midroog Ltd. rating (***)	Aa3	
First possible early repayment date	6.2024	
Pledge of bonds	Not secured under any pledge	
Carrying amount as at December 31, 2016		
Accrued interest as of December 31, 2016		
Market value as at December 31, 2016		
Balance of deferred issue expenses (****)		
December 31, 2016		
Is the series material	Yes	

(*) The issue proceeds are net of deferred issue expenses amortized by the effective interest method.

(**) The last interest payment will be paid together with the principal repayment.

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

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

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

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

In 2012 Migdal Capital Raising completed two private placements to classified investors, Series A bonds and Series B bonds which were listed on the TACT institutional system.

Furthermore, in June 2015 Migdal Capital Raising completed an issue of bonds (Series C) that were listed on the Tel Aviv Stock Exchange.

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

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

Migdal Insurance undertook to bear all the amounts required to settle the bonds. This commitment of Migdal Insurance is subordinated until after the payment of Migdal Insurance's remaining liabilities to its creditors and it has preference over liabilities towards its creditors in respect of components and instruments included in the first tier capital of Migdal Insurance.

The terms of the bonds provide that in case of the existence of suspending circumstances (as detailed below), the payment of the principal and/or the interest will be deferred until such suspending circumstances no longer exist or up to three years from the date of repayment of the initially determined principal and/or interest, whichever the earlier, unless the Commissioner approved the payment of the principal and/or the interest at an earlier date.

"Suspending circumstances" with respect to bonds that constitute second tier hybrid capital refer to the existence of one or more of the following circumstances:

With respect to the deferral of the payment of interest -according to the latest financial statements of Migdal Insurance that were published prior to the repayment date of the interest, Migdal Insurance does not have distributable profits as defined in the Companies Law, 1999 ("the Companies Law").

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

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

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

a) According to Migdal Insurance's latest financial statements that were published prior to the relevant date of settlement of the principal and/or interest, the amount of the recognized equity of Migdal Insurance is lower than the minimum equity required from it (according to the Capital Regulations), and Migdal Insurance did not perform an equity supplementation as at the date of publication of the financial statements.

b) Migdal Insurance's Board of Directors instructed to defer the payment of the principal or the interest, if it thought that there is an actual concern regarding Migdal Insurance's ability to meet the minimum shareholders' equity required from it (pursuant to the Capital Regulations), or to repay on time the liabilities whose priority is higher than that of the bonds, provided that a prior approval is received from the Commissioner of Insurance.

c) The Commissioner instructed to defer the payment of the principal or interest if he/she realized that there is a significant damage to the recognized shareholders' equity of Migdal Insurance or there is a close actual concern regarding Migdal Insurance's ability to comply with the minimum shareholders' equity required from it (pursuant to the Capital Regulations).

The terms of the bonds provide that as long as all the payments of principal and/or interest whose repayment date is deferred have not yet been settled, Migdal Insurance will not perform any distributions, as defined in the Companies Law, will not repay any capital note, liability certificate, or loan from its controlling shareholders or from those in whom the controlling shareholders have a personal interest, and will not pay any amount of money for any transaction that was approved or should be approved pursuant to the provisions of Section 270(4) final Section to the Companies Law, unless all the aforementioned deferred payments of the principal or interest have been settled. These restrictions will not apply to the types of payments as detailed in the Commissioner's circular in relation to "the composition of the insurer's recognized shareholders' equity."

Migdal Insurance will be entitled to redeem the bonds at an early redemption fully or partially, on condition that the first early redemption date will be as detailed in the table above. In the event that this right for early redemption will not be exercised, there will be a payment of an additional interest over the interest that the bonds will bear at that time, for the balance of the period (from the early repayment date that was not exercised as stated and up to the actual settlement date), at the rate of 50% of the initial risk margin that was determined for the issue. The early redemption will be possible in one of the following cases: a) the issue of a capital instrument (as implied in the capital composition circular) which has the same or higher quality, or; b) with the Insurance Commissioner's prior approval and at terms as determined by him.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

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

c) (Cont.)

It was determined that the bonds may be declared immediately due and payable under certain circumstances, such as a delay in the repayment of any amount of money regarding the bonds beyond the determined period, the liquidation of Migdal Capital Raising, the appointment of a liquidator or an official receiver to Migdal Capital Raising, etc. The deferral of the payments of principal and/or interest in relation to the bonds, due to suspending circumstances as mentioned, does not grant the right to declare the bonds immediately due and payable. The trustee will not be permitted to declare the unpaid bonds immediately due and payable, without the prior written approval of the Commissioner.

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

In December 2015, Migdal Capital Raising completed a public offering of bonds (Series D) that were listed on the Tel Aviv Stock Exchange. The issue proceeds of the bonds (Series D) were deposited in Migdal Insurance and pursuant to the Commissioner's approval were recognized as third tier hybrid capital in Migdal Insurance, subject to restrictions on the maximum rate of the third tier capital.

Migdal Insurance undertook to bear all the amounts required to settle the bonds. This commitment of Migdal Insurance is subordinate to Migdal Insurance's other obligations to its creditors, it is pari passu with Migdal Insurance's obligations with respect to creditors' rights under components and instruments constituting third tier hybrid capital of Migdal Insurance, and it takes precedence over obligations to its creditors under components and instruments included in the first tier capital and in the second tier hybrid capital of Migdal Insurance.

The terms of the bonds provide that in case of the existence of suspending circumstances (as detailed below), the payment of the principal will be deferred until such suspending circumstances no longer exist or up to three years from the date of repayment of the initially determined principal, whichever the earlier, unless the Commissioner approved the payment of principal at an earlier date.

"Suspending circumstances" with respect to bonds that constitute third tier hybrid capital refer to the existence of one or more of the following circumstances:

1) According to Migdal Insurance's latest financial statements published prior to the relevant date of payment of the principal, the amount of the recognized equity of Migdal Insurance is lower than the minimum equity required of it (pursuant to the Capital Regulations), and Migdal Insurance did not perform an equity supplementation as at the date of publication of the financial statements.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

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

2) The Commissioner has instructed to defer the payment of the principal, where he considers that there is an immediate actual concern regarding Migdal Insurance's ability to comply with the minimum equity required of it (pursuant to the Capital Regulations).

The terms of the bonds provide that as long as a principal payment whose payment date has been deferred has not been settled, Migdal Insurance will be subject to restrictions, inter alia, on the performance of distributions. For details see the discussion in section a above regarding the terms of bonds constituting second tier hybrid capital.

Migdal Insurance will be entitled to redeem the bonds early, wholly or partly, on condition that the first early redemption date will be March 31, 2023. In the event that this early redemption right is not exercised, additional interest will be paid beyond the interest borne by the bonds at that time, for the balance of the period (from the early repayment date that was not exercised as stated and up to the actual settlement date), at the rate of 30% of the initial risk margin determined for the issue. Early redemption will be possible in one of the following cases: a) the issue of a capital instrument (within the meaning of the Capital Composition Circular) of the same or higher quality, or; b) with the Insurance Commissioner's prior approval and at terms as determined by him.

It was determined that the bonds may be declared immediately due and payable under certain circumstances, such as a delay beyond a specified period in the payment of any amount in connection with said bonds, the liquidation of Migdal Insurance Capital Raising, the appointment of a liquidator or a receiver to Migdal Insurance Capital Raising, etc. The deferral of principal payments on the bonds due to suspending circumstances as mentioned, does not establish the right to declare the bonds immediately due and payable. The trustee may not declare unpaid bonds immediately due and payable without the prior written approval of the Commissioner.

e.3 Deferred issue expenses on bonds (Series A) and bonds (Series B) totaling NIS 3.3 million, deferred issue expenses on bonds (Series C) totaling NIS 5 million, deferred issue expenses on bonds (Series D) totaling NIS 2.9 million and deferred issue expenses on bonds (Series E) totaling NIS 3.7 million were paid to a related party of the Company.

e.4 The trustee for the bonds is Reznik Paz Nevo Trusts Ltd. The person in charge at the trust company – Adv. Hagar Shaul, email: hagar@rpn.co.il; tel.: 03-6389200; fax: 03-6393316; address: 14 Yad Harutsim, Tel Aviv.

e.5 Rating

Migdal Insurance is rated Aa1 for financial stability (IFSR) by Midroog Ltd.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e.5 Rating (Cont.)

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

On September 15, 2016 the rating agency, Midroog Ltd., announced that is awarding a rating of Aa3 to the new series of bonds (Series E) that Migdal Capital Raising in planning to raise.

Following are details of the rating of the bonds:

Series	Rating company	Rating awarded as of the Series issue date	Ratings between the Series issue date and the reporting date		Rating at the reporting date and the date the rating was awarded
			Date	Rating	
Bonds (Series A)	Midroog Ltd.	Aa2 (awarded on 18.12.11)	29.11.12 27.11.13 13.1.15 15.11.15	Aa2	12.9.16 Aa3
Bonds (Series B)	Midroog Ltd.	Aa2 (awarded on 29.11.12)	27.11.13 13.1.15 28.5.15 15.11.15	Aa2	12.9.16 Aa3
Bonds (Series C)	Midroog Ltd.	Aa2 (awarded on 28.5.15)	15.11.15	Aa2	12.9.16 Aa3
Bonds (Series D)	Midroog Ltd.	Aa1 (awarded on 15.11.15)	--	Aa1	12.9.16 Aa2
Bonds (Series E)	Midroog Ltd.	Aa3 (awarded on 15.9.16)	--	-	15.9.16 (as affirmed on September 27, 2016) Aa3

e.6 To the best of the Company's knowledge, as of December 31, 2016 and as of the date of issuing the report, Migdal Capital Raising was in compliance with all the conditions and obligations under the trust deeds for the bonds, no grounds existed for declaring the bonds immediately due and payable, and Migdal Capital Raising had not received any notice from the trustee for the bonds regarding its failure to comply with the conditions and obligations under the trust deeds.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e.7 Migdal Insurance committed to Migdal Capital Raising to bear all its expenses, including issue expenses, current operating expenses as well as reimbursement of directors' indemnification expenses, if and to the extent there should be any such.

NOTE 25:- PREMIUM EARNED ON RETENTION

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

	Year ended December 31, 2015		
	Gross	Reinsurance	On retention
	NIS in thousands		
Premiums in life assurance	7,664,017	149,693	7,514,324
Premiums in health insurance	1,025,712	69,570	956,142
Premiums in general insurance	2,050,197	410,763	1,639,434
Total premiums	10,739,926	630,026	10,109,900
Less - change in the unearned premium balance *)	(51,112)	(6,870)	(44,242)
Total premiums earned	10,688,814	623,156	10,065,658

	Year ended December 31, 2014		
	Gross	Reinsurance	On retention
	NIS in thousands		
Premiums in life assurance	7,605,945	190,767	7,415,178
Premiums in health insurance	880,897	64,175	816,722
Premiums in general insurance	1,968,911	406,467	1,562,444
Total premiums	10,455,753	661,409	9,794,344
Less - change in the unearned premium balance *)	(30,182)	26,264	(56,446)
Total premiums earned	10,425,571	687,673	9,737,898

*) Mainly in general insurance, see Note 17.
The increase in the unearned premium in 2016 is mainly due to a transaction that was signed at the end of the year with a large group.

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

	Year ended December 31,		
	2016	**2015**	**2014**
	NIS in thousands		
Profits (losses) from assets held against yield dependent liabilities			
Investment property	**498,940**	445,655	368,615
Financial investments:			
Quoted debt assets	**366,129**	356,951	1,100,785
Unquoted debt assets	**221,639**	274,544	292,882
Shares	**847,852**	625,616	1,185,279
Other financial investments	**1,557,506**	132,013	946,229
Cash and cash equivalents	**(46,897)**	(12,712)	54,312
Total profits from assets held against yield dependent liabilities, net	**3,445,169**	1,822,067	3,948,102
Profits (losses) from assets held against non-yield dependent liabilities, capital and others			
Income from investment property:			
Revaluation of investment property	**5,076**	48,898	13,799
Current income in respect of investment property	**30,869**	35,304	37,230
Total income from investment property	**35,945**	84,202	51,029
Profits (losses) from financial investments, except for interest and linkage differences rate differences and dividend in respect of:			
Available for sale assets (a)	**97,767**	407,198	345,820
Assets reported at fair value through profit and loss (b)	**27,986**	20,718	(164,822)
Assets reported as loans and debtors (c)	**(21,107)**	(9,249)	6,095
Interest income *) and linkage differences from financial assets not at fair value through profit and loss	**1,266,079**	1,067,431	1,231,638
Interest income and linkage differences from financial assets at fair value through profit and loss	**(43)**	6	2,215
Profit (losses) from exchange rate differences in respect of investments not measured at fair value through profit and loss and other assets **)	**(55,321)**	(12,668)	53,427
Income from dividend	**124,661**	105,628	140,778
Total profits from net investments and finance income	**4,921,136**	3,485,333	5,614,282
*) The above income includes interest in respect of financial assets not reported at fair value through profit and losses whose value was impaired	**5,126**	7,579	4,865

**) 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,		
	2016	2015	2014
	NIS in thousands		
Net gains from realized securities	**241,852**	544,996	448,933
Net impairment recognized in profit and loss	**(144,085)**	(137,798)	(103,113)
Total gains from investments in respect of available for sale assets	**97,767**	407,198	345,820

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

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Net changes in fair value, including realization profit:			
In respect of assets designated upon initial recognition	**(2)**	(2)	(2)
In respect of assets held for trade	**27,988**	20,720	(164,820)
Total gains(losses) from investments in respect of assets reported at fair value through profit and loss	**27,986**	20,718	(164,822)

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

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Net gains (losses) from the realization of assets reported as loans and receivables	**(1)**	(1,522)	9,325
Net increase (decrease) in value recognized in profit and loss	**(21,106)**	(7,727)	(3,230)
Total gains (losses) from investments in respect of assets reported as loans and receivables	**(21,107)**	(9,249)	6,095

NOTE 27:- INCOME FROM MANAGEMENT FEES

Composition:

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Management fees in the pension and provident branches	**462,054**	480,148	478,700
Variable management fees in respect of life assurance contracts	**330,452**	231,800	383,954
Fixed management fees in respect of life assurance contracts	**649,012**	611,735	552,377
Management fees in respect of investment contracts	**15,734**	14,360	9,750
Total income from management fees from members and policyholders	**1,457,252**	1,338,043	1,424,781
Other management fees	**130,787**	141,531	144,287
Total income from management fees	**1,588,039**	1,479,574	1,569,068

NOTE 28:- INCOME FROM COMMISSIONS

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Insurance agencies' commissions	**149,760**	158,948	172,256
Reinsurance commissions, net of change in deferred acquisition costs in respect of reinsurance	**161,613**	128,086	152,740
Other commissions	**6,488**	55,562	43,533
Total income from commissions	**317,861**	342,596	368,529

NOTE 29:- OTHER INCOME

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Income from other non-insurance activities	**74,821**	38,766	42,956
Income from acquired run-off general insurance portfolio *)	**3,838**	-	-
Other capital gains	**29,584**	2,966	-
Total other income	**108,243**	41,732	42,956

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

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

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
In respect of life assurance contracts:			
Death, disability and others	**972,667**	971,010	931,711
Less reinsurance	**73,639**	69,357	76,021
	899,028	901,653	855,690
Surrenders	**1,884,717**	1,711,032	1,807,424
Maturities	**1,558,658**	1,233,452	1,122,964
Annuities	**545,918**	460,426	371,438
Total claims	**4,888,321**	4,306,563	4,157,516
Increase in liabilities in respect of life assurance contracts (except for change in outstanding) on retention	**7,118,966**	5,962,480	8,164,917
Increase in liabilities in respect of investment contracts for yield component	**45,236**	20,733	35,584
Total payments and change in liabilities in respect of insurance contracts and investments contracts on retention, in respect of life assurance contracts	**12,052,523**	10,289,776	12,358,017
Total payments and change in liabilities in respect of general insurance contracts:			
Gross	**1,781,325**	1,453,183	1,443,244
Reinsurance	**213,430**	216,487	250,302
On retention	**1,567,895**	1,236,696	1,192,942
Total payments and change in liabilities in respect of health insurance contracts:			
Gross	**804,455**	752,585	615,375
Reinsurance	**47,565**	64,625	54,149
On retention	**756,890**	687,960	561,226
Total payments and change in liabilities in respect of insurance contracts and investment contracts on retention	**14,377,308**	12,214,432	14,112,185

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

	Year ended December 31,		
	2016	**2015**	**2014**
	NIS in thousands		
Acquisition expenses:			
Acquisition commissions	**512,873**	532,571	499,764
Other acquisition expenses	**541,746**	526,127	459,160
Change in deferred acquisition costs	**(60,954)**	(64,106)	(33,107)
Total acquisition expenses	**993,665**	994,592	925,817
Other current commissions	**622,073**	567,164	564,662
Other marketing expenses	**21,369**	23,511	32,576
Total commission, marketing expenses and other acquisition expenses	**1,637,107**	1,585,267	1,523,055

NOTE 32:- GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,		
	2016	**2015**	**2014**
	NIS in thousands		
Salaries and related expenses	**1,024,285**	1,016,383	966,828
Depreciation and amortization	**191,371**	201,618	205,232
Maintenance of office premises and communications	**136,288**	144,409	152,568
Marketing and advertising	**70,665**	84,026	82,856
Professional and legal counseling	**65,219**	72,138	59,992
Others	**186,867**	202,112	195,922
Total *)	**(** 1,674,695**	***1,720,686	1,663,398
Less:			
Amounts classified under change in liabilities and payments in respect of insurance contract item	**(140,295)**	(127,527)	(103,097)
Amounts classified in commissions, marketing expenses and other acquisition expenses	**(563,115)**	(554,716)	(519,132)
General and administrative expenses	**971,285**	1,038,443	1,041,169
*) General and administrative include expenses in respect of IT	**321,648**	334,437	345,263

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

**) On February 17, 2015, a collective agreement was signed between Migdal Insurance and Migdal Makefet, of the one part, and the New Histadrut (General Federation of Labor), of the other part, on behalf of some of the employees, effective as of January 1, 2015 and up to December 31, 2017 ("the collective agreement"). The collective agreement applies to employees of Migdal Insurance and Migdal Makefet who are employed by them at the time of the signing of the agreement as well as employees who will be hired starting from the date of the signing of the agreement. It does not apply to employees at the level of CEO, deputy CEO or vice president or to employees in positions specified and described in the agreement, and it also does not apply to any company in the Migdal Holdings Group other than Migdal Insurance or Migdal Makefet. Following are the main points of the collective agreement:

1. The collective agreement regulates the hiring of employees, the trial period and the grant of tenure and includes other provisions relating to the staffing of positions and transfer of employees. It also regulates the grant of direct employment status to employees in certain areas who currently are employed through contractors and outsourcing, within the period specified in the collective agreement (daytime cleaners, daytime information desk personnel, certain maintenance workers, long-term savings operations scanning. The collective agreement likewise includes arrangements for limiting outsourcing in the Technology Division and the execution of certain projects through other employment formats (contractors/outsourcing).

2. The collective agreement contains provisions on the following additional matters: regulation of the working week and the working hours, including arrangements with respect to overtime and global overtime, sick days and other absences, etc., work routines, procedures and rules of conduct including disciplinary committee, dismissal, resignation and prior notice.

3. The agreement also contains provisions regarding cooperation with the employees' committee, the conditions that will be granted to members serving on the committee in addition to their work, and membership and handling fees that will be debited in the employees' salaries. In addition, an annual amount of NIS 400,000 was set for participation in the employees' committee's budget for the years 2015-2017.

4. The minimum salary starting from January 1, 2015 will be NIS 5,300 on a gross basis per month.

5. In each of the years 2015-2017, a salary increment will be paid to the permanent employees to whom the agreement applies and who are employed on the date of the payment, at a cumulative rate of 10.5% for the entire period of the collective agreement (an employee who has completed 18 months of employment on the date of payment of the salary increment will also be entitled to be included in this framework). The manner of distribution of the increment during the years of the agreement will be agreed upon between the parties, and if they fail to reach agreement, the salary increment will be paid out evenly – i.e. 3.5% in each of said years.

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

6. Annual bonus – will be in accordance with and subject to the remuneration policy and the approval of the board of directors, as a function of the meeting of targets according to the remuneration policy, and insofar as it is decided to grant bonuses to the officers. Subject to the foregoing, and insofar as it is decided to grant bonuses, the bonus budget for employees with a 100% entitlement will be one salary for an employee and two salaries for a manager, and in any other case (provided it is no less than 80%) – pro rata to the above but not more than 140%. The 100% budget is NIS 30 million.

7. The employer's contributions to pension saving benefits will be increased to 6% (the employee's share will be 5.5%).
   As from July 2016, according to an expansion order that increases the contributions for pension saving in Israel, the employer’s contributions to the saving component were increased to 6.25% (the share of the employee was increased to 5.75%).

8. The arrangement under section 14 of the Severance Pay Law, 1963 will be cancelled for employees to whom the collective agreement applies, both retrospectively and prospectively, and the current payments the amounts earned on them will be on account and not instead of severance pay (this arrangement will not apply to employees in the position of sales representatives, as long as they are employed in that position).
   An employee who is dismissed, retires or resigns will be entitled to release the severance pay accumulated to his credit in the provident fund and/or in the insurance fund, in addition to the supplementation of the severance pay due to him by law, unless he has been denied the right to several pay in accordance with the law, and with respect to resignation – subject to giving prior notice according to law and the orderly handing over of his duties.

9. For each employee contributions will be made to a study fund up to the limit of contributions permitted for tax purposes, at a rate of 7.5% on the employer's account and 2.5% on the employee's account. For an employee undergoing a trial period the contribution rates were set at 2.5% on the employer's account and 2.5% on the employee's account.

10. The collective agreement includes arrangements relating to working and welfare conditions, such as a gift for family events, funding of lunch, medical examinations (survey), discounts on products and services offered by Migdal, convalescence pay at 150% of the rate prescribed in the extension order, vacation days, reimbursement of on-the-job personal and travel expenses, loans to employees, etc., as well as arrangements relating to welfare activities organized for the benefit of the employees.

11. The collective agreement includes an arrangement with respect to entitlement to jubilee bonuses for employees who have completed 20, 30 and 40 years of employment.

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

12. The collective agreement also includes provisions pertaining to the efficiency measures planned during the period of the agreement, in the framework of which the number of employees will be reduced by 240 in the different units, based on a consultation process provided for in the agreement.

13. Shortly after the signing of the agreement, a one-time bonus was paid to employees to whom the agreement applies and whose employment began up to December 31, 2013, in an amount of NIS 2,000 per employee.

The implementation of the provisions of the collective agreement increased the Group's expenses in 2016 by NIS 50 million and in 2015 by NIS 60 million (of which NIS 22 million in respect of one-time components).

NOTE 33:- SHARE-BASED PAYMENT

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

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

	Year ended December 31,		
	2016	**2015**	**2014**
	NIS in thousands		
In respect of grants settled in cash	**(183)**	370	(225)
In respect of capital grants	**(595)**	118	128
	(778)	488	(97)

Share-based payment transactions granted by the Company to its employees are described below. During 2012 through 2016 no changes or cancellations were made in the said employee benefit plans.

b. Additional information regarding share-based payment plans:

	2010 plan (2)	**2009 plan (1)**
Number of options issued to the former Chairman	679,997	650,000
Number of options issued to the former CEO	1,131,684	1,000,000
Number of options issued to the other employees included in the plan	13,552,606	9,698,875
Total options issued	15,364,287	11,348,875
Balance of unrealized options as at the balance sheet date	875,258	-
Conversion ratio	1	1
Adjusted realization price as at December 31, 2015 (3)	0.01	-
Date of grant to former Chairman of the Board of Directors and former CEO	10/2010	9/2009
Date of grant to other employees included in the plan	08/2010	8/2009
Vesting date *)	01/2013	1/2012
Expiration date *)	-	31/12/2014
Fair value (NIS in millions) as at the date of grant **)		
To the Chairman of the former Board of Directors and the former CEO	3.6	3.3
To other employees included in the plan	29.5	18.6

*) According to the 2010 plan, the vesting period of the warrants is 3 years, except for options whose vesting depends on the Company's results as compared with its main competitors, whose vesting period is 6 years. The options will be converted into shares at the end of the vesting period. Accordingly, there is no exercise period beyond the vesting period.

**) All the options that were granted in the aforementioned plans were deposited with a trustee in a capital track pursuant to Section 102 to the Income Tax Ordinance.

NOTE 33:- SHARE-BASED PAYMENT (Cont.)

b. Additional information regarding share-based payment plans: (Cont.)

(1) The 2009 plan:

On August 17, 2009, the Company's Board approved a share-based payment plan for officers and managers in the Group.

The plan includes the allocation of 12,000,000 options that are not listed for trade on the TASE granting the participant who holds them the right to receive, by allocation, up to 12,000,000 Ordinary shares of NIS 0.01 par value each.

The vesting period of the 2009 Plan ended on December 31, 2011 and the exercise period ended on December 31, 2014.

(2) The 2010 plan:

On August 24, 2010, the Company's Board approved a long-term remuneration plan, in respect of the Group's officers and managers. The plan includes cash grants and a private placement of up to 16,445,413 eligibility deeds ("the eligibility deeds" and/or "options"), which are not listed for trade on the TASE and which grant the participants who hold them the right to receive by allocation up to 16,445,413 Ordinary shares of NIS 0.01 par value each of the Company. The shares are allocated in two stages when the conditions for their allocation are met, as detailed below, and in return for the payment of their par value. The Company has actually allocated 15,364,287 eligibility deeds.

On October 21, 2010, the Company's general meeting approved the allocation of the eligibility deeds to the Company's Chairman of the Board.

The long-term remuneration plan for 2010 is for a period of 6 years and includes two consecutive stages of three years each ("stage I" and "stage II"). The share price on the date of grant and the change therein during the first 3 years (up to the end of stage I) does not affect the value of the benefit. At the end of stage I, which ended on December 31, 2012, each participant was entitled to a grant which is determined as a number of monthly salaries ("the target grant"), which is paid to them upon compliance with the targets as detailed below ("stage I grant"). The amount of the stage I grant was calculated and determined in accordance with compliance with two targets: compliance with profit targets ("the profitability element") and the continuation of employment in the Company until that date ("the persistency element").

The total persistency element was paid in shares and the profitability element was paid partly in shares and partly in cash, as chosen by the participant. At the end of stage 1 and at the employees' choice, eligibility deeds were converted to 1,912,474 shares of NIS 0.01 par value each which were placed with a trustee until the end of stage 11. The number of shares that were issued was calculated according to the value of the share on the stock exchange at the end of stage I.

NOTE 33:- SHARE-BASED PAYMENT (Cont.)

b. Additional information regarding share-based payment plans: (Cont.)

(2) The 2010 plan: (Cont.)

At the end of stage II, which ended on December 31, 2015, any participant who was allocated shares in respect of the profitability element at the end of stage I was entitled to additional shares of the Company (stage II shares), without any additional payment (except for an insignificant payment of their par value) subject to the Group's rating compared to four other groups in the same area of activity, according to parameters that were set forth in the plan. The rating described above that was examined during 2016 did not award the plan participants eligibility to additional shares.

(3) In the 2010 plan, the exercise price for each option is the par value of NIS 0.01 per share.

(4) In the framework of the acquisition of the subsidiary Infomed - Medical Internet Portal Ltd. (hereinafter – “Infomed”), 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 was accounted for as a cash-settled share-based payment. Following the increase to 100% of the Company’s interest in Infomed the option has expired. For additional information see Note 7.a.

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:

	2016		2015		2014	
	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	**875,258**	**0.01**	1,106,550	0.01	6,886,057	4.30
Forfeited during the year	**(875,258)**	**0.01**	(231,292)	0.01	(3,962,757)	4.70
Realized during the year *)	**-**	**-**	-	-	(1,816,750)	5.41
As at the end of the year	**-**		875,258	0.01	1,106,550	0.01
Realizable as at the end of the year	**-**		-	-	-	-

*) The weighted average share price in respect of the options exercised in 2014 was NIS 5.52.

d. As at December 31, 2015, the contractual life of the option plans has ended.

NOTE 33:- SHARE-BASED PAYMENT (Cont.)

e. The range of exercise prices of options under the 2009 plan that ended, as mentioned, on December 31, 2014, that were exercisable in 2014, is NIS 5.34-5.55 per option.

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,		
	2016	**2015**	**2014**
	NIS in thousands		
Amortization of intangible assets (except for computer software) *)	**25,885**	33,876	39,332
Impairment	**24,709**	38,927	24,478
Expenses from other non-insurance activities	**51,944**	28,993	12,561
Capital loss from sale of fixed assets	**360**	5	257
Total other expenses	**102,898**	101,801	76,628

*) For additional details see Note 4a above.

NOTE 35:- FINANCE EXPENSES

	Year ended December 31,		
	2016	**2015**	**2014**
	NIS in thousands		
Interest expenses and linkage differences in respect of:			
Liabilities to banks and affiliate *)	**130**	219	2,564
Finance expenses in respect of bonds	**100,510**	44,064	25,621
Interest expenses to reinsurers	**557**	521	652
Exchange rate differences, net in respect of liabilities **)	**1,090**	880	10,127
Commissions and other finance expenses	**2,618**	12,047	12,515
Total finance expenses	**104,905**	57,731	51,479

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

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

NOTE 36:- EARNINGS PER SHARE

	Year ended December 31,		
	2016	**2015**	**2014**
	NIS in thousands		
Basic and diluted earnings per NIS 1 share attributed to the Company's shareholders (in NIS)	**0.19**	0.33	0.40

a. Basic earnings per share:

The calculation of the basic earnings per share for 2016 was based on the net income attributable to holders of ordinary shares in the amount of NIS 203,265 thousand (2015 and 2014 - net income of NIS 351,869 thousand and NIS 422,031 thousand, respectively), divided by the weighted average number of Ordinary shares outstanding as detailed below:

NOTE 36:- EARNING PER SHARE (Cont.)

a. Basic earnings per share: (Cont.)

Weighted average number of Ordinary shares

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Balance at January 1	**1,053,908**	1,053,908	1,053,811
Effect of options exercised into shares	**-**	-	61
Weighted average number of ordinary shares used for calculation of basic earnings per share at December 31	**1,053,908**	1,053,908	1,053,872

b. Diluted earnings per share:

The diluted earnings per share for 2016 is the same as the basic earnings for share because of the expiry of the Group's option plans.
The calculation of the diluted earnings per share for 2015 and 2014 was based on the net income attributable to holders of ordinary shares in the amount of NIS 351,869 thousand and NIS 422,031 thousand, respectively, 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,		
	2016	2015	2014
	NIS in thousands		
Weighted average number of ordinary shares used for calculation of basic earnings per share	**1,053,908**	1,053,908	1,053,872
Effect of dilutive potential ordinary shares	**-**	477	809
Weighted average number of ordinary shares used for calculation of diluted earnings per share at December 31	**1,053,908**	1,054,385	1,054,681

The average market value of the Company's shares, for calculation of the dilutive effect of warrants, was based on the quoted market prices for the period in which the warrants were outstanding.

See Note 33 regarding expired options in each of these years.

NOTE 37:- RISK MANAGEMENT

a. General:

1. The principal risks:

The Group operates in the insurance and long-term savings and financial services areas of activity. The insurance activities focus on life assurance and long-term savings (life assurance, pension funds and provident funds), health insurance and general insurance. Financial services activity focuses on the rendering of financial asset management and investment marketing services, as well as investment banking.

The Company's activities expose it to the following risks:

- Market risks;
- Liquidity risks;
- Insurance risks;
- Credit risks;
- Operating risks, including data security and cyber risks.

These risks are accompanied by general risks such as: regulation and compliance risks, legal risks, goodwill risks, business risks (such as: increase in competition, change in public tastes) etc. See more details in b(5) below.

Market risks – the risk that the fair value or future cash flows of financial assets, financial liabilities or insurance liabilities will change as a result of changes in market prices. Market risks include, among others, risks resulting from changes in interest rates, stock exchange rates, the CPI and foreign currency exchange rates.

Liquidity risks – the risk that the Group will have difficulties in fulfilling its liabilities on time.

Insurance risks
Life assurance and health insurance risks result from uncertainty in the anticipated future claims payment with respect to the assumptions relating to mortality/longevity rates, annuity realization rates, morbidity/disability rates, expenses, cancellations or surrenders.
Actuarial risks in pension funds are borne by the members when their effect on the managing company pertains to management fees.
General insurance risks derive mainly from pricing, the valuation of reserves and catastrophic risk.

Credit risks – the risk of a loss that is the result of a borrower/reinsurer failing to meet their obligations or of changes in borrowers' rating and credit spreads on the capital market.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General: (Cont.)

1. The principal risks: (Cont.)

Operating risks – the risk of a loss that is the result of the realization of various operating risks due to the inappropriateness or failures in internal processes, human errors, system failures or external events. A significant portion of the Group's activities are dependent on various IT systems. The absence of appropriate IT, data security and cyber infrastructures and/or IT system deficiencies or failures may expose the Group to the risk of noncompliance with regulatory requirements and failures of various operating processes.

For additional information on the risks, see b. below.

The Board of Migdal Insurance defines the exposure policy of the insurer and the profit participating portfolio to the various risks, including determining risk exposure thresholds to the extent possible and addressing a comprehensive risk exposure level based on the adjustment of the various risks approving.

This note provides information as to the Group's exposure to each of the above risks, a description of the risk exposure policy, work processes, identification of risks and the controls in the Group. Additional quantitative disclosure is included though out the financial statements.

2. Legal requirements:

In the insurance and long-term savings activity

The regulatory provisions regulate and determine, among others, the arrangements in relation to risks to which the companies are exposed, by providing regulatory requirements such as the following:

In the framework of the Control of Financial Services Law (Insurance) (Board of Directors and its Committees), 2007 and in relation to the management of exposures to risks, the Board of Directors should define the exposure policy of the insurer and the policyholders to various risks, to determine the ceilings of exposure to risks as far as is possible to determine them, to determine the overall level of exposure to risks, taking into consideration the correlation between the various risks, to approve tools and control for measurement of risks and their management and ways of coping with the risks and with their materialization.

The investment management – directives were determined regarding the manner of investment management by the institutional entities, which, among others, set requirements for the degree of dispersal, limitations on investments and liquidity.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General: (Cont.)

2. Legal requirements: (Cont.)

In the insurance and long-term savings activity (Cont.)

Credit management – directives were set in order to make sure that there will be appropriate management, supervision and control mechanisms for management of credit risks while carrying out investment activities, including regarding the establishment of a credit committee and its roles; setting a policy for providing credit as well as ways of supervision, control and reporting to the various investment committees and to the Board of Directors.

Reinsurers – directives regarding management of exposure to reinsurers ("reinsurers' exposure") were prescribed.

Capital requirements – directives were determined regarding the minimum capital requirements, for further details on this matter and the application of Solvency II instructions see Note 7c above.

Risk management

In January 2014, the Commissioner issued Chapter 10 in a combined circular regarding the risk management function in an institutional entity. The circular consists of general guidelines that specify the adequacy criteria for risk management officers and require setting up a risk management unit that is distinct from the business lines whose current operations is examines. In addition, the circular specifies the risk management officer's authorities in obtaining information and access to the data needed for performing the risk management unit's functions and the relevant resources. The circular also elaborates on the roles and methodologies of the risk management officer that consist, among others, of identifying the material risks, quantifying and assessing the identified material risks and reporting them to the relevant entities.

Operating risks – in addition to the above arrangements, the Commissioner published directives regarding the management of specific exposures of which the main ones are: embezzlement and fraud ("the Embezzlement Circular"), IT risk management and cyber risk management that comes into effect during 2017 and revokes the circular on data protection risks management ("data protection").

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General: (Cont.)

2. Legal requirements: (Cont.)

Risk management (Cont.)

The effectiveness of the internal control over financial reporting and disclosure (SOX) - additionally, according to the Securities Regulations. The Company applies the relevant procedures pertaining to the review of the effectiveness of the internal control over the Company's disclosure and financial reporting, and includes the necessary reports and certification in connection with them in its financial statements. At the same time, the Group's institutional entities apply the provisions of the Commissioner of Insurance regarding the effectiveness of the internal control over disclosure and financial reporting in these institutional entities (that are based on Sections 302 and 404 of the Sarbanes-Oxley Law and the provisions of the SEC).

In the financial services activity

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

3. Description of procedures and methods of risk management:

a) The risk management array includes:

In the insurance and long-term savings activity

- A risk management forum headed by the insurance company's CEO in which managers from various divisions, the actuaries of the various insurance fields and the risk manager participate.

- The risk management unit is responsible for the coordination of the following principal issues, in cooperation with the headquarter units responsible for the various issues: risk identification and their quantification, submission of reports regarding exposure to current or extraordinary risks to the reporting entities (in other words, to the investment committees, the Board of Directors, the risk management forum, the ALM forum, etc.), application of risk evaluation systems and their management in the various fields in the Group and the application of the regulatory directives relating to risk management in the various fields.

The Company has appointed a risk manager for the insurance company and institutional bodies managed by it.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General: (Cont.)

3. Description of procedures and methods of risk management: (Cont.)

a) The risk management array includes: (Cont.)

In the financial services activity

The person responsible for managing risks in Migdal Capital Markets entities is the CEO of each entity. In addition, the compliance and enforcement department oversees the implementation and enforcement of the relevant regulatory requirements, and the risk management and control department monitors violations of regulatory requirements and internal management instructions. These departments are not dependent on the CEOs of the subsidiaries and they operate independently using advanced software tools and methods on the dissemination of risk management methodologies, preparation of exposure presentations and the updating and distribution of policies under a planned methodology.

With respect to some of the activities policy documents have been defined in accordance, inter alia, with the risk appetite and management method.

These departments report to the Boards of Directors of Migdal Capital Markets and its subsidiaries on its findings including with regard to incompliance with Company policy and procedures.

b) The Group's risk management policy, methodologies and manner of identifying risks and risk management control in the insurance and long-term savings activity:

The Group's risk management policy is designed to support the Company's achievement of business objectives and maintaining financial strength while estimating losses that can result from exposure to risks facing the Company as a result of its business activities, and the limitation of these losses in accordance with the risk policy that was determined, and at the same time to take note of the changes in the business environment, as well as the regulatory directives and requirements.

Risk management in the Migdal Group is based on three lines of defense: business line managers, risk management and internal controls.

Identification of the material risks, evaluation of their method of management as well as quantification of the exposure and the potential effect of these risks on the future financial position of the Group companies and its policyholders, are carried out together by the risk management unit and the corporate units responsible for the insurance activity, the reinsurance activity, the investment activity and the finance activity, respectively.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General: (Cont.)

3. Description of procedures and methods of risk management: (Cont.)

b) (Cont.)

Risk management control is performed at a number of the Group centers as follows:

- Each headquarter unit is responsible in its field, for compliance with the Group's procedures and the Board of Directors and the investment committee's directives regarding the limitations of the exposure to risks. The Group has professional forums in various areas such as, investments and the insurance and pension branches, under the management of the CEO and the heads of departments. The development of exposure to insurance risks in the various insurance branches is regularly reviewed in these forums and accordingly, also as in developments in other areas, management takes decisions in these areas of activity.

- The control array, which is spread out in the various fields of activity in the Group, is directly managed or professionally guided by the control manager. The control array reviews the established infrastructures in order to manage the various risks involving work processes and legal provisions based on the annual control plan.

- The risks management unit. See paragraph a(3)(a) above.

- The internal auditor incorporates in her work plans issues that were defined in the risk survey as issues that require special attention.

New products

The process of entering into a new insurance plan or new area of activity in the Group is executed according to a procedure for launching a new product that complies with, inter alia, regulatory instructions on this matter. The risks affiliated with the product are identified and quantified as follows:

Insurance risks – the exposure to insurance risks is measured by the appointed actuary while taking into consideration both the risk expectancy, which serves as a basis for pricing the product, and the exposure to potential losses expected in excess of the risk expectancy, under various scenarios.

Market risks – in products involving any kind of guaranteed yield, the exposure to market risk is measured using stochastic tools that measure both the expected loss in respect of market risks (which is the basis for pricing the product) and the expected potential loss at a given level of certainty, in respect of such risks.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General: (Cont.)

3. Description of procedures and methods of risk management: (Cont.)

b) (Cont.)

Market and liquidity risks

Market risks are managed by the investment managers in accordance with the law and the overall policy of the Board of Directors and of the investment committees of the asset portfolios of the members' funds: the profit participating policies, pension funds and provident funds (in which the risk is borne by the members), and that of the Nostro assets portfolios.

These bodies receive reports regarding exposure of the Group's various investment portfolios to changes in the money and capital markets which include, as mentioned, interest rates, foreign currency exchange rates and inflation, including management of the assets versus the liabilities, and with reference to this, they define the exposure levels to the various investment vehicles as a framework for investments made by the Group's investment division, subject to the Ways of Investment Regulations.

The Company deals with market risks, inter alia, by diversification of investment channels, issuers, branches and geographical regions. In addition, exposure limitations are set for investment channels and with respect to risk appetite and incorporated in financial scenarios.

For information regarding the exposure to the linkage bases of the managed portfolios see paragraph c and d hereunder.

Liquidity risk is managed by the investment managers by regularly monitoring the average duration of assets compared to the average duration of liabilities in the various investment portfolios and by quantifying the anticipated loss in an extreme scenario of the immediate disposal of assets. The matter is discussed in the Board of Directors and in the investment committees of the managed portfolios, both the Nostro portfolios and the members' portfolios, the profit participating portfolios and the pension and provident funds portfolios. The exposure limits to risk factors of the assets in the managed portfolios is determined in accordance with this data.

The exposure of the investment portfolios to market risks is quantified by measuring the value at risk (VaR), which measures the maximum potential damage at a given probability over a given period of time, and also by examining the damage expected for the Group under various extreme scenarios. The exposure to interest risk is examined by comparing the average duration and internal rate of return of assets and liabilities (ALM) and by examining the effect of changes in interest curves on their fair value. The average duration gap serves as an indication of the liquidity risk in the portfolios (negative gap – a longer average duration of liabilities than of assets – low liquidity risk, and exposure to decline in interest rates and vice versa).

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General: (Cont.)

3. Description of procedures and methods of risk management: (Cont.)

b) (Cont.)

Liquidity risk (Cont.)

Regarding portfolios in which the exposure to liquidity risks is relatively high (such as the further education and provident funds) the expected loss as a result of an extreme scenario of immediate realization of funds, is also calculated.

In addition, in respect of the managed portfolios (the asset portfolios of the members' funds: the profit participating policies, pension funds and provident funds) various performance indices are calculated with respect to the relation between the return that is obtained and the level of risk in the portfolio.

The exposures of the Group's various asset portfolios are measured monthly and include the risk indices described in paragraph 3.c above, as well as the situation of the exposures to risk factors compared to limitations that were determined by the Board of Directors and the various investment committees.

The exposure to interest risk which is measured by means of the average duration gap between assets and liabilities is performed once a quarter.

Exposure reports are provided regularly to the respective investment committees of the various asset portfolios.

Insurance risks

Insurance risks are managed by the insurance field managers and the actuaries of the various branches including the pension funds (in which the risks are borne by the members).The Board of Directors receives the exposure valuation of the maximum loss that is expected from the significant insurance risks, at the confidence level prescribed, based on the following risk components:

- The extent of the maximum anticipated loss as a result of the exposure to a single large damage, or an accumulation of damages in respect of an extremely large event (catastrophic event), as well as the exposure to an unexpected change of the risk factors that are covered in policies sold by the Company, at a given level of certainty during the period of one year.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General: (Cont.)

3. Description of procedures and methods of risk management: (Cont.)

b) (Cont.)

Insurance risks (Cont.)

- The effect of the measures taken by the Company for dispersion, reduction or limitation of the insurance risks, by underwriting procedures and rules for receipt of business and through reinsurance arrangements, in order to reduce the aforementioned anticipated loss and the impact on the required capital against these risks as a result of the exposure to insurance risks.

Regarding the estimate of the Company's exposure to insurance risks (and to the actuarial risk of the pension fund members), the Board of Directors determines the Company's or the fund's exposure limitations to these risks.

In life assurance, health insurance and pension funds - the exposure to loss arising from the risk components of the life assurance and health insurance businesses and the actuarial risks in pension funds such as mortality and morbidity, life expectancy, exceptionally major events such as earthquakes, wars or terrorist acts (catastrophes) and an increase in the cancellation and surrender rates is quantified through the effect of extreme scenarios on the value of the long-term savings portfolio, taking into consideration the correlations between the risk factors within a year's outlook.

Control is exercised over developments in exposures to insurance/actuarial risks such as death, life expectancy, occupational disability, portfolio preservation, expenses etc. and their effect on both the insurance reserves and the value of the long-term savings portfolio and on the profitability of products and the value of the Group's new sales.

In general insurance - the exposure to major deterioration in risk factors that are covered by policies and to a single large damage or accumulation of damages in respect of a catastrophe such as an earthquake which is the main catastrophe to which it is exposed) and the effect of reinsurance arrangements on the Group's potential loss is quantified by examining scenarios of the central risk factors to which the Company is exposed within the determined degree of certainty. In addition, the Group regularly carries out profitability tests for the various operating segments.

There is ongoing control over the developments and trends in exposures to insurance risks of the various insurance branches, which mainly derive from changes in the frequency of the claims and their severity as well as in expenses and in other costs, and their effect on both the profitability of the products and on the insurance reserves.

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

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General: (Cont.)

3. Description of procedures and methods of risk management: (Cont.)

b) (Cont.)

Credit risks

Credit risks of investments are managed by the investment manager in accordance with law and the overall policy of the Board of Directors and the investment committees. The policy includes exposure limitations which mainly relate to exposures to individual borrowers, group of borrowers, exposure to credit rating categories, etc. The regulatory requirements are also taken into account when determining the abovementioned limitations. The Company has a credit committee which examines and approves transactions according to the level of authorization that was granted to it by each of the various investment committees. For information regarding the credit rating of assets in the managed portfolios, see b(4)(a)(2) below.

The exposure to credit risk in the various investment portfolios is estimated mainly on the basis of an examination of the expected losses to the Group from credit assets under various scenarios and on the basis of the calculation of the value at risk (VaR) that derives from the effect of changes in credit spreads on the value of these assets as derived from the credit rating and average life of the asset.

The credit rating granted in the investment portfolios is rated on the basis of an external rating, if one exists, and of an internal rating of the investment research department, which also examines the external rating.

Regarding internal rating, see b(4)(b)(1) below.

The details of borrowers of credit provided in the framework of the Group's various investment portfolios are examined once a quarter by the Group research unit, if there has been a change in the credit risk of the borrower. In addition, the credit unit regularly examines the financial covenants of the credit and compliance with the instructions of regulators, the Board of Directors and the investment committees. The exposure to credit risks of the various investment portfolios, including the exposure to borrowers, industries and segments, ratings of borrowers, problematic debts, etc., are brought before the investment committees once a quarter for discussion.

The Company deals with credit risks of investments by diversifying investment channels, issuers, branches and geographical regions, as well as examining the financial stability and solvency of the entities in which it invests, prior to making an investment and during its life.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General: (Cont.)

3. Description of procedures and methods of risk management: (Cont.)

b) (Cont.)

Reinsurers' credit risks – managed by the head of the reinsurance field who presents the Board of Directors with the exposure to credit risks in respect of reinsurers. The Board of Directors determines the exposure limitations to the reinsurers' credit risk rating, among others, in relation to the type of insurance branch (long/short tail), to the individual reinsurer and taking into account the limitations prescribed by the legislative arrangements. For information regarding the rating of reinsurers' balances, see b(1)(4) below.

The estimate of the exposure to credit risks from reinsurers is mainly based on the probability of a loss at a given level of certainty that derives from the credit rating of the reinsurers.

Starting from 2014, the rating is mainly determined by AMBest.

The reinsurance area examines the rating of reinsurers that are planned to participate in reinsurance arrangements before they are renewed. The quality of the reinsurers is also examined by the "underwriting office" when entering into facultative agreements in policies for large enterprises.

The rating of reinsurers standing against the insurance reserves, the outstanding claims as well as to the exposure to earthquakes of reinsurers is examined regularly.

The collection from reinsurers is also regularly monitored.

The Company deals with credit risks of reinsurer through diversification of reinsurers as well as limitations with respect to a single insurer and credit rating limitations.

Operating risks

Main operating risks – managed by the department heads and supported by various units including the control units, organization and methods unit, compliance officer, SOX administrator, manager of information security, operating risk manager, fraud and embezzlement officer, IT governance manager and internal audit. Policy documents taking the existing regulatory directives into account, in connection with the management of operating risks have been approved by the Company's Board of Directors and the Company acts according to them.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General: (Cont.)

3. Description of procedures and methods of risk management: (Cont.)

b) (Cont.)

Operating risks (Cont.)

In the framework of the application of the directives of the Commissioner of Capital Market Insurance and Savings in relation to Section 404 of the Sarbanes-Oxley Act, Migdal Insurance and other institutional bodies of the Group carried out the process of mapping the main work processes the risks and controls therein, while giving a certain attention also to the aspect of significant operating risks, insofar as they are identified, during the process of mapping and documentation. Thus within the framework of testing the effectiveness of controls, other risks such as operating risks were included alongside the accounting risks.

Quantification of the loss arising from operating risks is included in the calculation of the economic capital by means of accepted parameters that relate to the volume of the Group's activity in the various branches of insurance.

The Company deals with operating risks by executing an operational risk survey and a plan to reduce the high residual risks.

Data security and cyber risks - in recent years, there has been real escalation in cyber threats worldwide. Various cyber attacks have been launched against national infrastructures, government authorities and corporations in Israel and internationally.

The Group's business activity relies to a large extent on IT systems. The availability of those systems, the reliability of the data and the protection of data confidentiality are critical to the Group's proper business operations. The technological developments increase the risk level underlying the operations of the Group and its customers. The integration of new technologies in the Group's business core and end systems and among its customers increases the level of cyber attack risks.

As a leading financial organization, the Company represents a target for various cyber attacks. The IT systems and communication networks of the Company, its suppliers, agents and customers are frequently attacked and are likely to continue to be exposed to cyber attacks, viruses, malware, phishing and other attempts that are aimed at harming service and data and committing theft. The Company regularly makes the necessary preparations for dealing with cyber threats and invests a great deal of resources in this field. The Company has a structured but flexible work plan that is updated from time to time according to emerging threats. The plan is based on ongoing data security and cyber accompaniment beginning from the stage of initiating technological and general projects having security aspects up to regularly dealing with internal risks, such as information leakage, as well as external risks involving phishing, shutting down business operations, introduction of malware and other intrusions.

Prevention of fraud and embezzlement - as part of its risk management array, the Company has an officer in charge of preventing fraud and embezzlement who collaborates with other control systems and functions.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General: (Cont.)

3. Description of procedures and methods of risk management: (Cont.)

b) (Cont.)

Operating risks (Cont.)

Preparation for disaster - the Company has a plan of action in the event of a disaster which includes, inter alia, a backup site for information about policyholders and members. During 2013, the Company set up an additional backup site in Israel which facilitates RPO (Return Point Objective) and RTO (Return to Operations) within a predetermined time span. Parallel to this decision, the Company adopted additional emergency reference scenarios for which it will provide a response. Furthermore, during 2016, the Company performed a test of disaster recovery readiness that was executed according to the directives of the Commissioner of Capital Markets, and included testing managements and boards of directors in an overall war scenario and cyber events.

As per the Commissioner's guidelines, a site in Jerusalem was converted into a data recovery disaster site which maintains an additional backup of information in the event that the two backup sites mentioned above shut down.
Backup is performed on an ongoing basis in the mainframe room. The equipment was transferred to the new site and is in regular operation since April 2015. In 2016 a series of tests was carried out for the critical business processes that examined the manual processes while relying on the third site.

b. Details of the risks:

1. Market risks:

A market risk is the risk that the fair value or future cash flows of financial assets, financial liabilities or insurance liabilities will change as a result of changes in market prices. Market risks include, among others, risks resulting from changes in interest rates, stock exchange rates, the CPI and foreign currency exchange rates. Regarding the effect of the sensitivity analysis of these variables on the profit (loss) for the period and on comprehensive income (loss), see paragraph b(1)(a) below.

Interest risk – the risk that the fair value or future cash flows of a financial instrument will change as a result of changes in market interest rates.

In most of the Group's businesses the average duration of the assets does not match the average duration of the liabilities. This is true primarily in respect of life assurance liabilities (as well as long term health insurance and pensions) in which the average duration of liabilities is longer than the average duration of assets. As a result, a decrease in the interest rate results in lower future yields when refunding the assets as compared to the liabilities and to a decrease in the embedded value of the life assurance portfolio as well as a decrease in the future embedded yield of the members' monies.

In general insurance, a decrease in the interest rate results in lower profitability on products due to a reduction in income from investments held against the reserves.

Market risks (capital instruments/real assets) – risks deriving from a change in share prices or a change in the fair value of other assets.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

1. Market risks: (Cont.)

Risks related to the Consumer Price Index – a real loss deriving from erosion in the value of shekel assets as the result of inflation being higher than the expectations reflected in the capital market, as compared to CPI-linked insurance liabilities.

Currency risk – the risk that the fair value or future cash flows of a financial instrument will change as a result of changes in foreign currency exchange rates.

The investment income standing against the insurance reserves and the shareholders' equity has a significant effect on the insurance companies' profits. A major part of the Group's asset portfolio is invested in quoted securities in the capital market, and in financial derivatives, which are characterized by fluctuations as a result of political, security and economic events in Israel and around the world. Quoted securities are reported based on their stock exchange value as at the reporting date. Therefore, the fluctuations in the value of Nostro investments are likely to have a significant effect on the Group's profitability and shareholders' equity and also on the value of the life assurance portfolio. A decline in the value of securities held against profit participating policies, pension funds and provident funds also reduces the fixed management fees received from these portfolios. The extent of the effect on profits depends on the characteristics of the insurance liabilities (yield dependent, non-yield dependent) and the management fee terms of the products against which the relevant reserve is held.

Yield dependent liabilities are liabilities in respect of contracts in which the beneficiary is entitled to receive insurance benefits that depend on the yield derived from investments made against the liabilities in respect of these policies, less management fees as follows:

- In respect of policies issued until 2004, fixed management fees as well as variable management fees at the rate of 15% of the real yield after deducting the fixed management fees.

- In respect of policies issued as from 2004 – fixed management fees.

With respect to the assets and liabilities in respect of these products the insurance companies do not have direct exposure to changes in interest, fair value of the investments or the CPI. The effect of the financial results on the profits of the insurance companies is limited to the exposure derived from the variable management fees based on the fluctuations in the yield received by the policyholders, and only in respect of policies issued until 2004, and from the overall amount of the liabilities from which the fixed management fess of the insurer are derived with respect to all the yield dependent products.

In light of the aforementioned, the sensitivity tests and maturity dates of the liabilities specified in the following paragraphs do not include yield dependent contracts, except for the aforementioned effect with respect to yield dependent policies.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

1. Market risks: (Cont.)

Generally, any change of 1% in the real yield on investments in the framework of yield-dependent contracts in respect of policies issued up to the year 2004, whose scope of liabilities at December 31, 2016 is about NIS 60 billion (previous year - about NIS 57 billion), will affect the management fees by an amount of about NIS 91 million (previous year - about NIS 86 million). When the yield on these contracts is negative, the Company does not collect variable management fees, and only collects the fixed management fees of 0.6% of the accrual, as long as there is no positive yield that covers the accumulated negative yield. Furthermore, a 1% decrease in the interest rate will result in an increase in the yield dependent reserves and to a decrease in the profit and the comprehensive income totaling NIS 500 million after tax. A 1% increase in the interest rate will result in a decrease in the yield dependent reserves and to an increase in the profit and the comprehensive income totaling NIS 100 million after tax For additional information, see Note 27 above.

In non-yield dependent life assurance - the major part of the life assurance portfolio is in respect of yield guaranteed policies, mainly backed by designated bonds (Hetz – life linked bonds) issued by the Bank of Israel for the duration of the policy's entire term. Therefore, the Company has financial coverage overlapping the main liabilities regarding interest and linkage over the policy's term. As of December 31, 2016, the designated bonds covered about 69% of all the insurance liabilities in life assurance in these programs (the same last year).

The changes in the capital market, in the CPI and in foreign currency exchange rates, might have a significant effect on the Group's results of activities.

a) Sensitivity tests relating to market risks:

Hereunder is a sensitivity analysis of the effect of a change in these variables on the profit (loss) for the period and on the comprehensive income (loss) (equity).The sensitivity analysis relates to the carrying amount of the financial assets, the financial liabilities and liabilities in respect of insurance contracts and investment contracts in respect of the relevant risk variable as at each reporting date, and assumes that there is no change in all the other variables. Thus, for example, the change in interest is under the assumption that all the other parameters have not changed. The sensitivity analysis does not include, as mentioned, the effects of the yield dependent contracts as detailed above .In addition, it is assumed that the said changes do not reflect an impairment of assets reported at amortized cost or of available for sale assets and therefore, the above sensitivity test did not include impairment losses in respect of these assets.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

1. Market risks: (Cont.)

a) Sensitivity tests relating to market risks: (Cont.)

The sensitivity analysis only reflects the direct effects and does not reflect the ancillary effects.

It should also be noted that the sensitivity is not necessarily linear. Hence, larger or smaller changes in relation to the changes described below are not necessarily a simple extrapolation of the effect of those changes.

December 31, 2016

	The interest rate (1) (2)		Rate of change in prices of investments in capital instruments (3)		Rate of change in the CPI		Rate of change in the foreign currency exchange rate (5)	
	+1%	-1%	+10%	-10%	+1%	-1%	+10%	-10%
	NIS in thousands							
Profit (loss)								
Comprehensive income (loss) (4)								

December 31, 2015

	The interest rate (1) (2)		Rate of change in prices of investments in capital instruments (3)		Rate of change in the CPI		Rate of change in the foreign currency exchange rate (5)	
	+1%	-1%	+10%	-10%	+1%	-1%	+10%	-10%
	NIS in thousands							
Profit (loss)	109,610	(513,684)	16,388	(15,886)	(32,467)	32,467	(72,871)	72,871
Comprehensive income (loss) (4)	(146,697)	(220,662)	241,086	(240,584)	(32,467)	32,467	120,450	(120,450)

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

1. Market risks: (Cont.)

a) Sensitivity tests relating to market risks: (Cont.)

(1) With respect to fixed-interest instruments, the exposure is to the book value of the instrument, and for variable-interest instruments the exposure is in relation to cash flows from the financial instrument.

The sensitivity tests are based on the carrying value and not on economic value. The sensitivity tests did not take into account, from the assets with direct interest risk, unquoted debt assets at fixed interest, cash and cash equivalents, reinsurance assets, financial liabilities measured after initial recognition at amortized cost, according to the effective interest method, and liabilities in respect of investment contracts. The assets underlying the sensitivity analysis in 2016 account for about 20% of total assets for non-yield dependent contracts.

(2) The sensitivity analysis does not include the effect on insurance liabilities in life insurance and health insurance (apart from liabilities in respect of supplementary annuity and LAT), in which the discount rate is usually derived from the nominal interest rate and does not necessarily change in line with changes in the market interest rate. The effect of a 1% decrease in the interest rate on profit and comprehensive income in respect of insurance liabilities, which is included in the sensitivity test, is estimated at a loss of NIS 654 million after tax (previous year – loss of NIS 507 million after tax). The increase in interest relates to the elimination of the LAT provision and amounts to a profit of NIS 94 million after tax (previous year – NIS 103 million after tax). In general insurance, the Company discounts its insurance liabilities in the third party and employer's liability lines, following the transition to best practice, as of December 31, 2015. A decrease of 1% in the interest rate will result in growth in these liabilities and an after-tax reduction of NIS 33 million in profit and comprehensive income in 2016. An increase of 1% in the interest rate will result in an increase in profit and comprehensive income in the amount of NIS 30 million after tax.

(3) Investments in instruments that have no fixed cash flow, or alternatively, the company has no information about this flow (according to the definition in IFRS 7, they do not include investments in affiliates).

(4) The sensitivity analysis in respect of comprehensive profit (loss) also expresses the effect on profit (loss) for the period.

(5) The change in foreign currency exchange rates includes the effect of non-monetary items and others whose value in the balance sheet amounts to about NIS 2.5 billion (previous year – NIS 2.8 billion).

b) Direct interest risk:

Direct interest risk is the risk that the change in the market interest will cause a change in the fair value or in the cash flows deriving from the asset or the liability. This risk relates to assets settled in cash. The addition of the word "direct" emphasizes the fact that the interest change can also affect other types of assets but not directly, such as the effect of the interest change on the share rates.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

1. Market risks: (Cont.)

b) Direct interest risk: (Cont.)

Hereunder are details of assets and liabilities according to exposure to interest risks:

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

*) Assets without direct interest risk include: shares, fixed assets and rental property, deferred acquisition costs and other assets as well as balance sheet groups of financial assets (outstanding premiums, insurance companies' current balances and receivables) whose average duration is up to six months and which therefore present a relatively low interest risk.

**) Liabilities without direct interest risk include: tax reserves, various credit and debit balances, etc.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

1. Market risks: (Cont.)

b) Direct interest risk:

	December 31, 2015		
	Non-yield dependent	Yield dependent	Total
	NIS in thousands		
Assets with direct interest risk:			
Quoted debt assets	7,615,216	27,477,247	35,092,463
Unquoted debt assets:			
"Hetz" bonds	19,780,084	790,408	20,570,492
Other	2,257,116	7,605,019	9,862,135
Other financial investments	-	3,173	3,173
Cash and cash equivalents	2,202,744	7,801,126	10,003,870
Reinsurance assets	747,559	6,734	754,293
Total assets with direct interest risk	32,602,719	43,683,707	76,286,426
Assets without direct interest risk *)	10,095,487	39,959,987	50,055,474
Total assets	42,698,206	83,643,694	126,341,900
Liabilities with direct interest risk:			
Financial liabilities	2,773,321	777	2,774,098
Liabilities in respect of insurance contracts and investment contracts	32,326,206	83,312,486	115,638,692
Others	175,776	136,861	312,637
Total liabilities with direct interest risk	35,275,303	83,450,124	118,725,427
Liabilities without direct interest risk **)	2,105,122	282,797	2,387,919
Total liabilities	37,380,425	83,732,921	121,113,346
Total assets net of liabilities	5,317,781	(89,227)	5,228,554
Off balance sheet risk (liabilities to grant credit)	168,533	1,105,362	1,273,895

*) Assets without direct interest risk include: shares, fixed assets and rental property, deferred acquisition costs and other assets as well as balance sheet groups of financial assets (outstanding premiums, insurance companies' current balances and receivables) whose average duration is up to six months and which therefore present a relatively low interest risk.

**) Liabilities without direct interest risk include: tax reserves, various credit and debit balances, etc.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

1. Market risks: (Cont.)

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

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

	December 31, 2015					
	Listed in Tel-Aviv 100 Index	Listed in other index	Not listed in Israel	Abroad	Total	% of Total
	NIS in thousands					
Sector:						
Industry	200,651	62,858	-	200,799	464,308	39.4
Construction and real estate	73,676	12,309	2,574	19,120	107,679	9.1
Electricity and water	-	-	-	8,551	8,551	0.7
Commercial	1,011	9,574	-	9,135	19,720	1.7
Hotels and tourism	-	-	-	-	-	-
Transportation and storage	-	-	-	-	-	-
Communication and computer services	56,435	6,717	-	144,825	207,977	17.6
Banks	68,298	-	-	9,333	77,631	6.6
Financial services	9,960	-	51,796	30,768	92,524	7.8
Other business services	76,195	6,601	15,994	20,625	119,415	10.1
Holding companies	46,863	102	-	36,173	83,138	7.0
Total	533,089	98,161	70,364	479,329	1,180,943	100.0

*) Not including investments in affiliates. See Note 7b(1) above.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

2. Liquidity risks:

Liquidity risk is the risk that the Group will have difficulties in fulfilling its liabilities on time.

The Group is exposed to risks resulting from uncertainty regarding the date the Group will be required to pay claims and other benefits to policyholders in relation to the scope of the monies that will be available for that purpose at that same date. However, a significant part of its insurance liabilities in the life assurance segment are not exposed to the liquidity risks due to the nature of the insurance contracts as described below.

Yield dependent contracts, in life assurance – according to the terms of the contracts, the owners are entitled to receive only the value of the said investments. Hence, if the investment value increases there will be a corresponding increase in the Company's liabilities, net of the management fees that the Company collects.

Non-yield dependent contracts in life assurance in the sum of about NIS 30 billion, which account for about 25% of the insurance liabilities in life assurance at December 31, 2016 (previous year, about NIS 29 billion and 26%, respectively) are in respect of non-yield dependent contracts but the yield is guaranteed at a rate that was agreed upon. These contracts are partly backed by designated bonds (Hetz bonds) issued by the Bank of Israel. The Group is entitled to realize these bonds when the redemption of these policies is required.

Hence, the Group's liquidity risk against insurance liabilities is mainly due to the balance of assets that are not designated bonds and are not held against yield dependent contracts. As of December 31, 2016, these assets constitute about 11% of the Group's total assets (about NIS 15 billion). As of December 31, 2015, these assets constituted about 11% of the Group's total assets (about NIS 14 billion).

Of said asset balance as of December 31, 2016, about NIS 8 billion (similar to last year) represents quoted assets and cash and cash equivalents.

It should be noted, however, that a possible necessity to raise funds unexpectedly and in a short time might require a quick realization of a significant amount of assets and their sale at prices that do not necessarily reflect their market value.

According to the Investment Regulations Migdal Insurance is required to hold liquid assets, as defined in the Investment Regulations, against the shareholders' equity and against other liabilities, at an amount which will be not less than 30% of the minimum shareholders' equity required from Migdal Insurance, with the adjustments as detailed in the Investment Regulations.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

2. Liquidity risks:

Management of assets and liabilities

Migdal Insurance manages its assets and its liabilities in accordance with the Supervision Law requirements and regulations.

The tables below concentrate the estimated settlement dates of the Migdal Insurance's non-discounted insurance and financial liabilities. Since the amounts are non-discounted, they do not match the balances of the insurance and financial liabilities in the statement of financial position.

a) The estimated settlement dates of the liabilities in life assurance and health insurance are included in the tables as follows:

Savings monies – contractual settlement dates, namely, retirement age, without cancellation assumptions, under the assumption that the savings will continue as a lump sum and not as annuity.
Annuity in payment, occupational disability in payment and long-term care in payment – on the basis of an actuarial estimate.

Outstanding claims and risk reserves – reported under the column "without a defined settlement date".

b) The estimated settlement dates of the liabilities in respect of general insurance contracts were included in the tables as follows:

Liabilities in non-aggregated (statistical) insurance branches, estimated by an actuary - are reported based on an actuarial estimate, according to past claims payments experience.
Insurance liabilities in property and other insurance branches, which are aggregated branches (not statistical), and in branches in which the provisions are based on non-actuarial assumptions - are included in the column of settlement up to 3 years.

c) The settlement dates of the financial liabilities and liabilities in respect of investment contracts were included on the basis of the settlement dates of the contracts. In contracts in which the opposing party is entitled to choose the time of payment, the liability is included on the basis of the earliest date that the Company can be required to pay the liability.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

2. Liquidity risks:

Liabilities in respect of life assurance and health insurance contracts *)

	Up to one year	Up to one year	Over one year and up to 5 years	Over 5 years and up to 10 years	Over 15years	Without a defined settlement date	Total
	NIS in thousands						
December 31, 2016	**5,552,058**	**8,574,750**	**10,001,047**	**7,438,269**	**2,304,913**	**1,215,895**	**35,086,932**
December 31, 2015	5,141,123	8,578,622	9,425,885	7,909,214	2,771,408	730,129	34,556,381

*) 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, 2016	**3,048,145**	**818,567**	**1,087,039**	**1,360**	**4,955,111**
December 31, 2015	2,476,325	724,544	920,723	1,929	4,123,521

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

2. Liquidity risks:

Financial liabilities and liabilities in respect of investment contracts:

	Up to1 year*)	Over 1 year and up to 5 Years	Over 5 years and up to 10 years	Over 10 years and up to 15 years	Over 15 years	Without a defined settlement date	Total
	NIS in thousands						
December 31, 2016:							
Financial liabilities **)	**388,284**	**1,248,536**	**3,030,951**	**-**	**-**	**-**	**4,667,771**
Liabilities in respect of non-yield dependent investment contracts	**22,953**	**29,193**	**61,398**	**1,221**	**-**	**-**	**114,765**
Liabilities in respect of yield dependent investment contracts***)	**1,678,850**	**-**	**-**	**-**	**-**	**-**	**1,678,850**
December 31, 2015:							
Financial liabilities **)	350,205	1,169,193	2,105,569	-	-	-	3,624,967
Liabilities in respect of non-yield dependent investment contracts	26,710	38,745	66,915	1,319	-	-	133,689
Liabilities in respect of yield dependent investment contracts***)	1,681,695	-	-	-	-	-	1,681,695

*) Financial liabilities of up to one year include an amount of about NIS 5 million (2015 - about NIS 4 million) to be settled upon demand. These liabilities were classified for settlement of up to one year even though the actual settlement date is likely to be in later years.

**) Including financial liabilities in respect of yield-dependent policies in the amount of about NIS 169 million at December 31, 2016 (2015 - about NIS 237 million).

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

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks:

a) General:

The Group sells policies which cover various risks, such as death risk, mainly before retirement age and longevity risk for persons receiving an annuity after retirement ("longevity"), disability, dread diseases (including long term care, occupational disability and professional disability), fire, natural disasters (catastrophic event such as earthquake), theft, burglary, liability for bodily damages, etc. The pricing of the policies and the actuarial estimations with respect to the insurance liabilities of the Company, are made mainly on the basis of past experience and the known legal and regulatory environment.
The obligation to deposit executive insurance savings funds as from January 2008 in annuity policies and the public's tendency to prefer the annuity track as opposed to the capital track upon retirement affect the Company's exposure to longevity risk.

Variance in the risk factors, in the frequency and severity of events and in the legal and regulatory situation could affect the Group's business results.

Insurance risks

Life assurance and health insurance risks

Life assurance and health insurance risks mainly result from uncertainty in the anticipated future claims payment in relation to the assumptions relating to the mortality/longevity rates, morbidity/disability rates, expenses, cancellation or surrenders.

General insurance risks

Pricing risk–the exposure to deterioration in the risk factors covered by the policy beyond the actuarial valuation according to which this premium was determined for covering these risks. The gaps may be due to random changes in the business results and to changes in the average claim cost and/or the frequency of the claims as a result of various reasons.

Valuation of the insurance liabilities (reserve for outstanding claims) risk –the exposure to deterioration in future payments of the outstanding claims above the estimate of the Company's liability for these claims.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

a) General: (Cont.)

The Company's exposure is comprised of the following risks:

Model risk - the risk of choosing an inappropriate model for pricing and/or evaluating the insurance liabilities.

Parameter risk - the risk of using inappropriate parameters, including the risk that the amount paid for settling the Company's insurance liabilities or the settlement date of the insurance liabilities will be different from the anticipated amount and date.

Catastrophe risk

An exposure to the risk that a single event of vast effect (catastrophe), such as earthquake, war or terror, will cause huge accumulated damages. The significant catastrophic event to which the Company is exposed in general insurance is earthquake and in life assurance and health insurance - war.

The size of the maximum loss that is expected in general insurance business, as a result of an exposure to a large single damage or an accumulation of damages in respect of a significantly large event at a maximum probable loss (MPL estimated according to the model applied by the Company),which is basically about 1.8% (*) of the amount at risk, is about NIS 5,300 million, gross, of which about NIS 275 million on retention (excluding one transaction in which there is maximum risk exposure covered entirely by reinsurance.)

(*) Excluding exposure in respect of motor casco that is not covered by reinsurance which is subject to MPL at a rate of about 5%.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

a) General: (Cont.)

In life assurance business there is a requirement to hold capital against loss in respect of a particularly large-scale event with low probability at a rate of 0.17% of the amount at risk in respect of death (formerly the reserve for extraordinary risks).In addition, there is a catastrophe type (CAT) reinsurance contract which covers death claims and disability resulting from a catastrophe (such as an earthquake or war of any kind, including nuclear, biological or chemical war). The cover in this type of reinsurance agreement is USD 150 million after a deductible of USD 40 million in the event of an earthquake, and USD 80 million in the event of war.

For further information on various insurance branches for which the insurer is exposed to insurance risk, see details of insurance liabilities according to insurance risks in Notes3d, 17, 18a and 19.

Business mix

The Group's business activities are concentrated primarily in life assurance and long term savings. Changes in the mix of the various business segments in the long term savings sector, the growth of the pension segment at the expense of the life assurance segment, have a material effect on the results of operations of the Group in the long term.

Preservation of life assurance and long term savings portfolio

The life assurance and long term savings portfolio of the Company is exposed to policy cancellations and surrenders as well as to movement of accumulated savings between entities. The degree of preservation of the portfolio is affected primarily by the growth of the economy and the level of employment, by the regulatory pronouncements, by public interests, by the competition between various long term savings products as well as the competition between all the entities in the sector, which is increasing over time. The preservation level of the life assurance portfolio, including movement between different long term savings products (life assurance, pension funds, and provident funds), which have different profitability margins, has a significant effect on the profitability of insurance companies and on the embedded value of the long term insurance business of the companies. Regarding sensitivity analysis with respect to changes in cancellation rates see b(3)(b)(7) below.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

b) Insurance risk in life assurance and health policies:

(1) General:

Hereunder is the description of the various insurance products and assumptions used in the calculation of the liabilities in their respect, according to the type of product.

In general, in accordance with the Commissioner's directives, the insurance liabilities are calculated by the actuary according to the accepted actuarial methods and consistent to the previous year. The liabilities are calculated in accordance with the relevant coverage data, such as: age and sex of policyholder, term of insurance, date of commencement of insurance, type of insurance, periodic premium and the amount of the insurance.

(2) Actuarial methods for calculating insurance liabilities:

"Adif" type and "investment tracks" insurance programs:

In "Adif" and "investment tracks" insurance programs there is an identified savings component. The basic and main reserve is at the level of the accumulated savings including the yield according to the policy's terms as follows:

- Principal linked to investment portfolio yield (yield dependent contracts)

- Principal linked to the CPI plus a fixed guaranteed interest or credited by a guaranteed yield against adjusted assets (yield guaranteed contracts).

In respect of insurance components that are attached to these policies (occupational disability, death, long term care, etc.), the insurance liability is calculated separately as mentioned below.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

b) Insurance risk in life assurance and health policies: (Cont.)

(2) Actuarial methods for calculating insurance liabilities: (Cont.)

"Endowment" type policies ("traditional") and others:

The "endowment" type insurance programs and similar programs combine a savings component in the event that the policyholder is still alive at the end of the term of the program with an insurance component of death risk during the period of the program. In respect of these products, the insurance liability is calculated for each type of coverage as a discount of the cash flows in respect of the anticipated claims, including a payment at the end of the period, net of future anticipated premiums. This calculation is based on assumptions according to which the products were priced and/or on assumptions based on the claims experience, including the interest rates ("tariff interest"), mortality or morbidity tables. The calculation is according to the net premium reserve method, which does not include the component that was loaded on the premium tariff for covering the commissions and expenses, in the anticipated flow of receipts and on the other hand it does not deduct the anticipated expenses and commissions. The reserve in respect of yield dependent traditional products is calculated according to the actual yield that was obtained, net of management fees.

Liabilities for annuities in payment are calculated in accordance with the anticipated mortality rate, based on mortality tables that were published in the Commissioner's circular from 2013.

Liabilities in respect of life annuities paid in respect of valid policies (paid and settled) which have not yet reached the stage of realization of the annuity or the policyholder has reached retirement age but actual payment has not yet begun, are calculated according to the annuity take up rates and in accordance with the anticipated life expectancy on the basis of the updated mortality tables as well as on the basis of cancellation rates expected and relevant discount rates in the annuity portfolio until retirement. These estimates are calculated on the basis of Company experience together with data published by the Commissioner.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

b) Insurance risk in life assurance and health policies: (Cont.)

(2) Actuarial methods for calculating insurance liabilities: (Cont.)

"Endowment" type policies ("traditional") and others: (Cont.)

Changes in estimates regarding discount rates, life expectancy, cancellation rates and take-up rates of withdrawing of savings as annuities and/or other changes will affect the above liabilities.

These liabilities include the basic reserve which represents the surrender value of the policy accrued to the policyholder and the supplementary reserve for annuity. The provision for the supplementary reserve for annuities is accrued gradually using the K discount factor. This factor has a ceiling and cannot exceed the rate of future anticipated income from management fees or financial margin from investments held against insurance liabilities in respect of policies or from premium payments less expenses related to the policies. The K factor is calculated such that it brings to a gradual accumulation of reserves until the expected retirement date.

Other life assurance programs include pure risk products (occupational disability, death, long term care) sold as independent policies or attached to policies with a basic program such as "Adif", "investment tracks" or "traditional". An actuarial liability is calculated in respect of these programs. The calculation is according to the method called the net premium reserve.

In respect of prolonged claims in payment, in long term care and occupational disability insurance, the insurance liability is calculated according to the duration of the anticipated payment, and it is discounted according to the tariff interest rate of the product and of the anticipated future duration of the claim consistent with the claimant's age and claim duration, based on the Company's experience.

The reserves for the insurance of individual medical expenses are calculated as the present value of expected future claims based on past experience net of expected net premium. The calculation assumptions regarding parameters relating to morbidity and cancellation were based on the Company's experience, with a conservative margin, as generally accepted for the calculation of reserves.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

b) Insurance risk in life assurance and health policies: (Cont.)

(2) Actuarial methods for calculating insurance liabilities: (Cont.)

"Endowment" type policies ("traditional") and others: (Cont.)

The outstanding claims in the sub-branches of surgeries, medications and dread diseases are calculated according to the claim triangles (Chain Ladder, Bornhuetter-Ferguson) regarding claims that were paid according to the months of damage, without discounting, and without a range indication. The outstanding claims in the sub-branches of transplants and surgeries abroad are calculated on the basis of the claims department report.

The insurance liabilities in respect of group insurance consist of a liability in respect of unearned premium, IBNR reserve (claims incurred but not yet reported), reserve for continuity and provision for future losses, if necessary.

The liabilities for outstanding claims in life assurance mainly include provisions for outstanding claims for death cases.

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

(a) The discount rate:

In respect of insurance programs of the "endowment" (traditional) type and such and pure risk products with fixed premiums, the interest used for discounting is as follows:

In insurance plans mainly backed by designated bonds, the tariff interest is between 3% and 5%, linked;
In respect of yield dependent products, issued in 1991 and onwards, a tariff interest rate of 2.5%, linked.
In accordance with the policy's conditions, changes in interest will be credited to the policyholders.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

b) Insurance risk in life assurance and health policies: (Cont.)

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

(a) The discount rate: (Cont.)

A decline in the long-term interest rate may increase the insurance reserves in respect of the free component (which is not backed by designated bonds) of policies in which the savings component includes a guaranteed yield which is higher than the discount interest rate, due to the need to provide an additional reserve within the framework of a liability adequacy test (LAT). See Note 2j(1)(g) above. In addition, a decrease in the economic interest rate could increase the supplementary annuity reserve due to use of a gross discount rate, as noted in Circular 2013-1-2. For details on the financial effect, see Note b(3)(b)(5)(a) below.

(b) Mortality and morbidity rates:

(1) The mortality rates used in the calculation of the insurance liabilities in respect of the policyholders' mortality before retirement age (in other words not including mortality of those who receive old age pension and monthly compensation for occupational disability or long term care) are usually similar to the rates used for determining the tariff.

(2) Liability for annuity in payment is calculated according to the pensioner mortality table published by the Commissioner in Circular 2013-1-2.

An increase in the mortality rate assumption, due to an increase in the actual mortality to a level that is higher than the existing assumption, will cause an increase in insurance liabilities in respect of mortality of policyholders before reaching the retirement age and a decrease in liability for lifelong pension.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

b) Insurance risk in life assurance and health policies: (Cont.)

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

(b) Mortality and morbidity rates:

(2) (Cont.)

It should be noted that in the last decades there is a trend of increase in the life expectancy rate. The mortality assumption that is used for calculating the liability for annuity, also takes into consideration an assumption in respect of a future increase in life expectancy.

(3) The morbidity rates relate to the frequency of claims in respect of dread disease, occupational disability, long term care, surgery and hospitalization, disability from accidents, etc. These rates are determined on the basis of the Company's experience or reinsurers' research. In the long term care and occupational disability branches the period for payment of claims is determined in accordance with the Company's experience or reinsurers' research.

Insofar as morbidity rates and severity increase, so too will increase the insurance liability in respect of dread disease morbidity, occupational disability, long-term care, surgery and hospitalization and accidental disability.

(c) Annuity assumptions:

Life assurance contracts that include a savings component were managed in respect of savings funds deposited up to 2008 in two tracks: a lump sum track or an annuity track. In part of the contracts the policyholder is entitled to choose the track at the time of retirement. Since the amount of the insurance liability is different in each of these two tracks, the Company must determine the take-up rates of policies where the policyholders will choose the annuity track. This rate is determined based on the Group's experience as updated from time to time. Beginning from 2008 all the savings premiums that were deposited in the framework of executive insurance are designated for annuity.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

b) Insurance risk in life assurance and health policies: (Cont.)

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

(c) Annuity assumptions: (Cont.)

Each year the Company conducts a study on the subject of annuity assumptions, including annuity take-up rates, retirement tracks and retirement age and adjusts the supplementary annuity reserve accordingly. For details on the financial effect, see paragraph b(3)(b)(5)(a) below.

(d) K discount factor:

Gradual provision is made for the supplementary annuity reserve using the K factor, as mentioned in paragraph b(3)(b)(2) above.

The K factor is determined so as to create an adequate gradual accrual of the reserve up to the expected retirement age. The Company sets one K for policies in which the savings component includes a guaranteed yield and another for policies in which the savings component is yield dependent.

As of the date of the financial statements, the K value used by the Company for guaranteed yield policies stands at 0.09%, and for profit sharing policies at 0.85% (as of December 31, 2015 – 0.26% and 0.29%, respectively).

The K values decreased in 2016 because of the following matters:

1. A decrease in the interest curve.
2. Following updates to the annuity realization rates model, the Company's future provisions that are spread over the remaining period until retirement were reduced by reducing the K factor.

The aforesaid updates were: applying an age dependent annuity realization rates model as from the second quarter of 2016 that led to a decrease in the balance of the supplementary annuity reserve. This decrease was partly offset by following an update to a study of the realization rates in the fourth quarter of 2016.

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

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

b) Insurance risk in life assurance and health policies: (Cont.)

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

(e) Cancellation rates:

The cancellation rates affect the estimation of insurance liabilities in respect of deferred annuity and in respect of part of the health insurances. The cancellation of insurance contracts can be due to the cancellation of policies initiated by the Company due to discontinuation of the premium payments or surrenders of policies at the policyholders' request. The assumptions regarding the cancellation rates are based on the Company's experience and they are based on the type of cancellation, type of product and the seniority of the coverage period.

(f) Continuity rates:

In group health insurances and group long term care insurances the policyholders are entitled to continue to be insured under the same conditions, even if the group contract is not renewed. In respect of this option of the policyholders, the Company has an obligation that is based on assumptions regarding the continuity rates of the group insurances and the continuity rates of the contracts with the policyholders after the group contract expires. The Company examines from time to time whether there is a need for a specific provision for continuity.

(4) Liability adequacy test (LAT):

The Company tests for the adequacy of the life assurance reserves, including the supplementary annuity reserve.

The assumptions used in making these tests includes assumptions underlying cancellations, operating expenses, yield on assets, interest rates, negative liquidity premium and also based on the excess fair value of the assets over their carrying amount, mortality, annuity assumptions and morbidity and are determined by an actuary based on tests, past experience and other applicable research and regulatory directives.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

b) Insurance risk in life assurance and health policies: (Cont.)

(4) Liability adequacy test (LAT): (Cont.)

In 2015 the Commissioner issued a circular regarding the performance of a liability adequacy test (LAT) on the provisions in the financial statements of insurance companies ("the circular"). The purpose of the circular is to achieve uniformity and improvement in several actuarial assumptions used in the LAT calculation. The assumptions relate, inter alia, to the manner of determination of the illiquidity premium used in discounting insurance liabilities and the manner of determining the actuarial assumptions underlying the LAT calculation. For details on the financial effect, see paragraph b(3)(b)(5)(a) below.

The carrying amount of the provision for LAT amounts to NIS 146 million and NIS 164 million as of December 31, 2016 and 2015, respectively.

The change in the provision for LAT reflects the changes that occurred during the year in all the operational, demographic and financial factors underlying the assessment of the actuarial liabilities, including changes that were made in the supplementary annuity reserve. In the second quarter of 2016, Migdal Insurance created lower provisions for LAT in the amount of NIS 82 million following an improvement in the model for determining annuity realization rates.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

b) Insurance risk in life assurance and health policies: (Cont.)

(5) Effect of changes in principal estimates and assumptions used to calculate the life assurance provision

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

	December 31	
	2016	**2015**
	NIS in millions	
Effect of decrease in discount rate in calculating the supplementary annuity reserve	**202**	263
Increase (decrease) in annuity reserves due to a decrease in expected future income derived from the decrease in the discount rate (K)	**171**	(49)
Increase in annuity provisions due to the decrease in the discount rate	**373**	214
Change in annuity assumptions	**76**	44
Increase (decrease) following the LAT	**(18)**	105
Total before tax	**431**	363
Total after tax	**276**	227

It should be noted that the addition for the initial implementation of the provisions of the circular as of June 30, 2015 stood at NIS 192 million.

(b) Update in estimate of occupational disability reserves:

In 2016 the Company updated the estimate of the amount of current payments that affects the calculation of the occupational disability reserves being paid and as a result the liabilities decreased by the amount of NIS 78 million.

In 2015 the Company conducted a study on the subject of the prolongation of claims in the occupational disability branch affecting the cost-per-insured assumption. As a result, the provision for occupational disability increased by NIS 60 million.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

b) Insurance risk in life assurance and health policies: (Cont.)

(6) The supplementary reserve for annuity included in the Company's books approximates NIS 4,709 million and NIS 3,855 million as of December 31, 2016 and 2015, respectively*. The balance of the provision which will be recognized gradually in profit and loss, using the aforementioned K factors, until the policyholders reach retirement age, amounts to about NIS 2,822 million as of December 31, 2016 (previous year – NIS 3,182 million).

It should be noted that the figures listed above, in connection with the supplementary reserve for annuity and in connection with the balance of the provisions to be recognized in the future, relate to funds already accumulated in the policies at the end of the reporting periods and do not include provisions in respect of amounts accumulated in the future.

* Of which about NIS 3,538 million is in respect of a deferred annuity (in 2015 about NIS 2,939 million in respect of a deferred annuity).

(7) Sensitivity test:

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

	December 31, 2015							
	Morbidity rate		Rate of cancellations ***)		Mortality rates		Annuity take-up rate **)	
	NIS in thousands							
	+10%	-10%	+10%	-10%	+10%	(* -10%	+5%	-5%
Profit (loss)	(4,621)	4,620	10,336	(9,663)	96,276	(662,218)	(294,128)	128,557

*) Mainly due to the supplementary annuity reserve.

**) For purposes of the sensitivity test with respect to the annuity take-up rate, 5% of the annuity take-up rate were added/subtracted. See Note 18a regarding the amount of the supplementary annuity reserve.

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

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

c) General insurance contract insurance risks:

(1) Condensed description of the main insurance branches in which the Group operates:

Migdal Insurance's activities focus on the branches of motor act, motor casco, property insurance and liability insurance.

Motor act insurance covers, pursuant to the motor insurance ordinance, the owner of the vehicle and the driver for any liability they may be liable to pursuant to the Road Accident Victims Compensation Law, 1975, due to bodily damage caused to the driver of the vehicle, the passengers in the vehicle, or pedestrians injured by the vehicle, as a result of the use of the motor vehicle. The claims in this branch are characterized by a long tail, namely, sometimes a long time passes from the date of the event to the time the claim is finally settled.

The tariff for motor act insurance requires the approval of the Commissioner of Insurance and is a differential actuarial tariff (which is not uniform for all the policyholders and adjusted to risk).The said tariff is based on a number of parameters, those related to the vehicle insured by the policy (such as safety systems, etc.), as well as those relating to the characteristics of the policyholders (the age of the youngest driver, previous claims experience, etc.).

Motor casco insurance is a voluntary insurance and it is the most common voluntary insurance in the framework of general insurance. Motor casco insurance includes damage coverage for the insured vehicle and property damages that the insured vehicle will cause to a third party.

The coverage is usually limited to the value of the damaged vehicle and/or to the limit of liability for third party specified in the policy.

The tariff for motor casco insurance requires an approval, as well as an approval of the entire policy, by the Commissioner of Insurance and it is a differential actuarial tariff (which is not uniform for all the policyholders and adjusted to risk).The said tariff is based on a number of parameters, those related to the vehicle insured by the policy (such as type of vehicle, production year, etc.), as well as those relating to the characteristics of the policyholders (number of drivers of the vehicle, age of the drivers, previous claims experience, etc.).

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

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

(1) Condensed description of the main insurance branches in which the Group operates:

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

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

Liability insurance is designed to cover the policyholders' liability by law in respect of damage that he may cause to any third party. The main types of insurance are: liability insurance towards a third party, employers' liability insurance and other liability insurance such as professional liability, product liability and directors' and officeholders' liability. The policies in liability insurances are usually issued for the period of one year. However, the time it takes to handle the claims in this branch is longer and might take a number of years, due to several reasons: the damage covered by the policy was caused to a third party who is not the policyholder, the time that passes between the date of the event which is the subject of the claim and the time the liability and the damage are determined and the claim is filed, is relatively long.

In many cases it involves relatively complicated factual and legal inquiries, both, regarding the policyholders' liability, as well as the scope of the damage, the period of limitation in respect of the cause of the claim is longer than the period of limitation which is generally accepted in property insurance. The claims in this branch are characterized by a "long tail", namely, a long time passes from the date of the event until the final settlement date of the claim.

Property insurances are designated to grant the policyholder coverage against physical damage to his property. The main risks covered by property policies are fire risks, explosions, theft, earthquake and natural disasters. The property insurances sometimes include coverage for consequential damage (loss of profits) due to the physical damage to the property. Property insurances constitute an important factor in comprehensive residential insurance, business premises insurances, engineering insurances, freight in transit (marine, cargo, aviation) etc.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

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

(1) Condensed description of the main insurance branches in which the Group operates:

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

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

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

- Provision for unearned premium
- Provision for premium deficiency
- Outstanding claims
- Less deferred acquisition costs

The provision for unearned premium reflects the premium component relating to the period after the balance sheet date, according to generally accepted accounting principles.

In addition, according to the Commissioner's directives, provisions for premiums that do not cover the anticipated cost of the claims ("premium deficiency"), are included, if necessary, in the motor act, motor casco and comprehensive residential branches. This provision, if made, is reported under outstanding claims.

According to the Commissioner’s directives, the outstanding claims, including the reinsurers' share therein, in the non-aggregated (statistical) branches (the liabilities, motor act, motor casco, comprehensive residential and personal accidents branches), were calculated by the appointed actuary in general insurance Dr. Stewart Coutts, 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.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

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

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

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

The actuarial valuations are mainly based on data bases in respect of the paid claims that also include direct expenses for the settlement of claims and the deductible. Subrogations and salvage recoveries are taken into consideration in the data base that serves for calculating the actuarial estimates of the outstanding claims. In accordance with the directives of the Commissioner of Insurance, the valuations also included indirect costs for settlement of claims in respect of all the branches in which the Company operates in general insurance.

(b) In accordance with the Commissioner's directives, the outstanding claims are calculated by the actuary, according to the generally accepted actuarial methods, consistently with the previous year. The choice of actuarial method suitable for each insurance branch is determined by the actuary, according to the compatibility of the method to the branch. The valuation of outstanding claims in the Group is based, in most of the branches, on actual claims payments (paid model) and in some of the branches it is based on the accumulated cost of the claims (the actual claims payment with the addition of individual valuations – incurred model). In analyzing the development of payments, the Company adds a tail as needed. The main assumption in these models is: the stability of the claims development, namely, past behavioral pattern will also continue in the future.

(c) In the motor act, employer's liability, third party and motor casco branches, the calculations are based on the actual claims payments. In comprehensive residential, professional liability, product warranty and personal accidents branches, the calculations are based on the accumulated cost of the claims (the actual claims payment with the addition of individual valuations).

(d) When valuating exceptionally large claims, the valuation is based on individual estimates of the Company's experts.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

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

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

(e) Regarding special cases that were not fully expressed in the payments, as detected by the Company from time to time, there are specific provisions on the basis of the relevant legal and/or statistical estimates.

(f) There might be new events which are not really expressed in the present claims payments. If it turns out that the actual experience will be different from the accumulated experience in the present claims payments, additional provisions might be required in the future.

(g) The actuarial valuation is based on statistical estimates that include an uncertainty component. The statistical estimate is based on various assumptions, which will not necessarily be realized. The assumptions used in the actuarial forecast affect the final results of the provision. Therefore, the actual claims cost might be higher or lower than the statistical estimate.

(h) Assumptions that were determined in the past might change in accordance with new information that will be received in the future. In such cases, the outstanding claims will change according to the change in the assumptions and the actual results, and the differences resulting during the reported year will be included in the general insurance business statement.

(i) Up to December 31, 2015 actuarial calculations did not include a reduction due to discounting of future claims payments. Following the continued decrease in the risk-free interest curve, there was an erosion of the conservative margins given that the reserves were not discounted, and therefore the Company performed tests to verify that the erosion of said margins did not result in a need to add to the reserve. Starting from December 31, 2015 the Company tests for the adequacy of liabilities in general insurance based on the best practice principles detailed in section b(d)(c)(5) below. On the basis of this test the Company found that in the employers' liability and third party branches a supplement is required based on the best practice principles, and accordingly as from December 31, 2015 the Company discounts future claim payments in these branches.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

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

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

(i) (Cont.)

The discounting is according to the risk-free interest rate curve, adjusting it to the illiquid nature of the insurance liabilities and taking into consideration the manner of revaluation of the assets held against these liabilities.

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

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

(3) Details of the actuarial methods in the main insurance branches:

The following actuarial models were utilized in order to estimate the outstanding claims, in a combination with the various assumptions:

(a) Link Ratio - this statistical method is based on the claims development (payment development and/or total claims development, development of the number of claims, etc.), in order to estimate the anticipated development of existing and future claims. This method is mainly suitable after a sufficient period of time has passed from an event or the underwriting of the policy, and there is enough information from the existing claims in order to estimate the total anticipated claims. If necessary, use is made of the Sherman Power Curve method which provides a non-linear distribution to the development coefficients that were calculated using the Link Ratio method. This distribution makes it possible to calculate the development coefficients for earlier periods on which there is no information ("the development tail).

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

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

(3) Details of the actuarial methods in the main insurance branches: (Cont.)

(b) Bornhuetter-Ferguson - this method combines early estimates (a priori) that is known to the company or in the branch, and an additional estimate based on the claims themselves. The early estimate utilizes premiums and loss ratio for evaluating the total claims. The second estimate utilizes the actual claims experience based on other methods (such as Link Ratios).The combined claims valuation weighs the two estimates, and a larger weight is given to the valuation based on the claims experience as time passes and additional information is accumulated for the claims. The use of this method is mainly suitable for the recent period where there is not enough information from the claims or for a new business, or a business with insufficient historical information.

(c) Averages - in certain cases, like in the Bornhuetter-Ferguson method, when the claims experience in the recent periods is insufficient, the historical average method is utilized. In this method the claims cost is determined based on the cost of the claim per policy for earlier years and the number of policies in the later years. Likewise, the claims cost is calculated based on the forecast of the number of claims (the Link Ratio method) and the historical average claim.

(d) Other

For claims regarding occupational diseases in employers' liability insurance, which are claims based on prolonged damage, a provision is calculated on the basis of future expected cost. In claims of this type there is no specific date on which the employee was injured and the damage is formed as the result of prolonged exposure to the risk factors. Claims of this type are characterized by a very long period of time between the beginning of exposure to the risk factors and the date the claim is reported (long tail claims).

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

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

(4) Hereunder is a description of the actuarial methods that were applied in the main insurance lines:

(a) Motor act and liability lines:

In these lines the liabilities are calculated on the basis of the development in claims' payments and/or the development in payments and outstanding claims (Link Ratio) and a 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.

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

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

Since the valuation of the outstanding claims is calculated, as mentioned, at a gross level, there is a model for estimating the reinsurance outstanding claims, as follows:

In non-proportional reinsurance (excess of loss), the model for the old underwriting years is based on the treatment of individual claims. For recent underwriting years the estimate is based on a large claims model that forecasts the number of claims that will surpass the excess as well as the average amount of these claims. In proportional reinsurance, including facultative, the model is based on the estimate of individual outstanding claims for old years and recent years according to the loss ratio rate.

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

(b) Motor casco:

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

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

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

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

(4) Hereunder is a description of the actuarial methods that were applied in the main insurance lines: (Cont.)

(b) Motor casco: (Cont.)

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

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

(c) Comprehensive residential:

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

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

In this line of business, the reinsurance is proportional and the retention is calculated based on the actual reinsurance rates in each damage year.

(d) Personal accidents:

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

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

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

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

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

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

4) Hereunder is a description of the actuarial methods that were applied in the main insurance lines: (Cont.)

(e) Lines of business in which non-actuarial provisions were set up:

In the following lines no actuarial model was applied due to the lack of statistical significance: comprehensive business premises insurance, engineering insurance, contractors insurance, marine insurance, aviation insurance and goods in transit insurance.

The outstanding claims with respect to these lines were included based on estimates that included the following components:

- Known outstanding claims that include an appropriate provision for handling expenses up to the end of the period, but were not yet paid as at the financial statements date. This provision is mainly based, on an individual valuation of each claim, based on the opinion received from the Company's attorneys and experts handling the claims. Most of the claims are backed by reinsurance and therefore the effect is immaterial.

- A provision for claims incurred but not yet reported (IBNR) based on past experience.
  In addition, the provision for a run-off general insurance portfolio that was added during the year was based on specific assessments of the Company's experts.

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

- The provisions for outstanding claims are made on the basis of cautious assumptions as to risk factors arising from regulatory changes as well as precedential and other court rulings in the course of the years, such as: the "lost years" rule, the National Insurance Institute's (NII) subrogation right, imposition of a duty of reporting to the NII, cancellation of agreement with the NII and signing of a new agreement at the end of 2014, transfer of insurance liability for the provision of medical services to the health funds, a change in the discount rate of benefits, etc. If the claims due to the risk factors are not realized according to the estimates, a surplus or deficiency is created in the development of the outstanding claims. In addition, the Company did not discount outstanding claims, as an additional element of caution.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

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

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

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

(a) "Caution" means that with respect to a reserve calculated by an actuary as "an adequate reserve for covering the insurer's liabilities" it is fairly likely that the insurance liability that was determined will be sufficient to cover the insurer's liabilities. As for outstanding claims in the motor act and liability branches, "fairly likely" refers to a probability of at least 75%. At the same time, if there are limitations in the statistical analysis, the actuary will exercise judgment and generally accepted actuarial methods may be used.

In this regard, account should be taken of the random risk and the systemic risk.

(b) Cash flow discount rate – to determine the rate for discounting the liabilities flow, the actuary must take into account the points detailed in the discounting standard of the Israel Association of Actuaries and present the considerations (including assumptions and limitations) in choosing the discount rates. According to said standard, the appropriate discount rate for the review will be based on the risk-free interest rate curve, adjusting it to the illiquid nature of the insurance liabilities.

(c) Grouping – for the purpose of calculating margins for uncertainty in statistical branches (as defined in the circular), each branch should be treated separately, but the risks (or damage) from all the underwriting years in the branch can be grouped together. In non-statistical branches, all the branches can be treated together.

(d) Determination of the amount of insurance liability for policies sold in proximity to the reporting date and for unexpired risks.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

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

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

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

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

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

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

Credit risk is, as mentioned, the risk of loss if a borrower fails to meet its obligations, or if there is a change in the credit margins in the capital market. The failure of a counterparty to meet its obligations due to a deterioration of its repayment ability, including insolvency, may affect Migdal Insurance's business results. Credit assets that are given from members' monies and quotable credit assets in the Nostro portfolios, calculated according to fair value, are also influenced by changes in the credit margins as reflected in the capital market or from a downgrading of the debtor's credit rating.

With respect to the rating sources, see d(2) below.

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

a) Debt assets credit risks:

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

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

	December 31, 2015		
	Quoted *)	Unquoted	Total
	NIS in thousands		
In Israel	6,472,512	21,957,056	28,429,568
Abroad	1,142,704	80,144	1,222,848
Total debt assets	7,615,216	22,037,200	29,652,416

*) Quoted debt assets are classified mainly under the available for sale category and are reported at fair value.

Also see details of assets divided into ratings, below.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

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

a) Debt assets credit risks: (Cont.)

(2) Details of assets divided into ratings:

(a) Debt assets:

	Local rating *)				
	December 31, 2016				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets in Israel					
Quoted debt assets:					
Government bonds	4,048,315	-	-	-	4,048,315
Corporate bonds	1,939,172	711,346	3,821	17,190	2,671,529
Total quoted debt assets in Israel	5,987,487	711,346	3,821	17,190	6,719,844
Unquoted debt assets:					
Government bonds	20,450,242	-	-	-	20,450,242
Corporate bonds	257,145	273,924	11,518	7,783	550,370
Deposits in banks and financial institutions	1,259,247	-	-	-	1,259,247
Other debt assets according to security:	-	-	-	-	-
Mortgages	-	-	-	153,099	153,099
Loans on policies	-	-	-	64,338	64,338
Loans against real estate charges	27,907	2,652	-	-	30,559
Loans against charges on shares conferring control	-	-	11,796	-	11,796
Other security	425,315	303,560	-	190,384	919,259
Not secured	-	-	-	-	-
Total unquoted debt assets in Israel	22,419,856	580,136	23,314	415,604	23,438,910
Total debt assets in Israel	28,407,343	1,291,482	27,135	432,794	30,158,754
Of which debt assets according to internal rating	379,931	237,244	11,796	-	628,971
Includes debt assets in internal rating whose rating was reduced by Migdal Insurance	-	82,697	-	-	82,697

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

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

a) Debt assets credit risks: (Cont.)

(2) Details of assets divided into ratings: (Cont.)

(a) Debt assets: (Cont.)

	International rating *)				
	December 31, 2016				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets abroad					
Quoted debt assets					
Government bonds	124,839	18,563	-	-	143,402
Corporate bonds	209,087	1,273,961	608,407	-	2,091,455
Total quoted debt assets abroad	333,926	1,292,524	608,407	-	2,234,857
Unquoted debt assets:					
Corporate bonds	-	22,874	-	6,581	29,455
Deposits in banks and financial institutions	-	-	-	-	-
Other debt assets	108,349	10,273	-	27,391	146,013
Total unquoted debt assets abroad	108,349	33,147	-	33,972	175,468
Total debt assets abroad	442,275	1,325,671	608,407	33,972	2,410,325
Of which debt assets according to internal rating	108,349	-	-	-	108,349

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

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

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

a) Debt assets credit risks: (Cont.)

(2) Details of assets divided into ratings: (Cont.)

(a) Debt assets: (Cont.)

	Local rating *)				
	December 31, 2015				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets in Israel					
Quoted debt assets:					
Government bonds	4,669,262	-	-	-	4,669,262
Corporate bonds	1,143,629	615,601	3,988	40,032	1,803,250
Total quoted debt assets in Israel	5,812,891	615,601	3,988	40,032	6,472,512
Unquoted debt assets:					
Government bonds	19,780,084	-	-	-	19,780,084
Corporate bonds	257,291	291,813	851	14,870	564,825
Deposits in banks and financial institutions	690,030	-	-	-	690,030
Other debt assets according to security:					
Mortgages	-	-	-	15,018	15,018
Loans on policies	-	-	-	84,517	84,517
Loans against real estate charges	67,084	3,002	-	-	70,086
Loans against charges on shares conferring control	-	-	26,118	-	26,118
Other security	264,833	310,666	-	150,879	726,378
Not secured	-	-	-	-	-
Total unquoted debt assets in Israel	21,059,322	605,481	26,969	265,284	21,957,056
Total debt assets in Israel	26,872,213	1,221,082	30,957	305,316	28,429,568
Of which debt assets according to internal rating	358,897	189,464	26,118	-	574,479
Includes debt assets in internal rating whose rating was reduced by Migdal Insurance	60,993	74,824	-	-	135,817

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

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

a) Debt assets credit risks: (Cont.)

(2) Details of assets divided into ratings: (Cont.)

(a) Debt assets: (Cont.)

	International rating *)				
	December 31, 2015				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets abroad					
Quoted debt assets					
Government bonds	55,917	-	-	-	55,917
Corporate bonds	48,189	642,310	391,599	4,689	1,086,787
Total quoted debt assets abroad	104,106	642,310	391,599	4,689	1,142,704
Unquoted debt assets:					
Corporate bonds	-	15,587	-	-	15,587
Deposits in banks and financial institutions	-	-	-	-	-
Other debt assets	33,977	10,150	-	20,430	64,557
Total unquoted debt assets abroad	33,977	25,737	-	20,430	80,144
Total debt assets abroad	138,083	668,047	391,599	25,119	1,222,848
Of which debt assets according to internal rating	33,977	-	-	-	33,977

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

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

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

a) Debt assets credit risks: (Cont.)

(2) Details of assets divided into ratings: (Cont.)

(b) Credit risks in respect of other assets (In Israel):

Additional information

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

	Local rating *)				
	December 31, 2015				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debtors and receivables, excluding balances of reinsurers	18,427	1,760	-	236,295	256,482
Deferred tax assets	19,358	-	-	-	19,358
Other financial investments	-	-	-	297,047	297,047
Cash and cash equivalents	1,927,889	117,543	-	-	2,045,432

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

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

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

a) Debt assets credit risks: (Cont.)

(2) Details of assets divided into ratings: (Cont.)

(c) Credit risks in respect of off-balance sheet instruments (in Israel):

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

	Local rating *)				
	December 31, 2015				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Unutilized credit facilities	95,994	65,430	-	-	161,424

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

(d) Credit risks in respect of other assets (abroad):

	International rating *)				
	December 31, 2016				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Loans to affiliates**)	**-**	**-**	**-**	**27,391**	**27,391**
Debtors and receivables, excluding balances of reinsurers	**34,291**	**14,630**	**-**	**1,789**	**50,710**
Deferred tax assets	**-**	**-**	**-**	**-**	**-**
Other financial investments	**-**	**-**	**-**	**2,012,000**	**2,012,000**
Cash and cash equivalents	**175,304**	**-**	**-**	**-**	**175,304**

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

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

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

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

a) Debt assets credit risks: (Cont.)

(2) Details of assets divided into ratings: (Cont.)

(d) Credit risks in respect of other assets (abroad): (Cont.)

	International rating *)				
	December 31, 2015				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Loans to affiliates**)	-	-	-	20,430	20,430
Debtors and receivables, excluding balances of reinsurers	-	22,182	-	296	22,478
Deferred tax assets	-	-	-	-	-
Other financial investments	-	-	-	2,214,260	2,214,260
Cash and cash equivalents	157,312	-	-	-	157,312

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

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

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

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

	International rating *)				
	December 31, 2015				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Unutilized credit facilities	7,109	-	-	-	7,109

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

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

b) Additional information regarding credit risks:

(1) In August 2013, the Commissioner approved that Migdal Insurance will use an internal credit rating model ("the model"), which was developed by it. According to the approval, with respect to the legal provisions regarding credit rating, the rating according to this model will be regarded as being equivalent to the risk rating of a rating company, subject to the following conditions:

(a) The model will be used within the framework of the structure, methodology and procedures that were presented to the Commissioner during the process of examining the model;

(b) The model will be valid for evaluating the credit of companies in Israel, which are: operating companies; holding/investment companies; companies operating in the fields of: banking, leasing and profit generating real estate - (not including companies from the field of entrepreneurial real estate).

(c) A significant change in the model's structure requires the Commissioner's prior approval.

(d) Migdal insurance is permitted to allocate capital in respect of non-quoted debt assets which are rated using the model and are not rated by external rating as from the financial statements for the third quarter of 2013.

(1) The capital allocation will be at rates stipulated in the Control of Financial Services Regulations (Insurance) (Minimum Shareholders' Equity required from an Insurer), 1998 ("the Capital Regulations").

(2) A reduction at a rate of 50% of the difference between the capital required under the Capital Regulations and the capital required for the rating given by the model is given. If an external rating is also available for a loan, then the capital allocation should be at the lower of the two ratings. In addition, the approval includes instructions as to immediate and periodic reports which Migdal Insurance must submit to the Commissioner with respect to the model.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

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

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

(2) There is a difference in the rating scale between debt assets in Israel and debt assets abroad. It should be noted that in accordance with the Capital Market Circular 2008-6-1, regarding the publication of the conversion scale between the Israeli rating and the International rating. In 2009, the rating companies published a comparative analysis between the local rating scale and the international rating scale.

(3) Information regarding credit risks in this Note does not include the assets for yield dependent contracts that are reported in paragraph d below.

(4) Regarding reinsurers' exposure to credit risk see b(4)(1) below.

(5) The Group is also exposed in its activities to other receivables such as employers and policy holders. An increase in the insolvency of businesses in Israel may affect the amount of employer payment liabilities since the employers might not make deposits in pension funds in respect of their employees, which in turn, obliges the institutional entities in the Group to take action. With respect to the balance of outstanding premiums in the amount of NIS 719,100 thousand (2015 – NIS 469,423 thousand) see Note 10 above.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

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

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

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

	December 31, 2016		
	Balance sheet credit risk		Off-balance sheet risk
	Amount	%	
	NIS in thousands	of the total	NIS in thousands
Economic sector:			
Industry	**945,736**	**2.9**	**-**
Construction and real estate	**1,384,849**	**4.3**	**-**
Electricity and water	**525,984**	**1.6**	**76,840**
Commerce	**42,075**	**0.1**	**-**
Transportation and storage	**228,775**	**0.7**	**-**
Communication and computer services	**271,108**	**0.8**	**21,719**
Banks	**3,227,802**	**9.9**	**-**
Financial services	**355,443**	**1.1**	**-**
Other business services	**206,228**	**0.6**	**-**
Holding companies	**102,878**	**0.3**	**-**
Private individuals	**407,821**	**1.3**	**-**
Other	**208,429**	**0.6**	**-**
Government bonds	**24,661,951**	**75.8**	**-**
Total	**32,569,079**	**100.0**	**98,559**

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

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

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

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

	December 31, 2015		
	Balance sheet credit risk		Off-balance sheet risk
	Amount NIS in thousands	% of the total	NIS in thousands
Economic sector:			
Industry	425,732	1.4	-
Construction and real estate	1,083,420	3.7	14,926
Electricity and water	311,714	1.1	78,537
Commerce	23,200	0.1	-
Transportation and storage	125,527	0.4	-
Communication and computer services	170,225	0.6	75,070
Banks	2,432,136	8.2	-
Financial services	175,957	0.6	-
Other business services	73,859	0.2	-
Holding companies	74,969	0.3	-
Private individuals	250,414	0.8	-
Other	-	-	-
Government bonds	24,505,263	82.6	-
Total	29,652,416	100.0	168,533

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

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

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

(7) Geographical risks:

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

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

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

	December 31, 2015									
	Government bonds	Corporate bonds	Shares	ETFs	Mutual funds	Investment property	Other investments *)	Total balance sheet exposure	Derivatives in delta terms	Total
	NIS in thousands									
Israel	24,505,263	2,467,919	866,267	43,471	-	718,315	4,699,896	33,301,131	28,793	33,329,924
US	-	348,044	235,651	1,011,882	33,838	-	197,542	1,826,957	-	1,826,957
Switzerland	-	116,308	-	50,463	-	-	259,785	426,556	-	426,556
Other	-	538,178	79,025	774,368	97,022	-	622,956	2,111,549	192,316	2,303,865
Total amount	24,505,263	3,470,449	1,180,943	1,880,184	130,860	718,315	5,780,179	37,666,193	221,109	37,887,302

*) Other investments include reinsurance assets, investments in affiliates, cash and other financial investments not included in the other columns.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

4.1 Reinsurers' credit risks:

Migdal Insurance insures part of its business by reinsurance, most of which is done through reinsurers abroad. However, the reinsurance does not release Migdal Insurance from its commitment towards its policyholders according to the insurance policies.

Migdal Insurance is exposed to risks resulting from uncertainty regarding the reinsurers' ability to pay their share in the liabilities in respect of insurance contracts (reinsurance assets). Therefore, the financial stability of reinsurers and their ability to meet their financial obligations may affect the business results of the Company. This exposure is managed by a current follow-up of the reinsurers rating in the international market and their following through on monetary liabilities.

The Company is exposed to concentrated credit risk to an individual reinsurer, due to the reinsurance market structure and the limited amount of reinsurers with sufficient rating.

In accordance with the Commissioner's directives, once a year the Company's Board of Directors determines the limits of the maximum exposure to the reinsurers with whom the Company has engaged and/or will engage, which is mainly based on their rating. These exposures are managed in the Company by individual assessment of each of the reinsurers.

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

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

4.1 Reinsurers' credit risks: (Cont.)

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

Comments:

1. (a) The total exposure to reinsurers is: debit (credit) balances, net, reinsurance assets, net of the deposits and net of the amount of letters of credit received from reinsurers as a guarantee for their liabilities.
   (b) After deduction of the provision for doubtful debts in an amount of about NIS 2,172 thousand.
   (c) The total provision for doubtful debts plus the reduction in the reinsurers' share in outstanding claims and in reserves amounts to about NIS 2,172 thousand which constitutes about 0.3% of the exposure at December 31, 2016.
   (d) The rating was mainly determined by AMBest and was converted for reporting purposes to S&P's rating in accordance with a conversion scale as determined pursuant to the Ways of Investment Regulations. Each rating includes all the ranges, for example: A includes A- through A+.
   (e) Includes balances deriving from a reinsurance agreement in the framework of the acquisition of a run-off general insurance portfolio. For details see Note 38.e.2.
   (f) The total premiums of Generali (the Company's former controlling shareholder) include premiums in facultative reinsurance at a rate of 100% in the amount of about NIS 71 million in respect of one policyholder.
   (g) The unrated group includes balances for outstanding claims through brokers from business that was received up to and including 2003 in the amount of about NIS 1,195 thousand.
2. The total exposure of the reinsurers for an earthquake event in general insurance is about NIS 5,025 million, at a maximum probability of damage of mainly about 1.80% (MPL according to model adopted by the Company). For details see also Note 37(b)(3)(a). The most significant reinsurer is Swiss Re, whose share in this exposure is about NIS 1,192 million.
3. There are no other reinsurers apart from those detailed above in respect of which the exposure exceeds 10% of the overall exposure of reinsurers or in respect of which the premium exceeds 10% of the total premiums for reinsurance for 2016. There is also an exposure of about NIS 92 million to an Israeli insurance company with respect to life assurance reinsurance.

*) See Note 38.e.2.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

4.1 Reinsurers' credit risks: (Cont.)

	December 31, 2015										
			Reinsurance assets							Debts in arrears (b)	
Rating group (d)	Total reinsurance premiums for 2015	Balances in debit (credit) net	In life assurance	In health insurance	In property insurance	In liability insurance	Deposits by reinsurers	Amount of letters of credit received from reinsurers	Total exposure (a) (c)	Between half a year and one year	Over one year
	NIS in thousands										
AA and above											
Swiss Reinsurance Co	181,423	(48,110)	5,876	9,440	53,942	20,812	10,696	-	31,264	-	-
Munich Reinsurance Co.AG	45,636	(6,238)	3,827	5,768	12,902	37,042	-	-	53,301	-	-
Others	123,101	3,991	89,732	16,053	56,273	37,271	11,215	6,377	185,728	-	1
	350,160	(50,357)	99,435	31,261	123,117	95,125	21,911	6,377	270,293	-	1
A											
Assicurazioni Generali SpA (e)	102,142	(14,638)	1,694	522	137,182	100,054	2,460	839	221,515	-	-
Others	171,138	(15,069)	2,879	2,708	102,597	48,547	27,157	667	113,838	7	7
	273,280	(29,707)	4,573	3,230	239,779	148,601	29,617	1,506	335,353	7	7
BBB	1,713	(118)	-	-	1,207	-	317	-	772	3	-
Lower than BBB – or unrated (f)	4,873	(9,661)	206	-	1,492	6,267	-	-	(1,696)	76	294
Total	630,026	(89,843)	104,214	34,491	365,595	249,993	51,845	7,883	604,722	86	302

Comments:

1. (a) The total exposure to reinsurers is: debit (credit) balances, net, reinsurance assets, net of the deposits and net of the amount of letters of credit received from reinsurers as a guarantee for their liabilities.
   (b) After deduction of the provision for doubtful debts in an amount of about NIS 2,141 thousand.
   (c) The total provision for doubtful debts plus the reduction in the reinsurers' share in outstanding claims and in reserves amounts to about NIS 2,535 thousand which constitutes about 0.4% of the exposure at December 31, 2015.
   (d) The rating was mainly determined by AMBest and was converted for reporting purposes to S&P's rating in accordance with a conversion scale as determined pursuant to the Ways of Investment Regulations. Each rating includes all the ranges, for example: A includes A- through A+.
   (e) The total premiums of Generali (the Company's former controlling shareholder) include premiums in facultative reinsurance at a rate of 100% in the amount of about NIS 48 million in respect of one policyholder.
   (f) The unrated group includes balances for outstanding claims through brokers from business that was received up to and including 2003 in the amount of about NIS 3,321 thousand.
2. The total exposure of the reinsurers for an earthquake event in general insurance is about NIS 4,421 million, at a maximum probability of damage of mainly about 1.80% (MPL according to model adopted by the Company). For details see also Note 37(b)(3)(a). The most significant reinsurer is Swiss Re, whose share in this exposure is about NIS 1,088 million.
3. There are no other reinsurers apart from those detailed above in respect of which the exposure exceeds 10% of the overall exposure of reinsurers or in respect of which the premium exceeds 10% of the total premiums for reinsurance for 2015. The balance of the reinsurer Munich Reinsurance is provided only for the purpose of comparison to last year even though its exposure and premium did not exceed 10% of total reinsurers. There is also an exposure of about NIS 95 million to an Israeli insurance company with respect to life assurance reinsurance.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

5. General risks:

a) Economic and employment conditions:

The employment rate has a significant impact on the Group's business in the life assurance and long term savings sector. A deterioration of the employment rate, a decline in the number of employed, an increase in the unemployment rate and a decline in the level of salaries of the employed, affects the amount of new sales and the cancellation rates in the portfolio. In addition, the general condition of the economy affects the Group's business in the different sectors in which it operates. A recession could result in an increase in bad debts, an increase in disability claims, a decline in the insurance coverage purchased in the policies and an increase in the level of fraud. The state of the economy is also liable to affect the market value of the Group's assets in Israel. In 2016 the economic data showed a continuation in growth and low unemployment. The Group keeps track of developments in the economy and prepares itself according to market conditions.

b) Changes in regulation and compliance:

The Group companies are subject to widespread regulation is their activities. Changes in the law and in regulatory guidelines affect the substance of the activities of the companies and the profitability of the sale of various products sold by them and also on the financial reporting of the companies. Noncompliance with regulatory requirements, including unintentional, could lead to sanctions such as cancelling licenses and permits and levying monetary fines on the Group and might form the basis for potential claims against it.

The regulation in the insurance and long term savings has a significant impact on the prices and management fee rates collected on various products, sales processes, the nature of the products, the ability to differentiate products from the competition and the expense levels of the companies. The legal pronouncements, guidelines and agreements related to the structure of savings in the economy and primarily in respect of pension savings, including tax implications thereon, impact the changes in business volume in this sector and the level of product alternatives, including the possibility of the transfer of savings between products. Furthermore, changes in the law and in regulation may affect the Company with respect to products sold in the past, though retroactive implementation and by way of interpretation of agreements entered in the past and as a consequence of competition. Consequently, these pronouncements affect the life assurance and long term savings portfolio of the companies and the future sales of these products.

The great number of regulatory changes places a burden on the technology and operational systems and could increase the exposure to operational errors or affect the ability to comply with the new directives, due to the necessity of modifying processes.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

5. General risks: (Cont.)

b) Changes in regulation and compliance: (Cont.)

Recently, several circulars and draft circulars were published that could impact on the Group's profitability, such as: circular on the marketing of life assurance policies that include guaranteed life expectancy annuity factors, circular of guidelines on the choice of a provident fund, circular regarding the consolidation of existing accounts in new pension funds, draft circular regarding migration of annuity recipients, etc.

The capital adequacy requirements are a key requirement for the insurance companies. Regulatory changes in capital requirements may affect the activities of the companies and the scope thereof. For details on the capital requirements applying to the Company, see Noted 7c to the financial statements.

Furthermore, Group insurance agencies are also subject to regulation, including regulations as to the holding of agencies by an insurance company and requirements placed on the marketer of pension products. Changes in the law with respect to the activities of insurance agencies affect the activities of the agencies and their profitability.

The Company keeps abreast of court rulings and new regulations in its areas of activity or in areas that could affect it, in order to identify basic principles and general directions the courts, the lawmaker or the regulator are endeavoring to establish, so that the plans made by the Company are consistent with these principles and directions even if they have not yet been given concrete expression in new case law or regulations. However, it is difficult to foresee new rulings/laws/ regulations, including changes in stresses or directions of the relevant authorities (the courts, the Knesset and the Insurance Commissioner), and there is also natural uncertainty regarding their inception (obtaining the required majority for a law, receiving required approvals, such as the approval of the Knesset Economic Committee or the Minister of Finance's approval for regulations, issues on which a petition will be filed with the Supreme Court and on which the Supreme Court might rule differently than in the past, etc.). Since by the nature of things this involves unknown and uncertain future occurrences, the risk in question can be managed or reduced only to a limited degree, especially when the new ruling/regulation applies to existing policies already issued by the Company.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

5. General risks: (Cont.)

c) Increase in competition:

The increase in competition in the sectors in which the Group operates, may hurt Group profitability. The Commissioner, under regulatory organization, has been leading processes during the past decade to increase competition in the long term savings sector, in terms of the substitutability of products, the development of standard products and the structure of the management fees.

d) Changes in customer preferences:

The public's inclination to choose alternative products or not to purchase insurance or in the realization of annuities may affect the demand for the Group's products and the profitability of the various sectors.
The wide range of products offered by the Company in most of the areas of insurance reduces this exposure.
The Company deals with this risk by monitoring the public's preferences and adjusting its products accordingly.

e) Legal 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 the Group companies and against other entities in the industry, 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 affecting the Group's operations.

Regarding class actions, legal proceedings and other proceedings, including claims and proceedings that are related to regulatory risks or operational risks – see Note 39.1. to the financial statements.

In addition to the foregoing, the Company examines work processes, documents and forms, where they apply to multiple instances of the same type or matter investing them with an inbuilt representative nature. The Company also reviews, to the extent possible, claims and proceedings that were filed against it or against other parties in its lines of business, as well as the rulings in these proceedings, and it attempts to draw lessons for the work processes applied by it.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

5. General risks: (Cont.)

f) Legal proceedings:

The Group's financial institutions are party to legal proceedings, including class actions and decisions of the Commissioner within the framework of its powers to handle complaints and/or conduct audits, which can lead to their being charged significant sums and/or to require the Group to treat insurance/pension/provident plans in a manner different than in the past, including the imposing of financial sanctions. For ways of coping by the Company see b(5)(b) above.

g) Damage to reputation:

The Group's reputation and good name are an important factor in the conducting of transactions with new customers and retaining existing customers. Damage to the Group's reputation may significantly harm the Group's business.

NOTE 37:- RISK MANAGEMENT (Cont.)

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

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

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

NOTE 37:- RISK MANAGEMENT (Cont.)

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

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

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

NOTE 37:- RISK MANAGEMENT (Cont.)

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

	December 31, 2015					
	In unlinked NIS	In NIS linked to the CPI	In foreign currency *)	Non-monetary and others	Yield dependent	Total
	NIS in thousands					
Assets						
Intangible assets	-	-	-	1,271,303	-	1,271,303
Deferred tax assets	-	-	-	19,358	-	19,358
Deferred acquisition costs	-	-	-	1,833,363	59	1,833,422
Fixed assets	-	-	-	723,235	-	723,235
Investments in affiliates	-	49	9,851	690,314	-	700,214
Investment property for yield dependent contracts	-	-	-	-	5,328,453	5,328,453
Other investment property	-	-	-	718,315	-	718,315
Reinsurance assets	140,700	584,178	22,681	-	6,734	754,293
Current tax assets	-	425,220	26,170	-	16,083	467,473
Debtors and receivables	219,905	7,072	70,529	20,903	163,011	481,420
Outstanding premiums	59,464	260,327	47,859	-	201,773	569,423
Financial investments for yield dependent contracts	-	-	-	-	70,126,455	70,126,455
Other financial investments:						
Quoted debt assets	2,541,848	3,876,833	1,196,535	-	-	7,615,216
Unquoted debt assets	197,857	21,693,599	145,744	-	-	22,037,200
Shares	-	-	-	1,180,943	-	1,180,943
Others	175	-	12,764	2,498,368	-	2,511,307
Total other financial investments	2,739,880	25,570,432	1,355,043	3,679,311	-	33,344,666
Cash and cash equivalents for yield dependent contracts	-	-	-	-	7,801,126	7,801,126
Other cash and cash equivalents	1,962,277	-	240,467	-	-	2,202,744
Total assets	5,122,226	26,847,278	1,772,600	8,956,102	83,643,694	126,341,900

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

NOTE 37:- RISK MANAGEMENT (Cont.)

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

	December 31, 2015					
	In unlinked NIS	In NIS linked to the CPI	In foreign currency *)	Non-monetary and others	Yield dependent	Total
	NIS in thousands					
Total equity	-	-	-	5,228,554	-	5,228,554
Liabilities						
Liabilities in respect of non-yield dependent insurance and investment contracts	781,252	31,493,835	51,119	-	-	32,326,206
Liabilities in respect of yield dependent insurance and investment contracts	-	-	-	-	83,312,486	83,312,486
Deferred tax liabilities	-	-	-	566,332	-	566,332
Liabilities for employee benefits, net	70,962	-	-	104,814	136,861	312,637
Liabilities in respect of current taxes	-	34,287	-	-	-	34,287
Creditors and payables	754,517	462,252	174,714	105,586	46,591	1,543,660
Financial liabilities	1,911,037	837,522	30,235	1,961	236,983	3,017,738
Total liabilities	3,517,768	32,827,896	256,068	778,693	83,732,921	121,113,346
Total equity and liabilities	3,517,768	32,827,896	256,068	6,007,247	83,732,921	126,341,900
Total balance sheet exposure	1,604,458	(5,980,618)	1,516,532	2,948,855	(89,227)	-
Exposure to base assets through derivative instruments in delta terms	2,434,708	-	(2,652,020)	217,312	-	-
Total exposure	4,039,166	(5,980,618)	(1,135,488)	3,166,167	(89,227)	-

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

NOTE 37:- RISK MANAGEMENT (Cont.)

d. Information regarding financial investments for yield dependent contracts:

1. Composition of investments according to linkage basis:

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

	December 31, 2015				
	In unlinked NIS	In NIS linked to the CPI	In foreign currency	Non-monetary and others	Total
	NIS in thousands				
Cash and cash equivalents	5,116,340	-	2,684,786	-	7,801,126
Quoted assets	10,189,695	13,407,960	3,879,592	29,831,864	57,309,111
Unquoted assets	813,674	7,355,012	599,091	9,765,680	18,533,457
Total assets	16,119,709	20,762,972	7,163,469	39,597,544	83,643,694
Exposure to the base asset through derivative instruments in delta terms	16,441,949	-	(24,111,160)	7,669,211	-

NOTE 37:- RISK MANAGEMENT (Cont.)

d. Information regarding financial investments for yield dependent contracts: (Cont.)

2. Credit risk for assets in Israel:

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

	Local rating *)				
	December 31, 2015				
	AA and above	BBB to A	Lower than BBB	Not rated	Total **)
	NIS in thousands				
Debt assets in Israel:					
Government bonds	14,620,707	-	-	-	14,620,707
Other debt assets - quoted	6,108,253	2,805,025	47,173	105,714	9,066,165
Other debt assets - unquoted	4,287,387	3,415,904	37,400	403,462	8,144,153
Total debt assets in Israel	25,016,347	6,220,929	84,573	509,176	31,831,025
Of which debt assets at internal rating	1,613,571	1,800,984	37,400	-	3,451,955
Includes debt assets at internal rating whose rating was reduced by the Company	278,528	592,894	-	-	871,422

*) The sources for the rating level in Israel are Maalot, Midroog and an internal rating. The rating of Midroog was converted into the rating signs according to generally accepted conversion coefficients. Each rating includes all the ranges, for example: A includes A- through A+.

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

NOTE 37:- RISK MANAGEMENT (Cont.)

d. Information regarding financial investments for yield dependent contracts: (Cont.)

3. Credit risk for assets abroad:

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

	International rating *) December 31, 2015				
	A and above	**BBB**	**Lower than BBB**	**Not rated**	**Total **)**
	NIS in thousands				
Total debt assets abroad	297,581	2,175,160	1,568,908	-	4,041,649
Of which debt assets with internal rating	121,829	-	-	-	121,829

*) The sources for the international rating level are S&P, Moody's and Fitch, which were approved by the Commissioner of Insurance. Each rating includes all the ranges, for example: A includes A- through A+.

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

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

a. General

1. Effective from October 29, 2012 ("the date of acquisition of control"),the 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).

   According to the directives of the Antitrust Commissioner in an approval granted by him in connection with the acquisition of control, effective from the date of consummation of the transaction for the acquisition of control, the Company will not enter into any agreements (directly and indirectly) with trading companies in which the controlling shareholder holds at least 5% of the share capital, directly or indirectly[1], for conducting transactions in members' assets for which the consideration is paid from the members' assets but rather only through a competitive tender in which every trading company has a fair chance of participating under the terms set forth by the Antitrust Commissioner.

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

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

[1] Excluding a trading company whose entire shares were directly or indirectly held by the Company on the date of consummation of the transaction, namely Migdal Capital Markets.

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

a. General (Cont.)

3. 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 paragraphs d and g below (the data regarding the transactions with Generali relate to the period in which transactions with Generali were considered transactions with a controlling shareholder).

4. Details and data of engagements with affiliates are presented in c, d and h below.

   This Note does not include a description of controlling shareholder transactions and/or transactions with other related parties which occurred before they became related parties. Financial data regarding these transactions in the reporting period are included in the data in c and d below. Balances and transactions between the Company and interested and related parties which occurred when those parties were related and/or interested and in the reporting period ceased being related and/or interested parties, including in this context Generali as described in a(3) above, are disclosed in this Note in comparative figures presenting previous periods.

b. The Company's policy on immaterial transactions

1. In its ordinary course of business, the Group performs or is likely to conduct transactions with interested parties and/or controlling shareholder transactions, including, but not limited to, the following types of transactions: reinsurance contracts and facultative agreements, purchase of assets, rental of real estate properties, purchase of products and services through the controlling shareholder, joint ventures, including joint investments and receipt of financial or economic services. Please note that the above transactions do not constitute a closed list.

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

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

2. As detailed in 4 below, the Company's Board has adopted certain guidelines and rules for classifying the transactions of any of the Group companies pursuant to Regulation 41(a)(6) to the Securities Regulations (Preparation of Annual Financial Statements), 2010 ("the immaterial transactions procedure"). These guidelines and rules serve in examining the scope of disclosure and reporting required from public companies in connection with transactions with interested parties and/or controlling shareholder transactions according to the Securities Regulations (Periodic and Immediate Reports), 1970 ("the Reporting Regulations"), including the reporting framework in interim financial statements (as stated in Regulation 22 to the Reporting Regulations).

3. The financial data included in c and d below consist of immaterial transactions. The details of transactions with other related parties and/or controlling shareholder transactions do not include a description of transactions that are classified as immaterial according to the Board's immaterial transactions test.

4. On March 22, 2017, the Company's Board decided to update the guidelines and rules for classifying transactions with an interested party and/or controlling shareholder as immaterial. According to this decision, such a transaction will be viewed as immaterial if it meets all the following conditions:

1) It is not an irregular transaction (as defined in the Companies Law).

2) In the absence of any special qualitative considerations that arise from the relevant circumstances, a transaction will be viewed as immaterial if one of the following conditions is met:

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

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

c) Other engagements –

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

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

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

4. (Cont.)

2) (Cont.)

c) Other engagements – (Cont.)

And

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

The relevant benchmarks for classifying a certain transaction as an immaterial transactions are:

- In the sale of insurance or purchase of reinsurance - premium ratio.
- In the purchase of an asset - asset ratio; in the sale of an asset - profit ratio, asset ratio.
- In the purchase/sale of products or other services - expense ratio or service income ratio, as applicable.
- In assuming a financial liability (including taking out credit) - liability ratio.

In this context:

Premium ratio:	The premium underlying the event divided by the total annual premiums in the relevant operating segment (life assurance and long-term savings, health insurance, general insurance), calculated on the basis of the last four quarters for which reviewed or audited financial statements have been issued.
Asset ratio:	The scope of the assets underlying the event (purchased or sold assets) divided by the total assets; the ratio is measured separately for the members' funds that are managed by the Group and for Nostro funds. In the event of a joint venture of the members' funds and Nostro funds, the relevant ratio of each type of assets will be measured separately according to the amount of the portion of the members' funds/Nostro funds, as applicable, in the transaction against the total amount of the assets - members' funds/Nostro funds are measured according to the latest known reviewed/audited financial statements.
Profit ratio:	The profits or losses attributable to the event divided by the average annual comprehensive income or loss (including changes in capital reserves) in the three last calendar years.
Liability ratio:	The liability underlying the event divided by the total liabilities according to the latest known reviewed/audited financial statements.
Equity ratio:	The increase or decrease in equity divided by the equity according to the latest known reviewed/audited financial statements.

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

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

4. (Cont.)

Service income ratio:	The scope of income underlying the event divided by the total average annual income in the last three years that is not from premiums, calculated on the basis of the last four quarters for which reviewed or audited financial statements have been issued.
Service expense ratio:	The scope of expenses underlying the event divided by the annual general and administrative expenses calculated on the basis of the last four quarters for which reviewed or audited financial statements have been issued.

5. Regarding multiannual transactions, the scope of the transaction is calculated on an annual basis for the purpose of testing immateriality, thus, for example in a multiannual insurance transaction, the scope of the transaction will be viewed as the annual insurance fees that are paid or collected. Separate transactions that are interdependent, so that they are actually a part of one engagement, will be examined as one transaction.

6. In cases in which, at the Company's discretion, all the quantitative benchmarks mentioned above do not apply to testing the immateriality of a transaction, the transaction will be viewed as immaterial based on another applicable benchmark determined by the Company provided that this benchmark is at a rate of at least 0.5% and the scope of the transaction does not exceed NIS 5 million, linked to the CPI as discussed above.

7. The examination of the qualitative considerations of a controlling shareholder or interested party transaction may lead to the classification of the transaction as material despite the above mentioned. So for instance, and only for example, a controlling shareholder transaction will not generally be considered immaterial if it is regarded as a significant event by the Company's management and serves as the basis for making management decisions or if in the framework of a controlling shareholder or interested party transaction the controlling shareholder or interested party, as relevant, is expected to receive benefits which must be reported to the public.

8. A transaction that was classified by an investee of the Company as immaterial will also be considered as immaterial for the Company. Such a transaction which was classified by the investee as immaterial will be examined against the relevant benchmarks at the Company's level.

9. The Company's Board will review the need to update this procedure from time to time, considering the controlling shareholder and interested party transactions entered into by the Company and changes in the applicable legal provisions.

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

c. Balances with interested and related parties

Interested parties, related parties and key management personnel in the Company and/or in the subsidiaries in which they serve as officers, including the controlling shareholder and/or his relatives serving as officers, may purchase, from time to time, insurance contracts, investment contracts or other financial products that were issued by the Group and/or that are sold by the Group members, at market terms and in the ordinary course of business. Details on these transactions are not included in this note.

Composition:

	December 31, 2016		
	Eliahu Group	Union Bank and other related parties *)	Affiliates
	NIS in thousands		
Debtors and receivables	**4,668**	**826**	**1,605**
Debt assets **)	**-**	**139,040**	**46,324**
Shares	**-**	**150,090**	**-**
Creditors and payables ***)	**-**	**(752)**	**-**
Financial liabilities ***)	**-**	**(9,954)**	**(2,261)**

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

**) In the context of their current investment activity, the Company and its subsidiaries purchase bonds of various companies and, inter alia, conduct trading activities in the bonds of Amot, which was an affiliate of the Company until March 2016. Prior to the acquisition of control in the Company, the Company and its subsidiaries purchased bonds and shares of Union Bank and from the date of acquisition of control and as of the reporting date they do not purchase any securities of Union Bank but occasionally sell these holdings in the course of ordinary trading activity.

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

	December 31, 2015		
	Eliahu Group	Union Bank and other related parties *)	Affiliates
	NIS in thousands		
Debtors and receivables	-	50	402
Debt assets **)	-	178,385	201,752
Shares	-	408,566	57,161
Creditors and payables	(81)	(316)	-
Financial liabilities	-	(888)	-

*) The highest balance of debt assets of an interested party during the year amounted to NIS 323,552 thousand.

**) In the context of their current investment activity, the Company and its subsidiaries purchase bonds of various companies and inter alia conduct trading activities in the bonds of Amot, which was an affiliate of the Company until March 2016. Prior to the acquisition of control in the Company, the Company and its subsidiaries purchased bonds and shares of Union Bank and from the date of acquisition of control and as of the reporting date they do not purchase any securities of Union Bank but occasionally sell these holdings in the course of ordinary trading activity.

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

d. Transactions with interested and related parties

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

	December 31, 2015		
	Eliahu Group	Union Bank and other related parties	Affiliates
	NIS in thousands		
Premiums received	2,445	1,248	7
Commissions and profit participating in group insurances	-	162	-
Claims paid	4	387	95
Distribution and operating agreements	-	1,232	-
Agent commission and other commissions	-	858	6,626
Revenue from leasing fees/usage fees	-	-	189
Revenue from management fees	-	-	900
Transaction costs	2,206	-	-
Other	-	(425)	907

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

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

	Year ended December 31, 2014			
	Eliahu Group	Union Bank and other related parties	Generali	Affiliates
	NIS in thousands			
Premiums earned - reinsurance	-	-	133,538	-
Reinsurance commissions	-	-	18,722	-
Reinsurance claims and outstanding claims	-	-	128,481	-
Premiums received	-	-	13,675	-
Commissions and profit participating in group insurances	-	225	-	-
Distribution and operating agreements	-	1,217	-	-
Agent commission and other commissions	-	501	-	9,099
Revenue from leasing fees/usage fees	-	-	-	168
Transaction costs	975	-	-	-
Other	3,088	722	-	36

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

e. Description of controlling shareholder transactions

Following is a description of controlling shareholder transactions classified as extraordinary and non-extraordinary transactions pursuant to Section 270(4) to the Companies Law:

Extraordinary controlling shareholder transactions			
#	**Party to the transaction with the Company**	**Date of approval/ approving entity[1]**	**Nature and description of the transaction**
1	Mr. Eliahu Eliahu	April 5, 2016 - approval of the Company's general meeting	Terms of employment of the central region's director of the general insurance business – Mr. Eliahu Eliahu, the brother of Mr. Shlomo Eliahu, who began working at Migdal Insurance on January 1, 2013 as central region's director of the general insurance business for a monthly salary of NIS 50 thousand and related benefits such as recreation, vacation and sick pay, vehicle maintenance, reimbursement of expenses, social benefits, occupational disability insurance and advanced study fund. The overall remuneration paid to Mr. Eliahu Eliahu in 2016 approximated NIS 910 thousand (cost to employer and before salary tax effect). The terms of employment were approved for the first time in March 2013. By law, the current approval is in effect until January 1, 2019. See more details of the terms of Mr. Eliahu Eliahu's tenure in the Company's immediate report of March 23, 2016, reference no.: 2016-01-013122, regarding the convening of the general meeting and immediate report of March 5, 2016 (reference no.: 2016-01-042220) regarding the results of the general meeting.
		December 30, 2016 - approval of the Company's general meeting	Bonuses for 2017 up to and including 2019 - approval of a normative annual bonus in the amount of NIS 200 thousand to Mr. Eliahu Eliahu for each calendar year from 2017 up to and including 2019. According to the updated remuneration policy, the annual bonus of Mr. Eliahu Eliahu will be based on performance. The amount of the bonus in each calendar year will be determined based on the normative bonus according to a performance scale of 70% to 140%. At a scale of 100%, the bonus will be equal to the normative bonus; at a scale below 70%, Mr. Eliahu Eliahu will not be entitled to any bonus; at a scale of 140% and above, Mr. Eliahu Eliahu will be entitled to a maximum bonus of NIS 280 thousand a year. See more details of the annual and normative bonuses in immediate report of December 22, 2016 (complementary immediate report regarding the convening of the general meeting), reference no.: 2016-01-142339 and the immediate report of January 1, 2017 regarding the results of the general meeting (reference no: 2017-01-000333). For details on the approval of the normative bonus to Mr. Eliahu Eliahu for the years 2014 up to and including 2016, at terms similar to those of the bonus that was approved for the years 2017 up to and including 2019, see the immediate report of September 22, 2014, (reference no.: 2014-01-161913) regarding the convening of the general meeting and immediate report of October 27, 2014 (reference no.: 2014-01-181653) regarding the results of the general meeting.

[1] Throughout this Note, refers to the last date of approval by the relevant entity for the purpose of the Companies Law and the identity of the approving entity. Transactions approved in the general shareholders' meeting were previously approved by the Company's Audit Committee and Board. Where an update and/or change is made to a previous transaction, the description of the entire transaction will be made at the earlier date of the two abovementioned dates.

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

e. Description of controlling shareholder transactions (Cont.)

Extraordinary controlling shareholder transactions			
#	**Party to the transaction with the Company**	**Date of approval/ approving entity[1]**	**Nature and description of the transaction**
2	Eliahu Insurance	September 30, 2013 - approval of the Company's general meeting	Acquisition of the general insurance portfolio (renewals) - Migdal Insurance signed an agreement for the acquisition of a new general insurance business from Eliahu Insurance effective from 2013. The transaction price was set at NIS 260 million and paid on October 1, 2013 (the balance of intangible assets as of December 31, 2016 amounts to about NIS 207 million). In order to approve the transaction, the Board appointed a special independent committee. The transaction was accounted for as a business combination. In the transaction, no intangible assets were purchased and no liabilities were assigned to Migdal Insurance. See more details in Note 4 above. Migdal Insurance bore the directly attributable costs of the acquisition in an immaterial amount and included them in general and administrative expenses in the income statement in 2013. In the transaction, compensation was established in favor of Migdal Insurance for any liability that will apply to Migdal Insurance or for any claim or argument filed against it or for any damage caused to it in respect of Eliahu Insurance's customers whose grounds predate the date of issuance of a new policy by Migdal Insurance; any liability or duty towards Eliahu Insurance's agents that is not related to new policies or in connection with Migdal Insurance's activities with these agents regarding new policies; claims of any of Eliahu Insurance's employees who were not relocated to Migdal Insurance, or rights of Eliahu Insurance's employees who were relocated to Migdal Insurance arising in the period predating their employment in Migdal Insurance; any other third party liability or duty whose grounds originate in the period before January 1, 2013; any other exposures of Migdal Insurance in respect of Eliahu Insurance's past or future activities. A report on the convening of a general meeting for approving this transaction (final version) was issued on September 25, 2013 (reference no.: 2013-01-150849) and a report on the results of the general meeting was issued on September 30, 2013 (reference no.: 2013-01-152673).
		February 3, 2016 – approval of the Company's general meeting	Agreement for the acquisition of run-off general insurance portfolio – Migdal Insurance entered into an agreement with Eliahu Insurance Ltd. ("Eliahu Insurance") under which sole responsibility for the run-off of Eliahu Insurance's general insurance portfolio will be transferred to Migdal Insurance, including policies issued by Eliahu Insurance up to December 31, 2012 ("the insurance portfolio"). Concurrently with the transfer of the insurance portfolio, Eliahu Insurance transferred to Migdal Insurance a cash amount equal to the actuarial assessment of the liabilities included in the insurance portfolio (intended for funding the handling of the insurance portfolio), subject to the adjustments specified in the agreement (the actuarial assessment of the exposure to claims included in the insurance portfolio, as of June 30, 2015, according to Eliahu Insurance's financial statements, amounted to NIS 393 million) and also the amount of indirect expenses (see hereunder regarding approval of an amendment to the amount of indirect expenses).

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

e. Description of controlling shareholder transactions (Cont.)

Extraordinary controlling shareholder transactions			
#	**Party to the transaction with the Company**	**Date of approval/ approving entity[1]**	**Nature and description of the transaction**
	Eliahu Insurance (Cont.)		In consideration for handling the insurance portfolio, Migdal Insurance will be entitled to 71% of the profits, if any, generated by the insurance portfolio, but not less than NIS 7 million (profit guaranteed by Eliahu Insurance, which will be transferred as an advance payment on the transaction closing date). Together with the agreement, and as a condition thereof, a reinsurance agreement was signed between Migdal Insurance and Swiss Re ("Swiss"), pursuant to which Swiss is to grant insurance coverage for the insurance portfolio, covering all of Migdal Insurance's insurance liabilities ("the Swiss reinsurance"). Under the reinsurance agreement with Swiss, Swiss will be entitled to a premium of NIS 11 million (to be transferred as an advance payment immediately after the closing of the transaction, according to the mechanism provided for) as well as (in addition to said premium) 29% of the profits, if any, arising from the insurance portfolio. The agreement also establishes arrangements regarding Eliahu Insurance's duty of indemnification and payment in the event that the amount of the actuarial assessment and the Swiss reinsurance do not suffice to cover the claims and expenses connected with the insurance portfolio, said indemnification to be included in the accounting between the parties. Furthermore, Eliahu Insurance gave a separate undertaking to indemnify Migdal Insurance in the event that the amounts deposited in the expense account do not suffice to cover the indirect expenses of the insurance portfolio, said indemnification to be deducted from the profits of Migdal Insurance, if any, from the insurance portfolio. In addition to the indemnification undertaking, on the transaction closing date Eliahu Insurance is to provide an autonomous bank guarantee of an Israeli bank in favor of Migdal Insurance, at 5% of the amount of the actuarial assessment ("the bank guarantee"). The bank guarantee will be valid up to the year 2020 at least, and the amount of the bank guarantee will be adjusted annually, based on the assessed amount of the claims in the insurance portfolio, as reported in Migdal Insurance's financial statements. Likewise, the agreement establishes various indemnification arrangements in circumstances where the Swiss reinsurance does not apply (e.g. due to exclusions set in the Swiss reinsurance terms), and in the event of various claims, demands and proceedings as specified between the parties, and the indemnification pursuant to these arrangements will not be included in the accounting. Accordingly, as at balance sheet date provisions in the amount of about NIS 4.6 million have been recorded, see Note 39.c. On April 21, 2016, after having been approved by the Court, the transaction was closed and the insurance portfolio was transferred to the responsibility of Migdal Insurance. For further details see the report of December 29, 2015 regarding the convening of the general meeting to approve this transaction (reference No.: 2015-01-081583), the report of February 3, 2016 regarding the results of the general meeting (reference no.: 2016-01-022456) and the immediate report of April 24, 2016 regarding the closing of the transaction (reference no.: 2016-01-054871).

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

e. Description of controlling shareholder transactions (Cont.)

Extraordinary controlling shareholder transactions			
#	**Party to the transaction with the Company**	**Date of approval/ approving entity[1]**	**Nature and description of the transaction**
	Eliahu Insurance (Cont.)	August 4, 2016 – approval of the Company's Board	Approval of an amendment to the agreement for acquisition of a run-off general insurance portfolio due to an error in the original version of the agreement with respect to calculation of the amount of indirect expenses – most of the amendment relates to the method of calculating the indirect expenses Eliahu Insurance was required to transfer to Migdal Insurance upon the closing of the agreement, such that according to the aforesaid amendment the amount of the indirect expenses will be calculated as 3% of the adjusted actuarial assessment, before reinsurance (instead of 3% of the "original" actuarial assessment (i.e. the actuarial assessment as at the determining date, June 30, 2015), before reinsurance). According to the adjusted actuarial assessment, (as at the closing date, according to the data as at March 31, 2016), the amount of indirect expenses according to the aforesaid amendment amounted to NIS 9.8 million. For further details see the report of June 28, 2016 regarding the convening of the general meeting (reference No.: 2016-01-068974) and the report of August 4, 2016 regarding the results of the general meeting (reference no.: 2016-01-097930).
3	Israel Eliahu	March 22, 2017 – approval of the Company's Board	Terms of service - Mr. Israel Eliahu, the son of Mr. Shlomo Eliahu, serves as director in the Company and in Migdal Insurance, as Chairman of the Nostro Investment Committee of Migdal Insurance and as Chairman of the Board of Migdal Capital Markets (1965) Ltd. ("Capital Markets"). In respect of his service in the Company and in Migdal Insurance, Mr. Israel Eliahu is entitled to annual remuneration of NIS 129 thousand and a fee of NIS 5 thousand for participating in each Board and/or committee meeting, which is identical to the fee paid to other directors, including external directors (not including the Chairman of the Board). Mr. Israel Eliahu does not receive any other remuneration for his service as Chairman of the Board of Capital Markets. VAT as required by law is added to the above amounts and the amounts are updated once a year based on the increase in the CPI. These terms, which were approved for the first time in November 2013, are in accordance with Regulation 1b(3) of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000 ("the Reliefs Regulations"). The overall remuneration paid to Mr. Israel Eliahu for his service in the Company and in Migdal Insurance in 2016 amounted to about NIS 253 thousand (overall cost). See more details in immediate report of November 19, 2013 (reference no.: 2013-01-196653) and in immediate report of March 22, 2017 (reference no.: 2017-01-027750).
4	Ofer Eliahu	December 30, 2016 - approval of the Company's general meeting	Terms of service - Mr. Ofer Eliahu, the son of Mr. Shlomo Eliahu, serves as CEO of Migdal Insurance and Chairman of Makefet and Yozma. See details of the terms of employment of Mr. Ofer Eliahu in these capacities in j(4)(d) below.
5	Mr. Yossi Ben Baruch (former officer in Eliahu Insurance)	May 27, 2014 - approval of the Company's Board	Terms of service - Mr. Yossi Ben Baruch served as Acting CEO, comptroller, legal consultant and director of the investment division in Eliahu Insurance until June 30, 2014. In addition, from February 1, 2014 through June 30, 2014, Mr. Ben Baruch served as director in Capital Markets. In respect of his service as director, Mr. Ben Baruch received in 2014 overall remuneration of about NIS 62 thousand.

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

e. Description of controlling shareholder transactions (Cont.)

Extraordinary controlling shareholder transactions			
#	Party to the transaction with the Company	Date of approval/ approving entity[1]	Nature and description of the transaction
			These terms were approved in accordance with Regulation 1b(3) of the Reliefs Regulations - see immediate report of May 27, 2014 (reference no.: 2014-01-074892). On July 1, 2014, Mr. Ben Baruch began serving as CEO of Capital Markets - see immediate report of June 20, 2014 (reference no.: 2014-01-103440). Starting from the date of termination of Mr. Ben Baruch's tenure at Eliahu Insurance (June 30, 2014), his service as CEO of Capital Markets or as director in any of its subsidiaries does not represent a controlling shareholder transaction.
6	The controlling shareholder and his relatives serving as officers in the Company	June 28, 2016 - approval of the Company's Board to the insurance of officers	Officers' insurance – For details of the Company's and its subsidiaries' officers' insurance policy and of Capital Markets' officers' insurance policy, including in respect of officers who are the controlling shareholder or his relatives, see j(4)(f) below. This insurance coverage for the controlling shareholder and/or his relatives was approved in accordance with Regulation 1b to the Reliefs Regulations.
		December 30, 2016 – approval of the general meeting to granting letters of indemnification and release letters	Indemnification of officers who are the controlling shareholder or his relatives – On December 30, 2016 the Company's general meeting approved granting letters of indemnification also to officers who are the controlling shareholders and his relatives. Grant of release letters – On December 30, 2016 the general meeting approved granting release letters to officers and directors, including directors who are the controlling shareholders or his relative, who did not have release letters on that date. For further details see the Company's immediate report of December 22, 2016 regarding the convening of a general meeting (complementary report) that its agenda includes, inter alai, approval to granting the letters of indemnification and release (reference no.: 2016-01-142339) and the Company's immediate report of January 1, 2017 regarding the results of the meeting (reference no.: 2017-01-000333). For details of letters of indemnification and release granted to officers who are the controlling shareholder or any entity in which the controlling shareholder has a personal interest in Note 39(2)(d) below.

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

e. Description of controlling shareholder transactions (Cont.)

Controlling shareholder transactions that are neither extraordinary nor immaterial		
Party to the transaction with the Company	**Date of approval/ approving entity[1]**	**Nature and description of the transaction**
Eliahu Insurance	May 7, 2014 - approval of the Company's Audit Committee	Monetary investment in a limited partnership, MGT Hedge Fund, L.P., a hedge fund founded on January 1, 2014 ("the Fund") by Capital Markets and managed by it through a general partner wholly owned and controlled by it. The investors in the Fund, in equal parts, are Capital Markets and Eliahu Insurance, each of which invested a total of NIS 35 million with a possible increase of each partner's investment to up to NIS 50 million and in return for carried interest and management fees as approved by the Company's Audit Committee based on market terms. There is no mutual undertaking between Capital Markets and Eliahu Insurance to invest in the Fund. Eliahu Insurance notified Capital Markets that its investment would be limited to up to 50% of the Fund's assets. Eliahu Insurance's outstanding investment as of December 31, 2014 approximated NIS 38 million. In the first quarter of 2015, Eliahu Insurance and Capital Markets filed applications for withdrawal of their entire investments in the Fund. During the reporting period Eliahu Insurance and Capital Markets withdrew their entire investment in the Hedge Fund, and its activity was terminated. In August 2015 Capital Markets' Board approved the Fund's liquidation. A report on the approval of the transaction was issued on May 8, 2014 (reference no.: 2014-01-059139).

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

f. Description of transactions with other related parties

Following is a description of transactions with other related parties classified separately as extraordinary transactions in accordance with Section 270(4) of the Companies Law and non-extraordinary transactions not in accordance with Section 270(4) to the Companies Law:

Extraordinary transactions with other related parties		
Party to the transaction with the Company	**Date of approval/ approving entity[1]**	**Nature and description of the transaction**
Union Bank	April 13, 2016 - approval of the Company's Audit Committee for the Company, Migdal Insurance and Migdal Insurance's subsidiaries November 19, 2016 - approval of the Company's Audit Committee for Migdal Capital Markets and its subsidiaries	Current banking activity - engagements with Union Bank and its related parties in the context of the current treasury and investment activities of the Group companies in the ordinary course of business and at arm's length. The approval stipulates various conditions for securing market terms that do not deviate from standard terms underlying similar transactions with other banks. The engagements were approved for the first time in January 2013 and will be reapproved every three years, if and to the extent required. The scope of payments made by the Group companies to Union Bank for brokerage and custodian services in 2016, 2015 and 2014 totaled about NIS 364 thousand, NIS 323 thousand and NIS 9 thousand, respectively.

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

g. Description of transactions with Generali

Following is a description of controlling shareholder transactions with Generali classified separately as extraordinary transactions in accordance with Section 270(4) of the Companies Law and non-extraordinary transactions not in accordance with Section 270(4) to the Companies Law:

Extraordinary transactions with Generali		
#	**Date of approval/ approving entity[1]**	**Nature and description of the transaction**
1	January 23, 2014 - approval of the Company's Board for engaging in reinsurance treaties for 2014	Reinsurance treaties - annual approval for signing all reinsurance treaties in the Company's various operating segments: life assurance, health insurance and general insurance (property and liability insurance) for 2014. These transactions were classified as extraordinary transactions due to their material cumulative scope. In the context of this approval, the Company and Migdal Insurance have set forth criteria and standards according to which Migdal Insurance will verify that all the reinsurance treaties entered into with the Generali Group based on the annual approval are at arm's length. These transactions were approved in accordance with Regulation 1(5) to the Reliefs Regulations, see additional information and the criteria for 2013 and 2014 see immediate reports of January 14, 2013 and January 23, 2014 (references no.: 2013-01-013173 and 2014-01-023344, respectively). The total reinsurance premiums paid to the Generali Group in 2014 in connection with the reinsurance coverage is comprised as follows: General insurance - about NIS 14 million, representing about 8% of total reinsurance premiums to all reinsurers; total exposure to earthquakes of about NIS 91 million in MPL terms, representing about 4% of total exposure to earthquakes for to reinsurers as of December 31, 2014. Life assurance and health insurance, including LTC - about NIS 11 million, representing about 4% of total reinsurance premiums to all reinsurers in connection with assurance and health insurance, including LTC, in 2014.
2	July 2, 2013 - approval of the Company's general meeting	Master approval - facultative reinsurance agreements with Generali for 2013-2014 - master approval for engaging in facultative reinsurance agreements in general insurance ("the master approval"). The master approval consists of parameters for examining market terms and materiality as the general and cumulative master conditions underlying all engagements. In addition, the master approval prescribes various conditions and limitations, including with respect to transferred premiums and the overall scope of facultative transactions each year; insurance amounts transferred to the Generali Group (exposure); and a single transaction in property and liability insurance policies. Each facultative agreement with the Generali Group which meets the general master conditions and the market and materiality conditions set forth in the master approval will be viewed as an ordinary transaction that does not require additional approval of the Audit Committee and Board. In any event that the general master conditions are met but due to circumstances the market terms or materiality tests in the master approval are not met, the transaction will be viewed as an extraordinary transaction and will be submitted for approval pursuant to Regulation 1(3) to the Reliefs Regulations. The master approval forms a continued approval for the master approval for 2010-2012 and replaces the monthly approvals that were needed for entering into facultative reinsurance agreements based on the master agreement for 2010-2012. The period of the master approval also represents the end of the period in which the Company will take steps with respect to transactions with Generali as transactions that require approvals as controlling shareholder transactions. See details in a report on summoning a general meeting of June 23, 2013 (reference no.: 2013-01-071268).

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

g. Description of transactions with Generali (Cont.)

Extraordinary transactions with Generali		
#	**Date of approval/ approving entity[1]**	**Nature and description of the transaction**
		The total amount of reinsurance premiums paid to the Generali Group in connection with reinsurance coverage in respect of facultative reinsurance agreements in general insurance that are included in the approval for 2014 approximates about NIS 102 million, representing about 45% of total reinsurance premiums in that year. The total insurance amount in respect of the exposure to earthquakes paid to the Generali Group in insurance coverage in respect of facultative agreements in general insurance as of December 31, 2014 is about NIS 34 billion, representing about 35% of total exposure to earthquakes in connection with reinsurance coverage in respect of facultative agreements in general insurance as of December 31, 2014.
3	November 25, 2013 - approval of the Company's Board	A transaction for the purchase of an old reinsurance portfolio of occupational disability from Generali and the sale of the portfolio to Swiss Re - an agreement according to which starting from January 1, 2013, Generali will cease being the reinsurer of occupational disability policies for Migdal Insurance from 1970 through 2012 ("the reinsurance treaty") and the parties will release each other of any liability and/or warranty towards the other party according to the reinsurance treaty. The mutual release also includes Generali waiving its rights in connection with all the reserves held by Migdal Insurance, including reserves held against Generali's obligations with respect to existing and outstanding claims (IBNRs). Simultaneously and on the same date, Migdal Insurance signed a reinsurance treaty with another reinsurer, Swiss Re, according to which Swiss Re will pay Migdal Insurance an amount of about NIS82 million for assuming all of Generali's obligations, as is, for the reinsurance portfolio. After the exit agreement with Generali and the alternative engagement with Swiss Re were adopted, Generali's insurance liability for the sold portfolio was fully assigned to Swiss Re back-to-back with no change in the reinsurance coverage terms. As a result of these transactions, Migdal Insurance derived a pre-tax gain of about NIS 52 million in the income statement for the year ended December 31, 2013. The transactions were approved pursuant to Regulations 1(2) and 1(5) to the Reliefs Regulations. See details in immediate reports of November 26, 2013 (references no.: 2013-01-203196 and 2013-01-203211).
4	November 29, 2011 - approval of the Company's Audit Committee	Limitation of liability exemption and indemnification obligation - the Audit Committee decided to limit the term of the Company's existing exemption and indemnification arrangements until November 30, 2020 (a period of another nine years from the date of making the decision by the Audit Committee and in total about 14 years from the date of the original decision regarding the exemption and indemnification arrangements), to the extent that the existing arrangements are not replaced with different arrangements, as well as the letters of exemption or indemnification granted from time to time by the Company pursuant to the existing exemption and indemnification arrangements regarding officers in the Company when the Company's controlling shareholder may be viewed as having a personal interest in granting those officers who serve in the Company or will serve in it from time to time letters of exemption and indemnification. See additional information in an immediate report of November 29, 2011 (reference no.: 2011-01-344328).
5	February 7, 2012 - approval of the Company's general meeting	Letters of indemnification to officers in the Company when Generali may be viewed as having a personal interest in granting those officers letters of indemnification - updating and approving the letters of indemnification granted to officers in the Company which the controlling shareholder in the Company may have a personal interest in granting. The relevant officers are two directors - Alessandro Corsi and Sergio Balbinot - and an officer - Livio Steindler. See additional information in a report of summoning a meeting for the approval of the letters of indemnification of February 2, 2012 (reference no.: 2012-01-032109) and Note 39(2)(d) below.

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

h. Affiliates

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

2. During June 2009, Migdal Real Estate Holdings Ltd. ("Real Estate Holdings"), a subsidiary of the Company, was issued capital notes by an affiliate, Ramat Aviv Mall Ltd. ("Ramat Aviv") totaling NIS 76 million par value for a period of at least five years. This amount is not linked to the CPI and does not bear interest. In June 2014, capital notes were repaid in the amount of about NIS 61 million, see 3.c) below. During 2015 the outstanding balance of the capital notes was repaid.

3. a) In November 2010, Ramat Aviv granted a loan to its shareholders according to their holding rate. Real Estate Holdings' share is about NIS 64 million. This amount is linked to the CPI and bears annual interest at a rate of 4.2%. The principal and interest will be repaid in five equal annual installments beginning from November 2011. On July 1, 2014, the entire outstanding loan was repaid, including interest and linkage, see c) below.

   b) In January 2013, Ramat Aviv provided additional loans to its shareholders according to their holding rate. Real Estate Holdings' share is about NIS 75 million. The loans bear annual interest at a rate of Prime + 0.6% and are intended to be repaid in a lump sum on June 30, 2014. Under the loan agreement there is an option for early repayment under certain conditions specified in the agreement.

   c) In the first quarter of 2014, part of the loan mentioned in b) above was repaid in the amount of about NIS 45 million. On July 1, 2014, the outstanding balance of the loans received from Ramat Aviv in 2010 and 2013, as detailed in a) and b) above, was repaid against the repayment of some of the capital notes held by Real Estate Holdings. The total loans repaid amounted to about NIS 59 million, including interest and linkage.

   d) In the second half of 2014, Ramat Aviv granted a loan to its shareholders according to their holding rate. Real Estate Holdings' share is about NIS 5 million. The loan is not linked to the CPI and bears fixed nominal interest of 3.23%. As of December 31, 2014, the outstanding balance of the loan amounted to about NIS 5.1 million. At the beginning of 2015 the outstanding balance of the loan was repaid.

   e) At the beginning of 2015 Ramat Aviv provided loans to its shareholders, according to their holding rate, the share of Real Estate Holdings being NIS 7.5 million. These loans are not linked to the CPI and bear fixed nominal interest of 3.05%. These loans were repaid by the end of 2015.

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

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

h. Affiliates (Cont.)

3. (Cont.)

g) In respect of the loans received from Ramat Aviv, finance expenses were recorded in 2015 and 2014 totaling about NIS 30 thousand and NIS 1.6 million, respectively.

h) In respect of the capital notes issued by Ramat Aviv and loans granted to Ramat Aviv, finance expenses were recorded in 2016, 2015 and 2014 totaling about NIS 211 thousand, NIS 240 thousand and NIS 2.2 million, respectively.

4. Migdal Insurance paid, Reshef Insurance Agency (2004) Ltd., an affiliate of the Company up to its sale at the end of the third quarter of 2015, commissions for marketing insurance products and pension products in 2015 and 2014 in the amount of about NIS 2,130 thousand and NIS 4,706 thousand, respectively.

5. Migdal Insurance paid, Orlan Insurance Agencies (1994) Ltd., an affiliate until the acquisition of full control in it at the end of 2016, commissions for marketing insurance products and pension products in 2016, 2015 and 2014 in the amount of about NIS 4,620 thousand, NIS 4,052 thousand and NIS 3,980 thousand, respectively.

6. In addition to the aforementioned in 4 and 5 above, Migdal Insurance pays commissions on the marketing of insurance products and pension products to other affiliates in immaterial amounts.

7. In July 2012, Migdal Holding and Management of Insurance Agencies Ltd. ("Migdal Agencies"), a subsidiary of the Company, provided Orlan Insurance Agencies (1994) Ltd., an affiliate until the acquisition of full control in it at the end of 2016, a loan of NIS 1 million, linked to the CPI and bearing annual interest of 3.5%. The loan was repaid in equal annual installments until January 2016. The balance of the loan as of December 31, 2015 is NIS 48 thousand. Finance income was recorded in respect of the loan in 2015 and 2014 in the amount of about NIS 5 thousand and NIS 17 thousand, respectively.

8. In August 2013, Migdal Insurance provided a loan to a foreign affiliate in the amount of about NIS 5,958 thousand to be repaid in a lump sum at the end of five years. In 2015 Migdal Insurance provided another two loans to the affiliate in the amount of about NIS 3,549 thousand. The investment in the affiliate was sold at the end of the second quarter of 2016. The balance of the loan as of December 31, 2015 is about NIS 9,802 thousand. Finance income was recorded in respect of these loans in 2016, 2015 and 2014 in the amount of about NIS 327 thousand, NIS 413 thousand and NIS 455 thousand, respectively.

9. In 2015 Migdal Insurance provided loans to foreign affiliates in an amount of about NIS 20,162 thousand to be repaid by the end of 2025. The balance of the loans as of December 31, 2016 is NIS 27,391 thousand and as of December 31, 2015 is NIS 20,430 thousand. Finance income was recorded in respect of these loans in 2016 and 2015 in the amount of about NIS 2,457 thousand and NIS 266 thousand, respectively. These loans are presented as unquoted debt assets under other financial assets.

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

h. Affiliates: (Cont.)

10. The Company owns various real estate properties. Some of these properties are used by the Company and some are leased to the Group companies, including companies that are not wholly owned by the Company, for immaterial fees.

i. Remuneration and benefits to key management personnel (including directors)

Some of the key management personnel of the Company are entitled to a salary, a bonus and non-cash benefits (such as a vehicle, medical insurance, etc.).Some of the key management personnel also participate in the Company's share option plan. For more information, see Note 33 above regarding share-based payments.

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

1. Benefits to key management personnel

	Year ended December 31,					
	2016		2015		2014	
	Number of persons	Amount	Number of persons	Amount	Number of persons	Amount
		NIS in thousands		NIS in thousands		NIS in thousands
Short-term benefits	**9**	**11,802**	10	15,176	12	(* 18,234
Post-employment benefits	**9**	**1,846**	9	1,416	12	4,150
Other long-term benefits	**8**	**3**	8	-	10	26
Share-based payment (see Note 33)	**4**	**(221)**	4	74	5	61
		13,430		16,666		22,471

*) For officers serving in Migdal Insurance, the amount of short-term benefits includes a provision for an annual bonus for 2014 to officers actually serving in Migdal Insurance in 2014.

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

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

2. Benefits to directors not employed by the Company

	Year ended December 31,					
	2016		2015		2014	
	Number of persons	Amount	Number of persons	Amount	Number of persons	Amount
		NIS in thousands		NIS in thousands		NIS in thousands
Management fees to directors who are not employed by or on behalf of the Company	**10**	**5,211**	10	4,451	9	5,775
Share-based payment (see Note 33)		**-**		-		-
		5,211		4,451		5,775

3. The remuneration policy for the Company's officers

a) On November 21, 2016 and November 24, 2016 the boards of the institutional entities approved an institutional remuneration policy for 2017 up to and including 2019 (“the new institutional remuneration policy”), in keeping with the Commissioner of the Capital Market's circular of April 10, 2014 ("the original Commissioner's circular"), the Commissioner's circular of October 7, 2015 on the remuneration policy in institutional entities - amendment ("the revised remuneration policy circular"; the original Commissioner's circular and the revised remuneration policy circular are referred to together in this section as "the Commissioner's circular") and the Law for the Remuneration of Officers in Financial Corporations (Special Approval and Limitation of Expenses due to Irregular Remuneration), 2016 (“the remuneration law”).
The institutional remuneration policy replaced the remuneration policy for the years 2014 through 2016 ("the previous 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.

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

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

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

a) (Cont.)

According to the Commissioner's circular, the governing bodies must examine the policy on an annual basis and such examination and update of the previous institutional remuneration policy were carried out in the institutional entities in December 2015 and February 2016. See details of the institutional remuneration policy in an immediate report of June 30, 2014 (reference no.: 2014-01-103386).

b) On December 30, 2016 the Company's general meeting approved the remuneration policy for 2017-2019 ("the new remuneration policy" which, inter alia, was adjusted according to the changes in regulation that apply to the Company and the institutional entities it controls (including provisions of the remuneration law) and according to the issues that arose in the course of applying the previous remuneration policy. The new remuneration policy replaced the remuneration policy for 2014 through 2016 ("the previous remuneration policy"). The principles described above apply also to the new remuneration policy. For further details regarding the new remuneration policy and change in the new remuneration policy compared to the previous remuneration policy, see the Company immediate report of December 22, 2016 regarding the convening of a general meeting (complementary report) (reference no.: 2016-01-142339) and the Company's immediate report of January 1, 2017 regarding the results of the meeting (reference no.: 2017-01-000333).
The remuneration policy applies to all officers in the Company, while all the Company's officers also serve as officers in the institutional entities. The Company's remuneration policy was adapted to the institutional remuneration policy. The previous remuneration policy was approved by the Company's general meeting on October 27, 2014. See details of the Company's previous remuneration policy in the Company's 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).

c) The main arrangements prescribed in the institutional entities' remuneration policy and in the Company's remuneration policy for 2014 up to and including 2016 with respect to officers are as follows:

The ratio of fixed salary components to variable salary components: limitations have been placed on the ratio of the variable salary component out of the total remuneration and the measurement of this ratio with respect to the other variable salary components to a maximum rate of 50% for the, 40% for dual position officers and non-control related officers and 30% for control related officers. In addition, according to the remuneration policy, the maximum rate for officers other than the CEO may be increased provided that it does not exceed 66.6% of the annual remuneration, as specified in the Commissioner's circular and in the remuneration policy.

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

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

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

c) The main arrangements prescribed in the institutional entities' remuneration policy and in the Company's remuneration policy for 2014 up to and including 2016 with respect to officers are as follows: (Cont.)

Fixed component (limitations on monthly salary, related benefits, linkage, perseverance etc.): the monthly salary limit was set at NIS 170 thousand for the CEO, NIS 100 thousand for senior executives and NIS 70 thousand for other officers (subject to possible modifications, as explained below). The remuneration policy provides for a perseverance bonus of up to six (6) times the monthly salary under special circumstances and certain limitations as well as linkage to the CPI, salary updates, related benefits, current salary, etc. In light of the Commissioner's position that was received by the Company, implementation of the provision regarding the grant of a perseverance bonus was suspended, and the bonus was not granted to new key personnel. For further details on the Commissioner's position as aforementioned, see section j(4)(b) of this note.

Multiplication ratio for the Chairman of the Board of institutional entities: In accordance with revised remuneration policy circular, the remuneration of the Chairman of the Board is to be determined relative to the remuneration of an external director in an institutional entity (a theoretical remuneration calculated based on the minimum number of meetings of the Board and its committees required by law). In this framework, the policy set a maximum ratio by which the remuneration of an external director is to be multiplied for the purpose of determining the remuneration of a chairman in the institutional entities (ratio of up to 15 at Migdal Insurance and up to 10 at Makefet and at Yozma).

Variable component/annual bonus:

1) Excluding the transition period as defined below, the annual bonus will be measured on the basis of three years in such a manner that the last year in the measurement will account for 50%, the year before that 30% and the year before that 20%. For a period of three years from the date of adoption of the remuneration policy for 2014-2016 ("the transition period") and excluding with respect to investment entities for which the past measurement period was also three years, the bonus for 2014 was measured on the basis of 2014 only and the 2015 bonus, if granted, will be measured on the basis of 2014 and 2015 at 30%/70%.

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.

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

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

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

c) The main arrangements prescribed in the institutional entities' remuneration policy and in the Company's remuneration policy for 2014 up to and including 2016 with respect to officers are as follows: (Cont.)

3) Minimum conditions were prescribed for the receipt of the annual bonus that consist of a 7% return on capital, compliance with a safety cushion established by the board of Migdal Insurance and compliance with a liquidity ratio and lateral reduction or cancellation criteria that are related to the rating of the debentures of the institutional entities in the Group.

4) The variable component of the salary of control officers (risk management, control, compliance and enforcement, actuary, internal audit) will not be affected by the performances of the entities which they audit or control. Moreover, the variable component of the salary of dual officers (control officers who also serve in administrative, professional, organizational or other positions (HQ, legal counseling, finance) and have been defined as such prior to the adoption of the remuneration policy) will not be directly affected by the performances of the entities which they audit or control.

5) The remuneration policy establishes the Company's targets as follows: (1) comprehensive income before taxes in general insurance, (2) comprehensive income before taxes not in general insurance, and (3) NBV (new business value) at the same weight as that accorded to each of these targets in the original policy of 20%, 40% and 40%, respectively. The Company's targets were determined as relative/comparative targets which measure the Company's relative share in the results of said parameters out of the results of the five largest insurance groups in Israel in each of the years 2014 through 2016. These relative/comparative targets substantiate dynamic targets through predefined business parameters while expressing the results of the other companies and mitigating the effect of exogenous factors in the national insurance market which might not have been observed when the work plans were formulated.

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.)

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

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

c) The main arrangements prescribed in the institutional entities' remuneration policy and in the Company's remuneration policy for 2014 up to and including 2016 with respect to officers are as follows: (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 ("zeroing"); a performance score of 100% ("the normative target") for the relevant target and component; and a maximum performance score of 140% for the relevant target and relevant specific components ("cutoff"). With respect to all of the Company's targets, the performance range between the minimum score and the maximum score is 25% above or below the normative target. Accordingly, the actual performance score regarding the Company's targets component between the minimum score and the 100% score varies at a 1:1.2 ratio (30%/25%) and between the 100% score and the maximum score at a 1:1.6 ratio (40%/25%). The actual performance score between the minimum score and the maximum score regarding the personal/divisional targets component and the personal evaluation component ranges between 40% above the normative target or 30% below the normative target. Accordingly, the actual performance score in the personal/divisional targets component and the personal evaluation component varies at a 1:1 ratio.

In addition to the relative targets measured as described above, the Company's targets component also prescribes absolute targets according to which meeting a capital return target of 13% or above earns an overall performance score of at least 90 in the Company's targets component (even if the overall performance score in the relative targets based on the weighted ratios of the other parameters is lower) and meeting a capital return target of 17% earns a maximum performance score of 140%.

In cases where the final score does not entitle to a bonus, as set out above, but the components of targets of the Company and personal evaluation entitling to a bonus have been met, and the Company has decided to distribute a bonus to all its employees, it will be possible to pay, on the CEO's recommendation and with the approval of the governing institutions, a bonus for the components of targets of the Company and personal evaluation only, where called for by and in accordance with the circumstances, as determined by the governing institutions.

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

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

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

c) The main arrangements prescribed in the institutional entities' remuneration policy and in the Company's remuneration policy for 2014 up to and including 2016 with respect to officers are as follows: (Cont.)

8) The performance score of the targets in the component of targets of the Company and the component of personal evaluation is weighted according to their relative weight in that component and represents the weighted score for that component. The score obtained as above in all the bonus components is weighted based on the relative weight of each component and represents the overall performance score ("the overall performance score"). Once the overall performance score is obtained, it is multiplied by the normative target and represents the "calculated bonus amount". An overall performance score of 100% earns a calculated bonus amount that is identical to the normative bonus. An overall performance score that is lower than 70% earns a calculated bonus amount of zero. An overall performance score of 140% earns a calculated bonus amount that is at a rate of 140% of the normative bonus but in any event the maximum calculated bonus amount (even when the overall performance score exceeds 140%) will not be higher than 140% of the normative bonus ("the maximum bonus").

Based on the aforementioned, a normative bonus maximum was prescribed in the amount of NIS 714 thousand for senior executives, other than the CEO, and of NIS 321 thousand for other officers. Accordingly, the maximum calculated bonus amount for an overall performance score of 140% in the Company's targets component, the personal/divisional targets component (if any) and the personal evaluation component is NIS 1,000 thousand for a senior executive and NIS 450 thousand for other officers.

9) The grant of a variable component is not included in the employment agreement but rather in the remuneration policy, subject to the advance approval of the eligibility for a normative bonus by the governing bodies. In addition, even after approval is granted for the eligibility for the normative bonus, each grant awarded in accordance with the policy is subject to obtaining the approval of the governing bodies and the calculated bonus amount constitutes the maximum bonus that may be awarded by the governing bodies.

10) Furthermore, a signing bonus may be granted in the amount of up to three (3) times the monthly salary as well as a special bonus of up to three (3) times the monthly salary per officer (excluding the CEO or Chairman of the Board).

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

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

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

c) The main arrangements prescribed in the institutional entities' remuneration policy and in the Company's remuneration policy for 2014 up to and including 2016 with respect to officers are as follows: (Cont.)

Provisions regarding the termination of employment - maximum advance notice periods of up to six months were determined for the CEO and the Chairman of the Board and up to three months for the other officers (regarding officers other than the CEO or the Chairman of the Board, the period of advance notice can be extended by up to three (3) months, with the approval of the competent function as determined in the policy). The policy allows granting an adjustment bonus of up to nine (9) times the monthly salary whereby half of this amount will be deferred for a period of 42 calendar months from the date of termination of employment for the CEO and the Chairman of the Board and 36 months for the other officers. The deferred portion of the adjustment bonus is performance contingent and in some cases event in the absence of alternative employment on the date of payment of the deferred bonus.

Any deviation of up to 10% of the amounts specified in the remuneration policy will not constitute a violation of the policy.

d) The main changes in the new institutional remuneration policy and in the new remuneration policy with respect to officers (compared to the previous institutional remuneration policy and the Company's previous remuneration policy) are as follows:

1) A ceiling was set for the maximum forecasted annual cost of the Chairman of the Board: it was provided that the Chairman of the Board, who serves also as the chairman of the board of Migdal Insurance, would receive only a fixed component and that his remuneration would not exceed the lower of the following amounts:

(a) Remuneration reflecting, according to generally accepted accounting principles, together with related and other benefits, a multiplication ratio of 13 relative to the remuneration of an external director in an institutional entity (a theoretical remuneration calculated based on the minimum number of meetings of the Board and its committees required by law)

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

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

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

d) The main changes in the new institutional remuneration policy and in the new remuneration policy with respect to officers (compared to the previous institutional remuneration policy and the Company's previous remuneration policy) are as follows: (Cont.)

1) (Cont.)

(b) The maximum annual forecasted cost of the remuneration shall not exceed the higher of NIS 2.5 million, linked to the CPI of March 2016 (excluding severance pay and retirement benefits by law) or the ceiling of the maximum remuneration permitted by law (as of now, insofar as the maximum annual forecasted cost of the remuneration exceeds NIS 2.5 million, it is forbidden to pay remuneration that its maximum annual forecasted cost, according to the cost of a full time position, exceeds more than 35 times the maximum annual forecasted cost of the lowest compensation paid by the company, for a full time position, directly or indirectly, including to an employee of a manpower agency that the company employs, and an employee of a service contractor that is employed in providing services to the company, in the year prior to the engagement date);

(c) 90% of the remuneration that will be paid to the CEO of Migdal Insurance.

2) A ceiling was set for the maximum annual forecasted cost of remuneration of the Company's CEO (instead of a monthly salary ceiling): The cost of the Company's CEO shall not exceed the higher of NIS 2.5 million, linked to the CPI of March 2016 (excluding severance pay and retirement benefits by law) or the ceiling of the maximum remuneration permitted by law.

3) A ceiling was set for the maximum annual forecasted cost of remuneration of an officer who is not the CEO or chairman of the board: the ceiling for the officer shall not exceed NIS 2.5 million, linked to the CPI of March 2016 (including severance pay and retirement benefits by law).

4) Special cases were provided in which it is permitted to pay a monthly salary higher than the monthly amount provided in the policy with the addition of 10% (i.e., more than NIS 110 thousand and more than NIS 77 thousand), without this being considered a deviation from the remuneration policy, subject to specific approval by the Audit Committee and Board of Directors, for the purpose of ensuring the ability of the Migdal Holdings Group to recruit and retain quality and experienced executives.

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

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

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

d) The main changes in the new institutional remuneration policy and in the new remuneration policy with respect to officers (compared to the previous institutional remuneration policy and the Company’s previous remuneration policy) are as follows: (Cont.)

5) The possibility of paying a perseverance component to an officer was cancelled.

6) The possibility was added of granting to an officer a guaranteed annual bonus that does not qualify for social and other benefits, in the amount of no more than 2 (two) times the fixed monthly salary, subject to specific advance approval and for a period no longer than three years. In order to prevent double bonuses, should the annual bonus due to the officer be higher than the amount of the personal guaranteed bonus, the amount of the annual bonus will be the amount of the difference between the personal guaranteed bonus and the amount of the annual bonus.

7) It was provided that the normative bonus defined for each officer (for a performance score of 100%) shall not exceed six monthly salaries instead of a normative bonus (for a performance score of 100%) that does not exceed NIS 714 thousand per year for a senior executive and NIS 312 thousand per year for other executives.

8) Changes were made in the mechanism for determining compliance with the Company's targets component, which is a part of the variable component.

9) Instead of a minimum condition for paying the annual bonus that the return on capital be at least 7%, it was provided that a relative part of the annual bonus would be paid for a return on capital of 4%-7%, on a linear basis, i.e. 4/7 of the annual bonus will be paid for a return on capital of 4%, 5/7 of the annual bonus will be paid for a return on capital of 5% and so forth.

10) A mitigation was provided in the minimum conditions for paying the deferred components of the variable component and adjustment bonus, including the payment of any deferred amounts arising from variable component amounts of prior years. It was also provided that in the event of all or part of the minimum conditions for paying a deferred amount of the variable component or adjustment bonus not being met, the entitlement to receive the deferred amounts will not be cancelled but will be deferred to the next quarter and that the payments will be contingent on all the minimum conditions being met. Such payments may be deferred from quarter to quarter, but no payment of a deferred amount may be deferred for more than three consecutive calendar years.

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

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

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

d) The main changes in the new institutional remuneration policy and in the new remuneration policy with respect to officers (compared to the previous institutional remuneration policy and the Company's previous remuneration policy) are as follows: (Cont.)

11) Adjustments were made in the performance-weighting mechanism of the bonus and in the over-performance ceiling.

12) Provisions were added with respect to the payment of bonuses in special cases including a discretionary bonus and an excellence bonus.

13) It was provided that the variable component for a calendar year would not exceed ten times the fixed monthly salary.

14) The return arrangements of the variable component were updated according to the amendment in the remuneration circular.

15) The advance notice period for officers was extended from three to six months (other than the Chairman of the Board and the CEO for whom the advance notice period was six months also in the previous policy).

16) The possibility of providing a release letter to officers was added by which the release letters provided according to the new remuneration policy would not apply to a decision or transaction in which the controlling shareholder or any officer in the Company (also an officer who is not the officer for whom the release letter is being granted) has a personal interest.

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

a) Mr. Shlomo Eliahu served as a director in the Company and in Migdal Insurance from October 29, 2012 and as a Chairman of the Company's Board from October 1, 2013 through February 18, 2015. On February 24, 2014, Mr. Shlomo Eliahu reported to the Board of Directors of the Company and to the Board of Migdal Insurance that he waives any salary in connection with his service as Chairman of the Board and as a director of Migdal Insurance and will not demand remuneration for these positions. 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 Company's Chairman of the Board, Mr. Shlomo Eliahu, was 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. On this matter see the Company's immediate report of February 24, 2014 (reference no.: 2014-01-046135).

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

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

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

b) Mr. Yohanan Danino was appointed as a director in the Company on November 24, 2015 and as Chairman of the Board on December 16, 2015. On December 30, 2016 The Company's general meeting approved a change in the terms of service of Mr. Yohanan Danino effective as from October 12, 2016. The terms of service of Mr. Yohanan Danino, as were in effect from November 24, 2015 until the date of the aforesaid change, were approved by the Company's general meeting on January 21, 2016. For details see the Company's immediate report of December 29, 2015, reference no. 2015-01-192060 and of January 21, 2016, reference no. 2016-01-015373.

Presented hereunder is a description of the terms of service of Mr. Yohanan Danino as they were until October 12, 2016: Mr. Yohanan Danino provided the Company services through a company he fully controls, at the capacity of a 90% position, according to an agreement from November 2, 2015 for an indefinite period of time. Each of the parties may terminate the agreement at any time and for any reason by providing an advance notice of 6 months. The agreement includes provisions regarding non-competition for a period of 6 months and provisions for terminating the agreement without an advance notice upon the occurrence of events and circumstances defined in the agreement as justifying termination without an advance notice.

The monthly management fees of Mr. Yohanan Danino amount to NIS 187 thousand, which will be linked to the Consumer Price Index and adjusted each year. He is entitled to reimbursement of expenses and to a company car (group 7) ((100% grossed up). In the service agreement it was agreed that in any case that an amount due according to the agreement cannot be paid at the time specified in the agreement because of a regulatory prohibition or because of the remuneration policy, only the part that its payment is not prohibited as aforesaid will be paid and the rest of the payment will be deferred to such time as there is no prohibition. As part of the terms of service and in exchange for his commitment to provide services for at least 24 months according to the agreement ("the perseverance period"), Mr. Yohanan Danino was approved a perseverance bonus that is contingent upon completing the perseverance period, in an amount equal to six times the management fees that were approved for him (a total amount of NIS 1,122,000 ("the perseverance bonus")).

After the terms of service were approved, the Commissioner of the Capital Market ("the Commissioner") requested from Migdal to not pay the perseverance bonus for the reason that it is a variable component and according to the legislative arrangement directors are entitled to receive only a fixed component. The Company, by means of the chairman of the audit committee, held talks with the Commissioner regarding payment of the perseverance bonus. Further to these talks, the chairman of the audit committed asked the Commissioner whether Mr. Yohanan Danino can be paid the portion of the perseverance bonus for which an accounting provision was made up to the date of effect of the remuneration law (in the amount of NIS 540 thousand). As at the date of the financial statements, no reply has as yet been received from the Commissioner.

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

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

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

b) (Cont.)

Insofar as there is no prohibition or objection to the payment, the Company will pay Mr. Yohanan Danino the relative portion as decided. Since the Company is examining the issue, the amount recognized as salary in the financial statements, includes for reasons of prudence, the amount of the perseverance bonus. The total amount of salary, as recognized in the financial statements as at December 31, 2016, less the amount of the aforesaid perseverance bonus, is NIS 2,561 thousand.

On October 12, 2016 (“the effective date”) the remuneration law came into effect. In view of the fact that until that date no remuneration higher than the remuneration that requires approval according to the remuneration law had been brought to the approval of the governing bodies of the Company and Migdal Insurance, on October 10, 2016 Mr. Yohanan Danino requested from the Company and Migdal Insurance that temporarily from the effective date until the date a decision is made by the governing bodies, the remuneration paid to him be reduced to the maximum amount prescribed in the remuneration law (an amount of NIS 2.5 million adjusted for a position of 90% - NIS 2.25 million). See immediate report of October 10, 2016 reference no. 2016-01-062523. In view of the general meeting’s approval to the change in Mr. Yohanan Danino’s terms of service as described hereunder, and according to the decision it made, Mr. Yohanan Danino was paid the difference between the amount that was paid to him in the interim period from the effective date to December 31, 2016 (an amount of NIS 72 thousand).

The overall remuneration of Mr. Yohanan Danino in 2016 amounted to NIS 2,999 thousand (the employer’s cost before the effect of payroll tax).

As aforesaid, on December 30, 2016 the Company’s general meeting approved a change in the terms of service of Mr. Yohanan Danino effective as from October 12, 2016, as described hereunder: Mr. Yohanan Danino will provide the Company services at a full time position (100%). The overall remuneration of Mr. Yohanan Danino will amount to NIS 2.578 million (i.e., according to the new remuneration policy, 90% of the cost of remuneration of the CEO of Migdal Insurance which is NIS 2.865 million). The monthly management fees, after Mr. Yohanan Danino converted his right to receive a car into a reimbursement of maintenance and use expenses, will amount to NIS 214.8 thousand. The Company will bear the current annual tax cost deriving from the “disallowed expense” according to the remuneration law in the amount of NIS 60 thousand.

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

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

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

b) (Cont.)

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

According to the aforesaid, a new service agreement was signed between Mr. Yohana Danino and the Company. The parties plan to change the service agreement such that Mr. Yohanan Danino will provide the services to the Company and Migdal Holdings as a licensed dealer and not through a company fully controlled by him. This change has no effect on the terms of service of Mr. Yohanan Danino and/or their cost for the Company, as described above.

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

On December 30, 2016 the Company's general meeting approved a change in the terms of service of Mr. Ofer Eliahu effective as from October 12, 2016. The terms of service of Mr. Ofer Eliahu, as were in effect from January 1, 2014 until the date of the aforesaid change, were approved by the Company's general meeting on April 13, 2014. For details see the Company's immediate reports of February 25, 2014, reference nos. 2014-01-046174 and 2014-01-046171, of March 31, 2014 reference no. 2014-01-032985 and of April 13, 2014 reference no. 2014-01-046119.

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

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

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

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

c) (Cont.)

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

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

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

On October 12, 2016 (“the effective date”) the remuneration law came into effect. In view of the fact that until that date no remuneration higher than the remuneration that requires approval according to the remuneration law had been brought to the approval of the governing bodies of the Company and Migdal Insurance, on October 10, 2016 Mr. Ofer Eliahu requested from Migdal Insurance that temporarily from the effective date until the date a decision is made by the governing bodies, the remuneration paid to him be reduced to the maximum amount prescribed in the remuneration law (an amount of NIS 2.67 million which reflects NIS 2.5 million plus contributions for severance pay). See immediate report of October 10, 2016 reference no. 2016-01-062523. In view of the general meeting’s approval to the change in Mr. Ofer Eliahu’s terms of service as described hereunder, Mr. Ofer Eliahu was paid the difference between the amount that was paid to him in the interim period from the effective date to December 31, 2016 (an amount of NIS 43 thousand).

The overall remuneration of Mr. Ofer Eliahu in 2016 amounted to NIS 2,679 thousand (the employer’s cost before the effect of payroll tax).

As aforesaid, on December 30, 2016 the Company’s general meeting approved a change in the terms of service of Mr. Ofer Eliahu effective as from October 12, 2016, as described hereunder. According to the general meeting’s decision, the maximum annual cost of Mr. Ofer Eliahu’s remuneration shall not exceed NIS 2.865 million linked once a year to the Consumer Price Index (“the agreed ceiling”).

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

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

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

c) (Cont.)

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

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

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

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

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

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

d) (Cont.)

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

Presented hereunder is a description of the terms of service of Mr. Eran Czerninski as they were until November 1, 2016: Effective from March 25, 2015, Mr. Czerninski's monthly salary is NIS 100,000, linked to the CPI with the linkage updated once a year. In addition, Mr. Czerninski's employment terms include social and related benefits, occupational disability insurance as part of a group insurance policy, vacation and recreation days, reimbursement of subsistence expenses, a vehicle (90% grossed-up), newspapers, medical insurance, etc.

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

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

The overall remuneration to Mr. Eran Czerninski in 2016 stood at NIS 2,095 thousand (employer's cost before payroll tax).

Under the 2010 remuneration plan, Mr. Czerninski was allocated 69,616 shares in accordance with the terms of the 2010 plan.

Mr. Eran Czerninski was approved a normative bonus in the amount of NIS 714,000 that was contingent on targets, but according to the financial statements as at December 31, 2016 no provision was included for those bonuses because of non-compliance with the conditions for being entitled to the bonus as at the date of the financial statements.

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

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

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

d) (Cont.)

As aforesaid, on December 30, 2016 the Company's general meeting approved a change in the terms of service of Mr. Eran Czerninski effective as from November 1, 2016, as described hereunder. According to the change, as from November 1, 2016 the monthly salary of Mr. Eran Czerninski will be NIS 125 thousand, linked to the Consumer Price Index (linkage adjustment once a year). Mr. Eran Czerninski was approved a normative bonus that depends on targets, according to the new remuneration policy, in the amount of six monthly salaries per year. In addition, Mr. Eran Czerninski was approved a personal annual guaranteed bonus for 2017 in the amount of two salaries which, according to the provisions of the new remuneration policy, will be deducted from the annual bonus, should there be one. A provision for an advanced study fund up to the amount exempt from tax was also included. It was provided that the maximum annual cost of Mr. Eran Czerninski's remuneration would not exceed NIS 2.5 million linked to the CPI of October 2016 (including severance pay and retirement benefits) ("agreed ceiling") and therefore, before the payment of any variable amount to Mr. Eran Czerninski, an examination will be made to check whether there may be a deviation from the agreed ceiling, and if yes any payment of a variable amount will be reduced in order to meet the agreed ceiling.

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

e) Officers' liability insurance policy, including for officers who are the controlling shareholder or his relatives – The Group's directors and officers, including the controlling shareholder and his relatives who serve as officers in the Group, the Company's CEO and officers who serve in Migdal Insurance, in MIgdal Capital Markets and in companies controlled by Migdal Insurance or Migdal Capital Markets, are insured under the Group's D&O liability insurance policies for a period of 17 months starting from July 1, 2016 until November 30, 2017. The new policy's liability limit is US$ 120 million per event and for the period with an annual premium that does not exceed US$ 425,000. For details see the Company's immediate report of June 28, 2016, reference no. 2016-01-068815.

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

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

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

e) (Cont.)

According to the previous remuneration policy, signing D&O liability insurance policies by the Company and by the Migdal Holdings Group for the directors and officers, including the controlling shareholder and his relatives who serve as officers in the Group, will not exceed an insurance limit of US$ 120 million. The approval of such insurance coverage states that the overall insurance amount which directors who serve and/or have served as directors both in the Capital Markets Group and in the Company and/or its subsidiaries (excluding the Capital Markets Group) will be entitled to receive on an aggregate basis in respect of all said policies will not exceed US$ 120 million. This insurance coverage was approved in accordance with Regulation 1b to the Reliefs Regulations. See more details of the Company's and the Capital Markets Group's approval for entering into the previous insurance policies in immediate reports of January 27, 2015 and February 24, 2015 (references no.: 2015-01-020140 and 2015-01-037816, respectively).

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

f) See details of letters of waiver and letters of indemnification granted to directors and other officers in the Company by the Company and interested parties therein (Generali, Bank Leumi, Leumi Real Holdings Ltd. (formerly: S.A.L. Holding Company Ltd.) owned by Bank Leumi) in Note 39.2.d.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent Liabilities

a. Legal and other proceedings – general

Paragraphs (b) to (i) (inclusive) below provide details regarding material legal and other material proceedings against the Company and/or its consolidated subsidiaries which are not in the ordinary course of their business. Paragraph (b) below details pending motions to certify claims as class actions, including claims that were certified to be filed as class actions ("class actions"); paragraph (c) below details class actions that ended during the reporting period and up to the report publication date; paragraph (d) below details class actions that ended before the reporting period and in which a subsequent development occurred; paragraph (e) below details class action proceedings that were transferred to Migdal Insurance as part of the run off general insurance portfolio agreement, paragraph (f) below details other material legal proceedings and actions; paragraph (h) below details additional legal and other proceedings, Insurance Commissioner directives and events and developments in respect of which the Company and/or its consolidated subsidiaries are subject to exposure, and paragraph (i) below details legal proceedings against former consolidated subsidiaries in respect of which the Company and/or its consolidated subsidiaries have a contingent liability (such as an indemnification obligation, etc.).

Recent years have seen significant growth in the number of class actions filed against the Company and/or its consolidated subsidiaries, as part of the general increase in motions to certify claims as class actions in general, and as part of the increase in motions of this kind against companies operating in the lines of business of the consolidated subsidiaries. This trend has significantly heightened the potential exposure of the Company and/or its consolidated subsidiaries to losses in the event of the acceptance of a class action against them. The class actions are in different stages of adjudication, from the stage of hearing the class action certification motion through to the stage of certification and adjudication of the class action. Some of the class actions are under appeal.

In respect of legal proceedings or class action certification motions in which, in the Company's assessment, based among others on legal opinions it received, it is more likely than not (i.e. a probability of more than 50%) that the plaintiff's claims will be accepted and the case decided in his favor (or in the case of a class action certification motion – that the court will certify a class action), provisions were included in the statements of claim to cover the exposure estimated by the Company and/or its consolidated subsidiaries.

In respect of class action certification motions in which a class action was certified by the court, provisions were included in the financial statements to cover the exposure estimated by the Company and/or its consolidated subsidiaries, where, in management's assessment, based among others on legal opinions it received, it is more likely than not that the plaintiff's claims will be accepted in the action itself. Where a class action was certified by the court and the plaintiff submitted an appeal to expand the judgment that was issued, provisions were included in the financial statements to cover the exposure estimated by the Company and/or its consolidated subsidiaries due to the appeal, where, in management's assessment, based among others on legal opinions it received, it is more likely than not that the plaintiff's arguments in the appeal will be accepted.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent Liabilities (Cont.)

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

In the event of the parties' willingness to settle in any proceeding, a provision was included in the amount of the proposed settlement, even where, based on the foregoing, no provision would have been included in the financial statements if not for the settlement or the willingness to settle. In cases where, based on the foregoing, a provision must be made in the financial statements and the parties are willing to settle, a provision was included in the financial statements to cover the higher of the exposure estimated by the Company and/or its consolidated subsidiaries or the amount of the proposed settlement. In cases where a settlement was approved, a provision was included in the financial statements in the amount of the cost of the settlement estimated by the Company and/or its consolidated subsidiaries.

In respect of legal proceedings (or certification motions) to which, in management's assessment, based among others on legal opinions it received, the foregoing does not apply, as well as legal proceedings (or class action certification motions) which are in the preliminary stages and the chances of the claim cannot be assessed, no provision was included in the financial statements.

It is not possible at this preliminary stage to assess the chances of the class action certification motions listed in section 26 to 30 (inclusive) below, and therefore no provision was included in the financial statements for these motions.

In management's assessment, based among others on legal opinions it received, adequate provisions were included in the financial statements, where necessary, to cover the exposure estimated by the Company and/or its consolidated subsidiaries or in respect of the amount the Company and/or its companies are prepared to pay for a settlement, as the case may be.

b. Class actions – pending class action certification motions and certified class actions

Following are details of class action certification motions and certified class actions that are pending against the Company and/or its consolidated subsidiaries, in chronological order according to date of filing:

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
1.	9/1999 Central District Court	Life insurance policyholder v. Migdal Insurance	Use of an outdated mortality table to determine the life insurance premium, which is not adjusted to life expectancy. The remedies sought include a declaration that the applicant is entitled to cancel the insurance agreements and/or to receive remedies due to breach of contract.	Anyone who purchased a life insurance policy from the effective date of the law – August 5, 1997	On November 10, 2011, the District Court ruled as follows: (a) the case is subject to limitation and accordingly the class was narrowed to anyone who purchased policies that include a risk component from August 1997 until the date of updating of the mortality tables in June 2001 only; (b) the grounds of the claim were limited to deception and exploitation. On February 7, 2016 the District Court issued a decision dismissing the class action certification motion. On June 26, 2016 an appeal on the ruling was filed by the plaintiff with the Supreme Court. On August 2, 2016 Migdal Insurance filed a motion to strike the appeal.	-
2.	1/2008 Tel-Aviv District Court	Life insurance policyholder v. Migdal Insurance and other insurance companies	Illegal collection of a premium component known as the "sub-annual" component with respect to certain components and/or coverage in the policy and in an amount that exceeds the permitted amount. The remedies sought include an order for reimbursement of the amounts collected unlawfully from the class members as a sub-annual component and a mandatory injunction ordering the defendants to change their method of operation.	Anyone who was charged for a "sub-annual" component in non-permissible circumstances and amounts.	On July 29, 2016 the Court issued a ruling that certified the class action with respect to anyone who was charged a "sub-annual" component in respect of the savings component in endowment type policies or in respect of the policy factor component or in respect of policies that insure health, disability, dread diseases, loss of working capacity and long-term care. On December 15, 2016 Migdal Insurance and the other defendant companies filed an application for leave to appeal the aforesaid ruling to the Supreme Court. A hearing on the application for leave to appeal has been scheduled. On March 16, 2016 Migdal Insurance and the other defendant companies filed with the Supreme Court a motion to stay the proceedings in the District Court with respect to the substance of the claim.	NIS 2,300 million, of which NIS 827 million attributed to Migdal Insurance

[1] The date of filing of the actions and the motions is the original date of filing and the court is the original court of filing.
[2] Laws are cited by their full name but without the year of their enactment.
[3] The class the plaintiff is seeking to represent, serving as the basis for the estimate of the amount claimed in the statement of claim.

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
3.	4/2008 Jerusalem Regional Labor Court	Female life insurance policyholders v. Migdal Insurance and other insurance companies	Payment of a monthly annuity to women that is lower than the one paid to men with the same profile, on their reaching the retirement age, on the grounds that women's life expectancy is longer, although the premium collected from women for death risk insurance is identical to that collected from men and despite the fact that women's mortality rates are lower. The remedies sought include declaratory relief by the court stating that this discrimination is wrong and that female policyholders will be entitled to choose between the following alternatives: (a) equalizing the annuity factors to those applied to men, or (b) reducing the risk amounts collected and putting them at the risk amounts appropriate for female policyholders.	All women who purchased executive insurance policies that distinguish between men and women in the payment of annuities without distinguishing between the risk premiums.	On August 17, 2014, the Regional Labor Court issued a ruling that certified the claim as a class action. On December 2, 2014 Migdal Insurance and the other defendant companies filed with the National Labor Court an application for leave to appeal the ruling, which was accepted. On December 22, 2016 the Attorney General filed his position on the matter that supports the arguments of Migdal Insurance and the other defendants. A hearing on the matter by a panel has been scheduled.	"Hundreds of millions of NIS"

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

1. Contingent Liabilities (Cont.)

   b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
4.	4/2010 Central District Court	Life insurance policyholders v. Migdal Insurance and other insurance companies	Failure to refund premiums after discontinuance of insurance policies during the month, in cases where the premium is collected in advance at the beginning of the month, and/or the refund of premiums in nominal values (without interest and linkage differences). The remedies sought include reimbursement of the excess premiums unlawfully collected from policyholders and a mandatory injunction ordering the respondents to change their method of operation and refund premiums to policyholders from the day of creation of the right to a refund together with interest and linkage differences.	Any policyholder of the respondents (excluding holders of elementary insurance policies) whose policy was discontinued, whether due to cancellation or upon the occurrence of an insured event.	On June 23, 2015 the Court issued a ruling that certified the claim as a class action, with respect to the remedy of reimbursement of premiums collected in respect of the period after the insurance coverage was discontinued in insurance policies (excluding elementary insurance policies) that include a provision stating that the cancellation will take effect immediately; and with respect to cases in which the insurance policy was cancelled due to the occurrence of the insured event; and also with respect to payment of interest and linkage differences in accordance with the Insurance Contract Law on premiums that were refunded to policyholders at nominal value following cancellation of their policy or to policyholders who received a premium refund at nominal value, respectively, during seven years prior to the filing of the motion (April 18, 2010) and up to March 14, 2012. The court ordered the plaintiff against Migdal Insurance to be replaced, since he had no cause of action against it. On September 13, 2016 a settlement agreement was submitted to the Court that includes a clause by which Migdal Insurance and the other defendants are to donate 80% of the amount of the refund that is found by an examiner, and also refers to future conduct. The effect of the settlement agreement in subject to the Court's approval. On March 2, 2017 the Attorney General submitted his position regarding the settlement agreement in which he specified his reservations concerning the agreement.	NIS 225 million (for a period of ten years)

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
5.	4/2011 Central District Court	Life insurance policyholder v. Migdal Insurance and other insurance companies	Charging for a "policy factor" without having contractual consent and without providing proper disclosure thereof. The remedies sought include compensation/reimbursement in the amount of the "policy factor" actually collected from the class members, with the addition of the return on that amount of which they were deprived and a mandatory injunction ordering to cease collecting these amounts.	Anyone who is and/or was insured by the respondents and charged any amount as "other management fees" and/or "policy factor".	On June 10, 2015 a settlement agreement was submitted to the court, in which agreement was reached on the refund of amounts in respect of the past, to be distributed to class members holding of "Adif" and "Yoter" policies in a total amount of NIS 100 million, of which Migdal Insurance's share is NIS 44.5 million. As to the future, agreement was reached on a discount of 25% in the amount of the policy factor actually collected in those policies. The award to the plaintiff and his attorney has been submitted to the approval of the court in the settlement agreement and is NIS 43 million plus VAT, Migdal's share being 44.5%. The examiner appointed by the court found difficulty in approving the settlement agreement in its present format and recommended applying the arrangement for the future to the years 2013 to 2015. On February 26, 2016 the Attorney General submitted his position on the settlement agreement, by which the settlement agreement should not be approved in its present format. On November 21, 2016 the Court issued a ruling that rejects the settlement agreement and partly accepts the class action certification motion (“the certification motion”) and decided that: (1) Even though the Insurance Commissioner allowed the insurance companies to include in life insurance policies an arrangement that permits them to charge the policy factor, they did not include any such contractual arrangement in the insurance policies and therefore there is no legal basis for charging the policy factor, and charging amounts for the policy factor reduced the savings accumulated by the policyholders.	NIS 2,325 million (for a period of seven years)

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
5.	Cont.				Even so, it was ruled that there is no place to certify the class action with respect to risk policies since no foundation has been established that makes it possible to say that the insurance company had breached its commitments towards the persons insured by these policies. On the other hand, as regards policies that combine a savings component it was decided that there is a foundation for hearing the claim as a class action since transferring the money to the policy factor reduced the savings accumulated by the policyholders. (2) The settlement agreement is unfair and unreasonable. Although the refund for the past awards the class members a benefit of a considerable amount, it is unfair and unreasonable considering the calculations that were made by the supervisory bodies by which the examiner estimated that between the years 2004 and 2012 (inclusive) the defendants had collected a total of NIS 700 million as a policy factor. The future discount provided in the settlement agreement also does not meet deterrence requirements as its meaning is to validate retroactively and from this date on, collection of most of the policy factor on account of the savings component. Accordingly, the certification motion was accepted with respect to collection of a policy factor beginning from seven years before the date of filing the claim (as from April 21, 2004) from persons having life insurance policies combining a savings component that were issued in the years 1992-2003, and who accumulated lower savings because of being charged a policy factor.	

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
5	Cont.				The requested remedies that were defined in the certification motion are to adjust the accumulated savings of the policyholders by the amount of the additional savings they would have had if they had not been charged a policy factor or to compensate the policyholders by the aforesaid amount, as well as to cease charging a policy factor from this date on. Migdal Insurance intends to file an application for leave to appeal the Court's ruling regarding both the settlement agreement and the class action certification.	
6	6/2011 Central District Court	Compulsory motor insurance policyholder v. Migdal Insurance and other companies	Payment of funds withheld by the respondents due to attachments and paid at nominal value without interest and linkage differences for the withholding period. The grounds for the claim are the benefit derived by the respondents during the withholding period pursuant to Section 1 of the Unjust Enrichment Law and/or Section 28 of the Insurance Contract Law. The remedy sought is payment of interest and linkage differences reflecting the benefit derived by the respondents during the withholding period.	Anyone who was paid insurance benefits after June 1, 2008 after the withholding of funds due to a third party attachment and did not receive the returns earned on the withheld funds during the withholding period.	On December 2, 2012, the District Court certified the claim as a class action. On October 13, 2016 a settlement agreement was submitted to the Court that includes a mechanism for compensation in the amount specified in the settlement agreement, an arrangement for the future and a recommendation regarding the payment of an award and legal fees. The settlement agreement is subject to the Court's approval.	NIS 350 million

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
7.	5/2013 Tel-Aviv District Court	Health insurance policyholders v. Migdal Insurance and other insurance companies	Failure to pay linkage differences on insurance benefits from the date of occurrence of the insured event until the date of payment and failure to pay interest differences on insurance benefits from 30 days after the date of filing of the claim until the date of payment. The remedy sought is payment of interest and linkage differences that were not paid as required by law.	Anyone who received in the seven years preceding the date of filing of the claim or will receive up to the date of the issuance of the judgment insurance benefits without interest and linkage differences as required by law.	On August 7, 2015 the court issued a decision rejecting the class action certification motion as regards linkage differences, but accepting it as regards the payment of interest starting 30 days after the first demand for payment of insurance benefits, for a period of three years prior to the filing of the action. On October 19, 2015 an application was submitted to the Supreme Court by Migdal Insurance and the other defendants for leave to file an appeal on the decision of the District Court to certify the class action as aforesaid. On August 3, 2016 a hearing was held on the application for leave to appeal, following which it was struck out, at the recommendation of the Supreme Court and at the parties' consent, while reserving the right of Migdal Insurance and the other respondents to again raise the arguments included in the application for leave to appeal in the framework of the appeal that will be filed, if any, on the ruling made on the class action. The proceeding is currently at the stage of the court hearing the class action for its merits.	NIS 807 million attributed to Migdal Insurance
8.	6/2014 Jerusalem District Court	Mortgage life insurance policyholder v. Migdal Insurance and other insurance companies	Setting amount insured for payment in mortgage life insurance policies that exceeds the loan balance at the bank, causing policyholders to pay a higher premium. The remedies sought include, among others, paying the difference between the premiums paid and the premiums that should have been paid based on the bank loan balance plus compensation for emotional distress, ordering the respondents to cease their method of operation and adjustment of the amount insured based on the accurate bank loan data.	Policyholders who purchased mortgage life insurance policies in the last seven years, where the amount insured from which the premium is derived exceeded the loan balance at the bank.	The proceeding is in the stage of clarification of the class action certification motion. On March 23, 2016, at the request of the court, the Insurance Commissioner submitted his position that supports the position of the insurance companies. The parties were instructed to conduct a mediation proceeding.	NIS 1,182 million, of which NIS 523 million attributed to Migdal Insurance

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
9.	7/2014 Central District Court	Associations and organizations acting to benefit senior citizens v. Migdal Makefet and another four pension fund management companies	Bad faith use of the right under the bylaws to raise the management fees to the maximum allowed rate when members retire, and failure to give notice before retirement. The remedies sought are an order to refund to retired members or to the pension fund the excess management fees that were and/or will be collected from them unlawfully, and alternatively, to refund to the pension fund all the management fees collected from retired members and redistribute the funds that were collected unlawfully fairly and equally among all the retired members, forbidding the respondents to raise the management fees for any member immediately before his retirement, deciding that the condition in the defendants' bylaws that allows them to raise the management fees from time to time is (prima facie) a discriminatory condition in a standard contract, and ordering the cancellation or change thereof in a manner that eliminates the alleged discrimination.	Any member of the respondents' new comprehensive pension fund who is and/or will be entitled to old age pension.	The proceeding is in the stage of clarification of the class action certification motion. At the request of the Court, several questions have been sent to the attention of the Insurance Commissioner regarding the issues in dispute in the action.	At least NIS 48 million, without quantifying the other remedies at this stage
10.	1/2015 Tel-Aviv District Court	Holders of units of mutual funds v. Migdal Mutual Funds Ltd. ("Migdal Mutual Funds"), a subsidiary of Migdal Capital Markets and other mutual fund management companies and mutual fund trustees	Failure to make efforts to reduce brokerage commissions paid out of the mutual funds' assets, such that the commissions charged were higher than their true price and/or also covered operating services that were given free of charge to some of the fund managers, involving breach of the fiduciary duty and duty of care, negligence, breach of a statutory duty and unjust enrichment. The remedies sought include reimbursement of the excess amounts collected in the period up to February 27, 2011 (the effective date of Amendment 14 to the Joint Investments in Trust Law).	Any holder of units in a mutual trust fund that was managed by any of the respondent fund managers, among them Migdal Mutual Funds, in the period up to December 21, 2011 (with no time limitation), who was charged brokerage commissions and/or directly or indirectly required to pay for operating services.	The proceeding is in the stage of clarification of the class action certification motion. The applicants' request to withdraw the motion with respect to part of the mutual fund trustees included as respondents in the certification motion was approved. In addition, the applicants submitted a motion requesting to summon the Securities Authority to testify, to which the Securities Authority replied that it did consider it right to be involved in the proceeding. No ruling has as yet been made on this motion.	NIS 220 million, of which NIS 22 million is attributed to Migdal Mutual Funds

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
11.	5/2015 Tel Aviv District Court	A disabled person who sought to park in the Weizmann Center parking lot in Tel Aviv v. Migdal Insurance and Ariel Pro-Mall Malls Management Ltd.	Failure to allow a person with disabilities to park free of charge at the Weizmann Center in Tel Aviv in accordance with the Parking for Disabled Persons Law, 5754-1993. The reliefs sought include ordering the respondents to install prominent signs at all the entrances to the Weizmann Mall, explaining about disabled persons' rights, as well as ordering the respondents to compensate the class in the amount of the parking fees that were collected from the class members during the period in question.	Anyone who owned a disabled parking tag and used the Weizmann Center parking lot from May 17, 2008 until the date of filing of the motion.	The proceeding is in the stage of clarification of the class action certification motion. The parties are holding talks in an attempt to close the case with an understanding.	NIS 7 million
12.	8/2015 Tel Aviv District Court	Life insurance policyholder v. Migdal Insurance	Failure to pay a profit-participation bonus pursuant to a rider to the insurance policy called "Kefula" ["Multiple"], and conversion thereof into an additional amount insured without notifying the policyholders; payment of a much lower amount than the amount the policyholders are entitled to under the aforementioned rider; failure to set the rate of the policyholder's participation in profits each year during the life of the policy, and setting an unreasonably low uniform rate for this participation.	Anyone who purchased a life insurance policy from Migdal Insurance entitling him to payment of his share of the policy's profits in cash on reaching the age of 65.	The proceeding is in the stage of clarification of the class action certification motion.	NIS 600 million
13.	9/15 Central District Court	Long-term care insurance policyholder v. Migdal Insurance and other insurance companies	Breach of the terms of the policy, when examining policyholders' entitlement to long-term care benefits, by interpreting "incontinence" as entitling to points only when it is caused by urological or gastroenterological diseases, whereas it is argued that points for this condition should be awarded also in the case of functional incontinence, as well as failure to comply with the duty of disclosure in this connection prior to the purchase of the policy. The reliefs sued for include ordering the defendants to pay compensation.	Any long-term care insurance policyholder who upon the occurrence of the insured event was not awarded the appropriate number of points for incontinence due to the said interpretation.	The proceeding is in the stage of clarification of the class action certification motion.	Tens and even hundreds of millions of shekels

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
14.	9/15 Tel Aviv District Court	Pension fund member v. Migdal Insurance and pension fund management companies	Claim that the respondents split the management fees with agents and brokers who bring the customers to them, resulting in the payment of inappropriately high management fees by fund members. The reliefs sued for are declaratory relief stating that the respondents must change their arrangement with agents and bring it into compliance with the law, reimbursement of all the management fees that were collected in excess, and any other relief as the court deems right and equitable in the circumstances of the case.	Members of provident funds of the management companies who were charged management fees from which the agents' commission is derived based on the amount of the fees.	The proceeding is in the stage of clarification of the class action certification motion. In January 2017 the Knesset approved Amendment 20 to the Control of Financial Services (Provident Funds) Law – 2017, by which there will be no connection between the calculation of distribution fees of provident funds and the management fees the management company charges the member.	NIS 2 billion
15.	9/15 Central District Court	Customers/ members of Migdal Insurance and Migdal Makefet v. Migdal Insurance and Migdal Makefet	Damage caused by the acts of a former trader at Migdal's share trading desk who was convicted, on his admission in a plea bargain, of fraud involving market manipulation of securities. Regarding the criminal proceedings in this matter, see section H.1) below. The reliefs sued for include compensation for the damage caused to fund members in any manner the court deems fit.	Each of the members/ customers of Migdal Insurance and/or Migdal Makefet who was harmed by the alleged acts between the years 2006 and 2011.	No answer has as yet been submitted to the class action certification motion. The parties have entered into a mediation proceeding.	Tens of millions of shekels if not more

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
16.	9/15 Central District Court	Policyholder v. Migdal Insurance and other insurance companies	Collection of the full premium from army reserve soldiers, ignoring the fact that a reserve soldier is granted partial and incomplete coverage that excludes insured events occurring during army service, including reserve duty, as well as allegations of insufficient disclosure of the fact that the premium is not refunded. The reliefs sued for are issuing an order to the relevant authorities and to the insurance companies to provide information among others regarding the number of reserve days, the relevant policies and the premiums that were collected from the class members, refunding premiums for periods of reserve duty, and refraining in the future from collecting premium for periods of reserve duty.	Any holder of an insurance policy that included an exclusion with respect to reserve duty and who paid in the seven years prior to the claim premiums for periods in which he did reserve duty.	The proceeding is in the stage of clarification of the class action certification motion. The parties are holding talks in an attempt to close the case with an understanding.	Tens of millions of shekels
17.	1/16 Central District Court	Pension fund member v. Migdal Makefet and other management companies	Argument regarding the holding of bonds with a low credit rating in excess of the permitted percentage according to the investment restrictions applying to such bonds under Section 41D2 of the Income Tax Regulations (Rules for the Approval and Management of Provident Funds), 5724-1964 ("the Provident Funds Regulations") at the times relevant to the claim, and collection of management fees on these excess amounts contrary to the provisions of the Provident Funds Regulations, The reliefs sued for are among others: reimbursement of the management fees that were collected by the respondents in violation of the Provident Funds Regulations, as in effect at that time, compensation for the damage caused to the class members due to the alleged violation of the Provident Funds Regulations, and any other relief for the benefit of all or a part of the class or for the benefit of the public, as the court deems rights and equitable in the circumstances of the case.	Members of the provident funds managed by the defendants, who had holdings in the funds the subject of the claim, from January 1, 2009 until July 4, 2012.	The proceeding is in the stage of clarification of the class action certification motion. On November 24, 2016, following the request of the defendants, ordered that the matter be transferred to the labor court. The Court ordered to accept the position of the Insurance Commissioner regarding the matters in dispute in the class action certification motion.	Cannot be estimated

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
18.	1/16 Central District Court	Pension fund member v. Migdal Makefet and other management companies	Increasing members' management fees without any notification being sent to them before or after such increase, thereby acting in breach of the fiduciary duty and duty of care as well as the duty of disclosure and reporting by law, The plaintiff is seeking to base his claim, among others, on the Tel Aviv District Court's decision certifying a class action in Class Action Case No. 16623-04-12 Levy v. Psagot. The reliefs sought are: compensation and/or reimbursement in the amount of the management fees collected in excess; compensation in the amount of the loss of the return on the management fees paid in excess, and financial relief for violation of autonomy; declaratory relief stating that the difference between the management fees paid after the increase without any notice and the management fees that would have been paid if not for the increase form part of the member's assets, and the fund violated the provisions of the law, and alternatively any other relief as the court deems right and equitable in the circumstances of the case.	Anyone who was a member of Migdal Makefet and the membership fees collected from him were increased without notice, during the seven years preceding the date of filing of the action and up to the issuance of a final judgment therein.	The proceeding is in the stage of clarification of the class action certification motion. See also claim No. 9 in this section.	Not estimated

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
19.	1/16 Central District Court	Policyholder v. Migdal Insurance	Violation of policyholders' rights in connection with the implementation of Amendment No. 3 to the Control of Financial Services Law (Provident Funds) 5768-2008 ("Amendment 3 to the Provident Funds Law"), since, it is argued, the defendant did not assign to policyholders who prior to the entry of Amendment 3 to the Provident Funds Law into effect held a capital (lump-sum) policy, the annuity factors they had in a previous annuity policy (if any) that was held by them with the defendant or with another insurance company ("earlier annuity policy"), The plaintiff is seeking to base his claim among others on the Central District Court's decision to certify a class action in Class Action Case No. 48006-03-10 Granit v. Clal. The reliefs sued for include the following: to order the defendant to assign to the capital (lump-sum) policies of its policyholders the annuity factor they had prior to Amendment 3 to the Provident Funds Law in the earlier annuity policy with the preferable annuity factor; alternatively, to order the defendant to allow the plaintiff and the other class members to deposit the full amount of the pension savings, retroactively from the date of entry of Amendment 3 to the Provident Funds Law into effect and prospectively, with the earlier annuity policy; alternatively, to order the defendant to compensate the plaintiff and the other class members in the amount of the alleged damage to their pension rights and the amount by which it became enriched at the expense of the class members due to its above policy;	Anyone who held, prior to the effective date of Amendment 3 to the Provident Funds Law, both a capital (lump-sum) policy of the defendant and an annuity policy (whether of the defendant or of another insurance company), and who, following the above amendment to the law, was not assigned an annuity factor in the capital policy or was assigned in the capital policy an annuity factor inferior to the annuity factor in his old annuity policy.	The proceeding is in the stage of clarification of the class action certification motion. The Court has announced its intention to transfer the case to the labor court. The parties have filed their replies on the matter and are waiting for the Court's decision.	NIS 50 million per year The cumulative damage will be equal to the annual damage multiplied by the number of relevant years that will be determined in the judgment.

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
19.	Cont.		and regarding policyholders already retired since January 1, 2008 who began to receive a lower annuity than they were entitled to (according to the plaintiff) based on the preferable annuity – to order the defendant to reimburse to said policyholders the difference between the annuity they were entitled to based on the preferable factor, and the annuity actually received by them.			
20.	1/16 Central District Court	Registered association acting on behalf of weak populations and special-needs people v. Migdal Makefet Pension and Provident Funds	Collection of management fees on disability and survivor annuities paid by the pension fund, without disclosing to the members that they will be charged management fees on these annuities and that management fees at the maximum rate will be charged on these annuities from when the disability or survivor annuity begins to be paid, exploiting these annuitants' distress since they are unable to transfer the balance of their personal account or the amount of the annuity reserves the fund holds on their behalf. The reliefs sued for are as follows: financial relief of reimbursement to each of the disability annuitants of the entire amount of the management fees that were and/or will be collected from them unlawfully; alternatively, reimbursement to the pension fund of the entire amount of the management fees that were and/or will be collected from them annuitants unlawfully, for making a fair and equitable distribution thereof; prohibition on the collection of management fees on disability and survivor annuities, and alternatively, to order the respondents to reduce the management fees that are collected to an appropriate rate; to order the respondents to refund	Anyone who receives and/or is entitled to receive a disability annuity of any kind, and anyone who receives and/or is entitled to receive a survivor annuity, and anyone who is an active plan holder and/or insured and/or member in any of the defendants' new pension funds, and who was harmed as a result of the collection of management fees on disability and survivor annuities.	The proceeding is in the stage of clarification of the class action certification motion. See also claims Nos. 9 and 18 in this section.	Cannot be estimated at this stage.

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

1. Contingent Liabilities (Cont.)

   b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
20.	Cont.		the difference to the annuitants and/or to the fund and to disclose at their initiative the management fees on these annuities, and to establish that the condition in the fund's bylaws that allows the defendants to unilaterally set the management fees from time to time is a discriminatory condition in a standard contract.			
21.	2/16 Central District Court	Study fund member v. the Company	Argument that the Company failed to notify and update the plaintiff and others like him with whom contact has been lost regarding funds that are held by it, did not bother to send them reports, notices and updates and did not bother to obtain their consent to changes in the bylaws and in the management fees collected on their assets as had been determined between the parties. The plaintiff is seeking to base his claim, inter alia, on the Tel Aviv District Court's decision to certify a class action in Class Action Case 16623-04-12 Levy v. Psagot. In addition, the plaintiff cites in his motion claim 18 in this section and argues that the motion in that case is similar to his motion in this case, and therefore he believes that the claims should be linked or the hearings in them should be consolidated before the same bench. The damages alleged in the certification motion are: (a) unlawful collection of exaggerated management fees, having regard to the loss of contact, the absence of willingness and consent, the exceeding of the rates stipulated in the law and the unilateral changes made in them; (b) denial of the class member's proprietary right and denial of his autonomy to manage his money as he pleases. The reliefs sued for are ordering the Company to make restitution and to pay compensation.	Anyone who had or has rights or an interest in funds or assets that are held or managed by the Company, including plan holders, beneficiaries, insured persons, heirs and assignees, and with whom contact was lost or who did not receive from the Company notices, reports and updates.	The proceeding is in the stage of clarification of the class action certification motion. See also claims Nos. 9, 18 and 20 in this section.	NIS 123 million (reimbursement of funds), and NIS 245 million (compensation for violation of the autonomy of will)

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
22.	5/2016 Central District Court	Policyholders v. Migdal Insurance	Allegations that Migdal Insurance distributes the premiums its receives arbitrarily and contrary to the instructions it receives, and contrary to agreements and the provisions of the law; that Migdal Insurance transfers part of the excess amounts collected to a different insurance plan that the policyholder did not request; that Migdal Insurance collects a premium from policyholders for risks that do not exist and retroactively amends reports it issues while misleading the policyholders and that Migdal Insurance refrains from implementing checking mechanisms that can provide an alert on possible errors and prevent unlawful charges. The main reliefs requested are: (a) to compensate the class members for financial and non-financial damages they incurred; (b) to order Migdal Insurance to adjust the premiums it charges to the amount that should have been charged and to order Migdal Insurance to correct the reports; (c) to order Migdal Insurance to return the premiums it unlawfully received that are in excess of that agreed, and to return the profits it earned and the management fees on the excess amounts collected; (d) to declare that Migdal Insurance had unlawfully collected amounts and that it should act to change the current situation; (e) to issue a mandatory injunction on changing work processes and systems and regarding the phrasing of policies.	(a) All the policyholders and/or insured persons and/or beneficiaries ("the insured persons") of a life insurance policy that paid a premium higher than that promised to them in the policy, whether the premium is according to the insured salary or according to a fixed amount. (b) All the insured persons having life insurance that the money transferred was distributed not according to the agreement and distribution decided by the employer, including between the different internal funds. (c) All the insured persons who in their annual reports the opening	No answer has been submitted yet to the class action certification motion.	Not estimated

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
22.	Cont.			balance was changed (including by way of an "updated opening balance") without being provided full and detailed disclosure on the change and its reasons. (d) Any insured person whose deposited money was transferred to new insurance that was opened without their consent. (e) Any insured person for whom all or part of the premium they were charged does not improve the insured person's situation and/or provide any additional compensation upon occurrence of the insurance event.		

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
23.	06/16 Tel Aviv District Court	Registered association acting on behalf of the elderly population v. Migdal Insurance, other insurance companies and the Ministry of Finance	Allegation that the Insurance Commissioner gave the insurance companies its approval to sell and that the insurance companies sold, group long-term care insurance policies that are a "flawed product" because of the condition in the policy that permits the insurance companies to unilaterally terminate the policy or not renew it after a limited period of time, without warning the policyholders in advance and in a proper manner, while causing them direct and indirect damages. The claim's causes are deception, fraud, breach of a statutory duty and negligence, and financial relief as well as declaratory relief and mandatory injunctions are requested in it with respect to insurance coverage and ensuring the rights of the class members.	Any customer who had a group long-term care insurance policy that was cancelled and/or its terms were extremely changed and was misled and/or was not warned and/or did not know that this policy does not accumulate for them any amount, and that it would not be at their disposal at old age, for a period of at least 7 years preceding the date of filing the claim and/or the date the customer made the first deposit.	No answer has been submitted yet to the class action certification motion.	NIS 7 billion.

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
24.	08/2016 Central District Court	Motor act insurance policyholder v. Migdal Insurance and other insurance companies	Allegation that insurance premiums that were charged for comprehensive motor vehicle insurance were too high because the insurance premium was not changed following the change in the age of the insured person during the period of the insurance. The main reliefs requested in the claim are: a) To order Migdal Insurance to return all the excess premiums it unlawfully collected from its policyholders contrary to the law as a result of its conduct as aforesaid, with the addition of interest as required by law, in respect of the seven years preceding the date of filing the claim; b) Declaratory relief by which Migdal Insurance is not permitted to charge a premium without taking into consideration the age of the policyholder that changes during the insurance period and reduces the premium; c) An order prohibiting Migdal Insurance from continuing the practice of charging excess insurance premiums as aforesaid.	Anyone who purchased a comprehensive insurance policy from Migdal Insurance, and during the period of the insurance their age changed or due to the number of years they have a driving license were entitled to a reduction in the insurance premium, without Migdal Insurance having reduced the premium accordingly, in the seven years preceding the date of filing the claim.	On January 17, 2017 a revised class action certification motion was filed. No answer has as yet been submitted to the revised class action certification motion.	NIS 100 million against all the defendants together.

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
25.	10/16 Jerusalem Regional Labor Court	Study fund member v. Migdal Makefet	Allegation that investment management expenses were charged without a contractual provision in the bylaws on the matter. The requested relief is to return all the investment management expenses/fees that the class members were charged in the seven years preceding the date of filing the claim, with the addition of shekel interest as required by law and also to order Migdal Makefet to refrain from deducting from the accounts of the class members any amounts for investment management expenses/fees.	Any member of the "Migdal Hishtalmut" fund (under this name or its previous names, including all the funds that were merged into it) presently and in the seven years preceding the date of filing the motion.	A motion was filed to stay proceedings in the class action until a ruling is issued on other class actions that had been filed with the District Court. No ruling has as yet been issued on the motion.	NIS 94 million.
26.	10/2016 Central District Court	Member of annuity paying provident fund v. Migdal Insurance, Migdal Makefet and Mivtach Simon	Allegation of incorrect classification of amounts deposited in annuity paying provident funds, which will supposedly lead to excess tax on the annuity that will be received from the provident funds at the time of eligibility for payment. The primary relief requested is a mandatory injunction ordering Migdal Insurance and Migdal Makefet to act to correct the records so as to correspond to the law. The alternative relief requested is compensation in an amount that was not estimated in the class action certification motion. In addition, the class action certification motion included a request for a mandatory injunction to change the future conduct of the respondents, such that they will have to have proper classification instructions.	Two sub-classes: (1) customers of any of the defendants whose money that was deposited by them or for them was split at the time of the deposit into two annuity paying provident funds managed by Makefet and/or Migdal, and due to this split these monies were classified as being insufficient for a "recognized annuity", as this	No answer has been submitted yet to the class action certification motion.	Cannot be estimated.

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
26.	Cont.			term is defined in Section 9A(a) of the Income Tax Ordinance. (2) customers of any of the defendants, who are salaried members of annuity paying provident funds managed by Migdal makefet or Migdal Insurance, who deposited money with the fund in respect of the employee's annuity component, and as a result such money was classified as insufficient for a 'recognized annuity".		

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
27.	12/2016 Central District Court	Persons insured under executive insurance policies v. Migdal Insurance	Allegation of charging investment management expenses without this being permitted in a contractual provision in the policies. The requested relief is to return all the investment management expenses that were collected from the class members in the seven years before the date of filing the claim, with the addition of shekel interest as required by law, as well as to order Migdal Insurance to refrain from deducting any amounts from the accounts of the class members in respect of investment management expenses.	All the persons insured under executive insurance policies that were issued by Migdal Insurance (profit participating, “Yoter”, “Migdalor” and so forth), who were charged investment management expenses contrary to the law and/or without the policy including a specific provision permitting Migdal Insurance to collect these expenses.	No answer has been submitted yet to the class action certification motion. See also claim no. 25 in this section.	NIS 567 million.

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
28.	01/17 Central District Court	Two motor act insurance policyholders v. Migdal Insurance	Allegation by which Migdal Insurance refrains from disclosing to its policyholders that according to its customary practice (which exists also at the other insurance companies), they are entitled to a reduction in the premium paid by them when they reach an age group and/or driving experience as customary in the company. The requested reliefs is to order Migdal Insurance to return to the class members the excess insurance premiums that were charged contrary to the law as a result of the aforesaid conduct, as well as a mandatory injunction ordering Migdal Insurance to change its aforesaid conduct.	Persons insured by Migdal Insurance under a motor act, third party and comprehensive policy in the period beginning seven years before the filing of the claim, who during the period of the insurance reached the age group and/or driving experience that according to law and the customary practice of Migdal Insurance qualify for a reduction in the insurance premiums, and who Migdal Insurance did not treat according to law and according to its customary practice and as a result did not receive the reduction in the premium	No answer has been submitted yet to the class action certification motion. See also claim no. 24 in this section.	NIS 61.7 million.

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
29.	2/17 Central District Court	Registered association acting on behalf of the elderly population v. Migdal Makefet	Allegation by which Migdal Makefet charged its pension fund and provident fund members amounts for "direct expenses of executing transactions in assets of the provident funds" (direct expenses), contrary to the bylaws and contrary to the contractual and pre-contractual representations to its members. In doing so Migdal Makefet allegedly breaches the contract between it and its members and also violates the law. The requested reliefs are: (a) to issue an order by which the conduct of Migdal Makefet is unlawful in that it breaches the contract – bylaws between it and its members; (b) to order Migdal Makefet to return to each one of the class members the amount that was collected and/or deducted from their account with respect to any kind of expense relating to direct expenses of executing transaction in assets of the provident funds; (c) alternatively to order Migdal Makefet to return to the assets of the pension fund and to the assets of the provident funds all the direct expenses that were unlawfully collected and to distribute these amounts justly and fairly; (d) to order Migdal Makefet to state clearly and explicitly from that day on, in all the registration forms and in all the bylaws, that in addition to the management fees an additional amount will be charged and/or deducted with respect to direct expenses and to indicate the maximum rate that will be charged.	Anyone who has a right of any kind or type in amounts held in the pension fund managed by Migdal Makefet as from July 2013, and anyone who had such a right in the past. Also anyone who has a right of any kind or type in amounts held in the provident fund managed by Migdal Makefet in the seven years preceding the date of filing the certification motion, and anyone who had such a right in the past.	No answer has been submitted yet to the class action certification motion. See also claims nos. 25 and 27 in this section.	NIS 287 million

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

1. Contingent Liabilities (Cont.)

b. Class actions – pending class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
30.	2/17	Person insured under a life insurance policy of Migdal Insurance v. Migdal Insurance	Allegation by which Migdal Insurance collected handling fees or any other payment from its customers on loans granted contrary to the draft position of the Insurance Commissioner regarding the charging of handling fees on loans and contrary to the provisions of the Control of Financial Services Law (Provident Funds) and the Control of Financial Services Law (Insurance). The reliefs requested in the class action certification motion are: (a) to fully return the amounts Migdal Insurance had collected from its customers contrary to the law; and (b) declaratory orders stating that Migdal Insurance had acted unlawfully and that any person who was charged the unlawful amounts is entitled to a refund of all the excess amounts they paid.	All the customers of Migdal Insurance who took a loan and were charged handling fees or any other payment for opening the loan or as handling fees in the last 7 years.	No answer has been submitted yet to the class action certification motion.	NIS 2 million

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

1. Contingent Liabilities (Cont.)

c. Class actions that ended in the reporting period and up to the report publication date

No.	Date	Parties	Substance of the Claim	Amount	Details
1.	4/2006 Tel Aviv District Court	Occupational disability insurance policyholder v. Migdal Insurance and other insurance companies	Collection of premium in occupational disability insurance policies for the last three months of the insurance period, although during this period the policyholders cannot receive insurance benefits even if an insured event has occurred, in view of the waiting period.	NIS 48 million, of which NIS 19 million attributed to Migdal Insurance	On February 10, 2016 the court approved the plaintiff's application for abandonment.
2.	5/2012 Jerusalem District Court	Potential policyholders who submitted an insurance application and were rejected v. Migdal Insurance and other insurance companies	Sweeping refusal to insure people with disabilities, without examining the application on the merits based on the data relevant to the insurance risk of the applicant for insurance, and failure to give notice as required by the Equal Rights for People with Disabilities Law. The remedies sought include a declaratory order stating that the respondents violated the Equal Rights for People with Disabilities Law, a mandatory injunction requiring to perform an underwriting process on each application and based on personal data, to explain any rejection of an application based on defined procedures, to grant retroactive coverage to those found eligible and to pay compensation for injury to feelings and dignity as well as non-pecuniary damage.	NIS 934 million from all the respondents	On April 13, 2016 the plaintiffs filed with the Court a motion to withdraw from the class action certification motion. On September 7, 2016 the Court approved the motion to withdraw, without granting any award or fee to the applicants.
3.	5/2006 Central District Court	Accidental disability insurance policyholder v. Migdal Insurance and other insurance companies	Payment of reduced compensation to an accidental disability insurance policyholder in respect of partial disability, making a proportional adjustment to the disability rates granted by the National Insurance Institute, without proper disclosure in the policy.	Not estimated	On February 27, 2014 the District Court issued a ruling accepting the plaintiff's position and ordering the insurance benefits for policyholders with permanent partial disability to be completed to the amount insured stipulated in the policy for total disability, for anyone who was involved in an insured event in the three years prior to the date of filing of the claim (excluding exceptional cases). The plaintiffs filed an appeal with the Supreme Court against the decision not to set a seven-year limitation period, against the ruling that the relief does not include payment of special interest and against the award made to them and to their attorney.

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

1. Contingent Liabilities (Cont.)

c. Class actions that ended in the reporting period and up to the report publication date (Cont.)

No.	Date	Parties	Substance of the Claim	Amount	Details
3.	Cont.				On May 1, 2015 the Insurance Commissioner announced that he does not intend to continue dealing in the framework of the draft directive issued by him on August 29, 2013 with the subject of payment of insurance benefits in accidental disability insurance policies. On March 28, 2016 the Supreme Court gave the effect of a judgment to the agreement reached by the parties that the fee of the plaintiffs' attorney would stand at 10% without the distinction made in the ruling of the District Court, and the lead plaintiffs would each be paid a sum of NIS 200 thousand, and that subject to the foregoing the appeal would continue without an order for costs. The payment by Migdal under this agreement is not material.
4.	1/2013 3/2014 Central District Court	Compulsory motor insurance policyholders v. Migdal Insurance, the Israel Motor Vehicle Insurance Pool and other compulsory motor insurance companies	Collection of premium in compulsory motor insurance without granting insurance cover, when the insurance certificate is paid by the policyholder at a later date than that specified in the insurance certificate. The remedy sought is refund of excess premium that was collected unlawfully together with interest and linkage differences.	NIS 34 million[4], of which NIS 9 million attributed to Migdal Insurance.	On April 5, 2016 the Court issued a ruling that rejected the class action certification motion and the personal claim. On June 5, 2016 the plaintiff filed an appeal on the ruling with the Supreme Court. On October 8, 2016 the appellants accepted the recommendation of the Supreme Court and withdrew the appeal without an award of costs.

[4] The claim amount relates to the later claim that was filed in March 2014, in which Migdal Insurance was sued specifically and attributed a specific compensation amount as specified in the table. The amount of the claim filed in January 2013 is lower and estimated for all the defendant companies at NIS 26 million.

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

1. Contingent Liabilities (Cont.)

c. Class actions that ended in the reporting period and up to the report publication date (Cont.)

No.	Date	Parties	Substance of the Claim	Amount	Details
5.	12/2014 Central District Court	Long-term care insurance policyholder v. Migdal Insurance	Failure to pay the surrender value in the event of cancellation of the policy due to non-payment or death or at the policyholder's initiative, contrary to the Commissioner's explicit directives. The remedies sought include declaring that the respondent is not entitled to hold the surrender amounts, it must provide to the court and the applicant the surrender value calculation formula, it must inform all the relevant policyholders that certain clauses in the policy are discriminatory conditions and should be cancelled, and that Migdal Insurance must reimburse to the class members the surrender values with interest and linkage differences.	NIS 28 million	On May 11, 2016 the Court approved an arrangement for the plaintiff's withdrawal from the class action certification motion and the claim, and accordingly ordered to strike the class action certification motion and to dismiss the plaintiff's personal claim.
6.	2/2010 Tel-Aviv District Court	Motor insurance policyholder v. Migdal Insurance and other insurance companies	Failure to indemnify the policyholders for damage caused to the vehicle's protection means installed at the demand of the respondents, in the event of total loss, constructive total loss or theft ("total loss"), and having policyholders prima facie unlawfully sign letters of settlement. The remedies sought include payment for the damage caused to all the class members, whether directly or through compensation to the general public.	NIS 82 million	On June 19, 2016 the Court approved the amended settlement agreement, that included adjustments according to the Court's instructions and a revised opinion of the expert, and granted it judicial force.
7.	6/2015 Central District Court	Collective health insurance policyholders v. Migdal Insurance	Failure to link the insurance benefits in health insurance policies which specify an amount of participation in expenses, from the date of conclusion of the insurance contract and up to the entitling event. Together with the certification motion, a motion was filed to transfer the case in accordance with the Class Action Law to another panel that is hearing a similar case against another insurer.	NIS 5 million	On June 29, 2016 the Court approved in a ruling an arrangement for the plaintiff's withdrawal from the certification motion and the claim.
8.	12/15 Central District Court	Policyholder v. Migdal Insurance	Argument against the limitation on liability in a health insurance policy according to which the coverage for pregnancy-related tests is conditional on the female policyholder's spouse also holding a health insurance policy of the Migdal Group. The reliefs sued for are financial damages in the amount of the insurance benefits that were withheld together with linkage differences and interest, declaratory relief, mandatory injunctions for the cancellation of the limitations and injunction prohibiting the inclusion of such clauses in the policy.	Over NIS 3 million but not possible to estimate	On July 7, 2016 the Court approved in a ruling an arrangement for the plaintiff's withdrawal from the certification motion and the claim.

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

1. Contingent Liabilities (Cont.)

   c. Class actions that ended in the reporting period and up to the report publication date (Cont.)

No.	Date	Parties	Substance of the Claim	Amount	Details
9.	10/2013 Central District Court	Life insurance policyholder v. Migdal Insurance and other insurance companies	Adjustment of the premium due to a change in age and due to a change in the consumer price index, on the first of each calendar month and not on the policyholder's birthday in that month (in age changes), or on the day of the policyholder's application for an insurance policy instead of on the actual day of his acceptance (in CPI adjustments). The remedy sought is refund of the excess premiums charged.	NIS 399 million	On September 15, 2016 the Court issued a ruling that dismissed the class action certification motion.
10.	2/16 Central District Court	Financial management company v. Mivtach Simon and other insurance agencies	Argument that the defendants by their activity as insurance agencies (pension arrangement managers) caused the class members financial damage, since up to the recent legislation amendments (legislation amendments recently made in the Control of Financial Services Law (Pension Advice, Marketing and Clearing Systems), 5765-2005, and the Control of Financial Services Law (Provident Funds), 5765-2005, in the framework of the Economic Plan Law (Legislation Amendments for Implementation of the Economic Policy for the 2015 and 2016 Budget Years), 5776-2015), the operating costs of the pension arrangement services provided by the defendants to employers were subsidized by the employees of those employers, and the defendants favored the employers, with whom they had entered into service agreements, over the employees, who actually paid for those operating services via excessive management fees that were collected from them. The alleged damage to the class members is the excess payment for the operating services, which, it is contended, was loaded onto the class members via excessive management fees that were collected from them instead of charging the employers for these costs, as required after the aforesaid legislation amendments. The reliefs sued for are: reimbursement of the excess management fees collected (according to the plaintiffs) from the class members and any other relief as the court deems right and equitable in the circumstances of the case.	NIS 89 million	On January 28, 2017 the plaintiff withdrew from the certification motion at the recommendation of the Court.

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

1. Contingent Liabilities (Cont.)

c. Class actions that ended in the reporting period and up to the report publication date (Cont.)

No.	Date	Parties	Substance of the Claim	Amount	Details
11.	4/2015 Tel Aviv District Court	Ward (through his guardian) who was insured under a group life insurance policy v. Bank Leumi Le-Israel Ltd. and Migdal Insurance Company	Obligating persons above the age of 55 who take out a mortgage to purchase a life insurance policy, in the knowledge that they are at an uninsurable age, and obligating persons holding a mortgage to continue paying for life insurance even after they have passed the age of 65 – the age at which the insurance period ends. The remedies sought are as follows: ceasing to collect premium for life insurance from borrowers who have reach the age at which the insurance period ends, and refund of life insurance premiums collected from mortgage holders who when taking out the mortgage were above the age of 55 and from policyholders who have passed the age at which the insurance period ends.	NIS 360 million	On January 18, 2017 the Court approved the applicant's withdrawal from the motion and dismissal of the personal claim, without approving the award offered to the applicant and his representative.
12.	5/2014 Tel-Aviv District Court	Holder of a motor insurance policy that includes substitute vehicle coverage v. Migdal Insurance and other insurance companies	Failure to provide a substitute vehicle to a young driver without disclosure of this fact in a schedule, contrary to the duty of disclosure imposed on insurers. The remedies sought include declaratory relief of negligence and breach of duties towards the plaintiffs, an order directing the respondents to provide the coverage in question, and to order proper disclosure and the payment of compensation as aforesaid.	NIS 28 million, of which an amount of NIS 8 million is attributed to Migdal Insurance	On January 31, 2017 the Court approved the motion to withdraw that was filed at the mutual consent of the parties, and accordingly ordered to strike the certification motion and dismissed the personal claim.
13.	4/2010 Central District Court	Israel Consumer Council v. Migdal Insurance and other insurance companies	Violation of the respondents' duties to identify holders of rights in insurance policies, failure to separately manage unrequested funds, failure to transfer unrequested funds to the Administrator General, collection of management fees in excess of the permitted amounts and unjust enrichment from the returns on the unrequested funds. The remedies sought included ordering the respondents to transfer the funds to the holders of rights, to transfer unrequested funds to the Administrator General, to make restitution of management fees and returns and to establish a fund for managing unrequested funds in a separate account for each policy.	-	On February 9, 2017 the Court approved a compromise agreement on the matter that sets forth the steps the Company is required to take to locate holders of rights by means of an external body.

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

1. Contingent Liabilities (Cont.)

c. Class actions that ended in the reporting period and up to the report publication date (Cont.)

No.	Date	Parties	Substance of the Claim	Amount	Details
14.	5/2015 Central District Court	Home insurance policyholder v. Migdal Insurance	Failure of the respondent to pay insurance benefits and/or indemnity for the VAT component in cases where the damage was not actually repaired. The reliefs sought include ordering the respondent to pay the VAT applying to the cost of the repair even when the damage was not actually repaired, and ordering the respondent to compensate all the class member who submitted claims in the relevant period, by paying VAT at the rate applying to the amount of the damage with linkage and interest in accordance with the law.	NIS 91 million	On February 20, 2017 the Court denied the motion to replace the lead plaintiffs and accepted the respondent's motion for dismissal in limine of the certification motion. Accordingly, the Court ordered to strike the certification motion and the claim.

d. Class actions that ended before the reporting period, in which a subsequent development occurred

In a claim filed with the Central District Court against Migdal Insurance in July 2011 in respect of the collection of credit fees in nonlife insurance at a higher rate than the maximum interest rate permitted under the legislative arrangement or at a higher interest rate than it represented to its policyholders, in an amount estimated between NIS 253 million and NIS 869 million (from May 1984 until the date of filing of the certification motion), a settlement agreement was approved on July 24, 2014 at a cost of NIS 5 million, including fees and the lead plaintiff's award.

On July 13, 2015 a motion for instructions was submitted to the court against Migdal Insurance, on grounds of violation of the settlement agreement. During the court hearings in said motion, and further to examinations conducted by Migdal Insurance, it emerged that due to an error the settlement agreement had not been fully implemented, and it was also found, further to examinations of the statutory compliance of the interest rate, that with respect to business owners' policies to which the statutory provision regarding the maximum permitted interest rate does not apply, interest was charged at a higher rate than represented in the policy. On December 10, 2015 a consent motion was submitted to amend the settlement agreement. The motion was forwarded to the Attorney General for his response, who left approval of the settlement agreement to the Court's discretion. On July 10, 2016 the Court approved amending the settlement agreement and granted it judicial force.

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

1. Contingent Liabilities (Cont.)

e. Class actions that were transferred to Migdal Insurance as part of the run off general insurance portfolio agreement

No.	Date and Court	Parties	Main Arguments, Causes and Reliefs	Class	Details	Claim Amount
1.	12/2012 Central District Court	Motor vehicle insurance policyholder v. Eliahu Insurance and other insurance companies	Collection of a premium not according to the recent classification of the motor vehicle with respect to motor vehicles that their classification was changed in 2007 in the transportation regulations from a commercial motor vehicle to a private motor vehicle.	Motor act and/or property policyholders, as from January 9, 2007 that the classification M1 appears on their motor vehicle registration and they were charged a premium based on the assumption that the motor vehicle is commercial and not private.	After hearing evidence summations were filed and the parties are waiting for the Court's decision on whether to certify the claim as a class action.	Not specified
2.	5/2007 Tel Aviv District Court	Motor vehicle insurance policyholder v. Eliahu Insurance	Failure to indemnify the policyholders in cases of total loss, constructive total loss or theft ("total loss") in respect of the protection means that were installed in their motor vehicles at the demand of the respondents, and having policyholders prima facie unlawfully sign letters of settlement. The remedies sought include payment for the damage caused to all the class members, whether directly or through compensation to the general public.	Motor vehicle property insurance policyholders who had a total loss event since 2006 and did not receive insurance compensation for the protection system.	On June 19, 2016 the Court approved the amended settlement agreement, that included adjustments according to the Court's instructions and a revised opinion of the expert, and granted it judicial force.	NIS 80 million from Eliahu Insurance

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

1. Contingent Liabilities (Cont.)

   e. Class actions that were transferred to Migdal Insurance as part of the run off general insurance portfolio agreement (cont.)

No.	Date and Court	Parties	Main Arguments, Causes and Reliefs	Class	Details	Claim Amount
3.	12/2012 Tel Aviv District Court	Motor vehicle insurance policyholder v. Eliahu Insurance	Deducting various variables from insurance benefits paid to policyholders whose motor vehicle was declared a total loss even though the insurance proposal did not provide any information concerning the deduction of these variables.	Motor vehicle property insurance policyholders who had a total loss event since 2004 and various variables were deducted from their insurance benefits.	On May 11, 2015 the Court approved a compromise agreement that was reached by the parties. Execution of the compromise agreement was completed and notice of this was provided to the Court.	NIS 92 million v. Eliahu Insurance

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

1. Contingent Liabilities (Cont.)

f. Legal proceedings and other material actions

Following are details of other material actions. The claim amounts are stated as of the date of filing of the claims.

Date and Court	Parties	Cause of Action, Relief and Amount	Details
5/2/14 8/4/14 Tel-Aviv District Court	All members of the Clalit and Maccabi health funds v. Migdal Insurance, other insurance companies, Clalit Health Services and Maccabi Health Services	Derivative actions on behalf of members of the Clalit and Maccabi health funds who have private health insurance for the realization of the right of participation of the Clalit and Maccabi health funds, in respect of expenses incurred by them in the framework of supplementary health plans and in respect of operations performed by them in the framework of the basic or supplementary basket, due to overlapping of liabilities between the supplementary health plans and the commercial health insurance policies. The remedy sought is indemnification of the health funds for 60% of the cost of an operation in a supplementary health plan and 33.3% in the basic basket and 50% for all other cases of overlapping of liabilities. The amount of the claim with respect to the Clalit health fund is NIS 3,518 million, and with respect to the Maccabi health fund – NIS 1,714 million.	On June 11, 2015 the court issued a decision on the question of the standing of the applicants to file a derivative action, holding that a member of an Ottoman society may file a derivative action on behalf of the society. On July 14, 2015 the District Court referred the case to the Attorney General for a response to the position of the Ministry of Finance, the Insurance Commissioner and the Ministry of Health on all the issues arising in the case, as required of him in view of the public implications and complexity of the issues, which cannot be easily decided and central to which is the question whether it would not be appropriate for the subject matter of the case to be regulated by the executive authority or the legislative authority. The health funds submitted to the Supreme Court on July 16, 2015 an application for leave to appeal the court's decision on the question of the standing of the applicants, which was joined by the insurance companies. In its decision of November 11, 2015, the Supreme Court ruled that it would be necessary to wait until the position of the Attorney General was received in the matter, after which a decision would be made on the further handling of the application for leave to appeal. On March 2, 2016 the Attorney General submitted his position, that the applicants in the case are not entitled to file a derivative action on behalf of the health funds, and that in the circumstances of the case there is no room for approving the claim on the merits, inter alia because it is not possible to determine in advance the existence per se of a right of subrogation or its monetary significance; considering the possibility that approving the claim as a derivative action would result in the submission of legally complex individual subrogation claims on an unreasonable scope, imposing a heavy and unreasonable burden on the legal system, and the possibility that the gain from mutual claims between insurers and the health funds might not exceed the resources invested in conducting them; there is a significant advantage to establishing a set and defined legal norm and creation of a general and global mechanism between the commercial insurance system and that of the health funds, that will enable a balance without dealing with each individual case – however, such a norm does not exist, and this issue is being examined by the government ministries, which intend to regulate the matter, to the extent that disparities requiring regulation are found. A hearing on the case has been scheduled at the Supreme Court.

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

1. Contingent Liabilities (Cont.)

g. Summary of Legal Claims

1) Following is a summary table of the amounts claimed in pending motions to certify claims as class actions, claims that were certified as class actions and other material claims against the consolidated subsidiaries, as stated by the plaintiffs in the pleading filed on their behalf. It should be noted that the amount claimed is not necessarily a quantification of the amount of exposure estimated by the Company and/or its consolidated subsidiaries, since these are estimates made by the plaintiffs that will be considered in the legal proceeding. It should also be noted that the table below does not include proceedings that have ended.

Type	Number of Claims	Amount Claimed in NIS in Thousands (1)
Claims certified as class actions (2) (3)	6	2,546,552
Stated amount attributed to the Group	3	1,971,061
The claim relates to a number of companies and no specific amount was attributed to the Group	2	575,491
The claim amount was not stated	1	-
Pending motions to certify claims as class actions (3)	24	11,678,405
Stated amount attributed to the Group	9	2,523,507
The claim relates to a number of companies and no specific amount was attributed to the Group	5	9,154,898
The claim amount was not stated	10	-
Other material claims	1	5,232,000
The claim relates to a number of companies and no specific amount was attributed to the Group	1	5,232,000

(1) All the amounts are approximate amounts in NIS in thousands as of the date of filing of the motions or the claims, as the case may be.

(2) Including a claim which does not state an exact claim amount (line 3 in the table in B above), the amount of the claim being estimated there at hundreds of millions of NIS without stating the amount of the claim.

(3) Where the amount attributed to the Group is specified, the amount taken into account is in respect of the Group and not in respect of all the defendants.

2) The total amount of the provision in respect of class actions and other material claims that were filed against the Group, as detailed in the summary table in G above, is about NIS 68 million (as of December 31, 2015 – about NIS 75 million).

3) Total provisions in respect of all proceedings against the Group, including class actions and other material claims, including in respect of the proceedings detailed in H below, is about NIS 84 million (as of December 31, 2015 – about NIS 104 million).

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

1. Contingent Liabilities (Cont.)

h. Additional legal proceeding and other proceedings, Insurance Commissioner directives, events and developments in respect of which the Company and/or its consolidated subsidiaries are subject to exposure

Below is a description of additional legal and other proceedings pending against the Company and/or the consolidated subsidiaries:

1) On July 27, 2015, a former employee in the Group's institutional entities' capital market trading division ("the institutional bodies," "the employee," respectively) was convicted in a plea bargain in the Tel Aviv-Jaffa District Court. The indictment to which the employee admitted was filed on February 11, 2015 by the Tel Aviv Central District Attorney's Office (Taxation and Economics) against the employee and another defendant who, according to the indictment, collaborated with the employee ("the other defendant"). According to the indictment, the employee and the other defendant exploited the employee's knowledge and control in his capacity and position in the institutional entities for deriving a personal gain, by trading in securities on their own behalf, whether by buying shares in conjunction with the institutional entities' sale orders and/or selling shares in conjunction with the institutional entities' purchase orders or before such orders were executed for the institutional bodies' account, and/or by a combination of the above.

In addition, according to the indictment, the employee and the other defendant fraudulently traded in dozens of different securities through the transmission of information by the employee to the other defendant regarding orders in the accounts of the institutional entities and making advance securities transactions at lower selling prices and higher buying prices than for the institutional entities' account. According to the indictment, in doing so, the former employee committed fraud and breach of the fiduciary duty and also accepted bribes for actions pertaining to his office as a public employee, and in return for these bribes he used his position and status in the institutional entities to make a profit for himself and the other defendant. In addition, according to the indictment, the defendants' actions fraudulently affected the price fluctuations of some 59 securities, and they obtained fraudulently under aggravating circumstances profits of NIS 11.5 million. Regarding a claim in this matter together with a motion to certify it as a class action see B.15 above.

2) Regarding tax assessments for the 2007, 2009 and 2010 tax years totaling about NIS 70 million, and the appeal filed by Migdal Real Estate Holdings Ltd. with the Tel-Aviv District Court on the taxation of dividends received by the Company from revaluation gains, see Note 21.D.2 above.
Regarding tax assessments for 2011 and 2012 regarding the capital gains tax on a dividend from investee companies that was concatenated to the Company and the appeals filed by Migdal Insurance with the Tel Aviv District Court on the liability to profit tax on dividends received by the Company from investees through the chain of ownership, see Note 21.D.1.
The tax liability arising from the 2011-2012 assessments (including linkage differences and interest at the date of issuing the financial statements) amounts to NIS 1.5 million.

The provision in respect of these assessments is not included in the provision detailed in paragraph G.3) of this note.

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

1. Contingent Liabilities (Cont.)

h. Additional legal proceeding and other proceedings, Insurance Commissioner directives, events and developments in respect of which the Company and/or its consolidated subsidiaries are subject to exposure (Cont.)

3) The Company and/or its consolidated subsidiaries are exposed to additional claims or allegations for various causes, which do not involve coverage under insurance policies issued by Migdal Insurance, on the part of customers, former customers and various third parties. The total amount of the exposure is estimated to be hundreds of millions of NIS, of which an aggregate amount of NIS 80 million is in respect of claims that were filed (as of December 31, 2015 – NIS 64 million) in addition to the general exposures described in this note including in paragraph 6 of this note.

4) In December 2012, a draft decision was issued regarding one-time deposits in guaranteed yield policies of Migdal Insurance. According to the draft decision, the Commissioner is of the opinion that the insurance companies should have informed about and/or obtained consent to crediting the yield of the profit sharing portfolio with respect to one-time deposits made in guaranteed yield policies. According to the Commissioner's draft decision, certain actions must be performed for dividing the policyholders into two groups – one group consisting of policyholders whose one-time deposits bore yields equal to or higher than the guaranteed yield, and the other group consisting of policyholders whose one-time deposits bore yields lower than the guaranteed yield. Migdal Insurance submitted its response to the draft decision, a hearing was held, data was provided to the Commissioner at his request, but to date no decision has been rendered.

5) From time to time, the Insurance Commissioner issues position papers, principles for drafting insurance plans, papers on proper and improper practices and other documents or draft documents that are relevant to the Group’s areas of operation and which may have an effect on the rights of the policyholder/s and/or member/s and may create an exposure for the Group in certain cases with respect to both its period of operation prior to those documents coming into effect and the future.

It is impossible to predict in advance whether and to what extent the insurers are exposed to allegations connected to and/or resulting from directives that may arise in part through the procedural mechanism set forth in the Class Action Law. Also circulars issued by the Commissioner that usually affect the future may have such an effect.

From time to time complaints are filed against the Group, including complaints to the Insurance Commissioner with respect to rights of policyholders and/or members according to insurance plans and/or funds and/or the law. These complaints are handled regularly by the Group's public complaints department. At times, the Insurance Commissioner's decisions (or draft decisions) on these complaints are rendered across the board for a class of policyholders.

Furthermore, from time to time, and also following policyholders' complaints, the Commissioner conducts audits on his behalf at the Group's institutional entities and/or sends to them requests to receive information on different issues of management of the institutional entities and management of the rights of the institutional entities' policyholders and members, as well as audits to verify the implementation of regulatory directives and/or lessons from previous audits, wherein, among others, demands are received to make changes in various products and instructions are given for implementing circulars and/or guidelines and/or for rectifying deficiencies or for the taking of actions by the institutional entities, including making refunds to policyholders and members.

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

1. Contingent Liabilities (Cont.)

h. Additional legal proceeding and other proceedings, Insurance Commissioner directives, events and developments in respect of which the Company and/or its consolidated subsidiaries are subject to exposure (Cont.)

5) (Cont.)

On the basis of the audit findings or the information provided, the Commissioner sometimes imposes financial sanctions pursuant to the Enforcement Authority Law.

6) There is a general exposure which cannot be estimated and/or quantified, due to, among others, the complexity of the services provided by the Group to its policyholders. The complexity of these arrangements entails, among others, a potential for interpretation and other arguments resulting from disparities in information between the Group and the third parties to the insurance contracts that relate to a long list of commercial and regulatory conditions. This exposure is expressed mainly in connection with pension savings and long-term insurance products, including health insurance, in which the Group operates, due to them being characterized by a prolonged lifespan and extreme complexity, particularly in view of the legislative arrangements relating both to management of the products and to taxation, including on issues concerning the deposits made by employers and insured persons, separation and attribution of the deposits to the various policy components, investment management, the policyholder's employment status, his deposit payments, etc. These products are managed over years during which there are changes in policy, regulatory requirements and legal trends, including in court rulings. These changes are implemented by automated systems that undergo frequent changes and adjustments. The complexity of these changes and application of changes with respect to many years creates increased operating exposure. Receipt of a new interpretation to insurance policies and long-term pension products may, at times, affect the Group's future profitability with respect to the existing portfolio, in addition to the exposure involved in the demands to compensate customers for past activities. It is not possible to anticipate the kind of arguments that will be raised in this area and the exposure resulting from any arguments that are raised in respect of the insurance contract, among others, by the procedural mechanism established in the Class Action Law.

Furthermore, the insurance area in which the Group companies operate is high in detail and circumstances, and has an inherent risk that cannot be quantified as to the occurrence of an error or series of mechanical or human errors, in both structured work processes and when handling a specific customer, and which may cause expansive consequences as to both the effect on a large number of customers or cases and the relevant monetary effect concerning an individual customer. The Company and the subsidiaries are exposed to claims and allegations on the level of contract laws and fulfillment of the insurance commitments in the policy, deficient consultation, breach of duty of loyalty, conflict of interests, duty of care, negligence as part of the professional liability of the professional bodies in the Group including the Group’s agencies and so forth allegations relating to the services provided by the Group companies, and from time to time there are circumstances and events that raise concerns regarding allegations of that type. The Group purchases professional liability insurance policies, including as required by the legislative arrangement, and when necessary it reports to this policy or policies in order to cover an obligation deriving from professional liability that can be protected by purchasing insurance. The amounts of the possible exposure are higher than the amounts covered and there is no certainty that the insurance coverage will actually be received upon the occurrence of an insurance event.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016

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

1. Contingent Liabilities (Cont.)

i. Legal proceedings against former consolidated subsidiaries in respect of which the Company and/or its consolidated subsidiaries have a contingent liability

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
1.	4/2007 Tel-Aviv District Court	Owners of participation units in mutual funds v. Migdal Stock Exchange Services (N.E.) Ltd. ("Migdal Stock Exchange Services"), a subsidiary of Migdal Capital Markets (1965) Ltd. ("Migdal Capital Markets"), banks and TASE members	Collection of securities brokerage commissions at rates that exceed the rates collected from other customers, and agreement on the unlawful collection of commissions in violation of Section 69 of the Joint Investments in Trust Law in transactions for the purchase of mutual funds from banks as securities brokers. The remedies sought include ordering the respondents to refund the amounts alleged by the applicants to have been collected unlawfully and a mandatory injunction ordering the respondents to change their method of operation and cease collecting these amounts unlawfully.	Anyone who purchased, holds, and/or held at the times relevant to the claim participation units in mutual funds managed and/or controlled by the respondents .	The Attorney General stated that he sees no need to express a position in this case since the claim is based on a legal situation that no longer exists in view of the changes in the Joint Investments in Trust Law. On May 10, 2016 a ruling was issued in which the Court denied the certification motion, thus bringing the proceeding to its end.	NIS 386 million, of which NIS 49 million attributed to Migdal Capital Markets from January 1, 2004[4].
.2	2/2012 Tel-Aviv District Court	Owner of a securities account v. Migdal Stock Exchange Services	Collection from customers of a commission for foreign correspondent services in excess of the commission actually paid by the respondent and/or due to the foreign correspondent. The remedy sought is compensation and/or indemnification of the class for the excess commissions and/or excess charges.	All customers of the respondent who executed through it in the seven years before the filing of the claim overseas transactions in which foreign correspondent commissions were collected from them, including mutual funds managed by the Migdal Group.	On June 23, 2016 a ruling was issued that approved the compromise settlement, as amended at the parties' mutual consent during the court hearing that was held on the same date, taking note of the comments of the Attorney General's representative. According to the amended compromise settlement that was approved, the class members will be paid compensation in cash (without the component of discounts that was included in the compromise settlement that was submitted for approval), and an award was granted to the lead plaintiff and fee to her attorneys, all in amounts immaterial to the Company. On September 4, 2016 the defendant received a temporary injunction, prohibiting it to pay the lead plaintiff the amounts she was awarded in the ruling. The injunction was issued at the request of a former employee of Migdal Stock Exchange Services, who contends that he consulted the plaintiff on preparing the claim in exchange for her commitment to pay him a fee in the amount of half of the amounts she will be awarded at end of the process, which according to him he was not paid. The injunction relates only to amounts due to the lead plaintiff according to the ruling, and not to amounts that are to be paid to the class members and/or the lead plaintiff's attorneys.	NIS 43 million

1 The date of filing of the actions and the motions is the original date of filing and the court is the original court of filing.
2 Laws are cited by their full name but without the year of their enactment.
3 The class the plaintiff is seeking to represent, serving as the basis for the estimate of the amount claimed in the statement of claim.
4 The part of this amount attributed to Migdal is attributed to it under joint and several liability with First International Bank of Israel Ltd.

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

1. Contingent Liabilities (Cont.)

i. Legal proceedings against former consolidated subsidiaries in respect of which the Company and/or its consolidated subsidiaries have a contingent liability (Cont.

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
2.	Cont.				Since no objections, withdrawal notices and motions to prove eligibility have been received until the dates permitted to do so in the amended compromise settlement, the ruling became final, and the payments are being made per its instructions, subject to the injunction regarding the payments to the lead plaintiff, as aforesaid. Regarding an indemnity undertaking given by Migdal Capital Markets, a wholly owned and controlled subsidiary of the Company, to IBI in the merger transaction between Migdal Stock Exchange Services and IBI, in connection with legal proceedings against Migdal Stock Exchange Services on grounds arising before the merger date – see Note 39.2.E.3) to the financial statements as at December 31, 2016. Further to this indemnity undertaking, Migdal Capital Markets and IBI signed a specific indemnity arrangement with respect to the settlement agreement, whereby IBI signed the settlement agreement against Migdal Capital Markets' undertaking to indemnify it for all that stated in the settlement agreement and its consequences, with respect to amounts in excess of the amount of the provision that was already recorded in respect of the settlement in the financial statements of Migdal Stock Exchange Services immediately prior to the merger. Further to the signing of the settlement agreement by IBI, the entire amount of the compensation will be paid by IBI as it was already fully indemnified in its respect since the amount was included in the provision that was recorded in the financial statements of Migdal Stock Exchange Services on the date of the merger. The balance of the surplus provision was returned to Migdal Capital Markets by IBI.	
3.	1/2017 Tel-Aviv District Court	Owner of a securities account v. Migdal Stock Exchange Services and IBI	Collection of commissions by the respondents on online trading transactions in securities that were executed by means of the internet trading system of the respondents. These commissions are in respect of charges for suppliers and third parties, whereas as regards the commissions of the respondents themselves ("the company's commissions") the plaintiff states that they are not included in class action certification motion and the plaintiff wishes to reserve the right to claim them in a separate personal claim. The plaintiff requests that the Court order the respondents to return to the class members all the amounts that were collected from the customers in respect of the commissions for which proper disclosure was not provided.	Any person who executed online transactions in securities, including buying and/or selling securities and/or options and/or any other instrument that constitutes a transaction in securities by means of the internet trading system of the	No judicial body has as yet been appointed and no hearing has as yet been scheduled. Migdal Stock Exchange Services was dissolved as part of the merger with IBI and was delisted from the Companies Registrar, and all the rights and liabilities towards it were transferred to IBI by virtue of the merger, and neither the Company nor any of its subsidiaries are a party to the claim, but a subsidiary of the Company, Migdal Capital Markets, received a notice from IBI regarding the filing of the claim in accordance with the merger agreement, by which Migdal Capital Markets has a commitment to indemnify IBI for any past obligation in respect of any act and/or omission and/or event that their cause is before the date of the merger and for which no provision was made in the financial statements of Migdal Stock Exchange Services before the merger, all according to the terms set forth in the merger agreement (see Note 39.2.E.3) to the financial statements as at December 31, 2016).	-

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

1. Contingent Liabilities (Cont.)

i. Legal proceedings against former consolidated subsidiaries in respect of which the Company and/or its consolidated subsidiaries have a contingent liability (Cont.

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
3.	Cont.			respondents without being provided proper disclosure before execution of the transaction with respect to the commissions that will be collected and/or their amount and/or who was charged higher commissions than those that were presented to them before executing the transaction.		

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

2. Commitments

a. For details regarding the acquisition of a run-off business, see Note 38.e.2.

b. Commitments for investments and granting of credit:

1) The balance of Migdal Insurance's commitments for additional investments in investment funds as of December 31, 2016 amounts to about NIS 3,273 million, of which about NIS 2,781 million in respect of yield-dependent contracts (in 2015 – about NIS 1,405 million, of which about NIS 1,135 million in respect of yield-dependent contracts).

2) The balance of Migdal Insurance's commitments for additional investments in acquired corporations as of December 31, 2016 amounts to about NIS 112 million, of which about NIS 104 million in respect of yield dependent contracts (in 2015 – about NIS 267 million, of which about NIS 236 million in respect of yield-dependent contracts).

3) The balance of Migdal Insurance's commitments to provide credit upon demand as of December 31, 2016 amounts to about NIS 684 million, of which about NIS 586 million in respect of yield-dependent contracts (in 2015 – about NIS 1,274 million, of which about NIS 1,105 million in respect of yield-dependent contracts).

c. Commitments for acquisition of real estate assets:

The balance of Migdal Insurance's commitment for investments in real estate as of December 31, 2016 amounts to about NIS 121 million, of which about NIS 106 million in respect of yield-dependent contracts (in 2015 – about NIS 235 million, of which about NIS 210 million in respect of yield-dependent contracts). Some of the above amounts are based on the accounting mechanism prescribed in the agreement.

d. Letters of indemnity and waiver to officers:

1) Letters of indemnity granted up to 2006:

a) The Company granted letters of indemnity to officers of investees and other corporations in which they serve by virtue of their being officers of the consolidated subsidiary, as well as to a number of the Group's employees, whereby Migdal will indemnify them in the amount, under the circumstances and subject to the qualifications detailed in the letters of indemnity, for a financial liability imposed on them due to actions done by them in their capacity as officers of the aforementioned corporations, or for actions as detailed in the letter of indemnity.

b) The Company granted letters of waiver to officers of investees and other corporations in which they serve by virtue of their being officers of Migdal and of subsidiaries of Migdal, whereby the Company waived, under the circumstances and subject to the qualifications detailed in the letters of waiver, any claims against those officers with respect to any act and/or omission done by them as officers of the aforementioned corporations.

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

2. Commitments (Cont.)

d. Letters of indemnity and waiver to officers: (Cont.)

1) Letters of indemnity granted up to 2006: (Cont.)

c. The Company granted letters of indemnity to officers of Migdal, subsidiaries of Migdal and investees, whereby they will be indemnified, in the amount, under the circumstances and subject to the qualifications detailed in the letters of indemnity, for any financial liability imposed on them in connection with the following matters:

(1) Prospectus of the Company from the year 1996.

(2) Liabilities applying to the Company and/or the Migdal Group companies due to the fact that the Company is a company whose shares are held by the public and listed on the stock exchange, provided that the indemnification obligation will apply only to liabilities arising from actions done during a period of up to one year from the date of the prospectus.

d. The Company granted letters of waiver and undertaking for dismissal of claims against officers in corporations that belong to the Migdal Group, whereby it waived, under the circumstances and subject to the qualifications detailed in the letters of waiver and undertaking, claims against the officers with respect to any act and/or omission that done by them as officers in each of the corporations, including actions with respect to the areas detailed below:

1) The Company's prospectus from 1996.

2) Liabilities applying to the corporation due to the fact that the Company is a company whose shares are held by the public and listed on the stock exchange.
The Company also undertook, under the circumstances and subject to the qualifications detailed in the letters of waiver and undertaking, to cause the dismissal of any claim filed against the corporations or any one of them, if as a result of such claim the officers are sued by any of the corporations in a claim that is not dismissed in limine.

2) Letters of release and indemnity granted in 2006:

In November 2006, an extraordinary general meeting of the Company approved the grant of an undertaking to exempt and indemnify officers of the Company. Accordingly, the Company informed its officers as follows:

Undertaking for release – the Company releases its officers from any liability towards the Company, to the extent that this is permitted by law, for any damage that is and/or may be caused to it due to breach of the duty of care owed to it by the officers in their bona fide activity by virtue of being officers of the Company officers and/or at its request as officers of another company in the Migdal Group and/or as a representative of the Company and at the request of another corporation in which the Company holds rights, directly or indirectly, or in which it is an interested party ("the other company"), as specified in the letter of release and indemnity given to the officer.

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

2. Commitments (Cont.)

d. Letters of indemnity and waiver to officers: (Cont.)

2) Letters of release and indemnity granted in 2006: (Cont.)

Indemnity undertaking – the Company undertakes in advance to indemnify the Company's officers including officers of the other company in accordance with the wording of the letter of waiver and indemnity given to the officers. In accordance with the letter of indemnity and subject to the provisions of the law, the Company undertakes to indemnify the officers for any liability or expense as specified in the letter of indemnity that is imposed on them or incurred by them due to actions done by them (including actions prior to the date of the letter of indemnity) and/or that they may do in their capacity as officers of the Company and/or the other company, provided that the action relates, directly or indirectly, to one or more of the categories of events listed in the addendum to the letter of indemnity, and provided that the maximum amount of indemnity under Section 2.1.1 of the letter of indemnity, inclusively and in the aggregate, payable by the Company cumulatively to all the officers under all the letters of indemnity issued and/or to be issued by the Company, does not exceed in the aggregate an amount equal to 25% of the Company's (consolidated) equity according to the last consolidated annual financial statements before actually giving the indemnity, for each of the officers and for all of them jointly, for a single event and cumulatively, all the above in addition to amounts, if any, received from an insurance company as part of the insurance purchased by the Company.

3) Limit to release from liability and indemnity undertaking granted in 2011:

In November 2011, the Company's Audit Committee decided to limit until November 30, 2020, the period of events during which the Company's existing release and indemnity arrangements will apply, insofar as they are not replaced by other arrangements, as well as letters of release or indemnity that will be granted from time to time by the Company according to the Company's existing release and indemnity arrangements, with respect to officers of the Company who are serving or may serve from time to time, where the controlling shareholder of the Company might be considered to have a personal interest in granting letters of release and indemnity to these officers. See the Company's immediate report dated November 29, 2011 (reference no.: 2011-01-344238).

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

2. Commitments (Cont.)

d. Letters of indemnity and waiver to officers: (Cont.)

4) Updated letters of indemnity granted in 2012:

a) A prior indemnity undertaking in respect of a financial liability imposed on an officer for payment to victims of a violation in an administrative proceeding, and expenses incurred by an officer in connection with an administrative proceeding conducted against him, including reasonable litigation expenses, including attorney's fees, all the above in accordance with the effective date of the Administrative Enforcement Law and the amendment to the Securities Law, 5728-1968 ("Securities Law") and in accordance with the Increased Enforcement in the Capital Market Law (Legislation Amendments), 5771-2011.

b) The maximum indemnification amount payable to officers of Migdal as a whole, under all the letters of indemnity issued and to be issued from time to time, has not changed, but has been amended such that it may not exceed an amount equal to 25% of the Company's equity (consolidated) according to the last financial statements published by it prior to the actual indemnification (instead of being determined according to the last annual financial statements published by the Company prior to the actual indemnification).

c) It was clarified that the indemnity undertaking also applies to other positions filled by the holder of the letter of indemnity in companies of the Migdal Group and/or in another company in which he serves on behalf of the Migdal Group.

d) It was clarified that the indemnity undertaking applies both in respect of an event occurring in Israel and an event occurring outside of Israel.

In addition, in view of recent developments in the business environment in which the Company operates and in the regulatory requirements applicable to the Company, the list of events in respect of which the Company is entitled to grant an indemnity undertaking was updated to relate also the following events: risk management, investment policy, SOX controls and procedures, preparation of financial statements and other reports and management of customers' funds. The updated provisions of the letters of indemnity will apply, subject to the provisions of applicable law, also to actions committed prior to the amendment thereof.

The grant of updated letters of indemnity to officers of the Company, where the controlling shareholder of the Company may be considered as having a personal interest in granting letters of indemnity to those officers as they may be appointed from time to time ("certain officers"). The updated letters of indemnity granted to certain officers are identical to the letters of indemnity to be granted to directors and are in the attached wording. The provisions of the updated letters of indemnity to be granted to certain officers will apply, subject to the provisions of any law, also with respect to actions done prior to their amendment.

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

2. Commitments (Cont.)

d. Letters of indemnity and waiver to officers: (Cont.)

4) Updated letters of indemnity granted in 2012: (Cont.)

For more information about these letters of indemnity, see the Company's immediate report dated December 28, 2011 (reference 2011-01-378141), immediate report dated February 2, 2012 (reference 2012-01-032109) and immediate report dated February 7, 2012 (reference 2012-01-036555).

5) Letters of indemnity and letters of release granted in 2016

In December 2016, an extraordinary general meeting of the Company approved the grant of letters of indemnity also to officers who are the controlling shareholder and his relative and the grant of letters of release to officers and directors, including officers who are the controlling shareholders or his relative. For further details see the Company’s immediate report dated December 22, 2016 regarding the convening of a general meeting (complementary report) having on its agenda, inter alia, approval of the grant of indemnity and release letters (reference 2016-01-142339) and the Company’s immediate report dated January 1, 2017 regarding the results of the meeting (reference 2017-01-000333).

6) Officers’ insurance

On June 28, 2016, after having been approved by the Company’s Audit Committee on June 27, 2016, the Board of Directors of the Company approved the renewal of the Group's directors and officers liability insurance policy, for the Group’s officers, including in respect of the controlling shareholder and his relatives who serve as officers of the Group, the Company’s CEO and officers serving in Migdal Capital Markets (1965) Ltd. and in companies controlled by Migdal Capital Markets (1965) Ltd., a subsidiary wholly owned and fully controlled by the Company. The insurance will be renewed for a period of seventeen (17) months from July 1, 2016, with a liability limit of $ 120 million per event and for the entire insurance period, in consideration for an annual premium that is not to exceed $ 425,000. See details in the Company’s immediate report dated June 28, 2016 reference 2016-01-068815.

e. Other commitments

1) On July 19, 2015 Migdal Capital Markets, a wholly owned subsidiary of the Company, and Migdal Stock Exchange Services, a wholly owned subsidiary of Migdal Capital Markets, which is a member of the Tel Aviv Stock Exchange Ltd., entered into a merger agreement with IBI Holdings (1997) Ltd. ("IBI Holdings") and a wholly owned subsidiary thereof, Israel Brokerage and Investments IBI Ltd., which too is a member of the Tel Aviv Stock Exchange ("IBI Brokerage" or the "merging company"), for the merger of Migdal Stock Exchange Services with and into IBI Brokerage ("the merged companies").

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

2. Commitments (Cont.)

e. Other commitments (Cont.)

1) (Cont.)

Migdal Mutual Funds Ltd., a wholly owned subsidiary of Migdal Stock Exchange Services, is not part of the merger, and a condition precedent to the merger is the distribution of this company and/or its transfer in another manner to the shareholders of Migdal Stock Exchange Services ("the leveraged transaction").

On September 24, 2015 the entire issued and paid-up share capital of Migdal Mutual Funds Ltd., which was a wholly owned subsidiary of Migdal Stock Exchange Services, was transferred through its distribution as a dividend in kind to Migdal Capital Markets, so that as of the reporting date Migdal Stock Exchange Services had no holding in Migdal Mutual Funds Ltd.

In consideration for the merger, Migdal Capital Markets was allotted ordinary shares of IBI Brokerage, so that it holds 19.9% of the shares of IBI Brokerage ("the consideration shares"), and IBI Holdings holds the balance of the shares. The merger value ratios were calculated based on the equity which each of the merged companies undertook to provide as of September 30, 2015, such that the equity of Migdal Stock Exchange Services will stand at NIS 52 million, with NIS 5 million subtracted from this amount for the purpose of calculating the merger value ratios, while the equity of IBI Brokerage as of the effective date will stand at about NIS 184 million, as it was on the merger date.

The agreement provides further that Migdal Capital Markets will not be entitled to sell its shares other than in accordance with the mechanisms established in the agreement:

a) A put option to Migdal Capital Markets to sell the consideration shares to IBI Holdings, exercisable starting from the date of approval of the financial statement for 2020.

b) A call option to IBI Holdings to purchase the consideration shares from Migdal Capital Markets, exercisable starting from the date of approval of the financial statement for 2020.

c) A tag-along right given to Migdal Capital Markets to join in the sale of shares of the merging company by IBI Holdings.

d) A right given to IBI Holdings to obligate Migdal Capital Markets to join in the sale of the shares of the merging company.

The merger agreement includes an indemnity undertaking given by each of IBI Investment House and Migdal Capital Markets to the merging company in connection with events occurring prior to the merger date and in connection with declarations and representations in the merger agreement.

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

2. Commitments (Cont.)

e. Other commitments (Cont.)

1) (Cont.)

It should be noted that Migdal Capital Markets purchased run-off insurance to cover professional liability in respect of the past activity of Migdal Stock Exchange Services up to the merger date, which will be in effect for a period of seven years from the merger date.

On October 28, 2015 the merger was completed, after the Registrar of Companies approved the merger and issued a merger certificate, following compliance with all the conditions precedent (other than receipt of the tax authority's confirmation, which was waived by Migdal Capital Markets).

Pursuant to the completion of the merger, as of October 28, 2015 Migdal Capital Markets holds 19.9% of the shares of the merging company, and IBI Holdings holds the balance of the shares at a rate of 80.1%. Migdal Capital Markets' holding in the merging company is accounted for as a financial asset revalued to fair value.

On the merger date, a shareholders agreement of the merging company, signed between Migdal Capital Markets and IBI Holdings, came into effect ("the shareholders agreement").

The shareholders agreement includes, inter alia, provisions relating to the restructuring of the stock exchange and the allocation of its shares among the stock exchange members. Under the shareholders agreement, should the merging company receive shares of the stock exchange in the framework of the change in the stock exchange ownership, Migdal Capital Markets will be entitled to the proportion of the stock exchange shares arising from the entitlement of Migdal Stock Exchange Services. It was agreed that the value of the shares would be excluded from any parameter relevant to the calculation of the parties' rights under the merger agreement, the shareholders agreement and any other agreement associated with the merger transaction, including for the purpose of calculating the merging company's equity, net profit after tax and price per share.

The value of said share of Migdal Stock Exchange Services in the stock exchange shares, insofar as they are allotted to the stock exchange members in the framework of the change in the stock exchange ownership, is expected to have a material impact on the equity of Migdal Capital Markets.

As regards the aforesaid restructuring (which includes the leveraged transaction and the merger transaction) an agreed by tax ruling was provided by which the restructuring, including all its stages, shall not be subject to tax, subject to meeting the conditions and restrictions provided in the law and in the tax ruling. The tax ruling also prescribed rules for calculating the tax when the shares of the merged company and/or Migdal Mutual Funds Ltd. are sold.

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

2. Commitments (Cont.)

e. Other commitments (Cont.)

2) Migdal insurance signed agreements with Femi Premium Ltd. ("Femi") which provides it with assistance services for policyholders based on service letters / riders / policy extensions sold mainly in nonlife insurance (motor property, home and mortgage insurance) as well as for services in the health line of business. The agreement regarding services in nonlife insurance will terminate on March 31, 2017. The agreement for service letters for collectives in the health line of business will be in effect up to the date of termination or renewal of each collective.

The scope of purchases from Femi in 2016 totaled about NIS 29 million (compared with NIS 42 million in 2015 and about NIS 58 million in 2014).

On December 1, 2012 Migdal Insurance entered into an agreement with Infomed Medical Sites ("Infomed"), a consolidated subsidiary of Migdal Health and Quality of Life Ltd. ("Migdal Health"), a subsidiary of the Company, for the provision of services in connection with a service letter.

In December 2014 an agreement was signed between Migdal and Infomed, to which also B-Well was added, which constituted a framework agreement between Migdal and Infomed and B-Well, covering existing and future service letters, subject to the terms of the agreement ("2014 framework agreement").

In respect of the service letters that were transferred to B-Well from Femi, the rates agreed upon between Migdal Insurance and B-Well Quality of Life Solutions Ltd., a consolidated subsidiary of Infomed ("B-Well"), are lower than the rates Migdal Insurance paid to Femi for the same services and the total amount to be paid to B-Well depends on the scope and mix of the services purchased by Migdal Insurance.

In connection with the transfer of the services in the field of service letters to B-Well, in November 2014, B-Well and Femi signed a cooperation and service agreement, whereby B-Well is to purchase services from Femi in respect of the service letters of Migdal the handling of which was transferred from Femi to B-Well, and regulating the terms of cooperation between B-Well and Femi ("the service agreement").

The term of the service agreement is until March 30, 2019, although B-Well may terminate the service agreement at an earlier date in accordance with its conditions. In case the agreement is cancelled before the aforesaid date, B-Well is to pay Femi agreed compensation equal to the number of months until that date multiplied by NIS 30,000. In 2016, 2015 and 2014 B-Well paid Femi, for the purchased services, a total of NIS 3,626 thousand, NIS 1,922 thousand and NIS 23 thousand, respectively.

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

2. Commitments (Cont.)

e. Other commitments (Cont.)

2) (Cont.)

According to the terms of the service agreement and in consideration for providing the purchased services by means of the B-Well call center, Femi paid B-Well a lump-sum payment of NIS 1.6 million plus VAT in 2015.

In December 2015 a new framework agreement was signed between Migdal Insurance, Infomed and B-Well which replaced the old framework agreement ("2015 framework agreement"). The 2015 framework agreement relates to all the service letters included in the old framework agreement and an additional service letter was added to it.
In July 2016 a new framework agreement was signed ("2016 framework agreement") between Migdal Insurance, Infomed and B-Well which superseded and cancelled the previous agreements between the parties. Additional service letters (relating to both individuals and groups) that were transferred from Femi were added to the scope of the 2016 framework agreement. The 2016 framework agreement separated between the various service letters into several types, according to the date on which the services began being provided and/or their type, and for each such type a separate engagement period was set.

In October 2015 Migdal Insurance and B-Well signed a service agreement that does not involve service letters. This agreement regulates the provision of additional services to Migdal Insurance: collection of medical information for the clarification of claims in all lines of insurance, hotline, operations and dental treatment, as well as settlement of dental claims. The agreement is for an indefinite period, with each one of the parties having the right to terminate it by providing advance notice to the other party.
As at the reporting date, Migdal, Infomed and B-Well are conducting negotiations regarding expansion of the services that will be granted.

In 2016, 2015 and 2014 Migdal Insurance paid B-Well or Infomed, as the case may be, a total of NIS 39,069 thousand, NIS 30,796 thousand and NIS 2,064 thousand, respectively.

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

2. Commitments (Cont.)

f. Holdings in trust

The Capital Markets Group manages investment portfolios and mutual funds for customers who are not related parties for a total value of NIS 31 billion as of December 31, 2016 (December 31, 2015 – NIS 33 billion).

g. Leases

1) Operating leases in which the Group is the lessee:

The Group has operating lease agreements with respect to vehicles. The average lease term is three years and the contract does not include an option to extend the lease.

The minimum lease fees that will be paid for irrevocable operating lease contracts as at December 31 are:

	2016	2015
	NIS in thousands	
First year	**21,986**	24,506
Second year up to five years	**18,407**	19,979
	40,393	44,485

For details about leased land, see Notes 6 and 8 above.

2) Operating leases in which the Group is the lessor:

The Group leases out investment property to external entities. The lease agreements are for an average period of 3 to 7 years. Usually the lessees have an option to extend the period of lease according to the conditions that were set in the agreement.

Hereunder are the minimum lease fees that will be received under irrevocable lease contracts (not including the option period):

	December 31	
	2016	2015
	NIS in thousands	
First year	**369,785**	390,961
Second year up to five years	**1,009,785**	1,315,117
More than five years	**884,353**	763,585
	2,263,923	2,469,663
Of which the minimum future lease fees receivable that relate to assets in which the Group is a financial lessee	**1,354,319**	1,180,656

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

2. Commitments (Cont.)

g. Leases (Cont.)

2) Operating leases in which the Group is the lessor: (Cont.)

During the year ended December 31, 2016, the Group recognized the sum of NIS 3,289 thousand as income in the statement of income in respect of contingent leasing fees (in 2015 and 2014 – NIS 2,454 thousand and NIS 1,931 thousand, respectively).

For additional information regarding income recognized in respect of investment property, see Notes 8 and 26 above.

NOTE 40:- MATERIAL EVENTS AFTER THE REPORTING PERIOD

a. On March 1, 2017 the Company's Board of Directors approved the distribution of a dividend in the amount of NIS 110 million, of which NIS 100 million was received from Migdal Capital Markets from capital reductions it made at the approval of the court and the balance derived from the Company's cash balance. The dividend distribution is subject to the approval of the Company's general meeting.
The dividend's distribution date is March 30, 2017 and the ex-date is March 26, 2017.
The Company's general meeting approved the dividend distribution on March 22, 2017.

b. On January 4, 2017 a shelf prospectus was issued. For further details see the immediate report of January 3, 2017 (no. 2017-01-001473).

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	
	2016	2015	2016	2015
	NIS in thousands			
Government bonds – available- for-sale	**4,190,207**	4,723,666	**4,220,113**	4,707,653
Other debt assets				
Non-convertible – available-for-sale	**4,762,984**	2,890,037	**4,723,509**	2,849,077
Convertible and designated on initial recognition at fair value through profit or loss	**-**	-	**-**	-
Total quoted debt assets	**8,953,191**	7,613,703	**8,943,622**	7,556,730
Impairment recognized in profit or loss (on a cumulative basis)	**382**	2,415		

b. Shares

	December 31,			
	Carrying amount		Cost *)	
	2016	2015	2016	2015
	NIS in thousands			
Quoted				
Designated on initial recognition at fair value through profit or loss	**10,440**	60,380	**15,949**	59,296
Held-for-trade	**-**	-	**-**	-
Available-for-sale	**993,305**	979,928	**882,568**	827,939
Total quoted shares	**1,003,745**	1,040,308	**898,517**	887,235
Unquoted				
Designated on initial recognition at fair value through profit or loss	**-**	-	**-**	-
Available-for-sale	**54,031**	70,285	**36,843**	49,611
Total unquoted shares	**54,031**	70,285	**36,843**	49,611
Total shares	**1,057,776**	1,110,593	**935,360**	936,846
Impairment recognized in profit or loss (on a cumulative basis)	**88,388**	123,593		

*) Net of provisions for impairment.

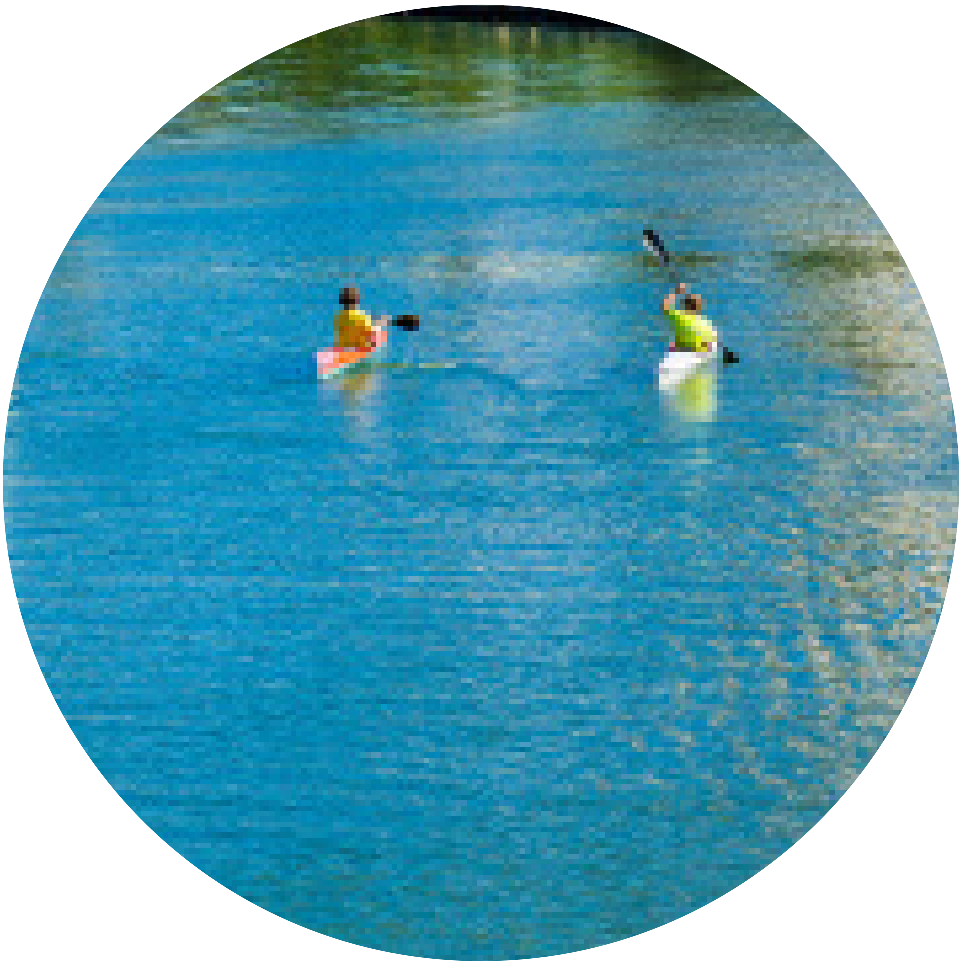
APPENDIX - DETAILS OF ASSETS OF OTHER FINANCIAL INVESTMENTS OF AN INSURANCE SUBSIDIARY IN ACCORDANCE WITH THE DIRECTIVES OF THE COMMISSIONER OF INSURANCE

c. Other financial investments

Other financial investments include mainly investments in ETFs, participation certificates in mutual funds, hedge funds, investment funds, financial derivatives, future contracts, options and structured products.

	December 31,			
	Carrying amount		Cost *)	
	2016	2015	2016	2015
	NIS in thousands			
Quoted				
Presented at fair value through profit or loss				
Available-for-sale	**1,831,306**	2,011,046	**1,738,902**	1,903,539
Derivative instruments	**6,240**	7,282	**2,677**	2,309
Total quoted financial investments	**1,837,546**	2,018,328	**1,741,579**	1,905,848
Unquoted				
Presented at fair value through profit or loss	**-**	-	**-**	-
Available-for-sale	**522,907**	478,069	**399,537**	364,591
Derivative instruments	**38,608**	12,817	**-**	-
Total unquoted financial investments	**561,515**	490,886	**399,537**	364,591
Total other financial investments	**2,399,061**	2,509,214	**2,141,116**	2,270,439
Impairment recognized in profit or loss (on a cumulative basis)	**298,601**	256,730		

*) Net of provisions for impairment.



SEPARATE FINANCIAL DATA

Translated from the Hebrew original

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

SEPARATE FINANCIAL INFORMATION

AS OF DECEMBER 31, 2016

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

SEPARATE FINANCIAL INFORMATION

AS OF DECEMBER 31, 2016

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Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 6706703, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006 Israel

Telephone 972 3 684 8000
Fax 972 3 684 8444
Internet www.kpmg.co.il

To
The Shareholders of Migdal Insurance and Financial Holdings Ltd.

Dear Sirs/Mmes.,

Re: Special Auditors' Report of the Separate Financial Information in accordance with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have reviewed the separate financial information presented in accordance with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 of Migdal Insurance and Financial Holdings Ltd. (hereunder – "the Company") as of December 31, 2016 and 2015 and for each of the three years the latest of which ended on December 31, 2016, as disclosed on pages 3 (inclusive) through 12 (inclusive) to the Company's periodic report. The Company's board of directors and management are responsible for the separate financial information. Our responsibility is to express an opinion on the separate financial information based on our audit.

We did not audit the separate financial information taken from the financial statements of investees, whose assets less attributable liabilities, net total about NIS 312,131 thousand and NIS 698,104 thousand as of December 31, 2016 and 2015, respectively, and the Company's share of their earnings amounted to about NIS 58,112 thousand, NIS 91,270 thousand and NIS 80,009 thousand for each of the three years the latest of which ended on December 31, 2016. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the 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 audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the 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 22, 2017	Member of KPMG International	Member of Ernst & Young Global

Joint auditors

SEPARATE FINANCIAL INFORMATION AS AT DECEMBER 31, 2016

DATA OF FINANCIAL POSITION

	Note	December 31, 2016	December 31, 2015
		NIS in thousands	
Assets			
Investments in investees		**5,267,186**	5,114,472
Capital notes and loan to investee	5a	**97,481**	93,327
Total non-current assets		**5,364,667**	5,207,799
Receivables - investees		**892**	2,089
Other receivables		**224**	185
Cash and cash equivalents	2	**21,561**	17,902
Total current assets		**22,677**	20,176
Total assets		**5,387,344**	5,227,975
Equity attributable to equity holders of the Company			
Share capital		**110,629**	110,629
Share premium		**273,735**	273,735
Capital reserves		**242,934**	291,564
Retained earnings		**4,757,785**	4,550,144
Total equity		**5,385,083**	5,226,072
Liabilities			
Payables - investees		**444**	291
Other payables	3	**1,817**	1,612
Total liabilities		**2,261**	1,903
Total equity and liabilities		**5,387,344**	5,227,975

The accompanying additional information is an integral part of the separate financial information.

March 22, 2017			
Date of approval of the financial statements	Yohanan Danino Chairman of the Board	Eran Czerninski CEO	Eran Czerninski CFO

DATA OF PROFIT AND LOSS

	Note	Year ended December 31, 2016	2015	2014
		NIS in thousands		
Company's share in earnings of investees		**204,030**	349,702	422,005
General and administrative expenses		**3,544**	2,516	2,509
Income before finance income and taxes on income		**200,486**	347,186	419,496
Finance income in respect of investees		**2,754**	2,637	2,524
Finance income, net		**25**	2,046	11
Income before taxes on income		**203,265**	351,869	422,031
Taxes on income	4	**-**	-	-
Income for the period attributable to equity holders of the Company		**203,265**	351,869	422,031

The accompanying additional information is an integral part of the separate financial information.

SEPARATE FINANCIAL INFORMATION AS AT DECEMBER 31, 2016

DATA OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2016	**2015**	**2014**
		NIS in thousands	
Income for the period attributable to equity holders of the Company	**203,265**	351,869	422,031
Other comprehensive income (loss):			
Items of other comprehensive income (loss) that have been or will be reclassified from comprehensive income to profit and loss after initial recognition			
Net change in fair value of available-for-sale financial assets allocated to other comprehensive income	**-**	1,970	-
Profits and losses, net from realization of financial assets classified as available for sale allocated to the statement of profit and loss	**-**	(1,970)	-
Company's share of other comprehensive income (loss) of investees accounted for at equity	**(52,141)**	(197,546)	112,043
Total other comprehensive income (loss) for the period that has been or will be reclassified from comprehensive income to profit and loss after initial recognition, net of tax	**(52,141)**	(197,546)	112,043
Items of other comprehensive income (loss) that will not be transferred to profit and loss - Company's share of other comprehensive income of investees accounted for at equity	**8,965**	(5,263)	2,691
Total other comprehensive income (loss), net	**(43,176)**	(202,809)	114,734
Total comprehensive income for the period attributed to the Company's shareholders	**160,089**	149,060	536,765

The accompanying additional information is an integral part of the separate financial information.

SEPARATE FINANCIAL INFORMATION AS AT DECEMBER 31, 2016

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, 2016	110,629	273,735	283,079	6,989	(1,252)	(604)	3,352	4,550,144	5,226,072
Income for the period	-	-	-	-	-	-	-	203,265	203,265
Other comprehensive income (loss), net of tax	-	-	(52,690)	-	-	549	3,994	4,971	(43,176)
Total comprehensive income (loss)	-	-	(52,690)	-	-	549	3,994	208,236	160,089
Allocation of benefit in respect of employees options									
Dividend	-	-	-	-	(483)	-	-	-	(483)
Balance at December 31, 2016	110,629	273,735	230,389	6,989	(1,735)	(55)	7,346	4,757,785	5,385,083

The accompanying additional information is an integral part of the separate financial information.

SEPARATE FINANCIAL INFORMATION AS AT DECEMBER 31, 2016

DATA OF CHANGES IN EQUITY (Cont.)

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital reserves from available-for-sale assets	Reserve from revaluation of investment after achieving control	Capital reserve from transactions with non-controlling interests	Foreign currency translation adjustment of foreign operation	Revaluation reserve	Retained earnings	Total
	NIS in thousands								
Balance at January 1, 2015	110,629	273,735	480,086	6,989	(1,252)	(65)	3,352	4,402,316	5,275,790
Income for the period	-	-	-	-	-	-	-	351,869	351,869
Other comprehensive income (loss), net of tax	-	-	(197,007)	-	-	(539)	-	(5,263)	(202,809)
Total comprehensive income (loss)	-	-	(197,007)	-	-	(539)	-	346,606	149,060
Net cumulative effect of changes in insurance reserves in general insurance								1,082	1,082
Allocation of benefit in respect of employees options	-	-	-	-	-	-	-	140	140
Dividend	-	-	-	-	-	-	-	(200,000)	(200,000)
Balance at December 31, 2015	110,629	273,735	283,079	6,989	(1,252)	(604)	3,352	4,550,144	5,226,072

The accompanying additional information is an integral part of the separate financial information.

SEPARATE FINANCIAL INFORMATION AS AT DECEMBER 31, 2016

DATA OF CHANGES IN EQUITY (Cont.)

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital reserves from available-for-sale assets	Reserve from revaluation of investment after achieving control	Capital reserve from transactions with non-controlling interests	Foreign currency translation adjustment of foreign operation	Revaluation reserve	Retained earnings	Total
	NIS in thousands								
Balance at January 1, 2014	110,628	273,735	367,985	6,989	(1,149)	(7)	3,352	4,377,484	5,139,017
Income for the period	-	-	-	-	-	-	-	422,031	422,031
Other comprehensive income (loss), net of tax	-	-	112,101	-	-	(58)	-	2,691	114,734
Total comprehensive income (loss)	-	-	112,101	-	-	(58)	-	424,722	536,765
Realization of employee options into shares	1	-	-	-	-	-	-	-	1
Benefit in respect of employees options	-	-	-	-	-	-	-	110	110
Dividend	-	-	-	-	-	-	-	(400,000)	(400,000)
Transactions with non-controlling interests	-	-	-	-	(103)	-	-	-	(103)
Balance at December 31, 2014	110,629	273,735	480,086	6,989	(1,252)	(65)	3,352	4,402,316	5,275,790

The accompanying additional information is an integral part of the separate financial information.

DATA OF CASH FLOWS

	App.	2016	2015	2014
		Year ended December 31, NIS in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES				
Net cash from Company's current activities	A	**(3,969)**	(395)	(1,575)
Net cash from current activities in respect of transactions with investees		**1,468**	255	20
Net cash (used in) from current activities		**(2,501)**	(140)	(1,555)
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Net cash from the Company's investment activities		**-**	-	-
Net investments in investees		**(1,845)**	(3,037)	1,154
Realization of financial investments		**-**	4,006	-
Dividend received from investees		**8,000**	206,213	403,273
Net cash provided by investment activities in respect of transactions with investees		**6,155**	207,182	404,427
Net cash from investment activities		**6,155**	207,182	404,427
CASH FLOWS FROM FINANCE ACTIVITIES				
Realization of employee options into shares		**-**	-	1
Dividend		**-**	(200,000)	(400,000)
Net cash from the Company's finance activities		**-**	(200,000)	(399,999)
Net cash from finance activities in respect of transactions with investees		**-**	-	-
Net cash used in finance activities		**-**	(200,000)	(399,999)
Effect of exchange rate fluctuations on balances of cash and cash equivalents		**5**	(14)	13
Change in cash and cash equivalents		**3,659**	7,028	2,886
Balance of cash and cash equivalents at beginning of period		**17,902**	10,874	7,988
Balance of cash and cash equivalents at end of period		**21,561**	17,902	10,874

The accompanying additional information is an integral part of the separate financial information.

DATA OF CASH FLOWS (Cont.)

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
SCHEDULE A - CASH FLOWS FROM THE COMPANY'S CURRENT ACTIVITIES			
Net income for the period	**203,265**	351,869	422,031
Items not involving cash flows of investees:			
Company's share of results of investees, net	**(204,030)**	(349,702)	(422,005)
Interest income from investees	**(2,770)**	(2,493)	(2,360)
Change in equity settled share-based payment transactions	**(595)**	140	110
Taxes on income	**-**	-	-
Changes in other balance sheet items:			
Debtors and receivables	**(44)**	(244)	599
Creditors and payables	**119**	(44)	26
Total adjustments required for presenting cash flows from current activities	**(207,320)**	(352,343)	(423,630)
Cash paid and received during the period for:			
Interest received	**86**	79	24
Interest paid	**-**	-	-
Taxes paid, net	**-**	-	-
Net cash (used in) from the Company's current activities	**(3,969)**	(395)	(1,575)
SCHEDULE B – SIGNIFICANT ACTIVITIES NOT INVOLVING CASH FLOWS			
Dividend not in cash received from investees	**-**	4,006	-

The accompanying additional information is an integral part of the separate financial information.

SEPARATE FINANCIAL INFORMATION AS AT DECEMBER 31, 2016

ADDITIONAL INFORMATION TO THE FINANCIAL DATA

NOTE 1:- SIGNIFICANT ACCOUNTING POLICIES APPLIED IN THE SEPARATE FINANCIAL INFORMATION

Hereunder is the financial data from the Company's consolidated financial statements as at December 31, 2016 (hereunder - Consolidated Statements), published as part of the periodic reports, attributable to the Company itself (hereunder - the separate financial data), presented in accordance with Article 9c (hereunder – the Regulation) and the Tenth Addendum to the Securities Regulations (Periodic and Immediate reports), 1970 (hereunder - the Tenth Addendum), regarding the separate financial data of the corporation. Please read the separate financial information together with the consolidated financial statements.

In this separate financial information

- The Company - Migdal Insurance and Financial Holdings Ltd.
- Investees – Subsidiaries and companies the Company's investment therein is included, directly or indirectly, in the financial statements using the equity method of accounting.

The separate financial data does not constitute financial statements, prepared and presented in accordance with International Financial Reporting Standards (hereunder – the IFRS Standards) in general, and the provisions of IAS 27 - "Consolidated and Separate Financial Statements" in particular. However, the accounting policies described in Note 2 to the consolidated financial statements regarding significant accounting policies, and the manner by which the financial data were classified in the consolidated financial statements, have been applied in the presentation of the separate financial information, with any necessary changes deriving from that mentioned below.

(1) Data of Financial Position

Information on amounts of assets and liabilities included in the consolidated financial statements that are attributable to the Company itself according to categories of assets and liabilities. The data is classified in the same manner in which they were classified in the consolidated statements of financial position.

In addition, information is presented regarding the net amount, on the basis of the consolidated financial statements, that is attributable to the Company's shareholders, of total assets less total liabilities, in respect of investees, including goodwill.
As a result of this presentation the equity attributable to shareholders of the Company, on the basis of the consolidated financial statements, is identical to the Company's equity as derived from the separate financial information.

(2) Data of profit and loss and other comprehensive income

Information on amounts of income and expenses included in the consolidated financial statements that are attributable to the Company itself, broken down in respect of profit or loss and other comprehensive income, according to categories of income and expenses. The data is classified in the same manner in which they were classified in the consolidated statements of profit and loss and statement of comprehensive income.

ADDITIONAL INFORMATION TO THE FINANCIAL DATA

NOTE 1:- SIGNIFICANT ACCOUNTING POLICIES APPLIED IN THE SEPARATE FINANCIAL INFORMATION (Cont.)

(2) Data of profit and loss and other comprehensive income (Cont.)

In addition, information is presented regarding the net amount, on the basis of the consolidated financial statements, that is attributable to the Company shareholders, of the total income less the total expenses in respect of the operating results of investees, including goodwill impairment, impairment of an investment in affiliate or its reversal and impairment of an investment accounted for at equity or its reversal.

As a result of this presentation, the total income for the period that is attributable to shareholders of the Company and the total comprehensive income for the year that is attributable to shareholders of the Company, on the basis of the consolidated financial statements, is identical to the total income for the year that is attributable to shareholders of the Company and the total comprehensive income for the period that is attributable to shareholders of the Company, respectively, as derived from the separate financial information.

(3) Data on cash flows

Information on cash flow included in the consolidated financial statements that are attributable to the Company itself, based on the consolidated statements of cash flows, classified according to the flows from current activities, investment activities and finance activities with details of their composition. This data was classified in the same manner as in the consolidated financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

	Average interest rate	December 31, 2016	December 31, 2015
	%	NIS in thousands	
Cash and deposits for immediate withdrawal	0.07	**21,561**	17,902

NOTE 3: OTHER PAYABLES

	December 31, 2016	December 31, 2015
	NIS in thousands	
Institutions and government authorities	**1,364**	1,360
Other	**453**	252
	1,817	1,612

ADDITIONAL INFORMATION TO THE FINANCIAL DATA

NOTE 4:- TAXES ON INCOME

a. Corporate tax assessments

The Company received final tax assessments, by virtue of agreement or by virtue of statute of limitations, up to and including 2011.

b Theoretical tax

Hereunder is a reconciliation between 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,		
	2016	**2015**	**2014**
	NIS in thousands		
Income before taxes on income	**203,265**	351,869	422,031
Statutory tax rate	**25%**	26.5%	26.5%
Tax computed at the statutory tax rate	**50,816**	93,245	111,838
Increase (decrease) in taxes on income resulting from the following factors:			
Increase in losses for tax purposes for which no deferred taxes were allocated	**866**	85	619
Tax-exempt income	**(674)**	(659)	(626)
Company's share of earnings of investees	**(51,008)**	(92,671)	(111,831)
Taxes on income	**-**	-	-
Average effective tax rate	**-**	-	-

ADDITIONAL INFORMATION TO THE FINANCIAL DATA

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:

	December 31,		December 31,	
	2016	2015	2016	2015
Issuer:	Par value		NIS in thousands	
Migdal Capital Markets (1965) Ltd. (1)	**30,000**	30,000	**30,000**	30,000
Migdal Management Services Ltd. (2)	**22,077**	22,077	**21,228**	20,365
Migdal Health and Quality of Life Ltd. (2)	**48,222**	45,522	**46,253**	42,067
Total	**100,299**	97,599	**97,481**	92,432

(1) Unlinked and non-interest bearing perpetual capital note.

(2) The capital notes were issued to the Company for a period of no 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 duration of 5 years.

2. Loan to investee:

The Company granted a loan to Migdal Health and Quality of Life Ltd. that is linked to the CPI, bears annual interest of 4% and is payable in equal monthly payments from June 2014 to May 2017.
As at December 31, 2016 the balance of the loan is NIS 892 thousand, is payable in 2017 and is presented as part of receivables in respect of investee companies.
As at December 31, 2015 the balance of the loan was NIS 2,984 thousand, of which an amount of NIS 895 thousand was presented as part of capital notes and loan to investee company and an amount of NIS 2,089 thousand was repaid in 2016 and was presented as part of receivables – investee companies.

ADDITIONAL INFORMATION TO THE FINANCIAL DATA

NOTE 5:- MATERIAL COMMITMENTS AND TRANSACTIONS WITH INVESTEES (Cont.)

b. Dividends received from subsidiaries:

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Migdal Insurance Company Ltd.	**-**	210,219	403,273
Midgal Capital Markets (1965) Ltd.	**8,000**	-	-

NOTE 6:- EQUITY REQUIREMENTS FOR SUBSIDIARIES

Regarding the equity requirements for Migdal Insurance, Migdal Makefet and Migdal Capital Markets, see Note 7c to the consolidated financial statements.

NOTE 7:- SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

a. For details regarding the proposal of a dividend subsequent to the reporting date, see Note 40.a to the consolidated financial statements.

b. On January 4, 2017 a shelf prospectus was issued. For further details see the immediate report of January 3, 2017 (no. 2017-01-001473).

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ADDITIONAL DATA ON THE CORPORATION

LOOKING TOWARDS HULA VALLEY | **GOLAN HEIGHTS**

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	--	4,173	--	47,144	--	1,000
Second year	--	--	--	--	--	--
Third year	--	--	--	--	--	-
Fourth year	--	--	--	--	--	--
Fifth year and on	--	--	--	--	--	--
Total	--	4,173	--	47,144	--	1,000

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

	1-3/16	4-6/16		7-9/16	10-12/16	Total 2016
	NIS thousands					
	Unaudited					Audited
Gross premiums earned	2,652,347	2,640,237	(*)	2,838,279	3,063,627	11,194,490
Premiums earned by reinsurers	172,327	167,711	(*)	174,453	194,304	708,795
Premiums earned in retention	2,480,020	2,472,526		2,663,826	2,869,323	10,485,695
Net investment income (loss), and financing income	(792,163)	1,691,926		2,064,814	1,956,559	4,921,136
Income from management fees	306,247	341,808	(*)	429,455	510,529	1,588,039
Income from commissions	84,540	86,956		72,564	73,801	317,861
Other income	46,037	11,402		20,411	30,393	108,243
Total income	2,124,681	4,604,618		5,251,070	5,440,605	17,420,974
Payments and change in liabilities in respect of insurance contracts and investment contracts, gross	2,167,982	4,105,084	(*)	4,170,283	4,269,844	14,713,193
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts	36,082	100,929	(*)	56,176	142,698	335,885
Payments and change in liabilities in respect of insurance contracts and investment contracts in retention	2,131,900	4,004,155		4,114,107	4,127,146	14,377,308
Commissions, marketing expenses and other acquisition expenses	435,133	379,344		394,000	428,630	1,637,107
Administrative and general expenses	248,048	236,261		245,952	241,024	971,285
Other expenses	18,643	20,387		19,802	44,066	102,898
Financing expenses	14,011	29,769		28,468	32,657	104,905
Total expenses	2,847,735	4,669,916		4,802,329	4,873,523	17,193,503
Group's share in investees income treated according to the equity value method	29,940	(2,815)		5,614	26,148	58,887
Income (loss) before income tax	(693,114)	(68,113)		454,355	593,230	286,358
Income tax (tax benefit)	(233,492)	(24,998)		137,576	202,148	81,234
Income (loss) for the period	(459,622)	(43,115)		316,779	391,082	205,124
<u>Attributed to:</u>						
Company's shareholders	(460,402)	(43,803)		316,887	390,583	203,265
Non-controlling interests	780	688		(108)	499	1,859
Income (loss) for the period	(459,622)	(43,115)		316,779	391,082	205,124

(*) Reclassified

Regulation 10a: Condensed Quarterly Profit and Loss Statements
Comprehensive Income Consolidated Reports - Quarterly

	1-3/16	4-6/16	7-9/16	10-12/16	Total 2016
	NIS thousands				
	Unaudited		Audited		
Income (loss) for the period	(459,622)	(43,115)	316,779	391,082	205,124
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	10,578	129,225	(7,107)	(71,495)	61,201
Net change in the fair value of available for sale financial assets recognized in P&L	(102,875)	(60,567)	(77,440)	(970)	(241,852)
Impairment of available for sale financial assets recognized in the P&L	25,399	30,545	16,042	10,862	82,848
Exchange rate differences in respect of foreign activities	(372)	1,260	(350)	316	854
Tax effect on financial assets available for sale	29,808	(35,618)	24,583	26,340	45,113
Tax effect on other items of the other comprehensive income	129	(437)	153	(150)	(305)
Total other comprehensive income (loss) items, which after initial recognition were transferred or will be transferred to P&L, net of tax	(37,333)	64,408	(44,119)	(35,097)	(52,141)
Other comprehensive income (loss) items, which will not be transferred to P&L					
Actuarial income (loss) in respect of defined benefit plans	3,916	(2,291)	1,312	4,393	7,330
Revaluation in respect of revaluation of fixed assets transferred to investment real estate	--	--	--	5,186	5,186
Tax effect	(1,430)	814	(399)	(2,548)	(3,563)
Total other comprehensive income (loss) for the period, which will not be transferred to P&L, net of tax	2,486	(1,477)	913	7,031	8,953
Total other comprehensive income (loss) for the period, net	(34,847)	62,931	(43,206)	(28,066)	(43,188)
Total comprehensive income (loss) for the period	(494,469)	19,816	273,573	363,016	161,936
Attributed to:					
Company's shareholders	(495,301)	19,207	273,701	362,482	160,089
Non-controlling interests	832	609	(128)	534	1,847
Comprehensive income (loss) for the period	(494,469)	19,816	273,573	363,016	161,936

Regulation 10c:	**Use of consideration of securities with reference to consideration designation as per the prospectus**

The Company did not offer securities further to the Company's shelf prospectus dated January 4th, 2017.

Regulation 11:	**List of investments in subsidiaries and related companies as at the balance sheet date [1],[2]**

[1] The data regarding subsidiaries and related companies in the Periodic Report refer to active corporations only as of December 31st, 2016. These corporations are not traded on the TASE.

[2] The following companies were removed from the companies list: Good Purpose in Orthodox Employment Ltd., Pilat Hi-Capital Group Ltd., Talent HR Systems Ltd., MRM Investment Management Ltd., MRM Migdal Risk Management Ltd., Dragon Hedge Fund Management Ltd. and Amot Investments Ltd.

a. In the Company's books[1 2]

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Migdal Insurance Company Ltd.	185,389,304[3]	Ordinary NIS 0.1	9,773,357	186,366,639.7 [3]	4,837,697	--	100	100	100	100
Migdal Health and Quality of Life Ltd.		Ordinary NIS 0.1	20,870,000	2,087,000	(29,283)	47,145[4]		100	100	100
Migdal Capital Markets (1965) Ltd.	428,943,676[5]			428,943,676 [5]	473,332	30,000[6]	100		100	100

[3] Including 105 shares held by subsidiaries of Migdal Insurance Company Ltd., a subsidiary of the Company (henceforth: "**Migdal**") and 21 shares held by Migdal.

[4] The balance is composed of current maturities of a loan extended by the Company in the amount of NIS 892 thousand, CPI-linked and bearing interest at 4%, to be paid in monthly installments until May 2017, and of capital notes issued to the Company in the total amount of NIS 48,222 thousand, unlinked and interest-free, the capital notes were discounted as per generally accepted accounting rules, and their balance as of December 31st, 2016 is NIS 46,253 thousand as detailed herewith.

Capital note's par value in NIS thousand	Payment date	Discount rate	Capital note's balance as of December 31st, 2016
13,072	1/2017 (*)	5.13%	13,072
1,409	10/2017	4.62%	1,355
13,691	11/2017	4.29%	13,184
2,300	11/2017	4.25%	2,216
10,000	3/2018	4.16%	9,519
4,700	11/2020	2.71%	4,242
350	12/2020	2.90%	313
200	3/2021	2.68%	176
2,500	12/2021	2.82%	2,176
Total: 48,222			Total: 46,253

(*) In February 2017, payment date was postponed to December 2021,

[5] Including 33,000 shares of NIS 1 held by Migdal Trust Funds Ltd. (henceforth: "**Migdal Funds**") that is a sub-subsidiary of Migdal Capital Markets (1965) Ltd. (henceforth: "**Migdal Capital Markets**").

[6] The balance is composed of a perpetual capital note issued to the Company.

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Migdal Management Services Ltd.	200			200	(14,560)	21,228[7]	100		100	100

[7] The balance is composed of capital notes issued to the Company in the total amount of NIS 22,077 thousand, unlinked and interest-free, the capital notes were discounted as per generally accepted accounting rules. Their balance as of December 31st, 2016 is NIS 21,228 thousand, as detailed herewith:

Capital note's par value in NIS thousand	Payment date	Discount rate	Capital note's balance as of December 31st, 2016
1,500	12/2016 (*)	5.42%	1,500
500	4/2017	5.12%	494
1,600	6/2017	4.81%	1,563
1,000	10/2017	4.69%	961
500	10/2017	4.61%	481
4,000	11/2017	4.29%	3,848
2,477	12/2017	4.25%	2,384
500	3/2018	4.01%	478
10,000	4/2018	3.89%	9,519
Total: 22,077			Total: 21,228

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	735,552	--	100		100	100
Yozma Pension Fund for Self-Employeds Ltd.	9,200,000			9,200,000	10,448	--	100		100	100
Migdal Holdings and Management of Insurance Agencies Ltd.	810[8]			810[8]	39,240	--	100		100	100
Orlan Insurance Agency (1994) Ltd.[9]	200			200	15,821	--	100		100	100
Stav-Orlan Pension Insurance Agency (2012) Ltd. [10]	500			500	136	102 [11]	50		50	50

[8] Including five shares held by subsidiaries of Migdal and one share held by the Company.
[9] In the books of Migdal Holdings and Management of Insurance Agencies Ltd., a subsidiary of Migdal (henceforth: "**Migdal Agencies**").
[10] In the books of Orlan Insurance Agency (1994) Ltd., a subsidiary of Migdal Agencies (henceforth: **"Orlan"**).
[11] The balance is composed of a loan extended by Orlan, a subsidiary of Migdal Agencies, bearing CPI-linking differences and interest-free, and its payment will be pursuant to the Company's cashflow.

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
Ihud Insurance Agencies Ltd. [9]		Ordinary NIS 0.001	1,500,000 [12]	1,500 [12]	23,803	--		100	100	100
Peltours Insurance Agencies Ltd.[9]		Ordinary NIS 0.01	18,760,002	187,600.02	23,178	715 [13]		73.28	73.28	73.28
Peltours Berman Insurance Agency Ltd. [15],[14]		Foundation NIS 0.0001	100							
		Ordinary NIS 0.0001	50,900	5.1	1,117	--		73.28	73.28	73.28
Peltours Diamonds General and Marine Insurance Agency Ltd. [14, 16]		NIS 0.1	1,000	100	2,054	--		73.28	73.28	73.28
Mivtach Simon Insurance Agencies Ltd. [9]		Ordinary NIS 0.001	1,000	1	29,346	100,000 [17]		100	100	100
Amir Aloni Life Assurance Agency (1994) Ltd. [18]	300			300	1,051	--	75		75	75

[12] Including one share held by Migdal.
[13] The balance is composed of a perpetual capital note issued to Migdal Agencies.
[14] In the books of Peltours Insurance Agencies Ltd., a subsidiary of Migdal Agencies.
[15] On May 3rd, 2016 the Company's name was changed from Ihud David Berman Insurance Agency Ltd. to Peltours Berman Insurance Agency Ltd.
[16] On July 12th, 2016 the Company's name was changed from Ihud Peltours Diamonds Insurance Agency (2002) Ltd. to Peltours Diamonds General and Marine Insurance Agency Ltd.
[17] 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, interest-free, to be paid not before December 2017.
[18] 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
Eli Erlich Insurance Services (1999) Ltd. [18]	2,000			2,000	5,727	--	100		100	100
Peltours Municipalit General Insurance Agency Ltd. [14, 19]	50			50	43	--	36.635		36.635	36.635
Makefet Financial Services – Insurance Agency (1998) Ltd.[18]	1,000 [20]			1,000 [20]	8,875	--	100		100	100
Shaham Insurance Agencies (1977) Ltd. [9]	3,492 [21]	Preferred A shares NIS 0.1	782	3,570.2	7,951	6,805 [22]	100	43.88	100	100
Moshe Sofer Insurance Agency (1997) Ltd. [23]	55			55	785	--	35		35	35

[19]On May 4th, 2016 the Company's name was changed from Municipalit Insurance Agency (2000) Ltd. to Peltours Municipalit General Insurance Agency Ltd.

[20] Including 450 shares of NIS 1 held by Proline Exclusive Ltd., a subsidiary of Mivtach Simon.

[21] Excluding 36 shares held by Shaham Insurance Agencies Ltd. (1977) Ltd., a subsidiary of Migdal Agencies (henceforth: "**Shaham**").

[22] The balance is composed of capital notes issued to Migdal Agencies in the total amount of NIS 7,250 thousand, unlinked and interest-free, the capital notes were discounted as per generally accepted accounting rules, and their balance as of December 31st, 2016 is NIS 6,805 thousand as detailed herewith:

Capital note's par value in NIS thousand	Payment date	Discount rate	Capital note's balance as of December 31st, 2016
2,000	7/2017	4.76%	1,961
2,250	12/2018	3.53%	2,103
3,000	3/2019	4.09%	2,741
Total: 7,250			Total: 6,805

[23] In the books of Shaham.

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Shaham Weinstein (Netanya) Insurance Agencies Ltd. [23]		Ordinary Class A NIS 0.001 Ordinary Class B NIS 0.001	10,200 9,800	20	1,775	--		100	100	100
Isabel Ouda – Shaham – Insurance Agency [23]		--	--		2,071	--			70	70
Sagi Yogev Insurance Agencies (1988) Ltd. [9]	1,722	Profits NIS 1	2,000	3,722	18,153	3,600 [24]	100	100	100	100

[24] The balance is composed of a loan extended by Migdal in the amount of NIS 806 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, 2016 after discounting is NIS 2,794 thousand.

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Si-El Insurance Agency (1995) Ltd. [23]	154			154	2,493	--	100		100	100
Migdal Technologies Ltd. [25]		Ordinary NIS 0.001	101 [26]	0.101 [26]	--	--		100	100	100
Migdal Real Estate Holdings Ltd.		Ordinary NIS 0.0001	61,660,406 [27]	6,166.04 [27]	909,086	195,000 [28]		100	100	100
Migdal Claims Management Ltd. [29]		Ordinary NIS 0.001	2,000 [30]	2 [30]	--	--		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	6,024	--		100	100	100

[25] 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.
[26] Including three shares held by Migdal's subsidiaries.
[27] Including one share held by Migdal Claims Management Ltd., a subsidiary of Migdal (see Footnote 29 below).
[28] The balance is composed of capital notes issued to Migdal in the amount of NIS 195,000 thousand, unlinked and interest-free, with no payment dates.
[29] 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.
[30] 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 [31]			485,057 [31]	129,646	--	100		100	100
Migdal Credit Services Ltd. [32]	100[33]			100 [33]	2,955	40,082 [34]	100		100	100
Migdal Leasing Ltd. [32]	100			100	8,573	--	100		100	100
Hamagen Properties Ltd.	6,090,837			6,090,837	281,363	--	100		100	100
Pel Hamagen House Ltd. [35]	14,066,596 [12]			14,066,596 [12]	281,365	--	100		100	100
Ramat Aviv Mall Ltd. [36]		Ordinary NIS 0.0001	965,579	96.5579	275,924	18,831 [37]		26.599	26.599	26.599

[31] Including one share held by Migdal Agencies, a subsidiary of Migdal.
[32] In the books of Migdal Eshkol Finansim B.M., a subsidiary of Migdal (henceforth: "**Migdal Eshkol**").
[33] Including two shares held by Migdal.
[34] The balance is composed of a loan extended by Migdal Eshkol, in the amount of NIS 39,167 thousand, and a loan extended by Migdal in the amount of NIS 915 thousand. The loans are unlinked and bear 2.56% interest, with no payment date.
[35] In the books of Hamagen Properties Ltd., a subsidiary of Migdal.
[36] In the books of Real Estate Holdings.
[37] The balance is composed of a loan extended by Real Estate Holdings, bearing interest at 4% and will be paid from cash surpluses in Ramat Aviv Mall Ltd., from time to time.

c. 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.	5,174,064			5,174,064	15,159	--	100		100	100
Migdal Capital Markets (Management Services) Ltd.		Ordinary NIS 0.001	50,000[38]	50	295	--		100	100	100
Migdal Trust Funds Ltd.	259,518,001 [39]			259,518,001[39]	274,923	--	100		100	100
Migdal Investment Portfolio Management (1998) Ltd.	694,247 [39]			694,247 [39]	2,333	600 [40]	100		100	100
Migdal Issuers Ltd. [41]	100			100	(3,873)	3,873 [42]	100		100	100
MCM Alternative Investments Ltd.	100			100	(11,128)	7,513 [43]	100		100	100
Migdal L.B. Ltd. [44]	1,000			1,000	(1,709)	81,372 [45]	100		100	100

[38] Including one share held by Migdal Trust Funds Ltd.
[39] Including one share held by Migdal Capital Markets (Management Services) Ltd., a subsidiary of Migdal Capital Markets.
[40] The balance is composed of a perpetual loan extended by Migdal Capital Markets, unlinked and interest-free, will be paid upon the Company's liquidation.
[41] In the books of Migdal Underwriting and Business Initiative Ltd., a subsidiary of Migdal Capital Markets (henceforth: "**Migdal Underwriting**").
[42] The balance is composed of capital notes issued to Migdal Underwriting, in the total amount of NIS 4,768 thousand, unlinked, interest-free, to be paid not before February 2021. The capital notes were discounted as per generally accepted accounting rules, at a rate of 2.48%, and their balance as of December 31st, 2016 after discounting is NIS 3,873 thousand.
[43] The balance is composed of capital notes issued to Migdal Capital Markets, in the total amount of NIS 8,086 thousand, unlinked, interest-free, to be paid not before January 2020. The capital notes were discounted as per generally accepted accounting rules, at a rate of 2.48%, and their balance as of December 31st, 2016 after discounting is NIS 7,513 thousand.
[44] In the books of MCM Alternative Investments Ltd, a subsidiary of Migdal Capital Markets.
[45] The balance is composed of a loan extended to Migdal L.B by Migdal Capital Markets, bearing an annual interest rate as set by the tax regulations regarding Clause 3 (j) (in 2016 – 2.56%), with no payment date.

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	(4,058)	28,999 [46]	100		100	100

[46] The balance is composed of perpetual capital notes issued to Migdal Health and Quality of Life Ltd. ("**Migdal Health**"), in the total amount of NIS21,100 thousand, and capital notes in the total amount of NIS 8,458 thousand, unlinked and interest-free. The capital notes were discounted as per generally accepted accounting rules, and their balance as of December 31st, 2016 is NIS 7,899 thousand, as detailed herewith:

Capital note's par value in NIS thousand	Payment date	Discount rate	Capital note's balance as of December 31st, 2016 in NIS thousand
200	4/2018	3.95%	191
200	5/2018	3.78%	190
220	6/2018	3.83%	209
450	7/2018	3.81%	425
300	8/2018	3.73%	283
850	9/2018	4.15%	795
250	10/2018	3.69%	234
370	10/2018	3.81%	347
350	12/2018	3.57%	327
1,040	1/2019	3.68%	968
173	1/2019	3.55%	161
300	2/2019	3.35%	280
335	4/2109	3.33%	312
350	4/2019	3.26%	325
1,070	5/2019	2.92%	999
1,600	7/2019	3.05%	1,481
400	4/2020	2.26%	372
Total: 8,458			Total: 7,899

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.[47]	120			120	(3,590)	8,477 [48]	100		100	100
Infomed Medical Sites Ltd.	2,143			2,143	8,769	4,124 [49]	100		100	100
B-Well Quality of Life Solutions Ltd. [50]		Ordinary NIS 0.1	1,200	120	4,811	--		100	100	100
NVE Movement Ltd. [50]	1,640			1,640	4,652	--	82		82	82

[47] In the books of 50 Plus Ltd. (henceforth: "**50 Plus**"), a subsidiary of Migdal Health.

[48] The balance is composed of capital notes issued to 50 Plus as detailed below: perpetual capital notes in the total amount of NIS 4,447 thousand, and capital notes in the total amount of NIS 2,658 thousand, unlinked and interest-free, to be paid during 2018-2019. The capital notes were discounted as per generally accepted accounting rules, and their balance as of December 31st, 2016 is NIS 2,457 thousand, as well as capital notes issued to Migdal Health, unlinked and interest-free, in the total amount of NIS 1,730 thousand. The capital notes were discounted as per generally accepted accounting rules, and their balance as of December 31st, 2016 is NIS 1,573 thousand as detailed herewith:

Capital note's par value in NIS thousand	Payment date	Discount rate	Capital note's balance as of December 31st, 2016
100	7/2019	3.19%	92
80	9/2019	2.69%	75
137	10/2019	2.91%	127
90	11/2019	2.73%	83
90	12/2019	3.07%	82
80	1/2020	3.28%	73
223	1/2020	3.23%	202
90	3/2020	2.28%	84
90	6/2020	2.84%	82
250	11/2020	2.78%	225
300	12/2020	2.78%	269
200	3/2021	2.68%	179
Total: 1,730			Total: 1,573

[49]. The balance is composed of a loan extended by Migdal Health in the amount of NIS 892 thousand, linked to the CPI and bearing 4% interest, paid in equal monthly payments until May 2017, and of capital notes issued to Migdal Health in the total amount of NIS 3,600 thousand, unlinked and interest-free. The capital notes were discounted as per generally accepted accounting rules at 2.82%, and their balance as of December 31st, 2016 after discounting is NIS 3,232 thousand.

[50]. 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 [51]

Date of change	Nature of change	Name of company	Type of share	Total shares	Cost in NIS thousand
22.3.16	Sale (in the books of Migdal Insurance Company Ltd.)	Amot Investments Ltd.	Ordinary NIS 1	36,545,112	329,530
29.3.16	Share acquisition (in the books of Migdal Infomed Medical Sites Ltd.)	NVE Movement Ltd.	Ordinary NIS 1	1,640	3,239
23.5.16	Discontinuation of activity (in the books of MCM Alternative Investments Ltd.)	MRM – Investment Management Ltd.	Ordinary NIS 1	1,000	--
23.5.16	Discontinuation of activity (in the books of MCM Alternative Investments Ltd.)	MRM – Migdal Risk Management Ltd.	Ordinary NIS 1	1,000	--
10.8.16	Share allocation (in the books of Migdal Underwriting and Business Initiative Ltd.)	Migdal Capital Markets (1965) Ltd.	Ordinary NIS 1	173,011	500
28.12.16	Share acquisition (in the books of Migdal Health and Quality of Life Ltd.)	Infomed Medical Sites Ltd.	Ordinary NIS 1	388	1,491 [52]
29.12.16	Sale (in the books of Migdal Management Services Ltd.	Pilat Hi-Capital Ltd.	Ordinary NIS 1	116	}
29.12.16	Sale (in the books of Migdal Management Services Ltd.	Talent HR Systems Ltd.	Ordinary NIS 1	150	} 5,500
29.12.16	Sale (in the books of Migdal Management Services Ltd.	Good Purpose in Orthodox Employment Ltd.	Ordinary NIS 1	2,000	}
29.12.16	Share acquisition (in the books of Migdal Holdings and Management of Insurance Agencies Ltd.)	Orlan Insurance Agency (1994) Ltd.	Ordinary NIS 1	140	} 13,194
29.12.16	Adding a company due to the increase in holding in Orlan (in the books of Orlan Insurance Agency (1994) Ltd.)	Stav-Orlan Pension Insurance Agency (2012) Ltd.	Ordinary NIS 1	500	}

[51] The following companies were removed from the companies list: Good Purpose in Orthodox Employment Ltd., Pilat Hi-Capital Group Ltd., Talent HR Systems Ltd., MRM Investment Management Ltd., MRM Migdal Risk Management Ltd., Dragon Hedge Fund Management Ltd. and Amot Investments Ltd.

[52] In consideration of the sale, an additional amount of NIS 652 thousand was paid for the assignment and endorsement of all the seller's rights to the buyer pursuant to the capital note.

Regulation 13: **Income of subsidiaries and related companies and income of the Corporation thereof as at the balance sheet date, in NIS in thousands** [51]

Company name	Profit (loss) for the period [53]	Other compre-hensive profit (loss) for the period [53]	Total compre-hensive profit (loss) for the period [53]	Dividend	Mgmt. fees	Nominal interest	Date of interest payment
Migdal Insurance Company Ltd.	221,027	(47,447)	173,580	--	--	--	--
Migdal Health and Quality of Life Ltd.	(6,092)	(2)	(6,094)	--	--	72 [54]	Monthly
Migdal Capital Markets (1965) Ltd.	(343)	42	(301)	78,000 [55]	--	--	--
Migdal Management Services Ltd.	(4,125)	230	(3,895)	--	--	--	--
Migdal Holdings and Management of Insurance Agencies Ltd.	24,204	(128)	24,076	--	--	--	--
Peltours Insurance Agencies Ltd.	6,546	(309)	6,237	5,862 [56]	345 [56]	--	--
Sagi Yogev Life Assurance Agency (1988) Ltd.	2,029	(226)	1,803	--	322 [56]	48 [59]	Quarterly
Ihud Insurance Agencies Ltd.	2,276	265	2,541	--	460 [56]	--	--
Mivtach Simon Insurance Agencies Ltd.	20,053	(147)	19,906	--	736 [56]	--	--
Migdal Makefet Pension and Provident Funds Ltd.	19,575	(321)	19,254	--	--	--	--
Peltours Berman Insurance Agency Ltd.	(163)	--	(163)	--	520 [57]	7 [57]	Quarterly
Shaham Insurance Agencies (1977) Ltd.	(4,081)	289	(3,792)	--	414 [56]	--	--
Si-El Insurance Agency (1995) Ltd.	582	--	582	1,100 [58]	300 [58]		--
Migdal Technologies Ltd.	--	--	--	--	--	--	--
Migdal Claims Management Company Ltd.	--	--	--	--	--	--	--
Data Car Israel Ltd.	837	--	837	--	--	--	--
Migdal Real Estate Holdings Ltd.	71,230	--	71,230	--	--	38 [59]	Monthly

[53] 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.
[54] Received by the Company.
[55] The amount of NIS 8,000 thousand was declared and received in the Company in 2016, and NIS 70,000 thousand were declared and received in the Company after the date of the balance sheet in February 2017.
[56] Received in Migdal Agencies, a subsidiary of Migdal.
[57] Received in Peltours, a subsidiary of Migdal Agencies.
[58] Received in Shaham, a subsidiary of Migdal Agencies.
[59] Received in Migdal, a subsidiary of the Company.

Company name	Profit (loss) for the period [53]	Other compre-hensive profit (loss) for the period [53]	Total compre-hensive profit (loss) for the period [53]	Dividend	Mgmt. fees	Nominal interest	Date of interest payment
Migdal Eshkol Finansim B.M.	(295)	--	(295)	--	--	--	--
Yozma Pension Fund for Self-Employeds Ltd.	167	(67)	100	--	11,872 [59]	--	--
Hamagen Properties Ltd.	9,823	--	9,823	--	--	--	--
Pel Hamagen House Ltd.	9,823	--	9,823	--	--	--	--
Migdal Credit Services Ltd.	58	--	58	--	--	121 [60]	Monthly
Migdal Leasing Ltd.	33	--	33	--	--	--	Quarterly
Peltours Diamonds General and Marine Insurance Agency Ltd.	1,286	--	1,286	--	150 [57]	21 [57]	Quarterly
Peltours Municipalit General Insurance Agency Ltd.	261	--	261	200 [57]	1,100 [57]	34 [57]	Quarterly
Makefet Financial Services – Insurance Agency (1998) Ltd.	665	--	665	700 [63]	--	--	--
Shaham Weinstein (Netanya) Insurance Agencies Ltd.	613	--	613	1,500 [58]	455 [58]	--	--
Sofer Moshe Insurance Agency (1997) Ltd.	343	--	343	140 [61]	100 [58]	--	--
Amir Aloni Life Assurance Agency (1994) Ltd.	810	7	817	825 [63]	--	--	--
Orlan Insurance Agency (1994) Ltd. - Dividend	1,854	96	1,950	2,343 [62]	--	--	--
Stav-Orlan Pension Insurance Agency(2012) Ltd.	221	--	221	--	--	--	--
Eli Erlich Health Services (1999) Ltd.	1,294	(3)	1,291	1,000 [63]	--	--	--

[60] The amount of NIS 102 thousand was received in Migdal Eshkol, a subsidiary of Migdal, and the amount of NIS 19 thousand was received in Migdal, a subsidiary of the Company.

[61] Declared and received by Shaham after the date of the balance sheet in January 2017.

[62] The amount of NIS 1,350 thousand was declared in 2015 and was received in Migdal Agencies in 2016, NIS 300,000 thousand were declared and distributed in 2016, and NIS 693 thousand were declared in 2016 and will be distributed in 2017 – no later than 30 days after the Company's Financial Statements as of December 2016 are approved.

[63] Received in Mivtach Simon, a subsidiary of Migdal Agencies.

Company name	Profit (loss) for the period [53]	Other compre-hensive profit (loss) for the period [53]	Total compre-hensive profit (loss) for the period [53]	Dividend	Mgmt. Fees	Nominal interest	Date of interest payment
Ramat Aviv Mall Ltd.	150,925	--	150,925	4,389 [59]	--	211 [64]	--
Isabel Ouda – Shaham – Insurance Agency	351	--	351	--	--	--	--
Migdal Underwriting and Business Initiative Ltd.	(4,760)	(21)	(4,781)	10,000 [67]	--	--	--
Migdal Capital Markets (Management Services) Ltd.	(8)	50	42	--	--	--	--
Migdal Investment Portfolio Management (1998) Ltd.	(2,322)	13	(2,309)	--	--	--	--
Migdal Issuers Ltd.	(104)	--	(104)	--	--	102 [65]	Quarterly
MCM Alternative Investments Ltd.	(3,244)	--	(3,244)	--	--	182 [66]	Quarterly
Migdal Trust Funds Ltd.	8,101	(2)	8,099	14,000 [67]	--	--	--
50 Plus Ltd.	(454)	19	(435)	--	--	--	--
Club 50 Insurance Agency Ltd.	(76)	14	(62)	--	--	--	--
Infomed Medical Sites Ltd.	1,053	(26)	1,027	--	--	72 [68]	Monthly
B-Well Quality of Life Solutions Ltd.	934	67	1,001	--	--	--	--
NVE Movement Ltd.	655	(41)	614	--	--	--	--
Migdal Insurance Capital Raising Ltd.	--	--	--	--	--	--	--
Migdal L. B Ltd.	(1,723)	--	(1,723)	--	--	938 [66]	Yearly

[64] Recorded in Migdal Real Estate Holdings, a subsidiary of Migdal.
[65] Received in Migdal Underwriting and Business Initiative Ltd., a subsidiary of Migdal Capital Markets.
[66] Received in Migdal Capital Markets, a subsidiary of the Company.
[67] Declared and received in Migdal Capital Markets, a subsidiary of the Company, after the date of the balance sheet in March 2017.
[68] Received in Migdal Health, a subsidiary of the Company.

Regulation 14:	List of groups of balances of loans granted as at the balance sheet date, if the granting of loans was one of the main businesses of the Corporation

The Corporation does not grant loans

Regulation 20:	Trading on the Stock Exchange - Securities listed for trading - Dates of and reasons for interruption of trading

In the report period, Company securities were not listed, and there were no interruptions of trading in the Company's securities

Regulation 21 Payments to Interested Parties and Executives

Following are the payments (in NIS thousands) made by 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 2016, as well as to interested parties in the Company:

Details of remuneration receiver					Benefits for services							Other benefits			
Name	Gen-der	Position	Extent of employ-ment	Holding rate in capital of Company	Salary (*)	Grant (**)	Share-based payment (***)	Mgmt. fees	Consul-tation fees	Comm.	Other	Interest	Rent	Other	Total
Yohanan Danino (1)	M	CoB of the Company, and CoB of Migdal Insurance	100%[69]	---	2,999	---	---	---	---	---	---	---	---	---	2,999
Sharon Hinkis (2)	M	Investment manager and in charge of debt settlements and bad debts in Migdal Capital Markets	100%	---	1,728	1,083	---	---	---	---	---	---	---	---	2,811
Ofer Eliahu (3)	M	CEO of Migdal Insurance and CoB of Migdal Makefet	100%	---	2,679	---	---	---	---	---	---	---	---	---	2,679
Eran Czerninski (4)	M	CEO and CFO of the Company, and Head of the Finances and Actuarial Division in Migdal Insurance	100%	0.0066%	2,158	---	(63)	---	---	---	---	---	---	---	2,095
Emil Weinshel (5)	M	Head of Customers and Distribution Channels Division in Migdal Insurance	100%	---	2,051	---	---	---	---	---	---	--	----	---	2,051

Presented below are the details of remunerations (in NIS thousands) given to the three Executives in the Company who receive the highest salaries in the Company, who were not included in the table of highest paid persons above:

Details of remuneration receiver					Benefits for services							Other benefits			
Name	Gen-der	Position	Extent of employ-ment	Holding rate in capital of Company	Salary (*)	Grant (**)	Share-based payment (***)	Mgmt. fees	Consul-tation fees	Comm.	Other	Interest	Rent	Other	Total
Ilana Bar (6)	F	Legal Counsel of the Company and of Migdal Insurance	100%	0.0015%	1,380	---	---	---	---	---	---	---	---	---	1,380

[69] Until October 12th, 2016, Mr. Yohanan Danino provided management services at the scope of 90% to the Company, and from them and on, Mr. Yohanan Danino provides management services at a scope of 100%.

Presented below are notes and general explanations regarding the asterisks in the tables above:

Asterisk	Subject	Description
(*)	Salary	The salary component includes a grant and/or a payment set forth in an agreement, that is not objective-based and/or discretion, and it includes social benefits and ancillaries such as company car, per diem, newspapers, medical scanning tests, etc. Grant such as adaptation grant or signing grant or persistency grant, should the Senior Officer be entitled to it, reflects the expense recognized in the report year as per generally accepted accounting rules. If this is relevant for the Senior Officer, salary also includes management fees paid to companies controlled by the Senior Officer.
(**)	Grant	On June 30th, 2014 the Boards of Directors of Migdal Insurance, Makefet and Yozma ("**the institutional entities**") approved a remuneration policy for institutional entities for the years 2014-2016, further to the Circular issued by the Commissioner of Insurance dated April 10th, 2014 ("**Original Commissioner Circular**") and during the period between this approval and November 2016 the Boards of Directors in the institutional entities approved an update to this policy, pursuant to the Commissioner's Circular issued on October 7th, 2015, Remuneration Policy for Institutional Entities – Amendment (Updated Remuneration Policy Circular, the Original Commissioner Remuneration Circular and Updated Commissioner Remuneration Circular shall be referred to together in this Clause as "**the Commissioner's Circular**"). In December 2016 the Boards of Directors in the institutional entities approved an institutional remuneration policy for the years 2017-2019 ("**institutional remuneration policy**"). This policy includes specific provisions regarding the salary components of "key position holders", who were determined as such in the Commissioner's Circular, and they include, *inter alia*, all Senior Officers in institutional entities as per the Companies Law, Senior Officers who were defined as such in the Commissioner's Circular, relatives of controlling shareholders, investment entities as well as position holders who were identified by the institutional entities as holding a key position, if the position holders' activity may have a material impact on the risk profile of the institutional entities or if they manage a group of workers who are subject to the same remuneration arrangements, and the variable component in their remuneration may, in aggregate, expose the institutional entity or the monies saved via that institutional entity to a material risk. On October 27th, 2014 the Company's General Meeting approved a policy that is adapted to the remuneration policy for institutional entities for the years 2014-2016 ("**previous remuneration policy**"). The Company's remuneration policy (the previous one as well as the updated one as defined herewith) applies to all Senior Officers in the Company. 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 2014-01-103386, respectively, as well as Note 38 to the Company's Consolidated Financial Statements. 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.

In respect of 2016, a normative grant for Senior Officers in the Company was approved pursuant to the above-mentioned policy, however, as per the Financial Statements as of December 31st, 2016 no provision in respect of these grants was included, since the conditions entitling a grant were not met, as of the date of above-mentioned Financial Statements.

The Company's remuneration policy, as well as the remuneration policy for institutional entities, do not apply to the persons receiving remunerations mentioned in paragraph (2) above, who serve in Migdal Capital Markets Group and is not a Senior Officer in the Company and in institutional entities. The grant for this Senior Officer and the terms thereof are detailed within the description of his terms of employment as detailed below.

On December 30th, 2016 the Company's General Meeting approved a remuneration policy for the years 2017-2019 ("**updated remuneration policy**"), which, *inter alia*, was adapted to the regulation applying to the Company and to the institutional entities controlled by it (including the provisions of the Law regarding Remuneration for Senior Officers in Financial Corporations (Special Approval and Disallowance of Expenses for Tax Purposes Due to Extraordinary Remuneration) – 2016, henceforth: "**Remuneration Law**") and to issues that came up during the implementation of the previous remuneration policy. The principles set forth above and below apply also to the updated remuneration policy. For additional details regarding the updated remuneration policy and the changes in the updated remuneration policy compared to the previous remuneration policy, see the Company's Immediate Report issued on December 22nd, 2016, regarding the General Meeting (Complementary Report) (Reference No. 2016-01-142339), as well the Company's Immediate Report regarding the results of General Meeting dated January 1st, 2017 (Reference No. 2017-01-000333).

(***) Share-based payment

"2010 Remuneration Plan" – the long term remuneration plan for Senior Officers and managers in the Group, which included 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 was for a period of six years and included two consecutive phases, each lasting three years. By the end of the Phase I, on December 31st, 2012, participants were eligible to a grant set forth in a number of monthly salaries, which was paid to them as per their compliance with objectives, and the amount of Phase I grant was calculated and set depending on complying with two objectives: compliance with profit objective and persistency objective. The persistency component was entirely paid in shares, and the profit component was paid partly in shares and partly in cash, as per the offerees' choice. On April 22nd, 2013, the eligibility deeds for those who chose shares were converted to shares, and shares were allotted and deposited in trusteeship until the end of Phase II, on December 31st, 2015. Participants to whom shares were allotted at the end of Phase I in respect of the profit component were 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 ranking compared to four other peer Groups in its area of activity. The expense in 2013-2015 was recorded based on the assumption that the Group will be ranked second. The expense was taken over a straight line and in respect of workers who left during Phase II under non-qualifying circumstances, the aggregate expense recorded for them regarding Phase II shares starting from the beginning of 2013 was cancelled. According to the actual ranking of the Group compared with other Groups in its area of activity, that was examined this year, the Plan's participants are not entitled to an additional Company share allotment, therefore the expense was cancelled. See Note 33 to the Consolidated Financial Statements.

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 pension 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, telephone, 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, 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 up to 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, in the adaptation grant's terms it is stipulated that the deferred part is conditioned upon performance, and for part of the deferred payments – to not finding other employment at the time of the deferred payment.
Acquiring Group's products	The Group's workers and their families, including Senior Officers in the Company and in the institutional entities, may purchase, from time to me, insurance, investment contracts or other Group products and / or products sold by Group companies, at market conditions.

Additional details regarding the persons receiving remunerations:

(1) Mr. Yohanan Danino – for details regarding the remuneration paid to Mr. Yohanan Danino, see Note 38j4b) to the Company's Consolidated Financial Statements.

(2) Mr. Sharon Hinkis – Mr. Sharon Hinkis is employed by Capital Markets Group from June 2006, and he serves as an Investments Manager in Migdal Funds, as an Investments Manager in the portfolio management company and as the person in charge of handling debt arrangements and bad debt. Mr. Hinkis, including via a company controlled by him, is entitled to a monthly salary (partly in management fees) in the amount of NIS 63 thousand (in gross terms), as well as social benefits and ancillaries, insurance against occupational disability, educational fund, annual leave, R & R, cellular phone and payment for replacement vehicle. Furthermore, Mr. Hinkis is entitled to an annual grant, which is composed of a grant calculated according to the profit rate in funds managed by him, and a persistency grant, which is included in the Table above under the fixed salary item. The grant detailed in the Table above is the annual grant that was calculated pursuant to the provisions of Mr. Hinkis' employment agreement. Both parties may terminate the agreement with an early notice of six months. Pursuant to the agreement signed with Mr. Sharon Hinkis, he is not entitled to an adaptation grant. 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), subject to the provisions of the Remuneration Law, and all the necessary approvals in this respect were received by the institutional entities.

(3) Mr. Ofer Eliahu – for details regarding the remuneration paid to Mr. Ofer Eliahu (see Note 38j4c) to the Company's Consolidated Financial Statements.

(4) Mr. Eran Czerninski – for details regarding the remuneration paid to Mr. Eran Czerninski (see Note 38j4d) to the Company's Consolidated Financial Statements

(5) Mr. Emil Weinshel
Mr. Emil Weinshel serves as Head of Customers and Distribution Division in Migdal Insurance since February 1st, 2016.

Mr. Emil Weinshel is employed at Migdal Insurance pursuant to an employment agreement dated January 27th, 2016, for an unlimited period. Both parties may terminate the agreement with an early notice of 90 days.

Mr. Emil Weinshel's monthly salary is NIS 100 thousand, CPI-linked, and the linking update is once a year.

In addition, his terms of employment include social and ancillary provisions and insurance against occupational disability under a collective insurance policy, annual leave, R & R, reimbursement of per diem, car (grossed at 90%), newspapers, medical insurance, etc.

If the agreement is terminated, Mr. Emil Weinshel is entitled to an adaptation grant of 9 times the monthly salary. The adaptation grant is to be paid pursuant to the conditions and arrangements as detailed in the general notes above. It should be noted that half the adaptation grant is paid in three deferred equal annual installments, and their payment is stipulated by various conditions, including the stipulation that the last two payments (an aggregate of three monthly salaries) be paid on condition that Mr. Emil Weinshel has not begun other employment. Accordingly, the salary described in the Table includes approx. NIS 633 thousand in respect of a provision made by the Company for this liability.

Mr. Emil Weinshel was approved a normative grant in the amount of NIS 714 thousand, based on objectives, however, as per the Financial Statements as of December 31st, 2016 no provision in respect of these grants was included, since the conditions entitling a grant were not met, as of the date of above-mentioned Financial Statements.

(6) Ms. Ilana Bar

Ms. Ilana Bar serves as the Chief Legal Counsel of the Company since July 2001, and as the Legal counsel of Migdal Insurance since September 1999.

Ms. Ilana Bar is employed by Migdal Insurance as per an employment agreement dated June 3rd, 2003 (she started working on September 5th, 1999), as amended in the addition to the agreement of December 31st, 2014, for an unlimited period. Both parties may terminate the engagement at any time and for any reason, with an early notice of 60 days.

Ms. Ilana Bar's monthly salary, starting from June 1st, 2014, was set at NIS 90,000, CPI-linked and the linking update is once a year.

In addition, her terms of employment include social benefits and ancillaries and insurance against occupational disability under a collective insurance policy, if there is a provision to an educational fund, it is deducted from her salary and not in addition to the salary, annual leave, R & R, reimbursement of per diem, providing a car (grossing up at 90%), newspapers, medical insurance, etc.

If the agreement is terminated, Ms. Ilana Bar will be entitled to an adaptation grant of 9 times the monthly salary. The adaptation grant will be paid as per the terms and arrangements as detailed in the general notes above. It should be noted that half the adaptation grant is paid in three deferred equal annual installments, and their payment is stipulated by various conditions, including the stipulation of the last two payments (an aggregate of three monthly salaries) by not starting another work.

Ms. Ilana Bar was approved a normative grant in the amount of NIS 321 thousand, based on objectives, however, as per the Financial Statements as of December 31st, 2016 no provision in respect of these grants was included, since the conditions entitling the grant were not met, as of the date of above-mentioned Financial Statements.
Within the long term remuneration plan for 2010, Ms. Ilana Bar was allotted 16,466 shares.

Director fees

The total remuneration paid to Directors serving in the Company during the reported period, who receive their remuneration pursuant to the Companies' regulations (Rules Regarding Remuneration and Expenses of External Directors - 2000), who serve also as Directors in other companies controlled by the Company, in respect of their office in the various Board of Directors and the various Committees next to the Board of Directors, was approx. NIS 1,960 thousand.

The sum does not include a payment of NIS 253 thousand made to Mr. Israel Eliahu, the son of the controlling shareholder, who serves as a Director in the Company and in Migdal Insurance. For details regarding the remuneration that was paid to Mr. Israel Eliahu see Note 38e3 to the Consolidated Financial Statements, and it also does not include a remuneration made to the Chairman of the Boards of Directors, Mr. Yohanan Danino, details of which may be found in the Table above.

Regulation 21a: Control of the Corporation

To the best knowledge of the Company, as of the date of the Report, Eliahu 1959 Ltd. ("**Eliahu**") holds about 69% of the Company's issued and paid-up capital. [70]

Mr. Shlomo Eliahu and Ms. Haya 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 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, Eliahu Brothers Trust and Investments Ltd., holds 13.14% of the capital.

Shlomo Eliahu Holdings' shareholders are: Mr. Shlomo Eliahu, who holds about 83.31% of the capital and Ms. Haya 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.

[70] 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 Haya Eliahu who hold the Company's shares, directly and indirectly, via Eliahu 1959 Ltd. (henceforth: “**Eliahu**”). For details see Regulation 21a in this part of the Report. In addition to transactions with his relatives, Mr. Shlomo Eliahu is considered as having a personal interest in transactions with Union Bank, as of the date of this Report.

2. Pursuant to the provisions of Clause 117 (1b) to the Companies Law, during 2014, the Audit Committees of the Company and of its subsidiaries outlined the procedures that the Company and/or its subsidiaries should follow, as the case may be, before engaging in transactions with the controlling shareholder or in transactions in which the controlling shareholder has a personal interest, as set forth in Clause 270 (4) or 270 (4a) to the Companies Law, even if they are not extraordinary transactions, depending on the type of transaction being examined, including, *inter alia*: the acquisition of services by the Company and/or subsidiaries, the sale of insurance or other products of the Group, the subrogation and/or the distribution of liability between insurers, participation in a credit consortium and terms of office and employment.

3. 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.

4. For details regarding the transactions with the Company's controlling shareholder, or that the Company's controlling shareholder had a personal interest in approving them, in which the Company and/or its subsidiaries were engaged in the reported period or after the end of the reported year and until the publication of this Report, or that were approved previously and are effective in the reported period - see Note 38 to the Consolidated Financial Statements.

Regulation 24: Shares and other securities held by interested parties and executive officeholders in the Corporation, subsidiary or related company, as close as possible to the report date (to the best of the Corporation's knowledge)

a. In the Corporation

Name of interested party	Registered company no./ I.D. Number	Ordinary shares	Number of the securities in the Stock Exchange	Number of shares held on 20.2.2017	Rate of holding in capital	Rate of holding in voting & right to appoint Directors
Eliahu 1959 Ltd. [71]	52-002985-1	NIS 0.01	1081165	729,168,309	69.19	69.19
Migdal Insurance Company Ltd. [72]	52-000489-6	NIS 0.01	1081165	6,365		
Migdal Trust Funds Ltd.	51-1303661	NIS 0.01	1081165	1,659,785	0.16	0.16

For details regarding shares and other securities held by Senior Executives in the Corporation as of January 4th, 2017 (to the best of the Corporation's knowledge), see the Corporation's Immediate Report dated January 4th, 2017, Reference No. 2017-01-001851.

b. In subsidiaries and related companies

For details regarding subsidiaries and related companies, see Regulations 11 & 13 in this Chapter, Additional Data on the Corporation.

c. Dormant shares and convertible or exercisable securities

None

[71] 96,063,685 Corporation shares of NIS 0.01 were transferred to Bank Hapoalim Nominee Company (see the Corporation's Immediate Report dated February 5th, 2017, Reference No. 2017-01-012711).

[72] Migdal holds the shares in trusteeship for those who were shareholders prior to July 31st, 1997. Migdal is fully owned by the Company.

Regulation 24a: Authorized capital, issued capital and convertible securities of the Corporation

Authorized capital as of February 20th, 2017	Issued capital as of February 20th, 2017
NIS 15,000,000	NIS 10,539,082.34
Divided into 1,500,000,000 Ordinary NIS 0.01 shares	Divided into 1,053,908,234 Ordinary NIS 0.01 shares

Regulation 24b: The Corporation's shareholders register

For details regarding the Corporation's shareholders register see the Corporation's Immediate Report dated March 19th, 2017, Reference No. 2017-01-025632.

Regulation 25a: Registered address of the Corporation

The Corporation's registered address is 4, Ef'al Street, Kiryat Aryeh, Petach Tikva 4951229, Israel; P.O. Box 3063, Petach Tikva 49130, Israel
Telephone No. 076-8868962, Facsimile No. 03-9238988.
E-mail: migdalhold@migdal.co.il

Regulation 26: Directors of the Corporation

Senior Officer's name:	**Yohanan Danino, Chairman of the Board of Directors**	**Shlomo Eliahu**	**Israel Eliahu**
ID. No.:	056162142	43661602	27768969
Date of birth:	20.12.1959	18.1.1936	16.5.1970
Address for documents:	23, Mivza Ovda, Modi'in	6, Hadassah Street, Tel Aviv	2, Ibn Gvirol Street, Tel Aviv
Nationality:	Israeli	Israeli	Israeli
Membership in Committees next to the Board of Directors:	No	No	No
External Director or Independent Director :	No	No	No
Director with accounting and financial skills in order to comply with the minimum set forth by the Board of Directors:	No	Yes	Yes
Employee of the Corporation, a subsidiary, a related company or an interested party:	No	Chairman of Shlomo Eliahu Holdings Ltd., a company related to the Corporation.	No
Date of taking office as a Director:	Director: 24.11.2015; CoB: 16.12.2015	29.10.2012	29.10.2012
Education and occupation during the past five years, and the Corporations in which he serves as a Director:	LL.B. (Tel Aviv University), M.A in Social Studies (Haifa University), lawyer. Chairman of the Board of Directors of Migdal Insurance Company Ltd. and Migdal Insurance Capital Raising Ltd. and Chairman of the Solvency Committee in Migdal Insurance. Director in Migdal Holdings and Management of Insurance Agencies Ltd., Migdal Health and Quality of Life Ltd., Infomed Medical sites, B-Well Quality of Life Solutions Ltd., NVE Movement Ltd., and Chairman of the Association Sport – Bridge for Education (Registered Association). External consultant to McKinsey Israel, Senior Associate in the International Institute for Counter-Terrorism, the Interdisciplinary Center Herzliya and a member in Mayanei Hayeshua's Friends' Association. He served as the Inspector General of the Israeli Police until June 2015.	Chairman of Shlomo Eliahu Holdings Ltd. and subsidiaries, Eliahu 1959 Ltd. (previously: Eliahu Insurance Company Ltd.), Director, entrepreneur and partner in Gan Ha'ir Project Ltd. and subsidiaries and a partner in the control core in Union Bank. Director in Migdal Insurance Ltd., Migdal Insurance Capital Raising Ltd., and in Migdal Holdings and Management of Insurance Agencies Ltd. Member of the Solvency and Risk Management Committee in Migdal Insurance Company Ltd. He served as the Chairman of the Board of Directors of Migdal Insurance Company Ltd. until December, 2013, and the Chairman of the Board of Directors of the Corporation until February 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 in Shlomo Eliahu Holdings Ltd. and in subsidiaries, in Eliahu 1959 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 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 Vehadarta – the National Council for the Promotion of Senior Citizens' Status. Founder of the Family Businesses Center – Israel Ltd.
Member of the family of another interested party in the Corporation	No	Yes, the father of Mr. Israel Eliahu, a Director in the Corporation and in Migdal Insurance, and of Mr. Ofer Eliahu, Senior Executive Officer in the Corporation and in Migdal Insurance.	Yes, the son of Mr. Shlomo Eliahu, Director in the Corporation and in Migdal Insurance, and the brother of Mr. Ofer Eliahu, Senior Executive Officer in the Corporation and in Migdal Insurance.

Regulation 26: Directors of the Corporation

Senior Officer's name:	Ronit Bodo	Eyal Ben Chlouche	Jacob Danon
ID. No.:	023925811	57440638	969014
Date of birth:	19.9.1968	15.12.1961	11.1.1946
Address for documents:	6, Pa'amonei Yosef Street, Tel Aviv	148, Hashaked Street, Moshav Shoresh	279, Ha'agam Street, Beit Zayit
Nationality:	Israeli	Israeli	Israeli
Membership in Committees next to the Board of Directors:	Audit Committee, Financial Statements Committee and Compensation Committee	Chairman of the Financial Statements Committee, member of the Audit Committee and the Compensation Committee	Chairman of the Compensation Committee, member of the Audit Committee and the Financial Statements Committee
External Director or Independent Director :	Yes	Yes	Yes
Director with accounting and financial skills in order to comply with the minimum set forth by the Board of Directors:	Yes	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:	6.10.2016	10.6.2008	5.10.2008
Education and occupation during the past five years, and the Corporations in which he serves as a Director:	B.A. in Business Administration, specialization in accounting and financing (the College of Management), MBA, specialization in financing (the College of Management), CPA. External Director, member of the Audit Committee, the Financial Statements Committee, the Solvency and Risk Management Committee and the Compensation committee in Migdal Insurance Company Ltd. She served as the Head of the Professional Department in the Chief Accountant Division at the First International Bank of Israel Ltd. until August 2016 and as the Manager of the accounting area of the mortgage portfolio at the First International Bank of Israel Ltd. until 2013. She served as an External Director and Chairman of Yield-Dependent Investments Committee at Eliahu 1959 Ltd. until December 2012.	B.A. in Economics and Statistics (the Hebrew University), M.A. in Economics (the Hebrew University). External Director, Chairman of the Financial Statements Committee, Member of the Compensation Committee, of the Audit Committee, of the Nostro Investments Committee and of the Solvency and Risk Management Committee in Migdal Insurance Company Ltd. Member of the Investment Committee in Old Mivtachim Construction Workers Pension Fund, Hadassah Fund and Egged Fund, Chairman of the Investments Committee of Lawyers' Fund Under Special Administration, Director in Matrix-IT Ltd., Karnit Fund for the Compensation of Road Accident Casualties, Sapiens International Corporation N.V and BlueSky Energy Ltd. and their subsidiaries. Consultant in DavidShield – Insurance Agency (2000) Ltd., and previously he served intermittently as a Director in this company until the beginning of 2015.	B.A. in Economics, MBA (the Hebrew University). External Director, Chairman of the Compensation Committee, member of the Audit Committee and the Financial Statements Committee in Migdal Insurance Company Ltd., Chairman of the Audit Committee in the National Library Ltd. (a company for the public's benefit), Director, Chairman of the Balance Sheet Committee, member of the Audit Committee and the Compensation Committee in Malam-Team Ltd., Board member in the Open University and a consultant to companies and organizations.
Member of the family of another interested party in the Corporation	No	No	No

Regulation 26: Directors of the Corporation

Senior Officer's name:	**Dr. Gavriel Picker**
ID. No.:	000540302
Date of birth:	30.1.1950
Address for documents:	32, Har Miron Street, Mevaseret Zion
Nationality:	Israeli
Membership in Committees next to the Board of Directors:	No
External Director or Independent Director :	No
Director with accounting and financial skills in order to comply with the minimum set forth by the Board of Directors:	No
Employee of the Corporation, a subsidiary, a related company or an interested party:	No
Date of taking office as a Director:	12.11.2013
Education and occupation during the past five years, and the Corporations in which he serves as a Director:	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 1959 Ltd., the Association of the Israeli Center for International Migration and Absorption, ICC Israel, the Thirteenth Way Ltd. and Picker Fund. He served as a Director in Infomed Medical Sites Ltd. and B-Well Quality of Life Solutions Ltd. until September 2015 and in the Israel Philharmonic Orchestra Foundation until October 2015.
Member of the family of another interested party in the Corporation	No

Directors whose office ended during the reported period and thereafter, until the publication date:

Name	ID. No.	Beginning of office	End of office
Yigal Bar Yossef	1543196	5.9.2007	4.9.2016
Amos Sapir	3139300	24.11.2015	8.2.2017
Ronit Abramson	54121108	25.2.2009	8.2.2017

Regulation 26a: **Senior Executive Officers of the Corporation[73]**

Senior Officer's name:	**Eran Czerninski**	**Ofer Eliahu**
ID. No.:	57693236	55444699
Date of birth:	20.6.1962	28.8.1958
Position held in the Corporation:	CEO and Company CFO	No position held in the Corporation
Office held in a subsidiary or related company of the Corporation or in an interested party therein:	Head of the Finance and Actuary Division in Migdal Insurance Company Ltd., CEO and CFO in Migdal Holdings and Management of Insurance Agencies Ltd., CFO and Director in Migdal Health and Quality of Life Ltd., in Migdal Eshkol Finansim Ltd., Migdal Credit Services Ltd. and Migdal Leasing Ltd., Director in Migdal Claims Management Ltd., Real Estate Holdings Ltd., Hamagen Properties Ltd., Pel-Hamagen House Ltd., Migdal Technologies Ltd., Infomed Medical Sites Ltd., B-Well Quality of Life Solutions Ltd. and Migdal Management Services Ltd., and CFO in Migdal Insurance Capital Raising Ltd.	CEO of Migdal Insurance Company Ltd. and Migdal Insurance Capital Raising Ltd., Chairman of the Board of Directors of Sagi Yogev Insurance Agencies (1988) Ltd., Migdal Health and Quality of Life Ltd., Migdal Makefet Pension and Provident Funds Ltd., Yozma Pension Fund for Self-Employeds Ltd., Migdal Real Estate Holdings Ltd., Hamagen Properties Ltd., Pel-Hamagen House Ltd., Migdal Technologies Ltd., Migdal Management Services Ltd., Infomed Medical Sites Ltd., B-Well Quality of Life Solutions Ltd., 50 Plus Ltd., Club 50 Insurance Agency Ltd. and Migdal Claims Management Ltd. Director in Migdal Holdings and Management of Insurance Agencies Ltd., in Ihud Insurance Agencies Ltd., in Mivtach Simon Insurance Agencies Ltd., in Shaham Insurance Agencies (1977) Ltd., in Shaham Weinstein (Netanya) Insurance Agencies Ltd., and in Peltours Insurance Agencies Ltd.
Is he/she an interested party of the Corporation or member of the family of another Senior Officer or interested party:	No	Yes, the son of Mr. Shlomo Eliahu, the controlling shareholder and a Director in the Corporation and in Migdal Insurance, and the brother of Mr. Israel Eliahu, a Director in the Corporation and in Migdal Insurance.
Education and business experience in the last five years:	B.A. in Economics and Accounting (Tel Aviv University), CPA, a member in the professional committee of the Institute of Certified Public Accountants in Israel.	Specialization in General Insurance Studies in the Insurance College, 2-years. Director in Shlomo Eliahu Holdings Ltd. and subsidiaries, in Gan Ha'ir Project Company Ltd. and subsidiaries, in the Research Fund regarding Insurance next to the Insurance Companies Association, registered association (until January 18th, 2017), and Chairman of the Insurance Companies Association in Israel (until January 18th, 2017). He serves as a management member in the Israel Insurance Companies Association and in the Life Insurance Organization Ltd. He served as a Director in the Corporation until October 2013, he served as the CEO of Eliahu 1959 Ltd. until December 2013, as the Manager of General Insurance and Reinsurance Businesses Division in Migdal Insurance until July 2013 and as the Head of Customers and Distribution Channels Division until January 2016.
Date of taking office:	CEO – 24.3.2015; CFO – 1.4.2009	11.2.2014 (office as Migdal Insurance's CEO)

[73] 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 require subordination to the CEO or regarding which there are regulatory provisions testifying that they hold a position which, from the material aspect, make them "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 "Senior Executive Officers of the Corporation", as detailed in this Regulation.

Regulation 26a: Senior Executive Officers of the Corporation [73]

Senior Officer's name:	**Shay Basson**	**Emil Weinshel**
ID. No.:	22091581	014650287
Date of birth:	5.10.1965	30.11.1971
Position held in the Corporation:	No position held in the Corporation	No position held in the Corporation
Office held in a subsidiary or related company of the Corporation or in an interested party therein:	Head of the Technology Division, in charge of information security, Manager of IT and Business Continuity in Migdal Insurance Ltd. and in Migdal Makefet Pension and Provident Funds Ltd. and in Yozma Pension Fund for Self-Employeds Ltd., CEO of Migdal Technologies Ltd.	Head of Customers, Service and Distribution Channels Division in Migdal Insurance Company Ltd.
Is he/she an interested party of the Corporation or member of the family of another Senior Officer or interested party:	No	No
Education and business experience in the last five years:	B.A in Economics and Computer Sciences (Tel Aviv University), MBA (Tel Aviv University), M.A in Social Sciences (Haifa University), National Security (Haifa University).	B.A in Accounting and L.L.B (Rhodes University, South Africa), MBA (Tel Aviv University). CPA. Chairman of the "Israeli Pool", member of the Executive Committee in the Insurance Companies Association and in the Life Insurance Organization. He served as the CEO of Ayalon Insurance Company Ltd. until December 2015.
Date of taking office:	1.5.2010 (office in Migdal Insurance)	1.2.2016 (office in Migdal Insurance)

Regulation 26a: Senior Executive Officers of the Corporation [73]

Senior Officer's name:	**Ilana Bar**	**Tali Cassif**	**Michal Leshem**
ID. No.:	22190839	54677836	27862721
Date of birth:	7.11.1965	13.2.1957	30.7.1970
Position held in the Corporation:	Company legal counsel	Company secretary	Company Internal Auditor
Office held in a subsidiary or related company of the Corporation or in an interested party therein:	Legal counsel of Migdal Insurance Company Ltd., and of Migdal Makefet Pension and Provident Funds Ltd. and other companies in Migdal Insurance Group.	Company secretary of Migdal Insurance Company Ltd., of Migdal Health and Quality of Life Ltd., and of other companies in Migdal Insurance Group.	Internal Auditor of Migdal Insurance Company Ltd. and 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	No
Education and business experience in the last five years:	LL.B (Bar-Ilan University) and LL.M (Harvard University, U.S.A.). A lawyer	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 Compliance, Strategy, Business Development and Control Discipline until January 2014.
Date of taking office:	10.7.2001	18.3.1991	1.2.2014

Regulation 26a: Senior Executive Officers of the Corporation [73]

Senior Officer's name:	Bezalel Zucker	Nitzan Tza'ir Harim	Yossi Ben Baruch
ID. No.:	50671627	59615617	58890138
Date of birth:	24.4.1951	16.4.1965	25.11.1970
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 Makefet Pension and Provident Funds Ltd. and Yozma Pension Fund for Self-Employeds Ltd. Director in Migdal Technologies Ltd.	Head of General Insurance Discipline in Migdal Insurance Company Ltd.	CEO of Migdal Capital Markets (1965) Ltd., Chairman of the Board of Directors of Migdal Trust Funds Ltd. and Migdal Underwriting and Business Initiative Ltd., and a Director in the following active companies: Migdal Investment Portfolio Management (1998) Ltd., Migdal Capital Markets (Management Services) Ltd., and MCM Alternative Investments 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:	CLU (Insurance College), Life Assurance Studies (Insurance College).	B.A in Industrial Engineering (Technion), MBA with specialization in Financing (Bar Ilan University). He served as the Manager of General Insurance Businesses in the Customers and Distribution Channels of Migdal Insurance Company Ltd. until August 2016, and as the Headquarters Division Manager and manager in charge of the individual insurance section in Ayalon Insurance Company Ltd. until December 2015.	LL.B and BA in Accounting (Tel Aviv University), MBA – specialization in finance (Tel Aviv University). He served as a Director in Migdal Capital Markets (1965) Ltd. until June 2014, as substitute to the CEO, controller, legal counsel and the Investment Department Manager in Eliahu 1959 Ltd. (previously Eliahu Insurance Company Ltd.) until June 2014.
Date of taking office:	CEO of Migdal Makefet Pension and Provident Funds Ltd. – 9.2.2009. CEO of Yozma Pension Fund for Self-Employeds Ltd. – 1.12.2006	1.9.2016 (office in Migdal Insurance)	1.7.2014 (office in Migdal Capital Markets)

Regulation 26a: Senior Executive Officers of the Corporation [73]

Senior Officer's name:	**Assaf Shoham**	**Mali Shaoul**	**Michal Gur Kagan**
ID. No.:	013306832	55026066	038648655
Date of birth:	28.7.1969	22.12.1957	3.3.2976
Position held in the Corporation:	No position held in the Corporation	No position held in the Corporation	The Company's Risk Manager
Office held in a subsidiary or related company of the Corporation or in an interested party therein:	Manager of the Investments Division in Migdal Insurance Company Ltd., Director in Migdal Real Estate Holdings Ltd., in Hamagen Properties Ltd., in Pel-Hamagen House Ltd., in Migdal Eshkol Finansim Ltd., in Migdal Credit Services Ltd., in Migdal Leasing Ltd. and in Ashmoret Tichona Ltd., the Company for the Development of Yeffe Nof Haifa Ltd. and AI America Israel Investments Ltd.	CEO of Mivtach Simon Insurance Agencies Ltd.	Risk Manager of Migdal Insurance Company Ltd., and Risk Manager in other companies in Migdal 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 Political Science (Tel Aviv University), MBA (Tel Aviv University). He served as the provident and educational fund manager in Migdal Makefet Pension and Provident Funds Ltd. until March 2014, and previously, he served as the Investments Department Manager in Eliahu 1959 Ltd. (previously Eliahu Insurance Company Ltd.) until January 2013.	She served as Eshkol (Arrangement Agencies District) Manager, the bank unit Manager and the CEO of The Phoenix Agencies at The Phoenix Group until February 2015.	B.A. in Economics (Emek Israel College), MBA (Tel Aviv University). She served as the Manager of the Financial Entities Department at S&P Ma'alot until June 2016.
Date of taking office:	30.3.2014 (office in Migdal Insurance)	1.7.2015 (office in Mivtach Simon)	25.7.2016

Regulation 26a: Senior Executive Officers of the Corporation [73]

Senior Officer's name:	Leybush Ulman	Asaf Ashkenazy	Avraham Shamay
ID. No.:	16020752	38290698	024317463
Date of birth:	27.2.1955	18.1.1976	10.1.1969
Position held in the Corporation:	No position held in the Corporation	Chief Compliance Manager in the Company	No position held in the Corporation
Office held in a subsidiary or related company of the Corporation or in an interested party therein:	Chief actuary and appointed life assurance actuary in Migdal Insurance Company Ltd.	Headquarters Manager, Chief Compliance Manager and Service Officer in Migdal Insurance Ltd., Service Officer in Migdal Makefet Pension and Provident Funds Ltd. and in Yozma Pension Fund for Self-Employeds Ltd.	Head of the General Insurance Claims in Migdal Insurance Company Ltd.
Is he/she an interested party of the Corporation or member of the family of another senior officer or interested party:	No	No	No
Education and business experience in the last five years:	Ph.D. in Actuarial Studies (University of Basle, Switzerland), M.A in Actuarial Studies (University of Basle, Switzerland), B.A in Mathematics and Statistics and Operations Research (University of Basle, Switzerland).	B.A in Industrial Engineering (the Technion), MBA (Ben Gurion University) and LL.M (Bar Ilan University). He served as the Manager of Insurance Businesses and Distribution Headquarters in Migdal Insurance until February 2014, as the Manager of General Insurance Headquarters in Migdal Insurance until May 2013, and as Assistant to CEO and O&S Department, Regulation and Sox and Compliance Officer in Eliahu 1959 Ltd. (previously Eliahu Insurance Company Ltd.) until December 2012.	LL.B (the College of Management), MBA (the College of Management), a lawyer. He served as the Claims Section Manager in Eliahu 1959 Ltd. (previously Eliahu Insurance Company Ltd.) until January 2015.
Date of taking office:	1.12.2006 (office in Migdal Insurance)	27.5.2014	1.2.2015 (office in Migdal Insurance)

Regulation 26a: Senior Executive Officers of the Corporation [73]

Senior Officer's name:	**Dr. Ra'anan Cohen**
ID. No.:	048316954
Date of birth:	28.2.1941
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:	Chairman of the Board of Directors of Mivtach Simon Insurance Agencies Ltd. and of Migdal Holdings and Management of Insurance Agencies Ltd. Director in Shaham Insurance Agencies (1977) Ltd., in Shaham Weinstein (Netanya) Insurance Agencies Ltd., in Amir Aloni Life Assurance Agency (1994) Ltd., in Ihud Insurance Agencies Ltd., in Eli Erlich Insurance Services (1999) Ltd., in Sagi Yogev Insurance Agencies (1988) Ltd., in Makefet Financial Services – Insurance Agency (1998) Ltd., in Peltours Insurance Agencies Ltd. and in Proline Exclusive Ltd.
Is he/she an interested party of the Corporation or member of the family of another senior officer or interested party:	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 East (Tel Aviv University), BA in General History (Tel Aviv University). Studies of Investments in Securities and Financial Instruments, Management Faculty (Tel Aviv University), Company Recovery Laws, Law School (Bar Ilan University), Directors' Training (the College of Management, Beit Berl Branch), Financial Management for Managers (Tel Aviv University), Risk Management (Tel Aviv University). Chairman of the Board of Directors 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 Chairman of the Board of Directors in the Israeli Wholesale Market Ltd. until December 2013, as a Director in Bank Otsar Ha-Hayal Ltd. until December 2013, in S. Shlomo Insurance Company Ltd. until December 2013, in Rafael Armament Development Authority Ltd. until August 2013, External Director in B. Gaon Holdings Ltd. until July 2013 and in Y.Z. Queenco Ltd. until December 2013
Date of taking office:	27.5.2014 (office in Mivtach Simon)

Senior Executive Officers whose office ended during the reported period and thereafter, until the publication date:

Name	ID. No.	Beginning of office	End of office
Gil Yaniv, Head of LTS, Health and Quality of Life Businesses Division and Head of the Strategy Discipline in Migdal Insurance Company Ltd.	5851170	1.6.2010	4.4.2016
Yossi Peretz, Head of the General Insurance (Headquarters, Marketing and Sales) Division in Migdal Insurance Company, Ltd.	012305207	1.7.2014	1.9.2016
Itzhak Ben Menachem, Risk Manager in Migdal Insurance Company Ltd. and in additional companies in Migdal Insurance Group.	23643836	1.10.2013	25.7.2016

Regulation 26b: The signatories of the Corporation

The Corporation does not have independent signatories.

Regulation 27: The Auditors of the Corporation

Somekh Chaikin Accountants, 17, Ha'arba'a Street, KPMG Millennium Building, P.o.Box 609, Tel Aviv 61009.

Kost, Forer Gabbay & Kasierer Accountants, 3, Aminadav Street, Tel Aviv 6706703.

Regulation 28: Amendments in Memorandum or in Articles of Association

During the reported period there was no amendment in the Company's Articles of Association.

Regulation 29: Recommendations and Resolutions of the Board of Directors

(a) The recommendations of the Board of Directors to the General Meeting and their resolutions which do not require the approval of the General Meeting regarding:
(Regarding the Board of Directors 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: None.

   On March 1st, 2017 the Company's Board of Directors approved the distribution of a dividend in the amount of NIS 110 million, subject to the approval of the Company's General Meeting.
   The dividend distribution was set for March 30th, 2017, and the X-day is March 26th, 2017.

2. Changes in the Corporation's authorized or issued capital: None.

3. Changing the Corporation's memorandum or Articles of Association: None.

4. Redemption of shares: None.

5. Early redemption of bonds: None.

6. Transactions that are not pursuant to market conditions between the Corporation and an interested party thereof: None.

(b) Resolutions of the General Meeting regarding the issues detailed above that were made not pursuant to the Board of Directors' recommendation: None.

(c) Resolutions of special General Meetings:

21.1.2016 ▪ To approve the terms of employment of Mr. Yohanan Danino, the Chairman of the Board of Directors of the Company, who also serves as the Chairman of the Board of Directors of Migdal Insurance.

3.2.2016 ▪ To approve the engagement of Migdal in a transaction with the controlling shareholder of the Company – Eliahu, in an agreement for the acquisition Eliahu's general insurance portfolio in run-off.

5.4.2016	▪	To approve the terms of employment of Mr. Eliahu Eliahu as the General Insurance Businesses Manager in the Central District in Migdal Insurance Company Ltd., a subsidiary of the Corporation.
4.8.2016	▪	To approve an amendment to the acquisition agreement of Eliahu 1959 Ltd.'s (its previous name – Eliahu Insurance Company Ltd.) general insurance portfolio in run-off.
6.10.2016	▪	To approve the appointment of Ms. Ronit Bodo as External Director in the Company for a period of three years, that will begin upon the approval of her office by the General Meeting.
	▪	To re-elect the Auditing CPAs Somekh Chaikin and Kost, Forer, Gabbay & Kasierer, and empower the Company's Board of Directors to set their fees for 2016.
30.12.2016	▪	To approve the update of the Senior Officers Remuneration Policy in the Company for the years 2017 until and including 2019. It should be clarified that in spite of the remuneration policy, it will not be possible to pay to the Chairman of the Board of Directors and to the CEO an amount exceeding NIS 3.5 million plus severance pay and benefits, without the General Meeting's approval.
	▪	To approve the terms of employment of the Chairman of the Board of Directors of the Company. The approval of his terms of employment will be effective as of October 12th, 2016.
	▪	To approve the terms of employment of Mr. Ofer Eliahu, the CEO of Migdal Insurance, for the years 2017 and until and including 2019. The approval of his terms of employment will be effective as of October 12th, 2016.
	▪	To approve the terms of employment of the Company's CEO, Mr. Eran Czerninski. The approval of his terms of employment will be effective as of November 1st, 2016.
	▪	To approve an annual normative grant for the years 2017 and until and including 2019 to Mr. Eliahu Eliahu, a relative of the controlling shareholder, who is employed by Migdal Insurance.
	▪	To approve giving letters of indemnification to Senior Officers who are the controlling shareholder or relatives thereof.
	▪	To approve giving letters of waiver to Senior Officers, except to those who are the controlling shareholder or relatives thereof.
	▪	To approve giving letters of waiver to Senior Officers who are the controlling shareholder or relatives that the controlling shareholder has a person interest in them.
22.3.2017	▪	To approve the distribution of a dividend of NIS 110 million, which, as of the date of the Board of Directors resolution, constitute NIS 0.10 per share and 1043.734% of the Company's issued and paid-up capital. The dividend will be paid to the Company shareholders who were registered in the Company shareholders register by the end of the effective day (March 24th, 2017), which as per the TASE provisions, was also be the X day. The payment will be made on March 30th, 2017.

Regulation 29a: The Corporation's Resolutions

1. Approval of activities as per clause 255 to the Companies Law: None.

2. Action as per clause 254 (a) to the Companies Law which was not approved: None.

3. Extraordinary transactions requiring special approvals as per clause 270 (1) to the Companies Law: None

4. A release, insurance or obligation to indemnify Senior Officers effective on the Report's date:

1) Letters of indemnification until 2006

a. The Company gave letters of indemnification to Senior Officers of investee companies and other Corporations in which they serve in their capacity as Senior Officers in the consolidated company, as well as to a few employees in the Group, according to which Migdal will indemnify them, in the scope, limits and circumstances detailed in the letters of indemnification, in respect of a financial liability that will be imposed on them, in connection with any actions carried out as Senior Officers of the said Corporations, or in respect of actions detailed in the letters of indemnification.

b. The Company gave letters of waiver 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 waiver 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 waiver, 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 waiver 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 waiver 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 waiver – 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 compan**y") as detailed in the letter of waiver and indemnification 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 letter of waiver and indemnification 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 waiver 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 waiver and indemnification arrangements in the Company shall apply, provided they are not replaced by other arrangements, as well the letters of waiver or indemnifications that will be given from time to time by the Company as per the existing waiver 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 letters of waiver and indemnification to them, serving or who would serve from time to time, see the Company's Immediate Report issued on November 29th, 2011 (Reference No. 2011-01-344328).

4) Updated letters of indemnification given in 2012

a. An undertaking to indemnify in advance in respect of a financial liability imposed on the Senior Officer for paying to victims of a violation in an administrative procedure, as well as expenses incurred by a Senior Officer in relation to an administrative procedure in his/her respect, including reasonable litigation fees, including legal fees, all subject to the coming into effect of the Administrative Enforcement Law and the Amendment to the Securities Law – 1968 ("**Securities Law**"), and as per the Increase in Enforcement in the Capital Market Law (Legislative Amendments) - 2011.

b. The maximum indemnification amount that will be paid to Senior Officers in the entire Migdal Group, within all letters of indemnification that were issued and will be issued from time to time, has not changed, however it was amended not to exceed the amount that equals 25% of the Company's equity (consolidated) as per the last Financial Statements published by the Company before the actual date of indemnification (instead of setting forth that it should be as per the last annual reports published by the Company before the actual date of indemnification).

c. There was a clarification that the undertaking for indemnification also applies to other positions held by the owner of the letter of indemnification in Migdal Group Corporations and/or in another Corporation in which he/she serves on behalf of Migdal Group.

d. There was a clarification that the undertaking for indemnification applies to events that occurred in Israel as well as events that occurred outside of Israel.

Furthermore, in light of the developments in the business environment in which the Company operates and in the regulation that applies to it, the list of events in respect of which the Company may give an undertaking for indemnification was expanded, such that it includes, *inter alia*, reference to the following events: risk management, investments policy, SOX procedures and controls, the preparation of financial reports and other reports and the management of customers' monies.

The provisions of the updated letters of indemnification shall apply, subject to the provisions of the Law, also to actions made prior to their amendment.

- To grant updated letters of indemnification for Senior Officers in the Company, in whose indemnification the controlling shareholder may have personal interest, as set forth below, as appointed from time to time ("certain Senior Officers"). The updated letters of indemnification that will be granted to the certain Senior Officers are identical to the letters of indemnification that will be granted to Directors, whose version is attached. The provisions of the updated letters of indemnification that will be granted to the certain Senior Officers shall apply, subject to the provisions of the Law, also to actions made prior to their amendment.

For additional information regarding these letters of indemnification, see the Company's Immediate Report dated December 28th, 2011, Reference No. 2011-01-378141, Immediate Report issued on February 2nd, 2012, Reference No. 2012-01-032109, and Immediate Report dated February 7th, 2012, Reference No. 2012-01-036555.

5) **Letters of indemnification and waiver given in 2016** (the letters of indemnification have the same wording as the letters of indemnification given in 2012)

In December 2016 a special General Meeting of the Company approved the granting of letters of indemnification also to Senior Officers who are the controlling shareholder and a relative thereof, as well as granting letters of waiver to Senior Officers and Directors, including Senior Officers who are the controlling shareholder or a relative thereof. For additional details see the Company’s Immediate Report dated December 22nd, 2016 regarding the General Meeting (complementary report), whose agenda included, *inter alia*, approving the granting of letters of waiver and indemnification (Reference No. 2016-01-142339), as well the Company’s Immediate Report regarding the General Meeting’s results dated January 1st, 2017 (Reference No. 2017-01-000333).

6) Senior Officers insurance

a. On June 28th, 2016, the Company's Board of Directors, after receiving the approval of the Company's Compensation Committee on June 27th, 2016, decided to renew the D & O insurance policy for the Senior Officers in the Group, including for the controlling shareholder and his relatives serving as Senior Officers in the Group, the Company CEO and Senior Officers serving in Migdal Capital Markets (1965) Ltd, and in companies controlled by Migdal Capital Markets (1965) Ltd., a subsidiary fully owned and controlled by the Company. The insurance will be renewed for a period of seventeen (17) months, starting on July 1st, 2016, with a liability limit of USD 120 million per event, and in total for the period, against an annual premium that would not exceed USD 425,000. For details see the Company's Immediate Report dated June 28th, 2016 (Reference No. 2016-01-068815).

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Migdal Insurance and Financial Holdings Ltd.

The names and functions of the signatories

____________________	____________________
Yohanan Danino	**Eran Czerninski**
Chairman of the Board of Directors	**CEO and CFO**

Date: 22.3.2017

Corporate governance questionnaire [74]

It should be clarified that the answers in this questionnaire do not include a reference to subsidiaries, unless specified otherwise.

[74] Published within a legislation proposal for the improvement of Financial Statements, dated March 16th, 2014.

BOARD OF DIRECTORS 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 a service period that was approved a-posteriori, with a differentiation between the various External Directors):* **Director A: Yigal Bar Yossef until September 4th, 2016 and Ronit Bodo since October 6th, 2016** **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[75] of Independent External Directors[76] serving in the Corporation as of the date of this questionnaire: **3/7 (43%)**		
	The rate of Independent Directors set forth in the Articles of Association[77] of the Corporation[78] ✓ Irrelevant (there is no provision in the Articles of Association)		

[75] In this questionnaire, "**rate**" – a certain number out of the entire number, for example 3/7.

[76] Including "External Directors" as per their definition in the Companies Law.

[77] In this question – "Articles of Association" include pursuant to a specific law provision that applies to the Corporation (for example, in a banking corporation – the provisions of the Supervisor of Banks).

[78] Bond companies are not required to answer this Clause.

BOARD OF DIRECTORS 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 are not subordinate[79] to the CEO, directly or indirectly (except a Director representing the employees, if there is employee representation in the Corporation). If your answer is "Incorrect" (i.e., the Director reports to the CEO, as set forth above) – the number of Directors who do not comply with such restriction should be set forth: ___________	✓	
5.		All the Directors who informed that they have a personal interest in the approval of an issue on the agenda did not attend the deliberation and did not participate in such vote (except a deliberation and/or vote in circumstances as per Clause 278 (b) to the Companies Law). If your answer is "Incorrect" Was it in order to present a certain issue by him/her as per the provisions of Clause 278 (a) to the Companies Law, final section ☐ Yes ☐ No (Please mark x in the relevant square) The rate of meetings in which such Directors attended the deliberation and/or participated in the vote, except under circumstances set forth in paragraph a.	✓	

[79] In this question, merely serving as a Director in a held Corporation shall not be perceived as being "subordinate" in 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 being "subordinate" in this question

BOARD OF DIRECTORS 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 Senior Executive Officer in the Corporation, did not attend the Board of Directors 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 Member of the Board of Directors and or Senior Executive Officer in the Corporation attended the Board of Directors meetings) – the following details as to the attendance of the additional person in the Board of Directors 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[80] in Board of Directors 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)	✓	

[80] Please separate between the controlling shareholder and his/her relative and/or anyone on his/her behalf.

DIRECTORS' ELIGIBILITY AND SKILLS

				Correct	Incorrect
7.		In the Corporation's Articles of Association there is no provision that restricts the possibility to terminate immediately the service of all Directors in the Corporation who are not External Directors (for this matter – a decision by simple majority is not perceived as a restriction) [81]. 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:____________		

[81] 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	✓[82]	
9.	a.	In the Corporation, there is a minimal number of Directors in the Board of Directors, who must have an accounting and financial expertise. If your answer is "Correct" – please note the minimal number set forth: **3**	✓	

[82] Pursuant to the Procedure regarding the duties of the Board of Directors, 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 Board of Directors Procedure, training is provided to Directors once every two years. On October 29th, 2015 a training was conducted on the following topics: risk management, information security, cyber and DRP. In addition, from time to time, the Company conducts training for Senior Officers and/or Directors regarding topics and contents in which the Company deems it worthwhile to gain a better understanding, or as requested by the Directors from time to time.

DIRECTORS' ELIGIBILITY AND SKILLS

				Correct	Incorrect
		b.	The number of Directors who served in the Corporation during the reported year: With accounting and financial skill[83]: **6** With professional skills [83]: **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 Board of Directors included members of both genders. If you answered "Incorrect" – please note the period (in days), in which the above was not complied with: ___________ Regarding this question, you may answer "Correct" if the period in which Directors of both genders did not serve does not exceed 60 days, however, in any answer (Correct/Incorrect) the period (in days) in which they did not serve in the Corporation should be specified: ______________.	✓	
		b.	The number of Directors of each gender serving in the Corporation's Board of Directors as of the publication of this questionnaire: **Men: 6; Women: 1**		

[83] Pursuant to the Board of Directors estimation, as per the provisions of the Companies Regulations (Conditions and Criteria regarding Directors with Accounting and Financial expertise and Directors with Professional expertise) – 2005.

BOARD OF DIRECTORS MEETINGS (AND GENERAL MEETINGS)

				Correct	Incorrect
11.		a.	The number of Board of Directors meetings held during each quarter in the reported year: 2016 First quarter:: 2 Second quarter: 3 Third quarter: 5 Fourth quarter: 5		
		b.	Next to the name of Directors who served in the Corporation during the reported year, you may see the participation rate[84] in Board of Directors meetings (in this paragraph – including the meetings of Committees next to the Board of Directors 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)		

[84] See Footnote 75.

BOARD OF DIRECTORS MEETINGS

						Correct	Incorrect
	Director name	Participation rate in Board of Directors meetings	Participation rate in Audit Committee meetings [85]	Participation rate in the meetings of the Financial Statements Committee [85]	Participation rate in the meetings of the Compensation Committee [85]		
	Ronit Abramson* **	93%	100%	--	100%		
	Yigal Bar Yossef	100%	100%	100%	100%		
	Eyal Ben Chlouche	100%	94%	100%	100%		
	Jacob Danon	93%	100%	100%	100%		
	Shlomo Eliahu	93%	--	--	--		
	Israel Eliahu	87%	--	--	--		
	Ronit Bodo**	100%	100%	100%	100%		

* Mr. Yigal Bar Yossef served as an External Director until September 5th, 2016 (see Immediate Report dated September 5th, 2016, Reference No. 2016-01-117613)
** Ms. Ronit Bodo serves as an External Director in the Company since October 6th, 2016 (see Immediate Report dated October 9th, 2016, Reference No. 2016-01-061053).
*** Messrs. Amos Sapir and Ronit Abramson did not submit their candidacy to be re-elected as External Directors to the Company's General Meeting held on February 8th, 2017.

[85] For Directors who are members in these Committees.

BOARD OF DIRECTORS MEETINGS

						Correct	Incorrect
	Director name	Participation rate in Board of Directors meetings	Participation rate in Audit Committee meetings [85]	Participation rate in the meetings of the Financial Statements Committee [85]	Participation rate in the meetings of the Compensation Committee [85]		
	Gavriel Picker	74%	--	--	--		
	Yohanan Danino	100%	--	--	--		
	Amos Sapir***	100%	--	--	--		

BOARD OF DIRECTORS MEETINGS (AND GENERAL MEETING)				
			Correct	Incorrect
12.	1.	In the reported year, the Board of Directors 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 CHAIRMAN OF THE BOARD OF DIRECTORS

			Correct	Incorrect
13.		In the entire reported year, a Chairman of the Board of Directors served in the Corporation. Regarding this question, you may answer "Correct" if the period in which a Chairman of the Board of Directors 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 Chairman of the Board of Directors 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:________	✓	
15.		In a Corporation in which the Chairman of the Board of Directors also serves as the Corporation CEO and / or exercises his/her powers, the double appointment was approved pursuant to the provisions of Clause 121 (c) to the Companies Law[86]. ✓ Irrelevant (if there is no such double appointment in the Corporation)		

[86] In bond companies - approval pursuant to Clause 121 (d) to the Companies Law.

SEPARATION BETWEEN THE OFFICES OF CEO AND CHAIRMAN OF THE BOARD OF DIRECTORS

			Correct	Incorrect
16.		The CEO is not a relative of the Chairman of the Board of Directors. If you answered "Incorrect" (i.e., the CEO is a relative of the Chairman of the Board of Directors)	✓	
	a.	State the relation between the parties:__________	_____	_____
	b.	The office was approved pursuant to Clause 121 (c) to the Companies Law: [87] ☐ Yes ☐ No *(Please mark x in the relevant square)*	_____	_____
17.		A controlling shareholder or a relative thereof does not serve as the CEO or as a Senior Executive 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, and Mr. Israel Eliahu, the son of Mr. Shlomo Eliahu, the Company's controlling shareholder, serves as the Chairman of the Board of Directors of Migdal Capital Markets (1965) Ltd., a subsidiary of the Company.** ☐ Irrelevant (in the Corporation there is no controlling shareholder).		✓

[87] In bond companies – approval pursuant to Clause 121 (d) to the Companies Law.

AUDIT COMMITTEE

			Correct	Incorrect
18.		In the Audit Committee, the following did not serve in the reported year -	______	________
	a.	The controlling shareholder or a relative thereof. ☐ Irrelevant (in the Corporation there is no controlling shareholder).	✓	
	b.	Chairman of the Board of Directors.	✓	
	c.	A Director employed by the Corporation or by the controlling shareholder in the Corporation or by a corporation controlled by him/her.	✓	
	d.	A Director providing services on a regular basis to the Corporation or to the controlling shareholder or a Corporation controlled by him/her.	✓	
	e.	A Director whose main livelihood relies on the controlling shareholder. ☐ Irrelevant (in the Corporation there is no controlling shareholder).	✓	
19.		Whoever is not entitled to be a member of the Audit Committee, including the controlling shareholder or a relative thereof, did not attend the Audit Committee meetings in the reported year, except pursuant to the provisions of Clause 115 (e) to the Companies Law.	✓	

AUDIT COMMITTEE

			Correct	Incorrect
20.		The quorum for the deliberation and decision-making in all Audit Committee meetings that were held in the reported year was the majority of Committee members, and the majority of attendants were Independent Directors and at least one of them was an External Director. If your answer is "incorrect" – please state the rate of meetings in which this requirement was not complied with: _________	✓	
21.		In the reported year the Audit Committee held at least one meeting with the attendance of the Chief Internal Auditor and the Company's external auditors, as the case may be, and without the attendance of senior Officers in the Corporation who are not members of the Committee regarding weaknesses 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 Financial Statements Committee is convinced that the scope of work of the auditor and his fees in relation to the FS in the reported year were appropriate in order for them to perform proper audit and review work.	✓	

THE ROLES OF THE FINANCIAL STATEMENTS COMMITTEE (HEREINAFTER – THE COMMITTEE) IN ITS PRELIMINARY WORK FOR THE FINANCIAL SATEMENTS APPROVAL

			Correct	Incorrect
25.	a.	The number of days set forth by the Board of Directors as a reasonable time for submitting the recommendations before the Board of Directors meeting in which the Periodic or Quarterly Reports will be approved: **2**		
	b.	The number of days which actually elapsed between the day upon which the recommendations were transferred to the Board of Directors and the date upon which the Financial Statements were approved: First quarter FS (2016) **6** Second quarter FS **5** Third quarter FS **3** 2016 annual FS **3**		
	c.	The number of days actually elapsed between the day upon which the Financial Statements drafts were transferred to the Board of Directors and the date upon which the Financial Statements were approved: First quarter FS (2016) **6** Second quarter FS **6** Third quarter FS **6** 2015 annual FS **6**		
26.		The Corporation's auditor participated in all the meetings of the Committee and the Board of Directors, in which the Corporation's Financial Statements 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 FINANCIAL SATEMENTS APPROVAL

			Correct	Incorrect
27.	In the Committee, in the entire reported year, all the following conditions were met:			
	a.	The number of its members was not less than three (at the time of the deliberation in the Committee and FS approval, as set forth above)	✓	
	b.	All the conditions set forth in Clause 115 (b) and (c) to the Companies Law (regarding the tenure of Audit Committee members) were met.	✓	
	c.	The Chairman of the Committee is an External Director.	✓	
	d.	All its members are Directors, and the majority are Independent Directors.	✓	
	e.	All its members are able to read and understand FS and at least one of the Independent Directors has accounting and financial expertise.	✓	
	f.	The Committee members gave a declaration prior to their appointment.	✓	
	g.	The quorum for the deliberation and decision-making in the Committee was the majority of its members, provided the majority of those attending were Independent Directors, including at least one External Director.	✓	
	If your answer is "Incorrect" regarding one or more of the sub-clauses of this question, please detail the Report (Periodic/Quarterly) in which of the conditions set forth above was not met:________			

COMPENSATION COMMITTEE

			Correct	Incorrect
28.	In the reported year, the Committee was composed of at least three members and the External Directors were the majority (at the time it was deliberated by the Committee). ☐ Irrelevant (there was no deliberation)		✓	
29.	The terms of office and employment of all the Seniors' Compensation Committee's members in the reported year comply with the companies Regulations (rules regarding Remuneration and Expenses for External Directors) – 2000.			
30.	In the Compensation Committee, the following did not serve:			
	a.	The controlling shareholder or his/her relative ☐ Irrelevant (there is no controlling shareholder in the Corporation)	✓	
	b.	The Chairman of the Board of Directors	✓	
	c.	A Director employed by the Corporation or by the controlling shareholder of the Corporation or by a corporation controlled by him/her	✓	
	d.	A Director who provides services to the Corporation or to the Corporation's controlling shareholder on a regular basis	✓	
	e.	A Director whose livelihood mostly depends on the controlling shareholder ☐ Irrelevant (there is no controlling shareholder in the Corporation)	✓	

COMPENSATION COMMITTEE

		Correct	Incorrect
31.	In the reported year, the controlling shareholder or his/her relative did not attend the meetings of the 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 Compensation Committee and the Board of Directors 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:_______	✓	

CHIEF INTERNAL AUDITOR

		Correct	Incorrect
33	The Corporation's Chairman of the Board of Directors or CEO is in charge of the Chief Internal Auditor in the organization.	✓	
34.	In the reported year, the Chairman of the Board of Directors or of the Audit Committee approved the Work Plan. In addition, the audit topics that were examined by the Chief Internal Auditor in the reported report should be detailed: **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.** [88]	✓	
35.	The scope of the Chief Internal Auditor's employment in the reported year (in hours) [89]: 54,538		
	In the reported year there, there was a discussion (in the Audit Committee or the Board of Directors) regarding the Chief Internal Auditor's findings.	✓	
36.	The Chief Internal Auditor is not an interested party in the Corporation, his/her relative, the auditor or anyone on his/her behalf, and does not have significant business relations with the Corporation, its controlling shareholder, relatives thereof or corporations controlled by him/her.	✓	

[88] The slate of the members of Migdal insurance's Audit Committee and Migdal Holdings' Audit Committee are identical.
[89] Including working hours invested in held corporations and in auditing outside of Israel, as the case may be.

TRANSACTIONS WITH INTERESTED PARTIES			
		Correct	**Incorrect**
37.	The controlling shareholder or his/her relative (including a Company controlled by him/her) is not employed by the Corporation, nor does he/she supply 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 – 4 **2 [90] employed by Migdal Insurance and 2[91] serve as Directors, one of them serves as the Chairman of the Board of Directors in an investee.** - Were the employment agreements and/or management services agreements as set forth above approved by the organs set forth by the Law: ✓ Yes *(Please mark x in the relevant square)* ☐ Irrelevant (in the Corporation there is no controlling shareholder)._____		✓

90 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.

91 Mr. Shlomo Eliahu, the Company's controlling shareholder, serves 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 Chairman of the Board of Directors of Migdal Capital Markets, a subsidiary of the Corporation. Mr. Israel Eliahu is entitled to director fees in respect of his office in the Company and in Migdal Insurance. Mr. Israel Eliahu's Director fees were approved by the organs set forth by the Law.

TRANSACTIONS WITH INTERESTED PARTIES

		Correct	Incorrect
38.	To the best knowledge of the Corporation, the controlling shareholder does not have additional businesses in the Corporation's areas of activity (in one or more areas). If your answer is "Incorrect" – please specify whether there is an arrangement for the delimitation of activities between the Corporation and the controlling shareholder: ✓ Yes ☐ No **For the sake of good order, it should be noted that Mr. Shlomo Eliahu, the controlling shareholder, is the owner and Chairman of the Board of Directors of Eliahu 1959 Ltd. ("Eliahu 1959"), he has holdings in Union Bank as detailed in the Financial Statements, and also owns 50% of Gan Ha'ir project, which includes a mall, a hotel and a residential project, he owns real estate assets which are Eliahu Building in Tel Aviv and real estate assets that serve as branches of Eliahu 1959 Ltd. He serves as a Directors in companies Gan Ha'ir Group, and as the Chairman of the Board of Directors in companies in Shlomo Eliahu Holdings Group.** **On January 1st, 2013 Eliahu 1959 transferred all its life assurance activity to Harel. Furthermore, on September 30th, 2013 the Company's General Meeting approved an engagement with Eliahu 1959 for a consideration agreement regarding the absorption of new policies (including the renewal of existing policies), whose insurance period is from 2013 and thereafter, of Eliahu customers in the general insurance area. Accordingly, as of the date of the Report, Eliahu 1959 engages only in the dissolution of liabilities in general insurance, that includes claims outstanding and future ones of Eliahu 1959 originating from general insurance policies sold by Eliahu 1959 until the end of 2012, which is in run-off, and pursuant to the engagement between Migdal Insurance and Eliahu 1959 (subject to the Court approval for the completion of the transaction), shall be transferred to the sole responsibility of Migdal Insurance. For additional details, see Note 38e2 to the Financial Statements.** **In Union Bank, the controlling shareholder may not participate in the management or operation of means of control, therefore these are passive capital holdings for realization only, within a period of up to 3-4 years**	✓	

Chairman of the Board of Directors:____________ Chairman of the Audit Committee:_____________ Chairman of the Financial Statements Committee:___________

Signature's date: March 22nd, 2017

*** Since Mr. Yigal Bar Yossef terminated his office as the Chairman of Company's Audit Committee on September 4th, 2016, no other Chairman was appointed for the Audit Committee, therefore, Mr. Eyal Ben Chlouche was empowered ad-hoc to sign the corporate governance questionnaire as the Chairman of the Audit Committee.**

REPORT AND STATEMENTS REGARDING THE INTERNAL CONTROL OVER THE FINANCIAL REPORTING AND DISCLOSURE

ARBEL CLIFF, RISING TO ABOUT 400 METERS ABOVE THE SEA OF GALILEE | **LOWER GALILEE**

Annual report regarding the effectiveness of internal control over the financial reporting and disclosure pursuant to Regulation 9b (a)

Management, supervised by Migdal Insurance and Financial Holdings Ltd.'s Board of Directors (hereinafter - the Corporation), is responsible for determining and maintaining internal control over the financial reporting and disclosure in the Corporation.
For this matter, management members are as follows:

1. Eran Czerninski, CEO and CFO;
2. Michal Gur Kagan, 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 most senior financial officer or under their supervision, or by who actually performs these duties, under the supervision of the Corporation's Board of Directors. The purpose of the controls and procedures is to provide a reasonable level of confidence as to the reliability of the financial reporting and preparation of Financial Statements pursuant to the provisions of the law, and to ensure 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 format prescribed by the law.

The internal control includes, *inter alia*, controls and procedures designed to ensure 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 financial officer or to whoever actually performs these duties, so as to ensure that decisions are made at the appropriate time, regarding the disclosure requirements.

Due to its inherent limits, internal control over the financial reporting and disclosure is not aimed at providing absolute confidence that misstatement or omission of information in the reports shall be prevented or detected.

Management, under the BoD supervision, performed an examination and evaluation of the internal control over the Corporation's financial reporting and disclosure and its effectiveness; the assessment of the effectiveness of the internal control over financial reporting and disclosure that was conducted by management, under the supervision of the BoD, included the following:

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.

As to the above-mentioned subsidiary, management, under the Board of Directors' supervision, performed an examination and evaluation of the internal control over financial reporting and its effectiveness, based on the provisions of the Institutional Entities Circular 2009-9-10" Management's Responsibility for the Internal Control over Financial Reporting", Institutional Entities Circular 2010-9-7 "Internal Control over Financial Reporting – Certifications, 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, 2016, is effective.

Based on the effectiveness evaluation conducted by 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, 2016, 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 2016 (hereinafter: “the Reports");
(2) To the best of my knowledge, the Reports do not contain any misstatement of a material fact nor omit any material fact necessary to ensure that the statements that they contain, given the circumstances under which such statements were made, shall not be misleading with respect to the periods covered by the Reports;
(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 auditors, Board of Directors and the Corporation's Audit and Financial Statements Committees, based on my most recent evaluation of the internal control over financial reporting and disclosure;
    (a) Any 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 cast doubt as to the reliability of the financial reporting and preparation of Financial Statements pursuant to the Law, and –
    (b) Any fraud, whether material or immaterial, that involves the CEO or anyone directly subordinated to him or involving other employees who hold a significant position in the internal control over financial reporting and disclosure;
(5) I, myself or together with others in the Corporation:
    (a) Set controls and procedures, or ensured that controls and procedures are determined and are in place 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 determined and are in place 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 Board of Directors and management regarding the effectiveness of internal control as at the date of the Financial Statements.

The above does not derogate from my responsibility or the responsibility of any other person, under any law.

March 22nd, 2017

____
Eran Czerninski, CEO

Managers' statement
Statement of the most senior officeholder in the Finance Discipline

I, Eran Czerninski, certify that:

(1) I have reviewed Migdal Insurance and Financial Holdings Ltd.'s (hereinafter: “the Corporation”) Periodic Report for 2016 (hereinafter: “the Reports");
(2) To the best of my knowledge, the Reports do not contain any misstatement of a material fact nor omit any material fact necessary to ensure that the statements that they contain, given the circumstances under which such statements were made, shall not be misleading with respect to the periods covered by the Reports;
(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 auditors, Board of Directors and the Corporation's Audit and Financial Statements Committees, based on my most recent evaluation of the internal control over financial reporting and disclosure;
    (a) Any 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 cast doubt as to the reliability of the financial reporting and preparation of Financial Statements pursuant to the Law, and –
    (b) Any fraud, whether material or immaterial, that involves the CEO or anyone directly subordinated to him or involving other employees who hold a significant position in the internal control over financial reporting and disclosure;
(1) I, myself or together with others in the Corporation:
    (a) Set controls and procedures, or ensured that controls and procedures are determined and are in place 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 determined and are in place 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 Board of Directors and management regarding the effectiveness of internal control as at the date of the Financial Statements.

The above does not derogate from my responsibility or the responsibility of any other person, under any law.

March 22nd, 2017

____
Eran Czerninski, CFO

APPENDICES
RELATED TO MIGDAL INSURANCE COMPANY LTD.



Migdal Insurance Company Ltd.

Certification

I, Ofer Eliahu, certify that:

1. I have reviewed Migdal Insurance Company Ltd.'s (henceforth: "**the Insurance Company**") Annual Report for 2016 (henceforth: "**the Report**").
2. Based on my knowledge, the Report does not contain any misrepresentation of a material fact nor omits any material fact necessary so that the statements that it contains, 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 contained in the report, fairly reflect in all material respects, the financial position, results of operations, changes in shareholders' 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) Established controls and procedures, or caused the establishment of such controls and procedures 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) Established an internal control over financial reporting, or supervised the setting of an internal control over 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 in accordance with IFRS and the directives of the of the Commissioner of Capital Markets.
   (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 4Q16, which affected materially, or may reasonably be expected 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 external auditors, Board of Directors and Financial Statements Committee, based on our most recent evaluation of the internal control over financial reporting:
   (a) Any significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting, that may reasonably be expected to adversely affect the ability of the 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 who have an important position in the Insurance Company's internal control over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person, under any law.

March 22nd, 2017

Ofer Eliahu, CEO

[1] As defined in the provisions of the Institutional Entities Circular regarding Internal Control over Financial Reporting - Certifications, 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 2016 (henceforth: "**the Report**").
2. Based on my knowledge, the Report does not contain any misrepresentation of a material fact nor omits any material fact necessary so that the statements that it contains, 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 contained in the report, fairly reflect in all material respects, the financial position, results of operations, changes in shareholders' 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) Established controls and procedures, or caused the establishment of such controls and procedures 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) Established an internal control over financial reporting, or supervised the setting of an internal control over 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 in accordance with IFRS and the directives of the of the Commissioner of Capital Markets.
   (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 4Q16, 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 external auditors, Board of Directors and Financial Statements Committee, based on our most recent evaluation of the internal control over financial reporting:
   (a) Any significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting, that may reasonably be expected to adversely affect the ability of the 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 who have an important position in the Insurance Company's internal control over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person, under any law.

March 22nd, 2017

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 - Certification, Reports and Disclosures.

Migdal Insurance Company Ltd.

Board of Directors and Management Report regarding the internal control over the financial reporting

Management, under the supervision of the Board of Directors 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 the insurance company's Board of Directors and management with a reasonable amount of certainty as to the fair preparation and presentation of the Financial Statements published in accordance with IFRS and the directives of the Commissioner of Insurance. Regardless of the quality of their design, all internal control systems have built-in limitations. Therefore, even if it is 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 Board of Director' supervision, maintains a comprehensive system of controls designed to ensure that transactions are performed pursuant to management authorizations, assets are protected, and accounting records are reliable. In addition, management, under the Board of Directors' supervision, takes measures to ensure that the information and communication channels are effective and that performance, including the implementation of internal control procedures, is monitored.

The insurance company's management, under the Board of Directors' supervision, evaluated the effectiveness of the insurance company's internal control over financial reporting as of December 31st, 2016, based on the criteria set forth in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management believes that as of December 31st, 2016, the insurance company's internal control over financial reporting is effective.

CoB	**Yohanan Danino**	(Signature) _____________
CEO	**Ofer Eliahu**	(Signature) _____________
Head of the Finances and Actuarial Division	**Eran Czerninski**	(Signature) _____________

Report approval date: March 22nd, 2017

Migdal Insurance Company Ltd.

March 22nd, 2017

Declaration of the Life Assurance Actuary

Part A – Identity of the Actuary

I have been requested by Migdal Insurance Company Ltd. (henceforth, “the Insurer”) to assess the reserves specified in part B below in life assurance lines of business (henceforth, "the reserves”) for the Insurer’s Financial Statements dated December 31st, 2016, as specified below.
I am an employee of the Insurer and serve as its Chief Actuary since December 1st, 2006.
I am not an interested party, nor a relative of an interested party of the Insurer.

Part B – Scope of Actuarial Opinion

1. Scope of Actuarial Opinion

a. For the purpose of calculating the insurer's reserves, I relied on data provided to me by the insurer. My requests for receiving data and information for the sake of assessing reserves for the Financial Statements were answered in a satisfactory manner. I examined the reasonability and adequacy of the data, and compared the data to other data pertaining to the valuation year, and to data of previous years.

b. When necessary, my assessment also relied upon data received from other reliable sources. I checked both the appropriateness and the relevance of this data.

c. The actuarial assumptions I used in my work, including the methods for assessing the reserves cited below, were determined by me, to the best of my professional judgment, and in compliance with the provisions, instructions and rules provided in section 1 of part C below.

d. In order to calculate the retention, I requested from the authorized reinsurance officers information regarding the insurer’s reinsurance arrangements, the insurer's ability to collect claims, and any problems with the payment policies of the reinsurers. Based on the information I received, I examined the impact and effect of the reinsurance arrangements on the reserves.

e. In my assessment, I also took into consideration the following:
The provision calculated for coinsurance administered by domestic Israeli insurance companies is the proportional part of the provision calculated by the life assurance actuary of the leading company. This principle was applied with respect to the life assurance portfolio of Hassneh Israeli Insurance Company, which was jointly acquired by the Insurer and Clal Insurance Company, in respect of policies administered by Clal Insurance Company.

2. Data attached to the paragraph "Scope of Actuarial Opinion"

a. In the appendix attached herewith, there are details of the amounts of provisions, in NIS thousands, both in gross and retained amounts, as follows:
   1) Reserve for outstanding claims (claims incurred but not fully paid, whether approved or not, except for claims paid as annuities, such as LTC, income protection and family income benefits), including the reserve for incurred but not yet reported losses (IBNR).
   2) Reserve for unpaid unallocated loss adjustment expenses.
   3) Reserve stemming from insurance contract conditions relating to life assurance alone, including:
      a) Reserve for savings plans;
      b) Reserve required when part of the premium collected in the contract’s early years is designated for granting future cover, such as provision in respect of fixed premium, guaranteed insurability and continuation options;

4) The part of reserve in respect of claims in payment, including claims paid as annuities, such as LTC, income protection and family income benefits.
5) Supplemental provisions stemming from the Liability Adequacy Test (LAT). After performance of the test, it was determined that there is a need for a supplementary reserve for guaranteed-yield life assurance policies.
6) Other – additional provisions in accordance with the Commissioner's instructions: supplementary reserves for annuity policies as per the Commissioner's circular 2013-1-2.

b. The effect of the changes in assumptions, premiums or other changes on the provisions, in NIS thousands, both in gross and retained amounts -–
1) For policies which became effective after the end of period of the last annual Financial Statement – the amount of adjustment of reserves, stemming from the differences between the premium basis assumptions and the reserve basis assumptions - there was no need for such adjustment to the provisions.
2) For policies that became effective before the valuation date of the last annual Financial Statements - the amount of adjustment of reserves, due to changes in assumptions, in methods or in the premium level that is expected to be collected, and due to other amendments: Supplementary Annuity Reserve (SAR), LAT reserve for guaranteed-yield life assurance policies and reserves for PHI.

Part C – Opinion

I hereby declare and confirm that with respect to the Life Assurance Area:

1. I assessed the insurer's reserves detailed in Part B in accordance with the provisions, instructions and rules detailed below, all as valid on the date of the Financial Statements:
   a. The provisions of the Financial Services Supervision Law (Insurance) – 1981, and regulations thereof;
   b. The provisions and instructions given by the Commissioner of Insurance;
   c. Generally accepted actuarial principles.
2. Having examined the data mentioned in part B, I have reached the conclusion that the data are reasonable and satisfactory, and that I can rely on them in my assessment.
3. The assumptions and methods for the assessment of reserves were determined by me, according to my best professional judgment, and in compliance with the provisions, instructions and rules specified above.
4. To the best of my knowledge and opinion, the reserves set forth in Part B constitute an appropriate reserve for covering the insurer's liabilities in respect of its liabilities stemming from life assurance contracts, valid on the date of the Financial Statements.

Part D - Comments and clarifications

1. Details about the types of reserves are included in Note 37 b.3.b) to the Financial Statements as of December 31st, 2016.
2. No material changes occurred in the actuarial assumptions and methods compared with last year's actuarial assessment, except for Clause 2.b.2 above.

March 22nd, 2017	**Chief Actuary and appointed actuary - life assurance**	**Dr. Leybush Ulmann**	_________________
Date	Position	Actuary's name	Signature

Enclosed herewith:

Form 12a: Outstanding claims and reserves - gross
Form 12b: Outstanding claims and reserves - retention

Form 12a: Outstanding claims, reserves and reserve for extraordinary risks - gross **As at: 31.12.2016**
Company name: Migdal Insurance Company Ltd.
(NIS thousands)

			Total	Savings and death risk (classic, traditional)		Pure savings or savings component in policies (Adif, Track)		Pure death risk or death risk component in policies		PHI	LTC		Other covers 1)
				Guaranteed yield	Participating	Guaranteed yield	Participating	Individual	Group		Individual	Group	
				1a	1b	2a	2b	3a	3b	4	5a	5b	6
1	Outstanding claims		2,731,717	793,463	6,302	1,099,418	324,902	129,735	22,142	252,450	42,026	4,239	57,040
2	Reserves (total rows 2a1 to 6)		114,911,292	4,888,169	1,187,487	21,396,171	83,699,705	43,058	7,001	1,740,501	1,929,261	19,738	201
2a1	Policies with a savings element (including riders) by date of policy issue:	Policies written until 1990	19,299,679	3,115,015	6,212	15,840,341	287,720	664	0	49,563	0	0	164
2a2		Policies written 1991-2003	53,175,167	0	1,047,786	646	52,063,203	1,828	0	61,669	0	0	35
2a3		Policies written from 2004	27,345,092	0	3,471	177,918	27,153,912	591	0	9,200	0	0	0
2a4		Total (2a1 - 2a3)	99,819,938	3,115,015	1,057,469	16,018,905	79,504,835	3,083	0	120,432	0	0	199
2b	Policies without a savings component		1,848,510	0	0	0	0	39,975	7,001	2,522	1,796,568	2,442	2
3	Reserve for claims in payment		9,557,996	1,521,683	114,492	2,713,809	3,440,809	0	0	1,617,547	132,693	17,296	0
4	Profit participation		0	0	0	0	0	0	0	0	0	0	0
5	Supplement due to Liability Adequacy Test (LAT)		146,741	0	0	164,673	0	0	0	0	0	0	0
6	Other		3,538,107	251,471	,049	2,517	754,061	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 business		0	0	0	0	0	0	0	0	0	0	0
81b	Impact of adjusting provisions in respect of current business	Changes in assumptions	368,801	136,494	0	202,997	109,358	0	0	-80,048	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: 31.12.2016**

Company name: Migdal Insurance Company Ltd.

(In NIS thousands)

			Total	Savings and death risk (classic, traditional)		Pure savings or savings component in policies (Adif, Track)		Pure death risk or death risk component in policies		PHI	LTC		Other covers 1)
				Guaranteed yield	Participating	Guaranteed yield	Participating	Individual	Group		Individual	Group	
				1a	1b	2a	2b	3a	3b	4	5a	5b	6
1	Outstanding claims		2,709,436	792,985	6,156	1,099,418	324,902	112,588	21,815	251,109	36,901	4,239	56,323
2	Reserves (total rows 2a1 to 6)		114,815,150	4,888,069	1,187,487	21,309,334	83,696,657	43,058	7,001	1,738,483	1,925,122	19,738	201
2a1	Policies with a savings element (including riders) by date of policy issue:	Policies written until 1990	19,229,110	3,114,915	6,212	15,773,348	285,261	664	0	48,546	0	0	164
2a2		Policies written 1991-2003	53,174,398	0	1,047,786	646	52,063,205	1,828	0	60,898	0	0	35
2a3		Policies written from 2004	27,345,055	0	3,471	177,918	27,153,912	591	0	9,163	0	0	0
2a4		Total (2a1 - 2a3)	99,748,563	3,114,915	1,057,469	15,951,912	79,502,378	3,083	0	118,607	0	0	199
2b	Policies without a savings component		1,848,317	0	0	0	0	39,975	7,001	2,329	1,796,568	2,442	2
3	Reserve for claims in payment		9,544,674	1,521,683	114,492	2,704,874	3,440,228	0	0	1,617,547	128,554	17,296	0
4	Profit participation		0	0	0	0	0	0	0	0	0	0	0
5	Supplement due to Liability Adequacy Test (LAT)		146,741	0	0	146,701	0	0	0	0	0	0	0
6	Other		3,526,855	251,471	15,526	2,505,807	754,051	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 business		0	0	0	0	0	0	0	0	0	0	0
81b	Impact of adjusting provisions in respect of current business	Changes in assumptions	374,868	136,494	0	202,997	109,358	0	0	-73,981	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 22nd, 2017

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, 2016 as specified below.

I have served as the appointed actuary of general insurance since July 31st, 2016.

I do not have business relations with the insurer, or with an interested party of the insurer or with a relative of the insurer’s interested party, or with a related company to the insurer, and I work as a consultant to the insurer.

Part B – Scope of actuarial opinion

1. Scope of actuarial opinion

1. For the purpose of calculating the insurer's provisions, I relied on data provided to me by the insurer. My requests for receiving data and information for the sake of assessing reserves for the Financial Statements were adequately complied with. I examined the reasonability and adequacy of data, and compared following data to the data of the year to which the statement refer, and to data of previous years.
2. When needed, in my assessment I also relied upon data received from other reliable sources. I examined the extent of data compatibility and relevance.
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 the payment policy of reinsures. Based on the information I received, I examined the impact and effect of reinsurance arrangements on the provisions.
5. In my opinion, I also took into consideration the following issues:
    a. The provision calculated in respect of "the Pool", was performed based on the calculation performed by the "Pool" actuary.
    b. The provision 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; this provision is immaterial.
    d. We did not take into consideration the lack of correlation between the various lines for the reduction of the overall provisions in respect of outstanding claims for all of the lines of business included in my valuation. Please note that since the Company is still reviewing the lack of full correlation between lines for the purpose of reducing the total risk spread, as set forth in Clause 3 (c) to the Commissioner’s Position – Best Practice for Calculating Insurance Reserves in General Insurance, no mitigation has been made yet.

2. Data enclosed to the actuarial opinion scope

		As of December 31st, 2016	
		NIS thousand	
	Outstanding claims	Gross	Retention
2 a 1) a)	Non-aggregated (statistical) lines of business:		
	Compulsory Motorcar Bodily Injury (CMBI)	1,644,709	1,607,882
	Employers' liability	433,334	425,571
	Third party liability	679,850	525,593
	Professional indemnity	286,729	242,233
	Product liability	84,017	61,111
	Casco	212,344	201,198
	Homeowners	61,478	51,269
	Total for non-aggregated (statistical) lines of business	3,404,461	3,114,857
	Total aggregated (non-statistical and including the run off claims portfolio) lines of business	445,706	26,370
2 a 1) b)	Total lines of business	3,850,167	3,141,227
2 a 2)	Unallocated loss adjustment expenses	96,508	96,508
2 a 3)	The difference between the unexpired risk reserve and unearned premium less deferred acquisition expenses:		
	CMBI	No declaration required	18,627
	Casco	No declaration required	10,222
	Homeowners comprehensive	No declaration required	-
	Total insurance liabilities in respect of insurance contracts included in general insurance sector, calculated by actuarial valuation	3,946,675	3,266,584

Notes:

1. The provisions set forth above include the provisions calculated in respect of the the MBI's Pool.

2. The provision for unexpired risks reserve also includes the following elements:
   a. The cost of pure risk;
   b. Margin for the uncertainty related to risk (as defined in the position paper);
   c. The cost of claim settlement and expenses related to these risks.

3. Lines excluded from the actuarial valuation aggregated (non-statistical) lines include the lines: commercial property, engineering insurance, contractors’ insurance, marine insurance, aviation insurance and insurance for goods in transit, as well as the estimation of outstanding claims in respect of the run off claims portfolio that was acquired during the year and was recorded pursuant to the estimate of the claims

department. The impact of the inclusion of acquired claims in retention is not material (see BS Note 38 e 2).

4. In liability lines assessed based on underwriting year: the amounts are in respect of outstanding claims and the difference between the unexpired risk reserve and unearned premium less acquisition expenses.

Part C – The opinion

I hereby declare and confirm that in the following lines: CMBI, employers' liability, third party liability, professional indemnity, product liability, casco and homeowners' comprehensive insurance:

1. I assessed the insurer's provisions detailed in Part B in accordance with the provisions, instructions and rules detailed below, as valid on the date of the Financial Statements:

    a. The provisions of the Insurance Businesses Supervision Law – 1981, and regulations thereof;
    b. The provisions and instructions given by the Commissioner of Insurance;
    c. The Commissioner's rules regarding the calculation of reserves in general insurance;
    d. Generally accepted actuarial principles.

2. After I examined the data mentioned in Part B, I have reached the conclusion that the data are reasonable and adequate, and that I can rely on them in my assessment.

3. I determined the assumptions and methods for the assessment of provisions according to the best of my professional judgment, and in compliance with the provisions, instructions and rules specified above.

4. The provisions set forth in Part B, Section 2 a 1) a) in respect of the non-aggregated (statistical) lines of business: CMBI, employers' liability, third party, professional indemnity, product liability, casco and homeowners, constitute, to the best of my knowledge and assessment, an appropriate reserve for covering the insurer's liabilities in respect of the above said outstanding claims, in each separately detailed statistical line of business, as valid on the date of the Financial Statements.

5. The provisions set forth in Part B, Section 2 a 1) b) constitute, to the best of my knowledge and assessment, an appropriate reserve for covering the insurer's liabilities in respect of outstanding claims in aggregated (statistical) and non-aggregated (non-statistical) lines of business in general, as valid on the date of the Financial Statements.

6. The provisions set forth in Part B, Section 2 a 2) constitutes, to the best of my knowledge and assessment, an appropriate reserve for covering the insurer's liabilities in respect of indirect expenses for claim settlement in respect of all the lines of business in which the Company engages in general insurance, as valid on the date of the Financial Statements.

7. The reserves set forth in Part B, Section 2 a 3) constitute, to the best of my knowledge and assessment, an appropriate reserve for covering the insurer's liabilities in respect of the difference between unexpired risk and unearned premium at retention level (where such a premium deficiency exists) in the detailed lines, as valid on the date of the Financial Statements.

Part D - Comments and clarifications

1. Actuarial valuation is based on statistical estimations that include an element of uncertainty. The statistical estimation is based on various assumptions, which may not necessarily materialize. The assumptions in the actuarial forecast affect the

provisions final amount. Therefore, the actual claims cost may be higher or lower than the statistical estimation. Assumptions set in the past may vary according to new information received in the future, due to, *inter alia*, Court rulings and precedents which cannot be forecasted ahead of time and changes in social and environmental factors. In such cases, outstanding claims will change according to the change in assumptions and actual results, and the differences created in the reported year will be included in the general insurance business report. In addition, there is additional uncertainty embedded in the models used this year for applying the principles of the Best Practice for Calculating Insurance Reserves, which include a high level of judgment.

2. As of December 31st, 2015, the Company implements the Commissioner's Position regarding Calculating General Insurance Reserves[1] "Best Practice". The provisions are calculated as "adequate provisions for covering the insurer's liabilities" according to the interpretation that it is fairly likely that the determined insurance liability will be sufficient for covering the insurer's liabilities. In this context, it was determined for outstanding claims in CMBI and liability lines that the "fairly likely test" implies a likelihood of at least 75%. The safety margin takes into account both the random risk, which may be evaluated according to statistical methods, as well as systematic risks, which, by their nature, require using method of a qualitative estimation that combine a high level of judgment. Since the valuation based on the Best Practice was introduced for the first time in the December 2015's balance sheet, it should be noted that in future years, the Company will consider ways for improving the valuations of the model's elements, taking into account, *inter alia*, the practices that will be formulated in the market and the knowledge and experience accumulated in the upcoming years.

3. As set forth above, the Company is examining the accuracy of liabilities in general insurance as per the principles of the Best Practice. Further to this examination, last year the Company adopted the principles of the Best Practice in the lines of third party and employers' liability insurance, and accordingly, the Company discounted future claim payments in these lines according to the risk-free interest rate curve, along with making adjustments for the illiquid nature of insurance liabilities (50% of illiquidity premiums) and taking into account the way assets against these liabilities are revalued. In other lines, the Company discounted at a real discount rate of 0%.

4. In March 2016, the recommendations of the Inter-Ministerial Committee headed by the retired Judge Dr. Eliyahu Vinograd, regarding the update of life expectancy and interest rate for the discounting of the National Insurance Institute's annual annuity, which set a discount rate of 2% instead of 3%, were published, and a mechanism for the update of the interest rate in the future was set. The Company estimates that the amendment will affect the amounts it will have to pay to claimants, therefore it increased the reserves for liabilities in general insurance, CMBI and liability lines, in the reported period, by approx. NIS 160 million before tax. The update of reserves takes into account an expected decrease to 2%, as well as another update to interest rate in the future, which constitutes a weighting between various scenarios.

   The estimation for this provision is based on various assumptions and many judgmental elements of discretion, part of which it is difficult to assess, especially since they are not statistical. The assumptions used in the actuarial forecast affect the final result; therefore the actual cost of claims may be higher or lower than the actuarial estimation.

5. There were no material changes in the actuarial methods compared with the previous annual actuarial valuation, except for an increase in outstanding claims in respect of the change in the Regulations for the discount of National Insurance Institute's annuities "("Vinograd").

[1] Circular 2015-2076; Commissioner's Position – Best Practice for Calculating General Insurance Reserves for Financial Reporting.

6. In the personal accidents line of business I perform an actuarial calculation of the outstanding claims. This provision appears in the health actuary's statement.

7. 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 property, engineering insurance, contractors insurance, marine insurance, aviation insurance and goods in transit insurance, as well as in travel insurance. Due to the lack of statistical significance, an actuarial model was not applied in these lines of business.

March 22nd, 2017	**Appointed actuary - general insurance**	**Dr. Stewart Coutts**	________________
Date	Position	Actuary's name	Signature

Migdal Insurance Company Ltd.

March 22nd, 2017

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, 2016, 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. When needed, in my assessment, I also relied upon data received from other reliable sources. I examined the extent of data compatibility and relevance.

c. The actuarial assumptions that I used in my work, including the methods for the aforementioned assessment of reserves, were determined by me to the best of my professional judgment, and in compliance with the provisions, instructions and rules specified in section 1 of part C below.

d. For the purpose of calculating retention I requested information from the authorized reinsurance officers regarding the insurer's reinsurance arrangements, the collectability of claims, and any problems with the payment policy of reinsurers. Based on the information I received, I examined the impact and effect of reinsurance arrangements on the reserves.

e. The Company has no incoming business and/or coinsurance regarding this report.

2. Assessment data as to the reserve amounts

a. Amounts of reserves in NIS thousands:

	Individual insurance		Collective insurance		
Description	**Health business reported in the health sector (including travel insurance)***	**Personal accident****	**Health business reported in the health sector (including travel insurance)***	**Personal accident****	**Total**
Gross					
Outstanding claims (including IBNR)	134,392	48,115	47,324	6,774	236,605
Indirect expenses	3,341	1,538	2,537	271	7,777
Insurance contracts terms	462,703	62,275	10,066	2,940	537,984
Total gross	**600,526**	**111,928**	**59,927**	**9,985**	**782,366**
Retention					
Outstanding claims (including IBNR)	107,536	48,049	47,324	6,662	209,571
Indirect expenses	3,431	1,538	2,537	271	7,777
Insurance contracts terms	462,334	62,275	10,066	2,940	537,615
Total retention	**573,301**	**111,862**	**59,927**	**9,873**	**754,963**

* Travel insurance business reserves were set by the general insurance appointed actuary. See Part D, Section 1.f. below.

** Long-term personal accident business reserves were set by the health insurance appointed actuary. The "Insurance contracts terms" item includes a provision for occupational disability claims in payment in the amount of NIS 7.0 million in individual insurance and NIS 2.9 million in collective insurance. Short-term personal accident business reserves were set by the general insurance appointed actuary. See Part D, Section 1.f. below.

b. Impact of changes on provisions:

1) For policies which became effective after the end of the period of the last annual Financial Statement - the amount of adjustment to the provisions, stemming from differences between premium basis assumptions and provision basis assumptions: **None**.
2) Policies which became effective before the last annual Financial Statement - the amount of adjustment to the provisions, stemming from changes in the assumptions, methods or level of premium to be collected, and from other changes gross and retention: **None**.

Part C – The opinion

I hereby declare and confirm that in the following sub-lines of health insurance:

- Medical expense
- Dread disease
- Dental insurance
- Long term personal accident
- Other

1. I assessed the insurer's provisions detailed in Part B in accordance with the directives, guidelines, and rules detailed below, all as valid on the date of the Financial Statements:
    a. The directives of the Insurance Business Supervision Law – 1981, and regulations thereof;
    b. The directives and guidelines of the Commissioner of Insurance;
    c. Generally accepted actuarial principles.

2. Having examined the data mentioned in Part B, I reached the conclusion that the data were reasonable and satisfactory, and that I could rely on them in my assessment.

3. The assumptions and methods for the assessment of reserves were determined by me to the best of my professional judgment, and in compliance with the provisions, instructions and rules specified above.

4. The reserves set forth in Part B constitute, to the best of my knowledge and assessment, an appropriate reserve for covering the insurer's liabilities in respect of health insurance contracts that belong to the sub-lines of health insurance detailed above, as valid on the date of the Financial Statements.

Part D - Notes and clarifications

1. Notes, clarifications and explanations
    a. Medical expense – reserves stemming from the terms of contract were set pursuant to 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, Dr. Stewart Coutts.

2. Changes in assumptions and methods
   No material changes occurred in the actuarial assumptions and methods compared with last year's actuarial valuation, including the discount interest rate.

March 22nd, 2017	**Appointed Actuary - Health Insurance**	**Daniel Katsman**	_________________
Date	Position	Actuary name	Signature