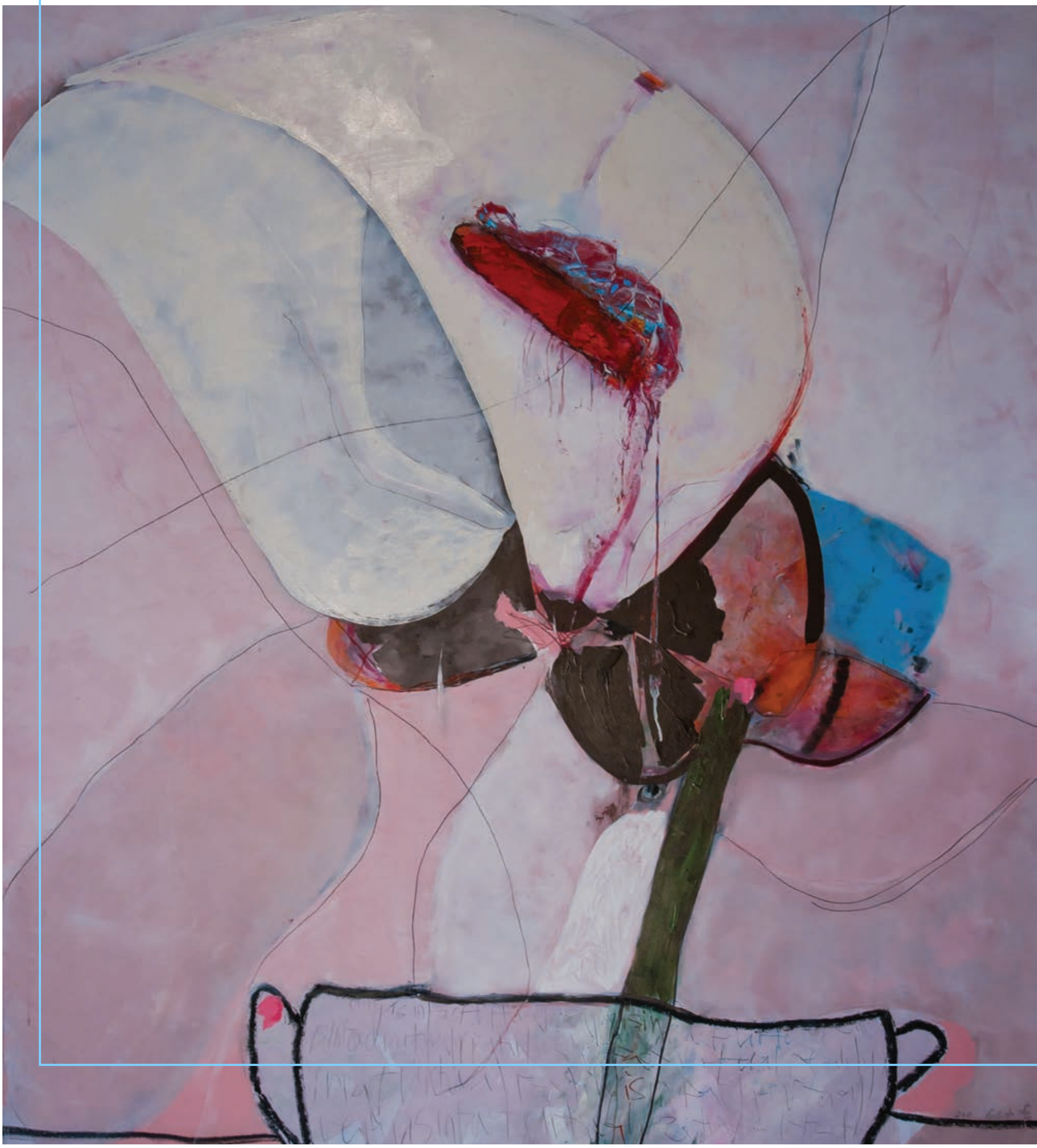
CONSOLIDATED FINANCIAL STATEMENTS



Translated from the Hebrew original

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2013

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Building a better
working world

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Independent Auditors' Report to the Shareholders of Migdal Insurance and Financial Holdings Ltd.

Independent Auditors' Report regarding the Audit of Internal Control Components 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 (hereunder collectively - the Company) as at December 31, 2013. These 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 internal control over financial reporting included in the accompanying periodic report for the said date. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

The components of internal control over financial reporting were determined in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting", as amended (hereunder – Auditing Standard 104). These components are: (1) entity-level controls, including financial statements closing and preparation process controls and information technology general controls; (2) controls of processes that are extremely significant to the financial reporting and disclosure of Migdal Insurance Company Ltd. and other significant subsidiaries (hereunder - "the audited control components").

We conducted our audit in accordance with Auditing Standard 104. The Standard requires that we plan and perform the audit to identify the audited control components and to obtain reasonable assurance about whether these control components were effective 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 those control components based on the assessed risk. Our audit, regarding these control components, also included performing such other procedures as we considered necessary in the circumstances. Our audit referred only to the audited control components, as opposed to internal control over all significant processes relating to financial reporting, therefore our opinion refers to the audited control components only. Moreover, our audit did not address any reciprocal effects between the audited control components and unaudited ones, therefore our opinion does not take into account these possible effects. We believe that our audits and the reports of the other auditors, provides 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 internal control components in particular, may not prevent or detect misstatements. Also, projections of any current 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 maintained, in all material respects, effective internal control over financial reporting with respect to the audited control components as at December 31, 2013.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2013 and 2012 and for each of the three years the last of which ended December 31, 2013 and our report dated March 18, 2014 expressed an unqualified opinion on those financial statements based on our audit and the audit reports of the other auditors. We also drew attention to Note 39(1) to the consolidated financial statements regarding the exposure to contingent liabilities.

Tel-Aviv, Israel March 18, 2014	**SOMEKH CHAIKIN** Member of KPMG International	**KOST FORER GABBAY & KASIERER** Member of Ernst & Young Global

Joint auditors

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Independent Auditors' Report
to the Shareholders of
Migdal Insurance and Financial Holdings Ltd.

We have audited the accompanying consolidated statements of financial position of MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD. (hereunder - the Company) as at December 31, 2013 and 2012, and the related consolidated income statements, comprehensive income, changes in equity, and cash flows for each of the three years the last of which ended as at December 31, 2013. These financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of investee companies treated according to the equity value method the investment in which amounted to about NIS 654,175 thousand and about NIS 603,712 thousand as at December 31, 2013 and 2012, respectively, and the Group's share in their profits amounted to about NIS 70,752 thousand, about NIS 66,463 thousand and about NIS 49,193 thousand for each of the three years, the last of which ended December 31, 2013. The financial statements of those companies were reviewed by other auditors whose reports thereon were furnished to us, and our opinion, insofar as it relates to amounts emanating from the financial statements of those companies, is based solely on the said reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Israeli 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 of the Company, 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 on the reports of the abovementioned other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as at December 31, 2013 and 2012, and the results of operations, changes in equity and cash flows, for each of the three years the last of which ended December 31, 2013 in conformity with the International Financial Reporting Standards (IFRS) and in accordance with the disclosure requirements as prescribed by the Regulator of Insurance according to the Supervision of Financial Services (Insurance) Law, 1981.

Furthermore, 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 aforementioned opinion, we draw attention to Note 39(1) to the financial statements regarding exposure to contingent liabilities.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting", as amended, the components of the Company's internal control over financial reporting as of December 31, 2013, and our report dated March 18, 2014 expressed an unqualified opinion on the effectiveness of such components.

Tel-Aviv, Israel	**SOMEKH CHAIKIN**	**KOST FORER GABBAY & KASIERER**
March 18, 2014	Member of KPMG International	Member of Ernst & Young Global

Joint auditors

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2013 NIS thousands	December 31 2012 NIS thousands
Assets			
Intangible assets	4	1,453,585	1,267,683
Deferred tax assets	21f	19,630	15,263
Deferred acquisition costs	5	1,736,209	1,624,672
Fixed assets	6	758,865	786,214
Investments in affiliates	7	654,197	604,986
Investment property for yield dependent contracts	8	4,697,884	3,916,486
Other investment property	8	610,204	538,204
Reinsurance assets	15 – 16	991,118	1,050,069
Current tax assets		87,245	100,229
Debtors and receivables	9	315,102	254,783
Outstanding premiums	10	516,522	446,330
Financial investments for yield dependent contracts	11	60,990,179	54,156,452
Other financial investments:	12		
Quoted debt assets	12a	5,840,002	5,224,001
Unquoted debt assets	12b	21,616,499	20,338,992
Shares	12d	1,034,807	632,693
Others	12e	1,954,720	1,337,932
Total other financial investments		30,446,028	27,533,618
Cash and cash equivalents for yield dependent contracts	13	4,907,015	2,376,263
Other cash and cash equivalents	13a	1,550,267	2,261,829
Total assets		109,734,050	96,933,081
Total assets for yield dependent contracts in an insurance subsidiary		70,817,827	60,636,392

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2013 NIS thousands	December 31 2012 NIS thousands
Capital and liabilities			
Capital	14		
Share capital		110,628	110,607
Share premium		273,735	273,735
Capital reserves		377,170	257,533
Surplus		4,377,484	4,152,835
Total capital attributed to the Company's shareholders		5,139,017	4,794,710
Non-controlling interest		1,384	777
Total capital		5,140,401	4,795,487
Liabilities			
Liabilities in respect of non-yield dependent insurance contracts and investment contracts	15	30,127,559	28,549,237
Liabilities in respect of yield dependent insurance contracts and investment contracts	16	70,558,408	60,062,274
Liabilities in respect of deferred taxes	21f	632,174	534,366
Liabilities in respect of employee benefits, net	22	253,761	278,107
Liabilities in respect of current taxes		28,405	2,970
Creditors and payables	23	1,772,909	1,666,217
Financial liabilities	24	1,220,433	1,044,423
Total Liabilities		104,593,649	92,137,594
Total capital and liabilities		109,734,050	96,933,081

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

March 18, 2014			
Date of approval of the financial statements	Shlomo Eliahu Chairman of the Board	Anath Levin CEO	Eran Cserninski Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

	Note	2013	2012	2011
		Year ended December 31		
		NIS thousands	NIS thousands	NIS thousands
Gross premiums earned		10,072,574	9,476,028	8,892,089
Premiums earned by reinsurers		717,337	701,581	719,034
Premiums earned on retention	25	9,355,237	8,774,447	8,173,055
Net investment income and finance income	26	9,385,427	7,524,180	661,050
Income from management fees	27	1,696,798	1,137,498	905,958
Income from commissions	28	360,110	350,510	379,916
Other income	29	35,446	17,025	9,255
Total income		20,833,018	17,803,660	10,129,234
Payments and change in liabilities in respect of insurance contracts and investment contracts gross		17,577,089	15,302,384	7,747,124
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts		334,669	256,478	367,165
Payments and change in liabilities in respect of insurance contracts and investment contracts on retention	30	17,242,420	15,045,906	7,379,959
Commissions, marketing expenses and other acquisition expenses	31	1,480,839	1,381,113	1,264,223
Administrative and general expenses	32	1,094,319	*)1,033,400	*)974,037
Other expenses	34	50,672	33,111	26,759
Finance expenses	35	52,323	38,976	25,152
Total expenses		19,920,573	17,532,506	9,670,130
Share in profits of investees treated according to the equity value method		70,774	64,452	48,614
Income before taxes on income		983,219	335,606	507,718
Taxes on income	21	366,506	*)117,476	*)212,213
Income for the period		616,713	218,130	295,505
Attributed to:				
Company's shareholders		617,770	217,236	295,065
Non-controlling interest		(1,057)	894	440
Income for the period		616,713	218,130	295,505
Basic and diluted earnings per share attributed to the Company's shareholders (in NIS)	36	0.59	*)0.20	*)0.28

*) Restated - See Note 2g regarding initial adoption of Revised IAS 19, Employee Benefits.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended December 31		
		2013	2012	2011
	Note	NIS thousands	NIS thousands	NIS thousands
Income for the period		616,713	*)218,130	*)295,505
Other comprehensive income (loss)				
Other comprehensive income (loss) for the period which after initial recognition in comprehensive income was or will be transferred to profit or loss				
Net change in the fair value of available for sale financial assets, allocated to capital reserves		369,456	392,781	(393,398)
Net change in available for sale financial assets transferred to the statement of profit and loss		(209,219)	(200,516)	(150,338)
Impairment in value of available for sale financial assets, transferred to the statement of profit and loss		35,483	84,994	163,144
Group's share in other comprehensive income (loss) of investee treated according to the equity value method		2,409	(51)	(420)
Translation differences of foreign currency for foreign operations		(7)	-	-
Tax effect	21	(80,688)	(99,677)	130,137
Total other comprehensive income (loss) for the period which after initial recognition in comprehensive income was or will be transferred to profit or loss, net of tax		117,434	177,531	(250,875)
Other comprehensive income items that will not be transferred to profit or loss				
Actuarial gain from defined benefit plan		1,674	*)13,249	*)2,188
Revaluation of fixed assets transferred to investment property		4,561	-	-
Tax effect		(1,498)	*) (4,273)	*) (985)
Total other comprehensive income which will not be transferred to profit or loss, net of tax		4,737	8,976	1,203
Total other comprehensive income (loss), net		122,171	186,507	(249,672)
Total comprehensive income for the period		738,884	404,637	45,833
Attributed to:				
Company's shareholders		739,894	403,743	45,393
Non-controlling interest		(1,010)	894	440
Comprehensive income for the period		738,884	404,637	45,833

*) Restated - See Note 2g regarding initial adoption of Revised IAS 19, Employee Benefits.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to Company's shareholders										
	Share capital	Share premium	Capital reserves in respect of available for sale assets	Reserve from investment revaluation due to rise to control	Reserve for transactions with non-controlling interests	Translation reserve for foreign operations	Revaluation reserve	Retained earnings	Total	Non-controlling interest	Total capital
	NIS thousands										
Balance as at January 1, 2013	110,607	273,735	250,544	6,989	-	-	-	4,152,835	4,794,710	777	4,795,487
Income (loss) for the period	-	-	-	-	-	-	-	617,770	617,770	(1,057)	616,713
Other comprehensive income (loss), net of tax	-	-	117,441	-	-	(7)	3,352	1,338	122,124	47	122,171
Total comprehensive income (loss)	-	-	117,441	-	-	(7)	3,352	619,108	739,894	(1,010)	738,884
Realization of option warrants to employees	21	-	-	-	-	-	-	-	21	-	21
Benefit in respect of option warrants to employees	-	-	-	-	-	-	-	311	311	-	311
Classification of share based payments from liability for employee benefits to capital	-	-	-	-	-	-	-	5,230	5,230	-	5,230
Dividend	-	-	-	-	-	-	-	(400,000)	(400,000)	-	(400,000)
Transactions with non-controlling interest	-	-	-	-	(1,149)	-	-	-	(1,149)	1,617	468
Balance as at December 31, 2013	110,628	273,735	367,985	6,989	(1,149)	(7)	3,352	4,377,484	5,139,017	1,384	5,140,401

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to Company's shareholders							
	Share capital	Share premium	Capital reserves in respect of available for sale assets	Reserve from investment revaluation due to rise to control	Retained earnings	Total	Non-controlling interest	Total capital
	NIS thousands							
Balance as at January 1, 2012	110,607	273,735	73,013	6,989	4,073,275	4,537,619	1,803	4,539,422
Income for the period	-	-	-	-	*) 217,236	217,236	894	218,130
Other comprehensive income, net of tax	-	-	177,531	-	*) 8,976	186,507	-	186,507
Total comprehensive income	-	-	177,531	-	226,212	403,743	894	404,637
Realization of option warrants to employees	**) -	-	-	-	-	-	-	-
Benefit in respect of option warrants to employees	-	-	-	-	3,348	3,348	-	3,348
Dividend	-	-	-	-	(150,000)	(150,000)	-	(150,000)
Non-controlling interest in respect of business combination	-	-	-	-	-	-	(1,920)	(1,920)
Balance as at December 31, 2012	110,607	273,735	250,544	6,989	4,152,835	4,794,710	777	4,795,487

*) Restated - See Note 2g regarding initial adoption of Revised IAS 19, Employee Benefits.
**) Less than NIS 1 thousand.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to Company's shareholders							
	Share capital	Share premium	Capital reserves in respect of available for sale assets	Reserve from investment revaluation due to rise to control	Retained earnings	Total	Non-controlling interest	Total capital
	NIS thousands							
Balance as at January 1, 2011	110,607	273,735	323,888	6,989	3,919,656	4,634,875	1,167	4,636,042
Income for the period	-	-	-	-	*) 295,065	295,065	440	295,505
Other comprehensive income (loss), net of tax	-	-	(250,875)	-	*) 1,203	(249,672)	-	(249,672)
Total comprehensive income (loss)	-	-	(250,875)	-	296,268	45,393	440	45,833
Realization of option warrants to employees	**) -	-	-	-	-	-	-	-
Benefit in respect of option warrants to employees	-	-	-	-	7,351	7,351	-	7,351
Non-controlling interest in respect of business combination	-	-	-	-	-	-	196	196
Dividend	-	-	-	-	(150,000)	(150,000)	-	(150,000)
Balance as at December 31, 2011	110,607	273,735	73,013	6,989	4,073,275	4,537,619	1,803	4,539,422

*) Restated - See Note 2g regarding initial adoption of Revised IAS 19, Employee Benefits.
**) Less than NIS 1 thousand.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended December 31		
		2013	2012	2011
	Schedule	NIS in thousands		
Cash flows from current activities	a	2,670,733	2,207,494	524,122
Cash flows from investment activities				
Investment in affiliates		(20,164)	(2,430)	(8,608)
Cash out flow due to acquisition of subsidiary consolidated for the first time	d	(224,826)	(14,875)	(14,071)
Investment in fixed assets		(66,450)	(209,617)	(191,996)
Investment in intangible assets		(99,763)	(155,634)	(134,623)
Settlement of loans granted to affiliates		317	684	-
Dividend received from affiliates		40,905	39,326	32,500
Proceeds from realization of intangible assets		-	-	2,901
Proceeds from sale of fixed assets		7,144	2,402	457
Net cash used in investment activities		(362,837)	(340,144)	(313,440)
Cash flows from finance activities				
Exercise of employee options into shares		21	*)-	*)-
Receipt of loans from banks and others		79,548	824,554	500
Repayment of loans from banks and others		(52,115)	(51,805)	(70,157)
Change in short term credit from banking institutions and others, net		(12,789)	(76,269)	(17,415)
Dividend		(400,000)	(150,000)	(196,308)
Net cash provided by (used in) finance activities		(385,335)	546,480	(283,380)
Effect of exchange rate fluctuation on the balances of cash and cash equivalents		(103,371)	(23,743)	16,878
Change in cash and cash equivalents		1,819,190	2,390,087	(55,820)
Balance of cash and cash equivalents as at the beginning of the period	b	4,638,092	2,248,005	2,303,825
Balance of cash and cash equivalents as at the end of the period	c	6,457,282	4,638,092	2,248,005

*) Less than NIS 1 thousand.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Schedule A – Cash flows from current activities before taxes on income (1)			
Income for the period	616,713	*)218,130	*)295,505
Items not involving cash flows:			
Company's share in net results of affiliates treated according to the equity value method	(70,774)	(64,452)	(48,614)
Net losses (profits) form financial investments for yield dependent insurance and investment contracts	(7,283,001)	(5,338,866)	1,896,543
Net losses (profits) from other financial investments:			
Quoted debt assets	(345,832)	(297,588)	(258,751)
Unquoted debt assets	(1,455,417)	(1,335,712)	(1,509,304)
Shares	(34,075)	(26,184)	109,797
Other investments	(100,295)	(74,541)	(375,160)
Finance expenses in respect of financial liabilities and others	48,301	35,029	13,365
Profit from realization:			
Intangible assets	250	-	(2,901)
Fixed assets	326	303	(86)
Affiliates	2,356	21	(1,169)
Change in fair value of investment property for yield dependent contracts	(86,129)	(86,955)	(178,072)
Change in fair value of other investment property	(4,900)	(4,631)	(10,327)
Impairment of investments in affiliate	-	2,138	-
Depreciation and amortization:			
Fixed assets	69,650	60,789	50,159
Intangible assets	174,557	146,806	123,419
Change in liabilities for yield dependent insurance and investment contracts	10,496,134	8,674,132	1,519,584
Change in liabilities for non-yield dependent insurance and investment contracts	1,578,322	1,271,244	1,145,088
Change in share based payment transactions	311	3,348	7,351
Change in reinsurance assets	58,951	131,380	(24,797)
Change in deferred acquisition costs	(111,537)	(85,009)	(83,762)
Income tax expenses	366,506	*)117,476	*)212,213
C/forward	3,920,417	3,346,858	2,880,081

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Schedule A – Cash flows from current activities before taxes on income (Cont.)			
B/forward	3,920,417	3,346,858	2,880,081
Changes in other balance sheet items:			
Financial investments and investment property for yield dependent insurance and investment contracts:			
Acquisition of investment property	(695,269)	(309,581)	(437,287)
Proceeds from sale of investment property	-	-	34,366
Net acquisitions of financial investments	(1,239,717)	(3,411,188)	(4,360,421)
Other financial investments and investment property:			
Acquisition of investment property	(56,400)	(39,285)	(133,095)
Proceeds from sale of investment property	-	1,578	-
Net acquisitions of financial investments	(2,081,380)	(434,412)	(271,777)
Outstanding premiums	(70,192)	(11,347)	(14,010)
Debtors and receivables	(49,483)	(1,943)	(21,073)
Creditors and payables	106,146	253,145	35,249
Liabilities for employee benefits, net	(17,450)	*)19,377	*)29,600
Total adjustments required for presenting cash flows from current activities	(800,041)	(804,928)	(2,553,872)
Cash paid and received during the period for:			
Interest paid	(33,302)	(28,352)	(17,443)
Interest received	2,361,118	2,243,930	2,152,694
Net income tax paid	(316,832)	(121,182)	(192,292)
Dividend received from financial investments	843,077	699,896	839,530
Net cash provided by current activities	2,670,733	2,207,494	524,122

(1) The cash flows from current activities include net acquisitions and sales of financial investments, mainly deriving from the activity in respect of insurance and investment contracts.

*) Restated - See Note 2g regarding initial adoption of Revised IAS 19, Employee Benefits.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2013	2012	2011
		NIS in thousands	
Schedule B – Cash and cash equivalents as at the beginning of the period			
Cash and cash equivalents for yield dependent contracts	2,376,263	750,299	895,169
Other cash and cash equivalents	2,261,829	1,497,706	1,408,656
	4,638,092	2,248,005	2,303,825
Schedule C – Cash and cash equivalents as at the end of the period			
Cash and cash equivalents for yield dependent contracts	4,907,015	2,376,263	750,299
Other cash and cash equivalents	1,550,267	2,261,829	1,497,706
	6,457,282	4,638,092	2,248,005
Schedule D – Cash out flow due to acquisition of subsidiary consolidated for the first time			
Intangible assets	(264,661)	(24,849)	(20,975)
Fixed assets	(25)	(622)	(90)
Investments in affiliates	591	(719)	-
Current tax assets	-	(36)	-
Debtors and receivables	(10,836)	(2,441)	(1,703)
Other financial investments	27,646	-	(1,151)
Non-controlling interest	-	(1,920)	196
Liabilities for deferred taxes	-	2,666	1,672
Liabilities for employee benefits, net	8	362	14
Creditors and payables	17,656	11,830	3,627
Financial liabilities	4,795	854	4,339
	(224,826)	(14,875)	(14,071)
Schedule E – Significant activities not involving cash flows			
Acquisition of fixed assets and intangible assets against creditors	19,290	34,104	79,543
Proceeds not yet received in the sale of real estate property	-	2,200	-

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. (hereunder - "the Company") is a company incorporated and residing in Israel and its formal address is No. 4 Ef'al Str., Petach Tikva 4951229. The consolidated financial statements of the Group as at December 31, 2013 include the statements of the Company and its subsidiaries (together referred to hereunder as "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.

b. Control of the Company

The Company is controlled by Eliahu Insurance Company Ltd. (hereunder – "Eliahu Insurance"). Up to October 29, 2012 the Company was controlled by Assicurazioni Generali S.p.A (hereunder – "Generali"), which held 69.13% of the Company's share capital.

Mr. Shlomo Eliahu and Ms. Chaya Eliahu are the final owners of the shares of Eliahu Insurance, among others, through Shlomo Eliahu Holdings Ltd. and Eliahu Brothers Trust and Investment Company Ltd., wholly owned by them. Mr. Shlomo Eliahu is the new controlling shareholder of the Company (hereunder – "the controlling shareholder").

The Company was informed by Eliahu Insurance, that Eliahu Insurance has pledged in favor of Bank Leumi Le Israel (hereunder – "Bank Leumi") about 30% of the Company's share capital (hereunder – "the pledged shares") as security for Eliahu Insurance liabilities towards Bank Leumi.

On January 22, 2014, Eliahu Insurance informed the Company that it has agreed with Bank Leumi to terminate the trusteeship and the pledged shares have been 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.

For additional information regarding the control permit for holding means of control and control, granted by the Commissioner of the Capital Market, see Note 7e14.

c. Definitions

The Company	-	Migdal Insurance and Financial Holdings Ltd.
The Group	-	Migdal Insurance and Financial Holdings Ltd. and its subsidiaries
Consolidated companies/subsidiaries	-	companies in which the Company has control and whose financial statements are consolidated with those of the Company.
Affiliates	-	companies in which the Company has significant influence but which are not subsidiaries and the Company's investment in them is included according to the equity value method in the Company's consolidated financial statements.
Investees	-	Subsidiaries and affiliates.

NOTE 1:- GENERAL

c. Definitions (Cont.)

Parent company	- Eliahu Insurance Company Ltd. (hereunder – “Eliahu Insurance”).
Former parent company	- Assicurazioni Generali S.p.A (hereunder – “Generali”)
Migdal Insurance	- Migdal Insurance Company Ltd.
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 Regulator	- Commissioner of the Capital Market, Insurance and Savings.
Insurance Supervision Law	- The Supervision of Financial Services Law (Insurance), 1981.
Capital Regulations	- Supervision of Insurance Business Regulations (Minimum Solvency Margin Required from an Insurer), 1998, as amended.
Ways of Investment Regulations	- Supervision 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 Regulator.
Financial Statement Details Regulations	- Insurance Supervision Regulations (Financial Statement Details) 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).
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 reported period.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES

a. Basis of preparation of the financial statements

The financial statements have been prepared on a historical cost basis, except for the following assets and liabilities: insurance liabilities, financial instruments at fair value through the statement of profit and loss, financial instruments classified as available for sale and investment property.

For additional information regarding the measurement of these assets and liabilities see paragraphs – j, k, and m below.

b. Statement of compliance with the International Financial Reporting Standards (IFRS):

The financial statements were prepared by the Group in accordance with the International Financial Reporting Standards (hereunder – IFRS).

Furthermore, the financial statements have been prepared in accordance with the disclosure requirements as prescribed by the Regulator of Insurance according to the Supervision of Financial Services (Insurance) Law, 1981 and in accordance with the disclosure requirements of the Israeli Securities Regulations (Preparation of 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.

c. The significant considerations, estimates and assumptions in the preparation of the financial statements

The considerations

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 the financial investments

- Financial assets measured at fair value through profit and loss.
- Investments held to maturity.
- Loans and debtors.
- Available-for-sale financial assets.

See Notes 11 - 12 below.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

c. The significant considerations, estimates and assumptions in the preparation of the financial statements (Cont.)

The considerations (Cont.)

2. Measurement of investment property at fair value See Note 8

3. 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 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 policy and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The preparation of accounting estimates used in the preparation of the Company’s financial statements requires management to make assumptions regarding circumstances and events that involve considerable uncertainty. Management of the Company prepares the estimates on the basis of past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate.

The basis of the estimates and assumptions are reviewed regularly. Changes in accounting estimates are recognized in the period in which the estimates are changed.

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 37.b.3.

  Regarding changes in main assumptions and estimates used in calculation of supplementary reserve for annuity, see Note 37.b.3.b). (5).

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

c. The significant considerations, estimates and assumptions in the preparation of the financial statements (Cont.)

Critical estimates (Cont.)

- Contingent liabilities – there are legal claims against the Group, as well as requests to approve the claims as class actions. For the estimates of the chances of the legal claims that were filed against the Group, the companies relied on the opinion of their legal advisors. The legal advisors' opinion is based on their professional judgment, taking into consideration the stage reached in the legal proceedings and the legal experience gained in various issues. Since the outcome of the claims will be determined in court, actual results could differ from these estimates.

  In addition to the applications to approve as class actions claims that were filed against the Group and the other legal proceedings, there is a general exposure that cannot be estimated and/or quantified, stemming, inter alia, from the complexity of the services that the Group renders to its policyholders. Inherent in the complexity of these arrangements is, inter alia, the potential for disagreements regarding interpretations and other differences due to information gaps between the Group and third parties to insurance contracts pertaining to a long series of commercial and regulatory conditions.

  For additional information see Note 39.1.

- Fair value estimates of unquoted financial instruments - the fair value of unquoted debt assets measured at fair value through profit and loss and unquoted financial assets whose information for their fair value is given for disclosure purposes only, is calculated according to a model based on discounted cash flows in which the interest rates and price quotas used are determined by a company that provides them to institutional entities.

  For additional information see Note 12.f.

- Impairment of goodwill – the Group examines impairment of goodwill at least annually. The examination requires management to make an estimate of the future cash flows expected to be derived from continuing use of the cash generating unit (or group of cash generating units) to which goodwill is allocated. In addition, management is required to estimate the appropriate discount rate for these cash flows.

  For additional information see Note 4.

- 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 an impairment in their respect, the amount of loss is recognized in the statement of profit and loss. On the reporting date the Group examines whether such evidence exists.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

c. The significant considerations, estimates and assumptions in the preparation of the financial statements (Cont.)

Critical estimates (Cont.)

- Determination of the fair value of investment property - Investment property is reported at fair value as at the reporting date and changes in fair value are recognized in the statement of profit and loss. The fair value is determined by independent external appraisers based on economic value estimates that include assumptions regarding estimates of anticipated future cash flows that will be generated from the asset and an estimate of the appropriate discount rate for these cash flows. In certain cases the fair value is determined by reference to recent real estate transactions with similar characteristics and locations as the estimated asset.

  In measuring the fair value of investment property, the Group's management and appraisers are required to use certain assumptions regarding the rate of return required for Group assets, future rental prices, occupancy rates, contract renewals, the probability of renting vacant space, the costs of operating the properties, the financial health of the tenants and implications arising from investments required for future development so as to estimate the future cash flows from the assets.

  For additional information see Note 8.

d. Change in classification

Internal reclassifications were performed within the components of the following notes: 20, 24.d and 37.b.1.a), 37.b.2 and 37.b.3.b)(4). The reclassifications had no effect on the equity, profit and loss and on comprehensive income.

e. Financial statement structure and the operational turnover period

The Group’s regular operating cycle period, is usually a year, especially in relation to life assurance and long term savings business, LTC, disease and hospitalization business, and general insurance business in liability and motor act insurance branches.

The consolidated statements of financial position, which mainly include the assets and liabilities of an insurance subsidiary, are presented in order of liquidity with no distinction between current and non-current. This presentation provides more relevant information, consistent with International Accounting Standard No. 1 – Presentation of the Financial Statements, and is in accordance with the directives of the Regulator of Insurance.

The Company has elected to present the profit or loss items according to the activity characteristic method.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

f. Functional currency and foreign currency

1. Functional and presentation currencies

The financial statements are reported in New Israeli Shekels ("NIS"), and have been rounded to the nearest thousand. NIS is the Company’s functional currency and is the currency that best reflects the economic environment in which the Company operates.

2. Transactions, assets and liabilities in foreign currency

Foreign currency transactions are translated into the functional currencies of Group companies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency exchange difference in respect of the monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising from translation to the functional currency are usually recognized in profit or loss, except for differences arising on the translation of available-for-sale financial equity instruments which are recognized in other comprehensive income (except in cases of impairment when the translation differences recognized in the other comprehensive income are reclassified to profit or loss).

Non-monetary items denominated in foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction.

The assets and liabilities of foreign activities are translated to NIS at the exchange rate at the reporting date. Income and expenses of foreign activities are translated at exchange rates at the dates of the transactions. Exchange rate differences from the translation of foreign activities are recognized in other comprehensive income and are presented in equity in translation reserve of foreign activities.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

g. Changes in accounting policies

As from January 1, 2013 the Group applies the new standards and amendments described below:

Standard/interpretation/ amendment	Main changes	Effective date and transitional provisions	Effects
(1) **IFRS 12 *Disclosure of Interests in Other Entities***	IFRS 12 contains extensive disclosure requirements for entities that have interests in subsidiaries, joint arrangements, affilitates and unconsolidated structured entities.	IFRS 12 is applied retrospectively (except for certain reliefs in the transitional provisions).	The standard's requirements were included as part of Note 7 - Investments in Investees
(2) **IFRS 13 *Fair Value Measurement***	• When measuring the fair value of a liability the effect of the entity's own credit risk must be taken into account. • Measurement of fair value of investment property should reflect consideration of future capital expenditure which would improve or extend the property and the future economic benefits to be gained from this expenditure should such expenditure or benefits be taken into account by market participants on the measurement date. • Should there be a bid price and ask price for an asset or liability being measured at fair value, the price in the range between them which best reflects fair value under the circumstances should be used in order to measure fair value.	IFRS 13 is applicable on a prospective basis where the disclosure requirements need not be applied in comparative information for periods before initial application.	In the Group's opinion application of the standard did not to have a material effect on the financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

g. Changes in accounting policies

Standard/interpretation/ amendment	Main changes	Effective date and transitional provisions	Effects
(3) **Amendment to IAS 19, *Employee Benefits***	• Employee benefits will be classified as short term employee benefits or as other long-term employee benefits (for measurement purposes) depending on when the Group expects the benefits to be wholly settled and not in accordance with when the employee is entitled to utilize the benefit. • Actuarial gains and losses will be immediately recognized to other comprehensive income. • Interest recognized in profit or loss will be calculated on the balance of the net defined benefit liability (asset), according to the discount rate that is used to measure the liability. • Past service costs will be recognized immediately regardless of the vesting date of the benefits.	The amendment to IAS 19 is applicable retrospectively other than relief from capitalizing costs to assets. According to the relief, the carrying amount of assets not in the scope of IAS 19 need not be adjusted for changes in costs of employee benefits that were included in the carrying amount before the date of initial application.	As a result of the application of the amended standard the Group immediately recognizes the gains/losses from remeasurement of a defined benefit program directly to retained earnings instead of to profit or loss. Consequently, comparative figures have been restated. The quantitative effects on the Group's financial statements are presented hereunder in this note.
(4) **Amendment to IAS 1, *Presentation of Financial Statements* in respect of presentation of items of other comprehensive income**	The amendment to IAS 1 changed the presentation of items of other comprehensive income in the financial statements, so that items of other comprehensive income that after initial recognition in other comprehensive income are reclassified to profit or loss are presented separately from those that would never be reclassified to profit or loss.	The amendment to IAS 1 is applicable retrospectively.	The statement of comprehensive income for comparative periods has been restated in accordance with the amendment.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

g. Changes in accounting policies

Standard/interpretation/ amendment	Main changes	Effective date and transitional provisions	Effects
(5) Amendment to IAS 36, *Impairment of Assets*: Recoverable Amount Disclosures for Non-Financial Assets	The amendment to IAS 36 contains new disclosure requirements for situations in which an impairment loss is recognized and the recoverable amount is determined at fair value less costs of disposal. In addition, the amendment to IAS 36 eliminates the requirement to disclose the recoverable amount of significant cash-generating units if impairment was not recognized in their respect.	The amendment is for annual periods beginning on January 1, 2014. The Company chose to apply the amendmentble on a retrospective basis.	In the Group's opinion application of the standard did not to have a material effect on the financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

g. Changes in Accounting Policies (continued)

The effect of the changes in accounting policy resulting from the initial implementation of the revised IAS 19 on the Company's financial statements in respect of defined benefit plans:

	Year ended December 31	
	2012	2011
	NIS thousands	NIS thousands
Increase in general and administrative expenses	13,249	2,188
Decrease in taxes on income	4,273	985
Decrease in profit for the period	8,976	1,203
Increase in other comprehensive income for actuarial gains, net	8,976	1,203
Change in comprehensive income	-	-
Decrease in earnings per share (in NIS)	(0.01)	-

There was no effect on the statement of financial position.

h. Consolidated financial statements, business combinations and goodwill

1. Consolidated financial statements

The consolidated financial statements include the financial statements of companies that are controlled by the Company (subsidiaries). Control exists when the Group is exposed, or has the rights, to variable returns from its involvement in the acquired entity and has the ability to affect these returns through its power over the acquired entity. Substantial rights held by the Group and by others 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.

Intra-group balances and transactions, and income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with affiliates are eliminated against the investment to the extent of the Group's interest in these investments. Unrealized losses are eliminated in the same way as unrealized gains, as long as there is no evidence of impairment.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

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

1. Consolidated financial statements (Cont.)

The financial statements of the Company and the subsidiaries are prepared as of the same dates and periods. The accounting policy in the financial statements of subsidiaries was applied uniformly and consistently with the accounting policy applied in the Company's consolidated financial statements.

2. Business combinations and goodwill

The Group implements the acquisition method regarding every business combination.

The Group recognizes goodwill upon acquisition according to the fair value of the consideration transferred including the amounts recognized in respect of any non-controlling interests in the acquired and the fair value as at the date of acquisition of the equity interests of acquiree previously held by the purchaser, less the net amount related upon acquisition to identifiable assets acquired and for the liabilities assumed.

The acquirer recognizes at the acquisition date a contingent liability assumed in a business combination if there is a present obligation resulting from past events and its fair value can be measured reliably.

If the Group performs a bargain purchase (including negative goodwill), it recognizes the resulting gain in the statement of profit and loss on the date of acquisition.

In addition, goodwill is not adjusted for the utilization of tax loss carryforwards which existed at the time of the business combination.

The consideration transferred includes the fair value of the assets transferred to the former owners of the acquiree, the liabilities incurred by the acquirer to the former owners of the acquiree and the equity instruments that were issued by the Group. In an acquisition achieved in stages, the difference between the acquisition date fair value of equity rights in the acquiree previously held by the Group and the carrying amount at that date is recognized in profit or loss under other income or expenses. In addition, the consideration transferred includes the fair value of any contingent consideration. After the acquisition date, the Group recognizes changes in fair value of the contingent consideration classified as a financial liability in profit or loss, whereas the contingent consideration which is classified as an equity instrument is not remeasured.

Acquisition-related costs incurred by the acquirer in a business combination such as: brokers fees, consultation commissions, legal commissions, valuation and other fees for professional services or consulting services, except those related to issuing debt instruments or equity in connection with the business combination, are expensed during the period in which the services are received.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

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

2. Business combinations and goodwill (Cont.)

Regarding impairment in goodwill examination, see paragraph P below.

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 income. Profit or loss from the realization 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 interest

The non-controlling interest are the capital of a subsidiary which cannot be attributed directly or indirectly to the parent company.

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.

i. Investment in affiliates

Affiliates are those entities in which the Group has significant influence, but not control, over their financial and operating policy.

In assessing significant influence, potential voting rights that are currently exercisable or convertible into shares of the investee are taken into account.

Investments in affiliates are accounted for using the equity method and are initially recognized at cost, including transaction costs. The investment includes initial differences calculated at the date of acquisition. The goodwill is calculated at the time of acquisition, and is not amortized systematically. The investment is reported net of accumulated losses from impairment. The consolidated financial statements include the Group’s share of the income and expenses, profit or loss and other comprehensive income of affiliated entities, 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.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

i. Investment in affiliates (Cont.)

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including long-term investments, which are part of the investment in the investee, is reduced to nil and the Group does not recognize further losses unless the Group has an obligation or has made payments on behalf of the investee.

The financial statements of the Company and the affiliates are prepared at the same dates and for the same periods.

Loss of significant influence

The Group discontinues applying the equity method from the date it loses significant influence or obtains control and it accounts for the remaining investment as a financial asset or as a subsidiary, as applicable.

On the date on which the Group ceases to have a significant influence, the Group measures any investment that the Group still has in the former affiliate at fair value and recognizes in profit or loss any difference between the fair value of any remaining investment and any consideration from the partial realization of the investment in the affiliate and the carrying value of the investment at that time.

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 interest held 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 under other income or other expenses.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

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) Recognition of income - see paragraph t below.

b) Liabilities in respect of life assurance contracts

Liabilities in respect of life assurance contracts are computed according to the Regulator's directives (regulations and circulars), accounting principles and generally accepted actuarial methods. The liabilities are computed according to the relevant coverage data, such as: the age of the policyholder, number of years of coverage, type of insurance, amount of insurance, etc.

Liabilities in respect of life assurance contracts are determined on the basis of actuarial assessments, carried out by the Migdal Insurance 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 Regulator's directives regarding liabilities for payment of annuities

Circulars issued by the Regulator 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 37.b.3.b).

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

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

Hereunder is a summary of the accounting principles relating to insurance contracts: (Cont.)

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

e. Deferred acquisition costs in life assurance

(1) Deferred acquisition costs in respect of life assurance policies (hereunder – the DAC) sold from January 1, 1999 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.

Deferred acquisition costs in respect of policies that were issued up to December 31, 1998 are computed by the Migdal Insurance actuary based on the "Zillmer deduction" method, at a certain percentage of the premium or of the amount at risk according to the various insurance programs.

(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 in respect of policies sold since 1999 are sufficient, and that the policies 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 that are utilized for this examination include assumptions regarding cancellations, operating expenses, rate of return on assets, mortality and morbidity rates, that are determined by the Migdal Insurance actuary every year based on past experience and relevant up-to-date research studies.

f. Deferred acquisition costs for the acquisition of asset management contracts

Commissions paid to agents and acquisition supervisors for the purchase of asset-management contracts (pension funds and provident funds) are recorded as DAC if they can be identified separately and measured reliably and if their recoverability by way of management fees is expected. The DAC is amortized over the estimated period of receipt of revenues from management fees.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

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

Hereunder is a summary of the accounting principles relating to insurance contracts: (Cont.)

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

g. Liability Adequacy Test in respect of life assurance contracts

Migdal Insurance examines the sufficiency of the liabilities in respect of life assurance contracts. If the examination shows that the premiums received are not sufficient to cover the expected claims, a special provision for the deficiency is recorded. The examination is performed separately for the individual policies and for group policies. In the case of group policies, the examination is performed for each group policy separately.

The assumptions used in the abovementioned examinations include assumptions regarding cancellations, operating expenses, rate of return on assets, mortality and morbidity rates, and they are determined by the actuary every year based on examinations, past experience and other relevant research studies. Regarding group policies, the examination is made based on the claims experience of the individual group policy and subject to the statistical reliability of this experience.

h. Outstanding claims

Outstanding claims are computed on an individual case basis, according to the estimation of Migdal Insurance experts, on the basis of notifications regarding insurance events and sums insured.

The provisions for annuity payments and provisions for prolonged payment claims in payment for disability insurance, the direct and indirect expenses deriving from them, as well as the provisions for incurred but not yet reported claims (IBNR) are included under liabilities for insurance contracts.

i. Investment contracts:

Receipts in respect of investment contracts are not included in the item of earned premiums, but are directly allocated to liabilities for insurance and investment contracts. Surrenders and maturities of these contracts are not recognized in the statement of profit and loss, but are deducted directly from the liabilities for insurance and investment contracts.

Investment income, change in liabilities and payments in respect of insurance contracts, the policyholders' share in investment income, management fees, commissions to agents, and general and administrative expenses are recognized in the statement of profit and loss, in respect of these contracts.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

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

Hereunder is a summary of the accounting principles relating to insurance contracts: (Cont.)

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

j. Provision for profit participation of policyholders in group insurance:

The provision is included under the item “creditors and payables”. Also, the change in the provision was offset from the earned premium item.

2. General insurance

a) Recognition of income, 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) (hereafter “Regulation for Calculation of Reserves”), the Regulator’s directives and generally accepted actuarial methods for computing outstanding claims which are applied according to the appointed actuaries’ discretion.

d) The item liabilities in respect of insurance contracts, is composed of insurance reserves and outstanding claims, as follows:

(1) Provision for the unearned premium reserve, reflects the insurance premiums relating to the insurance period after the balance sheet date.

(2) Provision for premium deficiency. This provision is recorded in the event that the unearned premium reserve (net of deferred acquisition costs) does not cover the anticipated cost in respect of insurance contracts. In the motor casco, comprehensive residential and business premises branches the provision is based, inter alia, on a model determined in Regulations for Calculation of Reserves.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

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

Hereunder is a summary of the accounting principles relating to insurance contracts: (Cont.)

2. General insurance (Cont.)

d) The item liabilities in respect of insurance contracts, is composed of insurance reserves and outstanding claims, as follows: (Cont.)

(3) Outstanding claims are computed according to the methods detailed below:

3.1 Outstanding claims (including IBNR) and the reinsurers' share therein are included based on an actuarial valuation, except for the branches detailed in Section 3.2 below. Indirect expenses for the settlement of claims are included according to an actuarial valuation. The actuarial calculation for Migdal Insurance was made by the appointed actuary, Mr. Daniel Israel, an employee of Migdal Insurance.

3.2 In the branches of comprehensive business premises, engineering insurance, contractors' insurance, marine insurance, aviation insurance, goods in transit, and incoming branches, the actuary determined that an actuarial model cannot be applied due to lack of statistical significance. The outstanding claims in these branches were calculated on the basis of the valuations of external experts and Migdal Insurance employees who handle claims, reports of ceding companies for incoming business and with the addition of IBNR where necessary.

3.3 Excess of income over expenses

In businesses with long tail claims (branches in which the time required for issuing a notice of damage and/or determining damage and its compensation, is long and can be a number of years), such as the liability and motor act branches, the excess of income over expenses is calculated on a triennial cumulative basis (hereunder –"excess" or "accumulation").

The excess is calculated, according to the regulations for calculating reserves and the Regulator's directives, on the basis of income from premiums, net of the acquisition and claims expenses, with the addition of investment income which is calculated at the rate of 3% per annum, in real terms (regardless of the actual yield from the investments) net of the reinsurers' share, for each insurance branch and underwriting year. The excess accumulated until its release, from the beginning of the insurance, net of the provision for unearned premium less deferred acquisition costs and net of outstanding claims calculated as aforementioned, is included under liabilities for insurance contracts and a deficiency is recognized as an expense.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

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

Hereunder is a summary of the accounting principles relating to insurance contracts: (Cont.)

2. General insurance (Cont.)

d) The item liabilities in respect of insurance contracts, is composed of insurance reserves and outstanding claims, as follows: (Cont.)

(3) Outstanding claims are computed according to the methods detailed below: (Cont.)

3.4 Subrogations and salvage are taken into account in the database used in the calculation of the actuarial valuations of outstanding claims.

3.5 In Migdal Insurance’s estimation the outstanding claims are adequate, considering the fact that outstanding claims are mainly calculated on an actuarial basis and the remaining outstanding claims include adequate provisions for IBNR, where necessary.

3.6 Regarding expected changes in the calculation of insurance reserves in general insurance, including cancellation of the excess, see Note 37.b.3.c)(6).

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 Supervision Regulations, calculated as a percentage of unearned premiums separately for each branch.

f) Incoming business from the Israeli Pool for Motor Vehicle Insurance of the Association of Insurance Companies in Israel (hereunder - the Pool), from other insurance companies (including co-insurance and incoming business from abroad) and from underwriting agencies, is reported according to reports received up to balance sheet date with the addition of the relevant provisions, based on Migdal Insurance’s rate of participation in them.

3. Health insurance

a) Revenue recognition – see u below.

b) Liabilities in respect of health insurance contracts

The liabilities for health insurance contracts are computed according to the Regulator’s directives (Regulations and Circulars), generally accepted accounting principles and actuarial methods. The liabilities are computed according to relevant coverage data, such as age of policyholder, number of years of coverage, type of insurance and amount of insurance etc.

Liabilities for health assurance contracts and the reinsurers' share therein are determined on the basis of an actuarial assessment carried out by Migdal Insurance appointed actuary, Mr. Daniel Katzman, an employee of Migdal Insurance.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

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

3. Health insurance (Cont.)

c) Outstanding claims

The provisions for prolonged payment claims with respect to long-term care (LTC) insurance, direct and indirect expenses deriving from them, as well as provisions for incurred but not yet reported claims (IBNR) are included under liabilities in respect of insurance contracts.

In the travel insurance branch, the actuary determined that the actuarial model cannot be applied due to a lack of statistical significance. The outstanding claims in this branch were calculated based on estimates prepared by external experts and Migdal Insurance employees who handle claims, and include IBNR where necessary.

d) Provision for policyholders' participation in profits in group insurance

The provision is included under "creditors and payables". In addition, the change in the provision is offset from the earned premium item.

e) The unexpired risk reserve included under liabilities for insurance contracts, includes, when necessary, a provision for anticipated loss on retention (premium deficiency) calculated on the basis of an actuarial valuation which is based on the cash flows estimate in respect of the contract.

f) Deferred acquisition costs

(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.

(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.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

k. Financial instruments

1. Non-derivative financial instruments

Non-derivative financial instruments include both financial assets and financial liabilities. Financial assets include financial investments (quoted debt assets, unquoted debt assets, shares and others) and other financial assets such as: outstanding premiums, other debtors and cash and cash equivalents. In addition, financial instruments include financial liabilities such as loans and credit received and suppliers' credit and other creditors.

Initial recognition of financial assets

Non-derivative financial instruments are recognized initially at fair value, and for instruments not at fair value through profit or loss, plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognized as an asset or liability when the company accepts the contractual conditions (transaction date).

Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

See paragraph 3 hereunder regarding the offset of financial assets and financial liabilities.

Financial assets are classified to the following categories:

Cash and cash equivalents

Cash and cash equivalents include cash balances available for immediate withdrawal and call deposits that can be utilized on demand. Cash equivalents include short-term highly liquid investments (with original maturities of three months or less), which are readily convertible into known amounts of cash and are exposed to insignificant risks of changes in value.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

k. Financial instruments (Cont.)

1. Non-derivative financial instruments (Cont.)

Financial assets at fair value through profit and 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.

Financial assets available for sale

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified in any of the previous categories. Upon initial recognition and in subsequent periods, these investments are measured at fair value and changes therein, other than impairment losses, profits or losses from changes in the CPI and in the foreign exchange rate and the accrual of effective interest on available-for-sale debt instruments, are recognized directly in other comprehensive income and presented within equity in a reserve for available-for-sale financial assets. A dividend received in respect of available-for-sale financial assets is recognized in profit or loss. When an investment is derecognized, the cumulative gain or loss in the reserve for available-for-sale financial assets is transferred to profit or loss.

2. Non-derivative financial liabilities

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

Financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

k. Financial instruments (Cont.)

2. Financial instruments (Cont.)

Derecognition of financial liabilities

Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is discharged or cancelled.

3. Offsetting financial instruments

Financial asset and liability are offset and reported in their net value in the statement of financial position when the Group currently has the legal right to offset the amounts and intends to settle on a net basis or to realize the asset and to settle the liability simultaneously.

4. Derivative financial instruments

Financial derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, the financial derivatives are measured at fair value and changes therein are recognized immediately in profit or loss as investment income, net and finance income.

5. CPI-linked assets and liabilities not measured at fair value

The value of CPI linked assets and liabilities, which are not measured at fair value, is remeasured every period in accordance with the actual increase or decrease in the CPI.

6. The Group has made decisions to designate the assets as follows

Assets included in the investment portfolios of policies participating in investment income.

Most of these assets, that include quoted and unquoted financial assets, were designated at fair value through profit or loss, for the following reasons: These are managed portfolios, separate and identifiable, whose presentation at fair value significantly reduces accounting mismatch in measurement of financial assets and liabilities at different measurement bases. In addition, asset management is conducted at fair value, portfolio performance is measured at fair value according to a documented risk management strategy, and information regarding the financial instruments is reported to management (the relevant investment committee) internally on the basis of fair value.

Some unquoted debt instruments, included in investment portfolios of policies participating in investment income, are measured at amortized cost using the effective interest method, as allowed by the temporary provision published by the Regulator.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

k. Financial instruments (Cont.)

6. The Group has made decisions to designate the assets as follows (Cont.)

Financial instruments that include embedded derivatives requiring separation – were designated at fair value through profit or loss.

Quoted assets not included in investment portfolios held against profit participating policies (Nostro) which do not include embedded derivatives or do not constitute derivatives

These instruments were classified as available-for-sale financial instruments.

Unquoted assets not included in investment portfolios held against profit-participating policies (Nostro)

Assets meeting the criteria of loans and designated as loans and receivables, including Hetz debentures, were classified to this group and are measured at amortized cost, using the effective interest method.
Unquoted equity instruments were designated as available-for-sale financial instruments.

Investments in quoted securities in the financial statements of a subsidiary engaged in investment management

These assets were designated as fair value through profit or loss since they are held for trading.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

k. Financial instruments (Cont.)

8. Net investment income (losses), finance income and expenses

Net investment income (losses) and finance income include income (losses) on the sale and impairment of available-for-sale financial assets, changes in fair value of financial assets and liabilities designated at fair value through profit or loss, income (losses) from foreign currency exchange rate and linkage differences on debt instruments, from realization of investments that are calculated as the difference between the proceeds from the sale and the initial or amortized cost and are recognized at the time of the sale, interest income in respect of amounts invested (including available for sale financial assets), income from dividends and changes in the fair value of investment property and rent from investment property. Interest income is recognized when accrued, using the effective interest method. Dividend income is recognized on the date the Company is granted the right to receive payment. If the dividend is received for quoted shares, the Company recognizes the income from the dividend on the ex-dividend date.

Finance expenses include interest expenses, linkage and exchange rate differences on loans received, interest and exchange rate differences on reinsurers' deposits and balances, changes in the time value in respect of provisions. Short term credit costs, which are not capitalized, are recognized in the statement of profit or loss when incurred.

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

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

l. Fixed assets

1. Recognition and measurement

Fixed asset items are measured at cost less accumulated depreciation and impairment loss.

The cost of a number of fixed asset items 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 capitalized as part of the cost of such equipment.

Profit or loss from disposal of fixed assets item 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 a fixed asset item and other subsequent expenses are capitalized if it is probable that the future economic benefits associated 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 the fixed assets items, since this method reflects the projected pattern of consumption of future economic benefits embodied in the property in the best way.

Land under ownership is not depreciated.

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

Buildings	4%
Leasehold improvements	10% - 17%
Vehicles	15%
Computers and software	17% -33%
Office furniture and equipment	6%- 15%

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

l. Fixed assets (Cont.)

3. Depreciation (Cont.)

Land leased from the Israel Land Administration and treated as a financial lease, is depreciated over the lease period.

Leasehold improvements are depreciated according to the straight-line method over the shorter of lease term (including option period for extending the lease which the Group has and intends to realize), and their useful lives.

The estimates regarding depreciation method, useful lives and residual values are reviewed at least at the end of each reporting year.

4. Real estate under construction

Real estate under construction is measured at cost. The cost of the land includes costs such as planning and design costs, indirect construction costs that were allocated, borrowing costs relating to the financing of the construction up to the completion date and other related costs.

m. Investment property

Investment property is property (land or building – or part of a building - or both) held (by the Group as the owners or under a finance lease) either to earn rental income or for capital appreciation or for both but not for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business.

Furthermore, leased properties that are leased by the Company under an operating lease and are intended for rent to a third party, are classified and treated as investment property.

Investment property is initially measured at cost with the addition of transaction costs. In subsequent periods the investment property is measured at fair value, with changes therein recognized in the statement of profit and loss.

In order to determine the fair value of the investment property the Group uses the valuations performed by external independent appraisers who are experts in the valuation of real estate and possess the knowledge and experience required.

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 fixed assets to investment property occurs when there is a change in use such as when the owner ceases to use the asset or when the property is leased under an operating lease to a third party.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

m. Investment property (Cont.)

The transfer of an asset from investment property to fixed assets is performed when there is a change in use, such as the beginning of use of the asset by the owners.

The deemed cost of the asset transferred from investment property to fixed assets is the fair value on the date of the transition.

When the use of a property changes from owner-occupied to investment property, which is measured at fair value, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognized in other comprehensive income and presented within equity in a revaluation reserve, unless the gain reverses a previous impairment loss on the specific property, in which case the gain is first recognized in profit or loss. Any loss is recognized directly in profit or loss.

Investment property in development intended for use as investment property is measured at fair value, as mentioned above, if and when the fair value can be measured reliably. If fair value cannot be measured reliably, due to the characteristics and the amount of risk in the project, the property is measured at cost, less losses from impairment, if they exist, until the earlier between, when fair value may be measured reliably and when construction is completed. Cost of investment property under development includes the cost of the real estate with the addition of cost of financing used to finance the development, direct additional cost of planning and development and brokerage for contracts for the rental of the property.

For additional information, see Note 8.

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.

1. Finance leases

Under finance leases, all the risks and benefits related to the ownership of the leased asset, were actually transferred to the Group. The leased property is measured at the beginning of the period of lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. The liability in respect of the lease payments is reported at its present value. The lease payments are apportioned between finance expenses and repayment of the lease liability using the effective interest method.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

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.

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 4.2 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 PRINCIPLES (Cont.)

o. Intangible assets

4. Subsequent expenditure

Subsequent expenditure is capitalized as an intangible asset only when it increases the future economic benefit embodied in the asset to which it relates. All other expenditure, including expenditure related to goodwill or brands that were developed by the Company, are allocated to profit and loss as incurred.

5. Amortization

Amortization is recognized in the income statement over the estimated useful life of the intangible assets from the date the assets are available for use. Goodwill is not amortized when it is an asset with an indefinite useful life.

The estimated useful lives for the current and comparative periods are as follows:

a) The excess of cost resulting upon the acquisition of insurance subsidiaries that were merged with the Company, and are mainly attributable to the value of the life assurance portfolios of the above companies, as well as life assurance portfolio acquisition expenses, are amortized at equal annual rates over the period of 15 years, which in Management's opinion, reflects the average term of the policies.

b) The excess of cost created upon the acquisition of insurance agencies or from business combinations acquired from insurance agencies, that are mainly attributed to commission portfolios, is amortized at equal annual rates over a period of ten years.

c) Future management fees – initial difference relating to future management fees anticipated from educational funds and portfolio management, is amortized according to the anticipated period of receiving the management fees:

- In educational funds – over 20 years with a variable amortization rate based on the amount of anticipated benefit from management fees in the said period.
- Portfolio management – over 10 years. The amortization is not at a fixed rate and it is based on the anticipated rate of benefit from the management fees during the said period.

d) Brand – amortized on a straight line basis over 5-10 years.

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

f) Customer relations - Excess of cost resulting from the agreement to absorb new general insurance policies of Eliahu Insurance, recognized at the discounted forecasted cash flow of policies, is amortized over a period of 10 years using the declining sum of digits method.

g) Customer lists – Excess of cost resulting from the agreement to absorb new general insurance policies of Eliahu Insurance, is amortized over a period of three years using the straight line method.

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

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

p. Impairment

1. Financial investments

A financial asset not carried at fair value through profit or loss is tested for impairment when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy or the disappearance of an active market for a security and observable date that indicates that there is a measurable decrease in expected cash flows from a group of financial assets.

Evidence of impairment of available-for-sale financial assets

When testing for impairment available-for-sale financial assets that are equity instruments, the Group also examines the difference between the fair value of the asset and its original cost while taking into consideration the volatility of the instrument's price, the length of time the fair value of the asset is lower than its original cost and changes in the technological, economic or legal environment or in the market environment in which the issuer of the instrument operates. In addition, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Evidence of impairment of debt instruments

The Group considers evidence of impairment of loans and receivables at both the individual asset and collective level. All individually significant loans and receivables are assessed for specific impairment. Loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has occurred but not yet identified.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Treatment of impairment losses of financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected as a provision for loss against the balance of the financial assets.

Treatment of impairment losses of available-for-sale financial assets

Impairment losses are recognized by transferring the cumulative loss that has been recognized in a capital reserve to profit or loss. The cumulative loss which is reclassified from other comprehensive income to profit and loss is the difference between the acquisition cost net of any principal repayments and amortization, and the current fair value less any impairment previously recognized in profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

p. Impairment (Cont.)

1. Financial investments (Cont.)

Reversal of impairment losses

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale debt securities, the reversal is recognized in profit or loss. For available-for-sale equity securities, the reversal is recognized directly in other comprehensive income.

2. Reinsurance

a). The reinsurers' liabilities towards Migdal Insurance do not release it from its liabilities towards policyholders insured under the insurance policies.

A reinsurer who does not fulfill his obligations under the reinsurance treaties may cause losses to the Group.

b) Migdal Insurance sets-up a provision for doubtful debts 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 sets-up the provisions, it takes into consideration, among others, the willingness of the parties to reach cut-off agreements (termination of agreements by a final settlement of the debts) in order to reduce the exposure.

3. Outstanding premiums in general insurance

Provisions for doubtful debts in respect of outstanding premiums in general insurance is calculated based on estimates of, inter alia, the period the debt is in default and actual rates of policy cancellations in previous years.

4. Non-financial assets

Timing of the impairment review

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 PRINCIPLES (Cont.)

p. Impairment (Cont.)

3. Non-financial assets (Cont.)

Measurement of recoverable amounts

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less realization costs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “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 PRINCIPLES (Cont.)

q. Share capital

Share capital is classified as equity.
Incremental costs directly related to issue of ordinary shares and option warrants, are presented as a reduction of capital.

r. Employee benefits

The Group has a number of employee benefits plans.
The classification of employee benefits for measurement purposes, as short term benefits or long term benefits is determined on the basis of the date when the benefits are expected to be fully settled.

1. Short term benefits

Short term employee benefits are benefits which are expected to be settled fully, up to 12 months from the end of the annual reporting period in which employees provide related services.

These employee benefits include salaries, recreation, vacation and social security payments that are measured on an undiscounted basis and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-employment benefits

a) Defined contribution plan

The Group has defined contribution plans pursuant to Section 14 of the Severance Pay Law, 5723-1963 (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 PRINCIPLES (Cont.)

r. Employee benefits (Cont.)

2. Post-employment benefits

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 government bonds denominated in the same currency, and which have maturity dates approximating the terms of the Group's obligations. The calculations are made by a qualified actuary using the projected unit credit method.

When the calculation results in a net asset for the Group, an asset is recognized up to the net present value of economic benefits available in the form of a refund from the plan or a reduction in future contributions to the plan. An economic benefit in the form of refunds or reductions in future contributions is considered available when it can be realized over the life of the plan or after settlement of the obligation.

Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). Remeasurements are recognized immediately directly in retained earnings through other comprehensive income.

Interest costs on a defined benefit obligation, interest income on plan assets and interest from the effect of the asset ceiling that were recognized in profit or loss are presented under general and administrative expenses.

When the benefits of a plan are improved or curtailed, the portion of the increased benefit relating to past service by employees or the gain or loss on curtailment are recognized immediately in profit or loss when the plan improvement or curtailment occurs.

Insurance policies in respect of employee severance benefits, which were issued by Migdal Insurance, do not constitute defined benefit plan assets and are presented as a reduction from liabilities in respect of insurance contracts.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (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 Government 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 the other comprehensive income 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 Company 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

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 company 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 PRINCIPLES (Cont.)

r. Employee benefits (Cont.)

5. Share based payment transactions (Cont.)

De-recognition of a grant settled by equity instruments is treated as though it had vested as at the date of de-recognition and the expense that was not yet recognized in respect of the grant is immediately recognized. However, if the de-recognized grant is replaced by a new grant and is intended to be an alternative grant as at the date it was granted, the de-recognized grant and the new grant will both be treated as a modification of the original grant as described in the previous paragraph.

Transactions in which the parent company grants Group 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.

Transactions settled in cash

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 re-measured 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 PRINCIPLES (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 associated with that contract.

t. Revenue recognition

1. Premiums

a) Premiums in life assurance and health insurance segments, including savings premiums but excluding receipts in respect of investment contracts are recorded as income when due.

Cancellations are recorded upon receipt of notice from the policyholder or initiated by the Company due to arrears in payments, subject to legal provisions. Policyholders' participation in profits is deducted from the premiums.

b) General insurance premiums are accounted for as income based on monthly new business reports. Insurance premiums usually refer to an insurance period of one year. Gross income from premiums and changes in unearned premium are included in the item gross earned premiums.

Since in the motor act line of insurance, the insurance comes into effect only after payment of the insurance premium, the premium is accounted for on the date of payment.

Premiums from policies that will be in force after the reporting date are reported as prepaid premiums.

Monthly new business reports, primarily in the motor casco and comprehensive residential insurance lines include an automatic renewal of all policies whose renewal date has arrived.

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 PRINCIPLES (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 Regulator'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 Regulator's directives.

c) Management fees from mutual funds and from management of customer's 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 PRINCIPLES (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 income (losses) and finance income:

See paragraph k.8 above.

u. Administrative and general expenses

Administrative and general expenses are classified to indirect expenses for settlement of claims (that are included under payments and change in liabilities in respect of the insurance and investment contracts), to expenses relating to acquisitions (included under commissions, marketing, and other acquisition expenses) and to the balance of administrative and general expenses that are included under this item. The classification is made according to the Group's internal models that are based on direct expenses and allocated indirect expenses.

v. Taxes on income

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or are recognized directly in equity or in other comprehensive income to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current taxes

Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates applicable under laws enacted or substantively enacted at the reporting date and adjustments required in relation to the payment of tax liability for previous years.

Deferred taxes

Deferred taxes are recognized with respect to temporary differences between the carrying amounts of the assets and liabilities for financial reporting and their value for tax purposes. The Group does not recognize deferred taxes for the following temporary differences: Initial recognition of goodwill, initial recognition of assets and liabilities in a transaction that does not constitute a business combination and does not affect accounting income and income for tax purposes, and provisions deriving from investment in subsidiaries and affiliates, if it is not expected that they will be reversed in the foreseeable future and to the extent the Group controls the date of reversal.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

v. Taxes on income (Cont.)

Deferred taxes (Cont.)

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 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, since the distribution does not result in additional taxes or since the Company’s policy is to not initiate the distribution of a dividend by a subsidiary which results in an additional tax liability.

Intercompany transactions

Deferred tax in respect of intercompany transactions in the consolidated financial statements is recorded at the tax rate applicable to the purchasing company.

w. Earnings per share

The Company 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 Company 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 PRINCIPLES (Cont.)

x. New Standards and interpretations not yet adopted

Standard/interpretation/ amendment	Topic	Effective date and transitional provisions	Expected effects
(1) Standard on financial instruments IFRS 9 (2010), ***Financial Instruments***	IFRS 9 (2010) replaces the requirements included in IAS 39 regarding the classification and measurement of financial assets and financial liabilities. In accordance with IFRS 9 (2010), there are two principal categories for measuring financial assets: amortized cost and fair value, with the basis of classification for debt instruments being the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. In addition, investments in equity instruments are measured at fair value with changes in fair value being recognized in profit or loss. Nevertheless, IFRS 9 (2010) allows an entity on the initial recognition of an equity instrument not held for trading to elect irrevocably to present fair value changes in the equity instrument in other comprehensive income where no amount so recognized is ever classified to profit or loss at a later date. IFRS 9 (2010) generally preserves the instructions regarding classification and measurement of financial liabilities that are provided in IAS 39. Nevertheless, unlike IAS 39, IFRS 9 (2010) requires as a rule that the amount of change in the fair value of financial liabilities designated at fair value through profit or loss, other than loan grant commitments and financial guarantee contracts, attributable to changes in the credit risk of the liability, be presented in other comprehensive income, with the remaining amount being included in profit or loss.	The mandatory effective date of IFRS 9 (2010) has not yet been determined. Early application is permitted subject to providing disclosure and at the same time adopting other IFRS amendments as specified in the standard. IFRS 9 (2010) is to be applied retrospectively other than in a number of exceptions as indicated in the transitional provisions included in IFRS 9 (2010).	The Group is examining the effects of IFRS 9 (2010) on the financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

x. New Standards and interpretations not yet adopted (Cont.)

Standard/interpretation/ amendment	Topic	Effective date and transitional provisions	Expected effects
(2) Amendment to IAS 32 Financial Instruments: Presentation	The amendment to IAS 32 clarifies that an entity currently has a legally enforceable right to set-off amounts that were recognized if that right is not contingent on a future event; and it is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all its counterparties.	The amendment to IAS 32 is applicable retrospectively for annual periods beginning on or after January 1, 2014.	The amendment to IAS 32 is not expected to have a material effect on the Group's financial statements.
(3) Issue of IFRIC Interpretation 21, Levies	The interpretation addresses the accounting for a liability to pay levies that are within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as well as a liability to pay levies which are not within the scope of IAS 37 since their timing and amount is certain. A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation and/or regulation. According to the interpretation, the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation, even when it is economically unrealistic for the entity to avoid this activity.	IFRIC 21 is applicable retrospectively for annual periods beginning on or after January 1, 2014.	The application of IFRIC 21 is not expected to have a material effect on the financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

y. Amendment of Guidelines on Disclosure framework in Financial Statements of Insurance Companies

In January 2014 the Regulator issued a Circular regarding the disclosure framework in Financial Statements of Insurance Companies. The circular includes, inter alia, new disclosure requirements with regard to segment information, investments, liabilities in respect of insurance contracts included in the general insurance segment and financial liabilities. In addition, the Circular includes guidelines with respect to various items in the financial statements as well as instructions as to the signing of financial statements. The Circular, also applies the provisions of Chapter 6 of the Securities Regulations (Annual Financial Statements)-2010 with respect to transactions with interested parties and controlling shareholders on insurance companies.

The Circular is effective as from the financial statements for the year 2014. Insurance companies may apply the provisions of the Circular beginning with the 2013 financial statements. The relevant disclosures will be included in the financial statements of the Company as from the 2014 financial statements.

z. 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
	%	%	%
For the year ended as at December 31, 2013	1.8	1.9	(7)
For the year ended as at December 31, 2012	1.6	1.4	(2.3)
For the year ended as at December 31, 2011	2.1	2.5	7.7

NOTE 3:- BUSINESS SEGMENTS

a. General

The Company operates in the following segments of activity:

1. The segment of life assurance and long term savings

The segment of life assurance and long term savings 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, work disability, etc. According to the Regulator'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 concentrates all the Group's activities in health insurance – the segment includes long term care insurance, medical expense insurance, operations, transplants, dental insurance, etc.

NOTE 3:- BUSINESS SEGMENTS

a. General (Cont.)

3. General insurance segment

The general insurance segment includes the liability and property branches. Under the Regulator of Insurance's directives, the general insurance segment is broken down into the lines of motor act, motor casco, other property branches, other liability branches.

The increase in premiums in general insurance in the Company is the result of the absorption of new business by the Company following the discontinuation of the sale of new policies by Eliahu Insurance as from January 1, 2013. See also Note 38 d. 1. a).

- The motor act insurance line of insurance

  The motor act insurance line of business focuses on coverage whose acquisition by the owner of the vehicle or the driver is compulsory by law and which provides coverage for bodily injuries (to the driver of the vehicle, the passengers in the vehicle or to pedestrians), as a result of the use of the motor vehicle.

- The motor casco line of insurance

  The motor casco line of business focuses on the property damage coverage for the insured vehicle and property damages that the insured vehicle will cause to a third party.

- Other liability branches

  The liability branches are intended for the coverage of the policyholders' liabilities for any damage that he will cause to a third party. These lines of business include: third party liability, employers' liability, professional liability, product warranty, marine hull and aviation hull.

- Property and other branches

  The other general insurance branches that are not vehicles and liabilities, including property loss, comprehensive business premises, comprehensive residential, mortgage banks, personal accidents, cargo in transit, engineering insurance and other risks.

4. Financial services segment

This segment mainly includes financial assets management services and marketing for investments (mainly management of mutual funds and portfolio management), stock exchange brokerage in regulated markets, underwriting services, market making of various securities as well as other services.

5. Other segments of activity include mainly activities of insurance agencies.

NOTE 3:- BUSINESS SEGMENTS (Cont.)

b. Reportable segment

	For the year ended December 31, 2013							
	Life assurance and long term savings	Health	General insurance	Financial services	Other business segments	Not attributed to business segments	Adjustments and offsets	Total
	NIS thousands							
Gross premiums earned	7,546,534	770,176	1,755,864	-	-	-	-	10,072,574
Premiums earned by reinsurers	173,721	65,359	478,257	-	-	-	-	717,337
Premiums earned on retention	7,372,813	704,817	1,277,607	-	-	-	-	9,355,237
Net investment income and finance income	8,896,233	183,939	170,349	15,865	2,869	150,285	(34,113)	9,385,427
Income from management fees	1,556,132	-	-	143,873	-	-	(3,207)	1,696,798
Income from commissions	64,031	22,234	59,084	37,077	351,875	-	(* (174,191)	360,110
Other income	-	-	-	3,847	-	31,599	-	35,446
Total income	17,889,209	910,990	1,507,040	200,662	354,744	181,884	(211,511)	20,833,018
Payments and change in liabilities in respect of insurance and investment contracts, gross	15,767,954	638,091	1,171,044	-	-	-	-	17,577,089
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts	122,010	40,365	172,294	-	-	-	-	334,669
Payments and change in liabilities in respect of insurance and investment contracts on retention	15,645,944	597,726	998,750	-	-	-	-	17,242,420
Commissions, marketing expenses and other acquisition expenses	854,588	202,807	371,965	66,624	163,472	-	(178,617)	1,480,839
Administrative and general expenses	611,436	39,188	43,448	135,017	203,955	77,193	(15,918)	1,094,319
Other expenses	11,570	-	4,555	2,899	12,458	19,190	-	50,672
Finance expenses	24,009	-	(2,700)	422	1,739	50,255	(21,402)	52,323
Total expenses	17,147,547	839,721	1,416,018	204,962	381,624	146,638	(215,937)	19,920,573
Share in investee profits treated according to the equity value method	39,577	-	13,164	-	1,227	16,806	-	70,774
Income (loss) before taxes on income	781,239	71,269	104,186	(4,300)	(25,653)	52,052	4,426	983,219
Other comprehensive income before taxes on income	124,645	5,933	49,721	837	1,280	21,941	-	204,357
Total comprehensive income (loss) for the period before taxes on income	905,884	77,202	153,907	(3,463)	(24,373)	73,993	4,426	1,187,576

*) Derived from income from commissions received by agencies owned by the Group, from activities in life assurance and long term savings in the amount of NIS 134,384 thousand, in health insurance in the amount of NIS 15,286 thousand and in general insurance in the amount of NIS 24,521 thousand.

NOTE 3:- BUSINESS SEGMENTS (Cont.)

b. Reportable segment (Cont.)

	For the year ended December 31, 2012							
	Life assurance and long term savings	Health	General insurance	Financial services	Other business segments	Not attributed to business segments	Adjustments and offsets	Total
	NIS thousands							
Gross premiums earned	7,356,994	692,483	1,426,551	-	-	-	-	9,476,028
Premiums earned by reinsurers	158,095	62,579	480,907	-	-	-	-	701,581
Premiums earned on retention	7,198,899	629,904	945,644	-	-	-	-	8,774,447
Net investment income and finance income	7,123,544	143,025	158,022	20,521	3,752	108,994	(33,678)	7,524,180
Income from management fees	1,000,537	-	-	143,297	-	-	(6,336)	1,137,498
Income from commissions	50,745	17,300	65,902	40,199	365,386	-	(*(189,022)	350,510
Other income	46	-	-	4,832	-	12,147	-	17,025
Total income	15,373,771	790,229	1,169,568	208,849	369,138	121,141	(229,036)	17,803,660
Payments and change in liabilities in respect of insurance and investment contracts, gross	13,936,263	519,805	846,316	-	-	-	-	15,302,384
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts	88,570	29,068	138,840	-	-	-	-	256,478
Payments and change in liabilities in respect of insurance and investment contracts on retention	13,847,693	490,737	707,476	-	-	-	-	15,045,906
Commissions, marketing expenses and other acquisition expenses	857,539	163,355	320,426	64,304	167,072	-	(191,583)	1,381,113
Administrative and general expenses**)	580,051	39,910	40,314	132,150	195,633	58,114	(12,772)	1,033,400
Other expenses	12,667	-	-	1,774	9,731	8,939	-	33,111
Finance expenses	23,778	-	2,805	69	2,868	36,698	(27,242)	38,976
Total expenses	15,321,728	694,002	1,071,021	198,297	375,304	103,751	(231,597)	17,532,506
Share in investee profits treated according to the equity value method	36,368	-	11,429	-	1,261	15,394	-	64,452
Income (loss) before taxes on income	88,411	96,227	109,976	10,552	(4,905)	32,784	2,561	335,606
Other comprehensive income before taxes on income**)	127,717	6,057	74,198	206	4,498	77,781	-	290,457
Total comprehensive income (loss) for the period before taxes on income	216,128	102,284	184,174	10,758	(407)	110,565	2,561	626,063

*) Derived from income from commissions received by agencies owned by the Group, from activities in life assurance area and long term savings in the amount of NIS 146,813 thousand, in health insurance in the amount of NIS 14,410 thousand and in general insurance in the amount of NIS 27,799 thousand.

**) Restated - See Note 2g regarding initial adoption of Revised IAS 19, Employee Benefits.

NOTE 3:- BUSINESS SEGMENTS (Cont.)

b. Reportable segment (Cont.)

	For the year ended December 31, 2011							
	Life assurance and long term savings	Health	General insurance	Financial services	Other business segments	Not attributed to business segments	Adjustments and offsets	Total
	NIS thousands							
Gross premiums earned	6,846,689	614,906	1,430,494	-	-	-	-	8,892,089
Premiums earned by reinsurers	179,274	62,850	476,910	-	-	-	-	719,034
Premiums earned on retention	6,667,415	552,056	953,584	-	-	-	-	8,173,055
Net investment income and finance income	398,731	328	166,378	14,656	3,933	104,706	(27,682)	661,050
Income from management fees	746,716	-	-	165,819	-	-	(6,577)	905,958
Income from commissions	82,577	19,144	52,989	50,564	376,140	-	*) (201,498)	379,916
Other income	1,169	-	-	4,814	3,508	1,579	(1,815)	9,255
Total income	7,896,608	571,528	1,172,951	235,853	383,581	106,285	(237,572)	10,129,234
Payments and change in liabilities in respect of insurance and investment contracts, gross	6,248,161	394,222	1,104,741	-	-	-	-	7,747,124
Reinsurers' share in payments and change in liabilities in respect of insurance contracts	56,042	33,625	277,498	-	-	-	-	367,165
Payments and change in liabilities in respect of insurance and investment contracts on retention	6,192,119	360,597	827,243	-	-	-	-	7,379,959
Commissions, marketing expenses and other acquisition expenses	764,625	136,294	315,812	76,289	166,832	-	(195,629)	1,264,223
Administrative and general expenses**)	539,659	37,724	38,611	138,369	191,185	35,066	(6,577)	974,037
Other expenses	14,011	-	-	2,363	9,306	1,079	-	26,759
Finance expenses	7,800	-	14,604	231	2,791	27,408	(27,682)	25,152
Total expenses	7,518,214	534,615	1,196,270	217,252	370,114	63,553	(229,888)	9,670,130
Share in investee profits (losses) treated according to the equity value method	27,303	-	7,672	-	(225)	13,864	-	48,614
Income (loss) before taxes on income	405,697	36,913	(15,647)	18,601	13,242	56,596	(7,684)	507,718
Other comprehensive income (loss) before taxes on income**)	(262,481)	(9,289)	(79,932)	979	(1,426)	(26,675)	-	(378,824)
Total comprehensive income (loss) for the period before taxes on income	143,216	27,624	(95,579)	19,580	11,816	29,921	(7,684)	128,894

*) 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 169,854 thousand, in health insurance in the amount of NIS 10,217 thousand and in general insurance in the amount of NIS 21,427 thousand.

**) Restated - See Note 2g regarding initial adoption of Revised IAS 19, Employee Benefits.

NOTE 3:- BUSINESS SEGMENTS (Cont.)

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

	Year ended December 31, 2013			
	Life assurance	Pension funds	Provident Funds	Total
	NIS thousands			
Gross premiums earned	7,546,534	-	-	7,546,534
Premiums earned by reinsurers	173,721	-	-	173,721
Premiums earned on retention	7,372,813	-	-	7,372,813
Investment income, net and finance income	8,888,182	8,051	-	8,896,233
Income from management fees	1,115,074	302,377	138,681	1,556,132
Income from commissions	64,031	-	-	64,031
Total income	17,440,100	310,428	138,681	17,889,209
Payments and change in gross liabilities for insurance and investment contracts, gross	15,767,954	-	-	15,767,954
Reinsurers' share in payments and change in liabilities for insurance contracts	122,010	-	-	122,010
Payments and change in liabilities for insurance and investment contracts on retention	15,645,944	-	-	15,645,944
Commissions, marketing expenses and other acquisition expenses	686,481	121,944	46,163	854,588
Administrative and general expenses	437,434	118,558	55,444	611,436
Other expenses	-	-	11,570	11,570
Finance expenses	23,541	-	468	24,009
Total expenses	16,793,400	240,502	113,645	17,147,547
The Group's share in profits of investees treated according to the equity value method	39,577	-	-	39,577
Profit before taxes on income	686,277	69,926	25,036	781,239
Other comprehensive income (loss) before taxes on income	122,731	1,974	(60)	124,645
Total comprehensive income for the period before taxes on income	809,008	71,900	24,976	905,884

NOTE 3:- BUSINESS SEGMENTS (Cont.)

c. Additional information regarding the life assurance and long term savings segment (cont.)

	Year ended December 31, 2012			
	Life assurance	Pension funds	Provident Funds	Total
	NIS thousands			
Gross premiums earned	7,356,994	-	-	7,356,994
Premiums earned by reinsurers	158,095	-	-	158,095
Premiums earned on retention	7,198,899	-	-	7,198,899
Investment income, net and finance income	7,118,252	5,076	216	7,123,544
Income from management fees	574,216	286,363	139,958	1,000,537
Income from commissions	50,745	-	-	50,745
Other income	46	-	-	46
Total income	14,942,158	291,439	140,174	15,373,771
Payments and change in liabilities for insurance and investment contracts, gross	13,936,263	-	-	13,936,263
Reinsurers' share in payments and change in liabilities for insurance contracts	88,570	-	-	88,570
Payments and change in liabilities for insurance and investment contracts on retention	13,847,693	-	-	13,847,693
Commissions, marketing expenses and other acquisition expenses	705,003	105,113	47,423	857,539
Administrative and general expenses *)	404,509	116,495	59,047	580,051
Other expenses	66	-	12,601	12,667
Finance expenses	21,511	-	2,267	23,778
Total expenses	14,978,782	221,608	121,338	15,321,728
The Group's share in profits of investees treated according to the equity value method	36,368	-	-	36,368
Profit (loss) before taxes on income	(256)	69,831	18,836	88,411
Other comprehensive income before taxes on income *)	118,829	8,096	792	127,717
Total comprehensive income for the period before taxes on income	118,573	77,927	19,628	216,128

*) Restated - See Note 2g regarding initial adoption of Revised IAS 19, Employee Benefits.

NOTE 3:- BUSINESS SEGMENTS (Cont.)

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

	Year ended December 31, 2011			
	Life assurance	Pension funds	Provident Funds	Total
	NIS thousands			
Gross premiums earned	6,846,689	-	-	6,846,689
Premiums earned by reinsurers	179,274	-	-	179,274
Premiums earned on retention	6,667,415	-	-	6,667,415
Investment income, net and finance income	393,351	4,715	665	398,731
Income from management fees	351,500	252,177	143,039	746,716
Income from commissions	82,577	-	-	82,577
Other income	1,169	-	-	1,169
Total income	7,496,012	256,892	143,704	7,896,608
Payments and change in liabilities for insurance and investment contracts, gross	6,248,161	-	-	6,248,161
Reinsurers’ share in payments and change in liabilities for insurance contracts	56,042	-	-	56,042
Payments and change in liabilities for insurance and investment contracts on retention	6,192,119	-	-	6,192,119
Commissions, marketing expenses and other acquisition expenses	633,738	89,530	41,357	764,625
Administrative and general expenses *)	377,806	99,604	62,249	539,659
Other expenses	-	-	14,011	14,011
Finance expenses	3,039	-	4,761	7,800
Total expenses	7,206,702	189,134	122,378	7,518,214
The Group’s share in profits of investees treated according to the equity method	27,303	-	-	27,303
Profit before taxes on income	316,613	67,758	21,326	405,697
Other comprehensive loss before taxes on income*)	(260,439)	(1,830)	(212)	(262,481)
Total comprehensive income for the period before taxes on income	56,174	65,928	21,114	143,216

*) Restated - See Note 2g regarding initial adoption of Revised IAS 19, Employee Benefits.

NOTE 3:- BUSINESS SEGMENTS (Cont.)

d. Additional information regarding the general insurance segment

	Year ended December 31, 2013				
	Motor act	Motor casco	Property and other branches *)	Other liability branches *)	Total
			NIS thousands		
Gross premiums	538,619	579,875	620,216	282,822	2,021,532
Reinsurance premiums	8,517	951	435,445	67,999	512,912
Premiums on retention	530,102	578,924	184,771	214,823	1,508,620
Change in unearned premium balance, on retention	(130,833)	(86,407)	(2,560)	(11,213)	(231,013)
Earned premium on retention	399,269	492,517	182,211	203,610	1,277,607
Investment income, net and finance income	93,703	11,756	1,041	63,849	170,349
Income from commissions	-	11	53,496	5,577	59,084
Total income	492,972	504,284	236,748	273,036	1,507,040
Payments and change in liabilities for insurance contracts, gross	306,071	366,795	224,174	274,004	1,171,044
Reinsurers' share in payments and in change in liabilities for insurance contracts	(439)	(56)	143,212	29,577	172,294
Payments and change in liabilities for insurance contracts on retention	306,510	366,851	80,962	244,427	998,750
Commissions, marketing expenses and other acquisition expenses	45,459	127,189	141,695	57,622	371,965
Administrative and general expenses	16,383	10,151	12,500	4,414	43,448
Other expenses	1,601	1,747	559	648	4,555
Finance expenses	889	145	(4,335)	601	(2,700)
Total expenses	370,842	506,083	231,381	307,712	1,416,018
Share in profits of investees treated according to the equity value method	7,061	883	408	4,812	13,164
Income (loss) before taxes on income	129,191	(916)	5,775	(29,864)	104,186
Other comprehensive income before taxes on income	26,668	3,336	1,544	18,173	49,721
Total comprehensive income (loss) for the period before taxes on income	155,859	2,420	7,319	(11,691)	153,907
Liabilities in respect of gross insurance contracts as at December 31, 2013	1,630,776	352,804	520,375	1,529,271	4,033,226

*) Property and other branches mainly include the results of comprehensive residential, comprehensive business premises, engineering and cargo in transit insurance branches, whose activities constitute about 96% of the total premiums in these branches.
Other liability branches mainly include the results of employers' liability insurance, third party liability and professional liability branches whose activities constitute about 87% of the total premiums in these branches.

NOTE 3:- BUSINESS SEGMENTS (Cont.)

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

	Year ended December 31, 2012				
	Motor act	Motor casco	Property and other branches *)	Other liability branches *)	Total
	NIS thousands				
Gross premiums	266,234	350,580	535,292	254,237	1,406,343
Reinsurance premiums	5,504	1,030	379,073	68,791	454,398
Premiums on retention	260,730	349,550	156,219	185,446	951,945
Change in unearned premium balance, on retention	(129)	3,064	(4,969)	(4,267)	(6,301)
Earned premium on retention	260,601	352,614	151,250	181,179	945,644
Investment income, net and finance income	82,371	9,282	6,753	59,616	158,022
Income from commissions	-	20	57,015	8,867	65,902
Total income	342,972	361,916	215,018	249,662	1,169,568
Payments and change in liabilities for insurance contracts, gross	188,319	271,842	207,208	178,947	846,316
Reinsurers' share in payments and in change in liabilities for insurance contracts	(9,680)	38	149,917	(1,435)	138,840
Payments and change in liabilities for insurance contracts on retention	197,999	271,804	57,291	180,382	707,476
Commissions, marketing expenses and other acquisition expenses	34,968	95,908	135,125	54,425	320,426
Administrative and general expenses**)	11,603	7,951	14,661	6,099	40,314
Finance expenses	616	86	1,663	440	2,805
Total expenses	245,186	375,749	208,740	241,346	1,071,021
Share in profits of investees treated according to the equity value method	6,003	697	386	4,343	11,429
Income (loss) before taxes on income	103,789	(13,136)	6,664	12,659	109,976
Other comprehensive income before taxes on income**)	38,628	4,657	3,061	27,852	74,198
Total comprehensive income (loss) for the period before taxes on income	142,417	(8,479)	9,725	40,511	184,174
Liabilities in respect of gross insurance contracts as at December 31, 2012	1,427,354	230,493	577,745	1,473,418	3,709,010

*) Property and other branches mainly include the results of comprehensive residential, comprehensive business premises, engineering and cargo in transit insurance branches whose activities constitute about 94% of the total premiums in these branches.
Other liability branches mainly include the results of employers' liability, third party liability and professional liability branches whose activities constitute about 87% of the total premiums in these branches.

**) Restated - See Note 2g regarding initial adoption of Revised IAS 19, Employee Benefits.

NOTE 3:- BUSINESS SEGMENTS (Cont.)

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

	Year ended December 31, 2011				
	Motor act	Motor casco	Property and other branches *)	Other liability branches *)	Total
	NIS thousands				
Gross premiums	258,389	371,051	550,241	266,488	1,446,169
Reinsurance premiums	5,370	630	390,674	87,665	484,339
Premiums on retention	253,019	370,421	159,567	178,823	961,830
Change in unearned premium balance, on retention	3,222	(2,325)	(5,530)	(3,613)	(8,246)
Earned premium on retention	256,241	368,096	154,037	175,210	953,584
Investment income, net and finance income	82,069	8,819	18,538	56,952	166,378
Income from commissions	-	14	44,633	8,342	52,989
Total income	338,310	376,929	217,208	240,504	1,172,951
Payments and change in liabilities for insurance contracts, gross	233,340	317,576	352,507	201,318	1,104,741
Reinsurers' share in payments and in change in liabilities for insurance contracts	(6,746)	41	299,143	(14,940)	277,498
Payments and change in liabilities for insurance contracts on retention	240,086	317,535	53,364	216,258	827,243
Commissions, marketing expenses and other acquisition expenses	33,812	96,971	136,582	48,447	315,812
Administrative and general expenses **)	11,332	8,091	13,104	6,084	38,611
Finance expenses	726	89	13,316	473	14,604
Total expenses	285,956	422,686	216,366	271,262	1,196,270
Share in profits of investees treated according to the equity value method	4,112	441	264	2,855	7,672
Income (loss) before taxes on income	56,466	(45,316)	1,106	27,903	(15,647)
Other comprehensive loss before taxes on income **)	(42,930)	(4,541)	(2,636)	(29,825)	(79,932)
Total comprehensive income (loss) for the period before taxes on income	13,536	(49,857)	(1,530)	(57,728)	(95,579)
Liabilities in respect of gross insurance contracts as at December 31, 2011	1,456,545	244,455	675,363	1,490,084	3,866,447

*) Property and other branches mainly include the results of comprehensive residential, comprehensive business premises and cargo in transit insurance branches whose activities constitute about 87% of the total premiums in these branches.

Other liability branches mainly include the results of professional liability, employers' liability and third party liability insurance branches whose activities constitute about 84% of the total premiums in these branches.

**) Restated - See Note 2g regarding initial adoption of Revised IAS 19, Employee Benefits.

NOTE 3:- BUSINESS SEGMENTS (Cont.)

e. Details on segment assets and liabilities

	December 31, 2013							
	Life assurance and long term savings	Health	General insurance	Financial services	Other business segments	Not attributed to business segments	Adjustments and offsets	Total
	NIS in thousands							
Assets								
Intangible assets	387,094	-	255,445	388,512	112,702	311,222	(1,390)	1,453,585
Deferred acquisition costs	1,325,079	303,759	167,361	-	-	-	(59,990)	1,736,209
Investments in affiliates	373,024	-	131,492	-	9,580	140,101	-	654,197
Investment property for yield dependent contracts	4,598,640	99,244	-	-	-	-	-	4,697,884
Other - investment property	466,094	8,826	133,582	-	-	1,702	-	610,204
Reinsurance assets	103,163	18,768	869,187	-	-	-	-	991,118
Outstanding premiums	167,204	17,064	324,123	-	8,131	-	-	516,522
Financial investments for yield dependent contracts	59,709,572	1,280,607	-	-	-	-	-	60,990,179
Other financial investments:								
Quoted debt assets	2,667,074	34,849	1,479,198	122,160	28,537	1,508,184	-	5,840,002
Unquoted debt assets	20,574,358	282,504	543,868	163,472	3,970	198,595	(150,268)	21,616,499
Shares	616,180	8,344	250,949	1,137	490	157,707	-	1,034,807
Others	1,265,376	17,077	373,167	1,788	9,106	288,206	-	1,954,720
Total other financial investments	25,122,988	342,774	2,647,182	288,557	42,103	2,152,692	(150,268)	30,446,028
Cash and cash equivalents for yield dependent contracts	4,803,353	103,662	-	-	-	-	-	4,907,015
Cash and cash equivalents – others	652,263	10,313	110,905	91,914	72,109	612,763	-	1,550,267
Other assets	552,125	67,471	122,388	113,581	111,113	1,181,861	(967,697)	1,180,842
Total assets	98,260,599	2,252,488	4,761,665	882,564	355,738	4,400,341	(1,179,345)	109,734,050
Total assets for yield dependent contracts	69,429,931	1,387,896	-	-	-	-	-	70,817,827
Liabilities								
Liability due to non-yield dependent insurance and investment contracts	25,658,200	436,133	4,033,226	-	-	-	-	30,127,559
Liability due to yield dependent insurance and investment contracts	69,067,670	1,490,738	-	-	-	-	-	70,558,408
Financial liabilities	141,154	2,373	5,156	153,197	152,649	916,172	(150,268)	1,220,433
Other liabilities	1,791,312	19,485	723,283	187,339	203,089	751,459	(988,718)	2,687,249
Total liabilities	96,658,336	1,948,729	4,761,665	340,536	355,738	1,667,631	(1,138,986)	104,593,649

NOTE 3:- BUSINESS SEGMENTS (Cont.)

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

	December 31, 2012							
	Life assurance and long term savings	Health	General insurance	Financial services	Other business segments	Not attributed to business segments	Adjustments and offsets	Total
	NIS in thousands							
Assets								
Intangible assets	398,548	-	-	391,221	128,027	351,277	(1,390)	1,267,683
Deferred acquisition costs	1,296,433	277,979	114,676	-	-	-	(64,416)	1,624,672
Investments in affiliates	341,794	-	119,277	-	9,585	134,330	-	604,986
Investment property for yield dependent contracts	3,834,089	82,397	-	-	-	-	-	3,916,486
Other - investment property	404,122	6,606	125,773	-	-	1,703	-	538,204
Reinsurance assets	90,887	15,001	944,181	-	-	-	-	1,050,069
Outstanding premiums	172,440	16,231	248,014	-	9,645	-	-	446,330
Financial investments for yield dependent contracts	53,038,763	1,117,689	-	-	-	-	-	54,156,452
Other financial investments:								
Quoted debt assets	2,435,419	28,648	1,307,830	22,391	29,304	1,400,409	-	5,224,001
Unquoted debt assets	19,388,338	240,855	455,593	141,283	6,807	254,142	(148,026)	20,338,992
Shares	408,692	5,057	158,848	978	476	58,642	-	632,693
Others	966,154	11,841	243,465	24,996	4,826	86,650	-	1,337,932
Total other financial investments	23,198,603	286,401	2,165,736	189,648	41,413	1,799,843	(148,026)	27,533,618
Cash and cash equivalents for yield dependent contracts	2,326,270	49,993	-	-	-	-	-	2,376,263
Cash and cash equivalents – others	850,146	11,780	266,103	130,493	50,192	953,115	-	2,261,829
Other assets	535,396	54,656	33,767	15,602	121,948	1,022,113	(626,993)	1,156,489
Total assets	86,487,491	1,918,733	4,017,527	726,964	360,810	4,262,381	(840,825)	96,933,081
Total assets for yield dependent contracts	59,473,551	1,162,841	-	-	-	-	-	60,636,392
Liabilities								
Liability due to non-yield dependent insurance and investment contracts	24,488,126	352,101	3,709,010	-	-	-	-	28,549,237
Liability due to yield dependent insurance and investment contracts	58,798,458	1,263,816	-	-	-	-	-	60,062,274
Financial liabilities	134,188	1,852	8,125	28,693	150,614	868,977	(148,026)	1,044,423
Other liabilities	1,483,499	22,985	300,392	141,753	210,196	972,401	(649,566)	2,481,660
Total liabilities	84,904,271	1,640,754	4,017,527	170,446	360,810	1,841,378	(797,592)	92,137,594

NOTE 4:- INTANGIBLE ASSETS

a. Composition:

	Goodwill	Initial difference relating to value of insurance portfolios	Future management fees	Brand name	Computer software	Customer relations	Other	Total
	NIS in thousands							
Cost								
Balance as at January 1, 2012	888,126	725,062	213,623	11,739	891,930	-	7,803	2,738,283
Acquisitions under business combinations	12,024	7,564	-	-	650	-	4,611	24,849
Acquisitions and internal development (1)	-	10,092	-	-	138,774	-	-	148,866
Disposals during the year	-	-	-	-	(2,297)	-	-	(2,297)
Balance as at December 31, 2012	900,150	742,718	213,623	11,739	1,029,057	-	12,414	2,909,701
Acquisitions under business combinations	169,059	-	-	1,967	2,105	81,115	10,415	264,661
Acquisitions and internal development (1)	-	-	-	-	96,874	-	-	96,874
Disposals during the year	-	(1,252)	-	(2,767)	(1,932)	-	-	(5,951)
Balance as at December 31, 2013	1,069,209	741,466	213,623	10,939	1,126,104	81,115	22,829	3,265,285
Accumulated amortization and accumulated impairment losses								
Balance as at January 1, 2012	105,999	687,922	129,824	6,263	564,934	-	2,567	1,497,509
Amortization recognized during the year	-	9,373	13,970	920	120,125	-	1,381	145,769
Impairment	1,037	-	-	-	-	-	-	1,037
Disposals during the year	-	-	-	-	(2,297)	-	-	(2,297)
Balance as at December 31, 2012	107,036	697,295	143,794	7,183	682,762	-	3,948	1,642,018
Amortization recognized during the year	-	9,268	11,408	3,231	140,430	3,687	3,352	171,376
Impairment	3,181	-	-	-	-	-	-	3,181
Disposals during the year	-	(176)	-	(2,767)	(1,932)	-	-	(4,875)
Balance as at December 31, 2013	110,217	706,387	155,202	7,647	821,260	3,687	7,300	1,811,700
Net book value:								
As at December 31, 2013	958,992	35,079	58,421	3,292	304,844	77,428	15,529	1,453,585
As at December 31, 2012	793,114	45,423	69,829	4,556	346,295	-	8,466	1,267,683

(1) Computer software includes internal development costs in 2013 and 2012 of NIS 71 million and NIS 104 million, respectively.

NOTE 4:- INTANGIBLE ASSETS (Cont.)

b. Business combinations during the year

On September 30, 2013, the transaction between Migdal Insurance and the controlling shareholder, Eliahu Insurance, to absorb the new business in general insurance of Eliahu Insurance as from 2013, was approved. The consideration was set at NIS 260 million and was paid on October 1, 2013.

No tangible assets were acquired and no liability was transferred to Migdal Insurance in the transaction.

The consideration was allocated to intangible assets as detailed below and was recognized on September 30, 2013 on the basis of an economic valuation performed by Professor Yoram Eden, CPA.

	NIS in thousands
Goodwill	168,470
Customer relations	81,115
Customer lists	10,415
Total consideration	260,000

For details of amortization of intangible assets see Note 2.o. 5. f) and g).

Migdal Insurance bore direct expenses related to the acquisition included in administrative and general expenses in an amount which is not material.

For additional information regarding the acquisition of new business in general insurance from Eliahu Insurance, see Note 38 Balances and Transactions with Interested and Related Parties.

During the period additional business combinations occurred in amounts which are not material.

NOTE 4:- INTANGIBLE ASSETS (Cont.)

c. Examination of recoverability of intangible assets with an indefinite term

In order to examine the recoverability of goodwill as at December 31, 2013, the goodwill was allocated to the following cash generating units: pension funds, provident funds, general insurance, financial services and other (mainly insurance agencies).

Hereunder is the carrying amount of the goodwill that was allocated to each of the following cash generating units:

	As at December 31	
	2013	2012
Pension funds	190,866	190,866
Provident funds	139,949	139,949
Financial services	382,482	382,482
General insurance	168,470	-
Other	77,225	79,817
	958,992	793,114

In order to examine the recoverability of the goodwill, the recoverable amount of the cash generating unit to which the goodwill was allocated, is examined in relation to its carrying amount. If the recoverable amount of the cash generating unit is higher than its carrying amount, the value of the unit and the assets allocated to it will be considered unimpaired.

The recoverable amount of the pension unit is determined on the basis of the calculation of the embedded value of the unit. The recoverable amount is higher than the carrying amount of the unit.

The recoverable amount of the provident fund and financial services units is mainly determined on the basis of the estimated future cash flows deriving from the activities of each of the units.

The recoverable amount of each one of these units is higher than the carrying amount of each of the units.

The other units are mainly attributed to the activities of the Group's insurance agencies.

The recoverable amount of all the other units is determined based on the estimated cash flows and income multiplier approach.

NOTE 4:- INTANGIBLE ASSETS (Cont.)

c. Examination of recoverability of intangible assets with an indefinite term (cont.)

The recoverable amount exceeds the carrying amount of each of the other units, except for an impairment in an amount which is not material.

The recoverable amount of intangible assets recognized upon the acquisition of the new business in general insurance, was examined on the basis of a valuation to estimate the value of goodwill and the other intangible assets prepared by Professor Yoram Eden, which determined that there are no significant deviations in assumptions from those made in the original opinion and an impairment has not occurred as at reporting date.

The key assumptions used for the calculation of the value in use

The calculation of the recoverability of the provident funds segment is based on the following main assumptions:
The discount interest rate – 10.5% (in the year 2012 – 11 %). This rate was determined using the W.A.C.C. model, on the basis of parameters characteristic of this type of activity.

The long term growth rate – 1.75% (in the year 2012 – 1.75%). The rate was determined on the basis of the average long-term growth rate for this type of activity.

Average management fees to provident funds and education funds in the long term – 0.84% (in the year 2012 – 0.93%). This rate is based on the management fees that are expected to be collected in the long term and it takes into account the change resulting from the reform in provident funds as published by the Ministry of Finance in June 2012. It should be noted that the reform has no effect on the management fees collected in the education funds, which make up the majority of assets under management in this sector.

The calculation of the recoverability of the financial services segment is based on the following main assumptions:

The discount interest rate – 12% (in the year 2012 – 12%). This rate was determined using the W.A.C.C. model, on the basis of parameters characteristic of this type of activity.

The long term growth rate – 2.5% (in the year 2012 – 2.5%). The rate was determined on the basis of the average long-term growth rate for this type of activity.

Average management fees in mutual funds in the long term – 0.5% (in the year 2012 – 0.8%).

The calculation of the recoverability of the “other” segment is based on the following main assumptions:

The average discount interest rate– 12% (in the year 2012 – 10%) and income multiplier of 1.5-2 (in the year 2012 –1.5-2).

These rates are determined based on the parameters that are specific to such activities.

The assumption used for the calculation of the recoverability of goodwill and other assets recognized in the acquisition of the new general insurance business is based on the following estimates:
Decline rate of 3% in the future years and a real discount rate of 10%.

NOTE 5:- DEFERRED ACQUISITION COSTS

a. Composition:

	As at December 31	
	2013	2012
	NIS thousands	NIS thousands
Life assurance and long term savings *)	1,265,089	1,232,017
Health insurance	303,759	277,979
General insurance	167,361	114,676
	1,736,209	1,624,672

*) Including deferred acquisition costs in respect of pension and provident funds.

b. The movement in deferred acquisition costs in life assurance and long term savings and in health insurance:

	Life assurance and long-term savings	Health	Total
		NIS in thousands	
Balance as at January 1, 2012	1,169,347	252,268	1,421,615
Additions:			
Acquisition commissions	202,228	62,643	264,871
Other acquisition expenses	103,422	18,240	121,662
Total additions	305,650	80,883	386,533
Current amortization	140,365	51,529	191,894
Amortization due to cancellations	102,615	3,643	106,258
Balance as at December 31, 2012	1,232,017	277,979	1,509,996
Additions:			
Acquisition commissions	170,462	72,180	242,642
Other acquisition expenses	100,934	21,654	122,588
Total additions	271,396	93,834	365,230
Current amortization	148,133	60,211	208,344
Amortization due to cancellations	90,191	7,843	98,034
Balance as at December 31, 2013	1,265,089	303,759	1,568,848

NOTE 6:- FIXED ASSETS

a. Composition and movement:

Year 2013

	Land and office buildings	Computers and software	Vehicles	Office furniture and equipment	Leasehold improvements	Total
	NIS in thousands					
Cost						
Balance as at January 1, 2013	742,598	268,734	20,423	185,898	38,155	1,255,808
Additions during the year	21,537	16,634	94	16,033	1,587	55,885
Company consolidated for the first time	-	-	-	53	-	53
Transfer to investment property	(18,854)	-	-	-	-	(18,854)
Disposals during the year	-	(40,573)	(16,015)	(777)	(10,274)	(67,639)
Balance as at December 31, 2013	745,281	244,795	4,502	201,207	29,468	1,225,253
Accumulated depreciation						
Balance as at January 1, 2013	127,120	193,372	9,389	113,023	26,690	469,594
Additions during the year	24,527	28,109	1,303	10,954	4,757	69,650
Company consolidated for the first time	-	-	-	28	-	28
Transfer to investment property	(12,715)	-	-	-	-	(12,715)
Disposals during the year	-	(40,568)	(8,591)	(736)	(10,274)	(60,169)
Balance as at December 31, 2013	138,932	180,913	2,101	123,269	21,173	466,388
Balance of amortized cost as at December31, 2013	606,349	63,882	2,401	77,938	8,295	758,865
Annual depreciation rates	4%	17%-33%	15%	6%-15%	10%-17%	

NOTE 6:- FIXED ASSETS (Cont.)

a. Composition and movement:

Year 2012

	Land and office buildings	Computers and software	Vehicles	Office furniture and equipment	Leasehold improvements	Total
	NIS in thousands					
Cost						
Balance as at January 1, 2012	629,255	253,176	24,082	157,878	36,877	1,101,268
Additions during the year	114,851	25,555	1,012	28,143	1,177	170,738
Company consolidated for the first time	-	1,471	-	800	119	2,390
Disposals during the year	(1,508)	(11,468)	(4,671)	(923)	(18)	(18,588)
Balance as at December 31, 2012	742,598	268,734	20,423	185,898	38,155	1,255,808
Accumulated depreciation						
Balance as at January 1, 2012	110,160	177,549	8,280	103,248	22,843	422,080
Additions during the year	17,843	26,069	3,496	9,574	3,807	60,789
Company consolidated for the first time	-	1,222	-	495	51	1,768
Disposals during the year	(883)	(11,468)	(2,387)	(294)	(11)	(15,043)
Balance as at December 31, 2012	127,120	193,372	9,389	113,023	26,690	469,594
Balance of amortized cost as at December31, 2012	615,478	75,362	11,034	72,875	11,465	786,214
Annual depreciation rates	4%	17%-33%	15%	6%-15%	10%-17%	

NOTE 6:- FIXED ASSETS (Cont.)

b. Details regarding real estate rights which serve the Group as fixed assets

	As at December 31	
	2013	2012
	NIS in thousands	
Ownership	561,753	561,420
Capitalized lease *)	44,596	54,058
	606,349	615,478

*) Assets in capitalized lease in the amount of NIS 39,238 thousand (in the year 2012 - NIS 48,239 thousand) whose remaining period of lease is up to 16 years.

Assets in capitalized lease in the amount of NIS 5,358 thousand (in the year 2012 - NIS 5,819 thousand) whose remaining period of lease is over 45 years.

c. Construction of office building

The Company constructed an office building on an area of about 17,956 square meters adjacent to the Group's office buildings in Petach-Tikva, which concentrates most of the Group's activities in one central site - (including some or the house agencies). Part of the building was occupied during the years 2012-2013 by the Group's employees.

The total investment as at December 31, 2013 amounted to about NIS 427 million.

d. Additional information

The Group has fully depreciated assets which are still operating. The original cost of these assets as at December 31, 2013 is about NIS 165 million (December 31, 2012, about NIS 157 million).

In 2013 the Group derecognized fixed assets which were fully depreciated and are not utilized by the Group of an original cost of about NIS 40 million.

NOTE 7:- INVESTMENTS IN INVESTEES

a. Details in respect of affiliated companies and subsidiaries held by the Company

1. Affiliated companies

	As at December 31, 2013				
	County of Incorporation	Company's equity and voting rights	Loans and Capital notes granted by the Company to affiliated companies	Amount of investment in affiliated companies	Total
		%	NIS in thousands		
Principal affiliated companies:					
Ramat Aviv Mall Ltd. (3)	Israel	26.6	(2) 68,711	179,087	247,798
Amot Investments Ltd.	Israel	14(1)	-	388,209	388,209
			68,711	567,296	636,007
Other affiliated companies (4)			6,747	11,443	18,190
Total affiliated companies			75,458	578,739	654,197

	As at December 31, 2012				
	County of Incorporation	Company's equity and voting rights	Loans and Capital notes granted by the Company to affiliated companies	Amount of investment in affiliated companies	Total
		%	NIS in thousands		
Principal affiliated companies:					
Ramat Aviv Mall Ltd. (3)	Israel	26.6	(2) 65,232	170,148	235,380
Amot Investments Ltd.	Israel	15.1(1)	-	358,422	358,422
			65,232	528,570	593,802
Other affiliated companies			2,811	8,373	11,184
Total affiliated companies			68,043	536,943	604,986

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

a. Details in respect of affiliated companies and subsidiaries held by the Company (Cont.)

(1) Migdal Insurance has the right to appoint two directors in Amot. Therefore, the potential voting power in the Board of Directors of Amot, which includes the aforementioned right, is 20%.

The fair value of these shares on the Tel-Aviv Stock Exchange as at December 31, 2013 is about NIS 387 million (in the year 2012 – NIS 332 million).

(2) A capital note in the amount of NIS 75,840 thousand, issued in June 2009 for a minimum period of 5 years, and bearing no interest and no linkage. The capital note is reported in the financial statements at its present value.

(3) For details of loan provided by Ramat Aviv mall to Migdal Insurance see Note 38.h.3.b. regarding balances and transactions with interested and related parties

(4) In December 2013 a request was submitted for the liquidation of Yebulim Economic and Business Advice Ltd, an affiliated company held by the Company. The court hearing for the assignment of a liquidator is scheduled for May 27, 2014.

2. Consolidated companies held directly by the Company

	As at December 31, 2013				
	County of Incorporation	Company's equity and voting rights	Loans and Capital notes granted by the Company to subsidiary	Amount of investment in subsidiary	Total
		%	NIS in thousands		
Migdal Insurance Company Ltd. (Migdal Insurance)	Israel	100	-	4,553,418	4,553,418
Migdal Health and Quality of Life Ltd. (1)	Israel	100	40,023	(16,586)	23,437
Migdal Capital Markets (1965) Ltd.	Israel	100	30,000	508,801	538,801
Migdal Management Services Ltd. (2)	Israel	100	18,735	(2,924)	15,811
Total			88,758	5,042,709	5,131,467

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

a. Details in respect of affiliated companies and subsidiaries held by the Company

2. Consolidated companies held directly by the Company (Cont.)

	As at December 31, 2012				
	County of Incorporation	Company's equity and voting rights	Loans and Capital notes granted by the Company to subsidiary	Amount of investment in subsidiary	Total
		%	NIS in thousands		
Migdal Insurance Company Ltd. (Migdal Insurance)	Israel	100	-	4,151,284	4,151,284
Migdal Health and Quality of Life Ltd. (1)	Israel	100	30,325	(6,152)	24,173
Migdal Capital Markets (1965) Ltd.	Israel	100	30,000	537,775	567,775
Migdal Management Services Ltd. (2)	Israel	100	9,392	2,917	12,309
Total			69,717	4,685,824	4,755,541

(1) During 2013 Migdal Health and Quality of Life Ltd. ("Migdal Health") issued capital notes to the Company in the amount of NIS 10 million and in 2012 in the amount of NIS 30.4 million. The capital notes are for a duration of not less than 5 years, do not bear interest and are unlinked.
In addition, the Company granted Migdal Health a loan in the amount of NIS 5.4 million. The loan is linked to the CPI and bears interest at a rate of 4% per annum to be settled in 5 years.

(2) On May 27, 2013 Mivtach Simon Management Agencies Ltd. changed its name to Migdal Management Services Limited.

b. Composition of investment in affiliates:

	December 31	
	2013	2012
	NIS in thousands	
Cost of shares	423,914	411,083
Company's share of profits and capital reserves accumulated from acquisition date, less dividends	154,825	125,860
Other investments - capital notes and loans	75,458	68,043
	654,197	604,986
Goodwill included in investment	12,382	12,382

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

c. The Group's share of the operating results of affiliated companies.

The data are presented according to the percentage of holding in the affiliated companies:

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Company's share of net profit *)	70,774	64,452	48,614
Company's share of other comprehensive income (loss)	2,402	(51)	(420)

*) Includes amortization of initial differences

d. Dividends received or receivable by the Company from affiliated companies and subsidiaries

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
From affiliates	40,905	39,326	32,500
From subsidiaries	387,310	242,465	145,744

e. Management and capital 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 Regulator of Insurance.

   Pursuant to the policy, as stated, it was resolved, among other things, 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.

2. Hereunder are details with respect to the required and existing capital of Migdal Insurance pursuant to the Supervision of Financial Services (Insurance) Law (Minimum Solvency Margin Required from an Insurer), 1998 (hereunder – the capital regulations), and the Regulator's directives.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

e. Management and capital requirements in the Group companies (Cont.)

	December 31	
	2013	2012
	NIS in thousands	
Amount required as per the capital regulations and the Regulator's directives (a)	3,903,210	3,545,953
Total existing amount calculated as per the capital regulations:		
First tier capital - basic	4,569,182	4,166,496
Complex second tier capital (See paragraph 4 below)	844,454	828,143
Total existing capital calculated as per the Capital Regulations	5,413,636	4,994,639
Surplus	1,510,426	1,448,686
Dividend distributed after balance sheet date - See Note 40a	(200,000)	
Surplus taking into consideration events after the reporting date	1,310,426	
Apart from the general requirements in the Companies Law, the distribution of dividends from surplus capital in insurance companies is also subject to liquidity requirements and compliance with the investment regulations. In this respect, investments that should be provided against surplus capital in accordance with the Regulator's directives, and hence comprise non-distributable surplus (also see paragraph 9 below)	70,866	44,592
The required amount includes capital requirements in respect of:		
Activity in general insurance/required first tier capital	349,093	326,671
Long-term care insurance activity	27,202	25,445
Extraordinary risks in life assurance	398,636	373,146
Deferred acquisition costs in life assurance and insurance for diseases and hospitalization	1,460,173	1,445,426
Requirements in respect of yield-guaranteed plans	24,193	14,519
Inadmissible assets as defined in the Capital Regulations	7,634	13,544
Investment in insurance subsidiaries and consolidated managing companies *	240,795	228,567
Investment assets and other assets	832,651	714,348
Catastrophe risks in general insurance (see paragraph 10 below)	274,559	129,444
Operating risks	286,699	271,052
Guarantees	1,575	3,791
Total amount required according to capital regulations and Regulator's directives	3,903,210	3,545,953
* A decrease of the required capital due to the initial difference attributed to the managing company (this reduction is not recognized for the purpose of dividend distribution). See also paragraph 6 below.	63,929	63,929

NOTE 7:- INVESTMENTS IN INVESTEES

e. Management and capital requirements in the Group companies (Cont.)

3. In August 2011 an insurance circular regarding the composition of an insurer's admissible shareholders' equity (hereunder – the equity circular) was published, and it determines the principles for the structure of the recognized shareholders' equity of an insurer, and principles for recognizing various capital components and classifying them into various capital levels such as:

a) First tier capital – includes basic first tier capital (in the amount of the capital attributed to the Company's shareholders) perpetual capital notes or non-accrued preferred shares and complex first tier capital. The complex first tier capital includes financial instruments which are available to absorb the insurer's losses by cancellation of interest payments and postponement of the payment of the principal and their settlement is deferred until all the insurer's liabilities are settled and under certain circumstances the principal of the instrument will be eliminated or converted to ordinary shares. The first repayment date of these instruments will be after the settlement of the latest insurance liabilities or after 49 years, the earlier of the two, but not before the end of 10 years from the date of issue.

b) Second tier capital – includes financial instruments that are available to absorb the insurer's losses by deferring the payment of the principal and interest, and their settlement is deferred until all other debts, except for the first tier capital are settled. The first repayment date of the second tier capital instruments will be after the end of the period that reflects the weighted average of the periods for settlement of the insurance liabilities, plus two years, or 20 years, at the earlier of the two, but not before the end of 8 years from the date of issue.

c) Third tier capital - includes financial instruments that are available to absorb the insurer's losses by deferring the payment of the principal only and their settlement is deferred until all other debts, except for the first and second tier capital are settled (nevertheless, it can be determined that third tier capital will not be preferred to second tier capital and will be equal to second tier capital in order of payments). The first repayment date of the third tier capital instruments is not before the end of 5 years from the date of issue.

In this respect, insurance liabilities include non-yield dependent liabilities, without the portion of liabilities fully backed by Hetz bonds, and net of the reinsurers' share.

The recognized shareholders' equity of the insurer is the sum of the components and instruments included in the various levels at the following rates:

a) The total components and capital instruments included in the first tier capital will not be less than 60% of the shareholders' equity of the insurer.

NOTE 7:- INVESTMENTS IN INVESTEES

e. Management and capital requirements in the Group companies (Cont.)

3. (Cont.)

b) The total components and capital instruments included in the basic first tier capital will not be less than 70% of the first tier capital.

c) The total capital instruments of the complex first tier capital will not exceed 20% of the total first tier capital.

d) The total components and capital instruments included in the third tier capital will not exceed 15% of the shareholders' equity of an insurer.

The equity circular includes a temporary order regarding the composition of the shareholders' equity of an insurer during the period from September 30, 2011 and until the date the Regulator announces that the directives of the equity circular will be implemented (as defined in paragraph 5 below) in Israel on a gradual basis.

In addition, it was determined in the temporary order that the total rate of the capital instruments that are included in the "subordinated second tier capital" will not be higher than 50% of the basic capital. Second tier subordinate capital is defined as the total of the following elements:

(1) Subordinated deeds, whether they are convertible or unconvertible into shares, issued for the period of at least 5 years, and their repayment date is at least two years after the financial statements date, on condition that they were not issued to a controlling shareholder;

(2) The subordinated deeds that were issued for the controlling shareholders and are linked, at the most, to the CPI, but do not bear interest and their repayment date is not less than two years after the financial statements date.

In addition to the temporary order, the circular includes transition provisions, among others, regarding hybrid capital instruments, which will be issued from the date of commencement of the equity circular and the conditions set-forth therein, which will be fully recognized upon the implementation of the Directive (as described in paragraph 5 below) in Israel until maturity.

4. Bonds issued in 2012 by the Company's sub subsidiary are recognized as complex second tier capital in Migdal Insurance. For additional information regarding the bonds see Note 24e.

5. On July 10, 2007, the European Union adopted the proposed version of the Solvency II Directive (hereunder - "the Directive"). The Directive forms a fundamental and comprehensive change in the regulations relating to guaranteeing the solvency and the capital adequacy of the insurance companies.

For details see Note 37.a.2 - Adoption of Solvency II ("the Directive").

NOTE 7:- INVESTMENTS IN INVESTEES

e. Management and capital requirements in the Group companies (Cont.)

6. The said equity circular prescribes that the Regulator will be entitled to approve, subject to his conditions, a reduction in the capital requirements of up to 35% of the initial difference, for the acquisition of provident fund activities or a management company of a provident fund, in the event that the insurer’s shareholders equity as at the reporting date is not less than the minimum shareholders equity required from him, less 35% of the initial difference from the acquisition of provident fund activity or a provident fund management company.

   In November 7, 2011, the Regulator granted an approval to Migdal Insurance to reduce the minimum equity required from it due to the balance of initial difference attributed to management companies and provident funds, as defined in Regulation 5 to the Capital Regulations, under its control, at the rate of 35% of the balance of the initial difference as mentioned, commencing from the financial statements as at December 31, 2011. This change led to a reduction of NIS 64 million in the minimum required capital.

   When calculating the allowable amount for distribution of dividends, this reduction will be added back to each level of required equity in accordance with the draft dividend letter, see paragraph 7 below.

   This approval will be cancelled when the capital requirements according to the first layer in Solvency II Directive will take effect, and will replace the Capital Regulations, and does not testify as to the Supervision's policy for implementing the said requirements.

7. In December 2011, the Regulator of Insurance published a letter regarding distribution of a dividend by insurance companies (hereinafter – “the Draft Letter”). The Letter constitutes an update to the clarification from March 2010, and provides that the Regulator will not approve distribution of a dividend unless, after the distribution, the insurer has a ratio of recognized shareholders’ equity to required shareholders’ equity at a rate of at least 105% and after the submission of all the following: an insurer’s forecast of the annual profit for two consecutive years as at the date of the dividend distribution; updated debt service plan approved by the Board of Directors of the insurance company and the Board of Directors of the holding company that holds the insurance company; a working plan for the capital supplementation that was approved by the insurance company’s Board of Directors and the minutes of the discussion in the Board of Directors of the insurance company in which the dividend distribution was approved. In addition, it was determined that a notice of distribution of a dividend will be considered as if it received the Regulator’s approval if after execution of the distribution, the insurer has a ratio of recognized shareholders’ equity to required shareholders’ equity at a rate in excess of 115% and all the documents detailed in the letter were submitted to the Regulator not later than 10 business days after the date of distribution.

NOTE 7:- INVESTMENTS IN INVESTEES

e. Management and capital requirements in the Group companies (Cont.)

7. (Cont.)

   It should be noted that in calculating the amount of the distributable dividends the reduction of the minimum capital approved to Migdal Insurance for the balance of initial difference attributed to management companies, is added back to each level of required capital. Also see paragraph 6 above.

8. In June 2008, a circular was published with respect to the mode of application of the principles of measurement and presentation under IFRS, for the calculation of the required capital and the recognized capital of insurance companies. The purpose of the circular was to set guidelines regarding the mode of application of the capital regulations with respect to investments in investees (including insurance companies and managing companies controlled by insurance companies). According to the circular the capital requirements pursuant to the capital regulations will continue to be based on separate financial statements. In order to calculate the recognized capital according to the capital regulations, the investment of an insurance company in another insurance company or in a controlled managing company, as well as in other investees, will be calculated on an equity basis along the chain of control.

9. Migdal Insurance has investments which according to the new investment regulations will gradually stand against recognized surplus capital. The investments which must be held against surplus capital in accordance with the Regulator’s instructions increased by an amount of NIS 26 million as at December 31, 2013 and by January 1, 2015 will increase by an addition NIS 49 million. In addition, Migdal Insurance has provided loans to subsidiaries totaling NIS 150 million which if not repaid by December 31, 2014 must also be held against recognized surplus capital of the insurer.

10. The increase in the capital requirements in respect of catastrophe risk in general insurance is due primarily to the increase in the retained risk in the reinsurance agreement on catastrophic events made in 2013.

11. In August 2013 the Regulator approved, within the context of the use of an internal model to rate credit risk developed by the Company (for details see Note 37 b.4.b)(1), that Migdal Insurance may reduce by 50% the allocation of the surplus capital required in respect of unquoted debts which were rated using the internal model. Accordingly, the capital requirements with respect to unquoted debts rated using the internal model were reduced as at December 31, 2013 by NIS 18 million.

12. In 2013 Migdal Insurance distributed dividends totaling NIS 367,310 thousand. For details of dividends distributed subsequent to reporting date see Note 40 a.

NOTE 7:- INVESTMENTS IN INVESTEES

e. Management and capital requirements in the Group companies (Cont.)

13. In February 2012, the Supervision of Financial Services Regulations (Provident Funds) (Minimum Equity Required of a Managing Company of a Provident Fund or Pension Fund), 2012 and the Income Tax Regulations (Rules for Approval and Management of Provident Funds) (Amendment No. 2), 2012 (hereunder - "the New Regulations") were published.

    The New Regulations expanded capital requirements for managing companies and include capital requirements according to the amount of assets under management and annual expenses with a minimum starting shareholders' equity of NIS 10 million.

    The Commissioner may order the reduction or increase of capital requirements considering, among other things, the risks that characterize the managing company's activities, provided that the increase in the capital requirements is for a predetermined period.

    As per his authority, in February 2012, the Commissioner of the Capital Market, Insurance and Savings Division issued a circular aimed at easing capital requirements of certain managing companies.

    The new investment regulations include, in addition to what was mentioned in paragraph 9 above, directives regarding the ways of investing minimum required shareholders' equity of a management company, which were previously included in the new regulations, including the determination that a managing company will not hold intangible assets against the minimum required capital, and the requirement to hold liquid assets at the rate of at least 50% of the minimum required shareholders' equity.

    A managing company is entitled to distribute a dividend only if its shareholders' equity is at least in the amount of the required minimum shareholders' equity as per these regulations.

    The new regulations include transition provisions for the gradual supplementation of the difference between the capital under the new regulations and required capital prior to the publication of the new regulations (hereafter – the difference) such that by the date of the publication of the financial statements as at December 31, 2013 at least 80% of the difference will be supplemented and by December 31, 2014 all the difference will be supplemented.

    One of the management companies, wholly controlled by Migdal Insurance, was required to increase its capital by NIS 8 million. This was accomplished as follows: In May 2012 the management company issued 3 million shares of NIS par value each. In March 2013 it issued 2 million shares of NIS 1 par value each and subsequent to balance sheet date, in January 2014 it issued 2.7 million shares of NIS 1 par value each.

NOTE 7:- INVESTMENTS IN INVESTEES

e. Management and capital requirements in the Group companies (Cont.)

14. As mentioned in Note 1 b. on October 29, 2012 the transaction for the transfer of control to Eliahu Insurance was completed.

    On the closing date of the transaction, the permit for holding means of control and control of insurers (hereunder - "the control permit), which was granted to Mr. Shlomo Eliahu and Ms. Chaya Eliahu, entered into effect and it allows them to hold, directly or indirectly, the means of control in Eliahu Insurance, Migdal Insurance, Migdal Makefet and Yozma, according to the conditions set-forth in the control permit. This control permit cancels the permit to hold the means of control and control which was granted to Generali in Migdal Insurance, Migdal Makefet and Yozma, which was in force up to the conclusion of the transaction.

    The control permit sets, among others, limitations and conditions regarding the manner of holding the means of control in Eliahu Insurance, Migdal Holdings, Migdal Insurance, Migdal Makefet and Yozma, regarding the preservation of the control structure and the minimum rate of control in the abovementioned entities, regarding the sale or transfer or issue of means of control in each of the abovementioned entities, as well as pledging them, regarding the preservation of the shareholders' equity proportion in each of the entities in which the controlling shareholders have control, and the conditions under which the controlling shareholders and the Eliahu Group will be entitled to receive management fees from the institutional entities controlled by the Company, or to provide services to the institutional entities controlled by the Company.

    Mr. Shlomo Eliahu gave the Regulator a letter of undertaking which was signed on October 16, 2012 in which he undertook, as the controlling shareholder of Eliahu Insurance, Migdal Insurance, Migdal Makefet and Yozma (hereunder – the "insurers"), to supplement the shareholders' equity of Eliahu Insurance and of Migdal Insurance to the amount determined in the Supervisors of Insurance Business Regulations (Minimum Shareholders Equity) required from an Insurer, 1998 or any other regulation or law that will replace them and also to supplement the shareholders' equity of Migdal Makefet and of Yozma to the amount set-forth in the Supervision of Financial Services Regulations (Provident Funds) (Minimum Shareholders' Equity Required from a Management Company of a Provident Fund or a Pension Fund) 2012, or any other Regulation or Law that will replace them (hereunder - "the equity regulations"). This undertaking is irreversible and will be in force as long as Mr. Shlomo Eliahu controls, directly or indirectly, the aforementioned insurers.

    As at the date of these financial statements the existing equity of Migdal Insurance, Migdal Makefet and Yozma, complies with the requirements of the capital regulations and the Provident Funds Law, wherever relevant.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

e. Management and capital requirements in the Group companies (Cont.)

15. One of the subsidiaries (hereunder– the subsidiary) of Migdal Capital Markets (1965) Ltd., which is wholly owned by the Company, is a member of the Stock Exchange.

The financial stability model of the non-bank stock exchange members (hereinafter - "NBSEM"), have set capital requirements, liquidity requirements and principles for granting consumer credit to customers by the NBSEM.

The minimum capital requirements (first and second tier as determined in the Stock Exchange articles of association) can change in significant amounts during a short period depending on the date of examination, since the calculation of the capital is on a daily basis and is affected by the volume of activity.

In this context, in order to meet the shareholders' equity requirements, the Company granted Migdal Capital Markets a perpetual capital note.

At the same time, and in order for the subsidiary to comply with the shareholders' equity requirements, Migdal Capital Markets granted the subsidiary a long-term owners' loan which is recognized for the purposes of shareholders' equity.

NOTE 8:- INVESTMENT PROPERTY

a. Composition and movement

	For yield dependent contracts					
	Rented for retailing		Rented for offices and other		Total	
	2013	2012	2013	2012	2013	2012
	NIS in thousands					
Balance as at January 1	839,982	796,914	3,076,504	2,723,036	3,916,486	3,519,950
Additions during the year						
Acquisitions and additions to existing assets	498,207	3,433	196,184	293,885	694,391	297,318
Capitalized costs and expenses	128	260	750	12,003	878	12,263
Total additions	498,335	3,693	196,934	305,888	695,269	309,581
Disposals during the year -						
realizations	-	-	-	-	-	-
Adjustment of fair value	(20,082)	39,375	106,211	47,580	86,129	86,955
Balance as at December 31	1,318,235	839,982	3,379,649	3,076,504	4,697,884	3,916,486

NOTE 8:- INVESTMENT PROPERTY (Cont.)

a. Composition and movement (Cont.)

	For non-yield dependent contracts					
	Rented for retailing		Rented for offices and other		Total	
	2013	2012	2013	2012	2013	2012
	NIS in thousands					
Balance as at January 1	102,294	99,599	435,910	397,627	538,204	497,226
Additions during the year						
Acquisitions and additions to existing assets	40,733	760	15,543	37,718	56,276	38,478
Capitalized costs and expenses	17	-	107	807	124	807
Transfer from fixed assets	-	-	10,700	-	10,700	-
Total additions	40,750	760	26,350	38,525	67,100	39,285
Disposals during the year -						
realizations	-	-	-	(2,938)	-	(2,938)
Adjustment of fair value	(436)	1,935	5,336	2,696	4,900	4,631
Balance as at December 31	142,608	102,294	467,596	435,910	610,204	538,204

b. Investment properties are measured at fair value and are 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
Apartments for rent for commercial / office	The fair value is estimated using the discounted income technique: The valuation model is based on the estimated present value of the NOI resulting therefrom. Real estate valuation is based on the net annual cash flows discounted using a discount rate that reflects the specific risks inherent in them. When actual lease agreements are signed, which have payments which are unreasonable when compared to market rates; adjustments are made to reflect the actual rental payments during the contract period. The valuations take into account the type of tenants actually leased or responsible for meeting lease commitments or likely to be in occupation after letting vacant premises and a general assessment regarding the quality of the tenants and the remaining economic life of the asset, in those places where these parameters are relevant. Sometimes the fair value is determined based on a comparison to recent transactions in similar properties in the real estate market in relation to similar real estate and similar location of the real estate owned by the Group, if there are any such transactions, and sometimes by performing a combination of comparing transactions of similar properties and the discounted income valuation technique.	• The market value of the lease payments. • Discount rate of cash flows (6% to 15 %, weighted average 7.65 %)	Estimated fair value will increase if : • The market value of the lease payments will increase. • The discount rate of the cash flows will decrease.

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
Investment property under construction	The valuation is based on estimating the fair value of investment property after completion, less the present value of the estimated construction costs for the completion and less reasonable entrepreneurial profit when relevant, taking into account discount rate adjusted for the relevant risks and characteristics of the property	• Market value of the lease payments • NIS construction costs per square meter (NIS 3,200 to NIS 7,000 depending on the location, the weighted average cost NIS 5,200). • Entrepreneurial profit margin (20%). • Discount rate of cash flows (8.5% to 9%- weighted average 8.6%).	Estimated fair value will increase if: • The market value of lease payments increase. • Construction costs per square meter will decrease. • Profit margins on construction activity and development will decrease. • The discount rate of the cash flows will decrease.

NOTE 8:- INVESTMENT PROPERTY (Cont.)

d. 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.

e. Regarding transactions for the acquisition of investment property, see Note 39. 2.c.

f. Details regarding rights in real estate utilized by the Group as investment property:

	As at December 31	
	2013	2012
	NIS in thousands	
Ownership (a)	2,901,834	2,230,180
Capitalized lease (b)	2,406,254	2,224,510
	5,308,088	4,454,690

(a) Assets owned in the amount of NIS 1,349,425 thousand have not yet been registered in the name of the Group companies with the Land Registry Office mainly due to incomplete registration procedures and registration of rights in condominiums or technical problems.

(b)

	As at December 31	
	2013	2012
	NIS in thousands	
Lease up to 15 years	177,582	154,080
Lease period 15-50 years	817,030	785,940
Lease period above 50 years	1,411,642	1,284,490
Total leases	2,406,254	2,224,510

* Includes asset in an amount of NIS 626,900 thousand (2012 - NIS 588,500 thousand) which is at this stage under a development agreement.

NOTE 9:- DEBTORS AND RECEIVABLES

a. Composition:

	December 31	
	2013	2012
	NIS in thousands	
Institutions and government authorities	7,272	6,974
Income receivable	32,485	26,897
Prepaid expenses	23,568	23,887
Employees	28,014	25,441
Advances to suppliers	25,561	21,623
Debtors in respect of Stock exchange clearing house and securities	50,466	-
Advances on account of commissions to insurance agents	19,153	15,697
Insurance companies and insurance brokers	45,153	48,494
Others	83,545	85,904
Less provision for doubtful debts	(115)	(134)
Total debtors and receivables	315,102	254,783

See Note 37c for details of assets and liabilities according to linkage bases.

b. Hereunder is the movement in provision for doubtful debts:

	2013	2012
	NIS in thousands	
Balance as at January 1	(134)	(316)
Change in provision for the period	19	182
Balance as December 31	(115)	(134)

NOTE 10:- OUTSTANDING PREMIUMS

a. Composition:

	December 31 2013	December 31 2012
	NIS in thousands	
Outstanding premiums *)	520,790	450,879
Less provision for doubtful debts	(4,268)	(4,549)
Total outstanding premiums	516,522	446,330
*) Including checks receivable and standing orders	208,462	179,574

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

b. Aging

	December 31 2013	December 31 2012
	NIS in thousands	
Outstanding premium whose value did not deteriorate not including arrears	323,172	250,972
In arrears *):		
Less than 90 days	76,826	83,512
Between 90 – 180 days	41,761	40,874
Over 180 days	72,015	68,921
Total outstanding premiums whose value did not deteriorate	513,774	444,279
Outstanding premium whose value deteriorated	2,748	2,051
Total outstanding premium	516,522	446,330

(*) Includes mainly debts in arrears in the life assurance segment. These debts are mainly backed by the policy's redemption value.

c. Hereunder is the movement in provision for doubtful debts in respect of outstanding premiums:

	2013	2012
	NIS in thousands	
Balance as at January 1	(4,549)	(3,948)
Change in provision for the period	281	(601)
Balance as at December 31	(4,268)	(4,549)

NOTE 11:- ASSETS FOR YIELD DEPENDENT CONTRACTS

a. Details of assets reported at fair value *) through profit and loss

	December 31	
	2013	2012
	NIS in thousands	
Investment property	4,697,884	3,916,486
Financial investments		
Quoted debt assets	19,207,628	16,072,852
Unquoted debt assets *)	7,997,220	8,344,069
Shares	12,076,621	9,794,755
Other financial investments	21,708,710	19,944,776
Total financial investments	60,990,179	54,156,452
Cash and cash equivalents	4,907,015	2,376,263
Other	222,749	187,191
Total assets for yield dependent contracts	70,817,827	60,636,392

*) Including NIS 914,460 thousand measured at amortized cost (in the year 2012 – NIS 1,116,887 thousand) whose fair value is NIS 1,187,778 thousand (in the year 2012 – NIS 1,351,692 thousand).

Regarding exposure in respect of yield dependent policy assets see Note 37.b.1.
Regarding details of interest and linkage of debt assets see Note 37.d.
Regarding interest rates used to determine the fair value of the unquoted debt assets see Note 12.f.

b. Fair value levels of financial assets

The table below analyses assets held against insurance contracts and investment contracts that are presented at fair value through profit or loss.

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Financial investments:				
Quoted debt assets	19,207,628	-	-	19,207,628
Unquoted debt assets	-	7,010,000	72,760	7,082,760
Shares	10,994,658	-	1,081,963	12,076,621
Other financial investments	17,990,658	370,598	3,347,454	21,708,710
Total financial investments	48,192,944	7,380,598	4,502,177	60,075,719
Unquoted debt assets for which disclosure of fair value is provided (a. above)	-	1,187,778	-	1,187,778

NOTE 11:- ASSETS FOR YIELD DEPENDENT CONTRACTS

b. Fair value levels of financial assets (Cont.)

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Financial investments:				
Quoted debt assets	16,072,852	-	-	16,072,852
Unquoted debt assets	-	7,083,760	143,422	7,227,182
Shares	8,806,441	-	988,314	9,794,755
Other financial investments	16,574,703	385,976	2,984,097	19,944,776
Total financial investments	41,453,996	7,469,736	4,115,833	53,039,565

c. Level 3 assets measured at fair value

	Financial assets at fair value through profit or loss				
	Quoted debt assets	Unquoted debt assets	Shares	Other financial liabilities	Total
	NIS in thousands				
Balance as at January 1, 2013	-	143,422	988,314	2,984,097	4,115,833
Total gains (losses) recognized in profit and loss	-	4,365	35,012	(179,664)	(140,287)
Purchases	-	-	178,937	894,653	1,073,590
Sales	-	-	(120,300)	(351,632)	(471,932)
Surrenders	-	(6,902)	-	-	(6,902)
Transfers to Level 3	-	-	-	-	-
Transfers from Level 3	-	(68,125)	-	-	(68,125)
Balance as at December 31, 2013	-	72,760	1,081,963	3,347,454	4,502,177
Total gains (losses) for the period included in profit and loss for assets held as at December 31, 2013	-	(9,150)	49,845	(183,364)	(142,669)

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

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

c. Level 3 assets carried at fair value (Cont.)

	Financial assets at fair value through profit or loss				
	Quoted debt assets	Unquoted debt assets	Shares	Other financial liabilities	Total
			NIS in thousands		
Balance as at January 1, 2012	-	48,618	733,677	3,277,847	4,060,142
Total gains (losses) recognized in profit and loss	-	7,512	48,393	16,684	72,589
Purchases	-	-	205,363	335,301	540,664
Sales	-	-	-	(640,231)	(640,231)
Surrenders	-	(14,678)	-	(5,504)	(20,182)
Transfers to Level 3	-	118,141	881	-	119,022
Transfers from Level 3	-	(16,171)	-	-	(16,171)
Balance as at December 31, 2012	-	143,422	988,314	2,984,097	4,115,833
Total gains (losses) for the period included in profit and loss for assets held as at December 31, 2012	-	31,384	73,859	106,547	211,790

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

NOTE 12:- DETAILS OF OTHER FINANCIAL INVESTMENTS

	December 31, 2013			
	Reported at fair value through profit or loss*)	Available for sale	Loans and debtors	Total
	NIS in thousands			
Quoted debt assets (a)	122,160	5,717,842	-	5,840,002
Unquoted debt assets (b)	3,293	-	21,613,206	21,616,499
Shares (d)	1,137	1,033,670	-	1,034,807
Other (e)	60,663	1,894,057	-	1,954,720
Total	187,253	8,645,569	21,613,206	30,446,028

	December 31, 2012			
	Reported at fair value through profit or loss*)	Available for sale	Loans and debtors	Total
	NIS in thousands			
Quoted debt assets (a)	22,391	5,201,610	-	5,224,001
Unquoted debt assets (b)	-	-	20,338,992	20,338,992
Shares (d)	978	631,715	-	632,693
Other (e)	96,986	1,240,946	-	1,337,932
Total	120,355	7,074,271	20,338,992	27,533,618

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

a. Quoted debt assets

Composition:

	December 31	
	2013	2012
	NIS in thousands	
Government bonds		
Reported at fair value through profit and loss held for trade	122,160	22,391
Available for sale	3,505,117	3,252,564
Total government bonds	3,627,277	3,274,955
Other debt assets:		
Unconvertible		
Reported at fair value through profit and loss held for trade	-	-
Available for sale	2,212,725	1,949,046
Total other unconvertible debt assets	2,212,725	1,949,046
Convertible designated to fair value through profit and loss upon initial recognition	-	-
Total quoted debt assets	5,840,002	5,224,001
Impairment allocated to profit and loss (accumulated)	1,833	7,669

b. Unquoted debt assets

Composition

	December 31			
	Carrying amount		Fair value	
	2013	2012	2013	2012
	NIS in thousands			
Government bonds - designated bonds *)	18,793,306	17,277,271	23,144,403	21,658,463
Other unconvertible debt assets				
Reported as loans and debtors, including deposits with banks	2,823,193	3,061,721	3,349,872	3,583,324
Total unquoted debt assets	21,616,499	20,338,992	26,494,275	25,241,787
Impairment allocated to profit and loss (accumulated)	51,782	49,209		

*) Calculated according to the contractual settlement date.

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

c. Details regarding interest and linkage in respect of debt assets (effective interest)

	December 31 2013	December 31 2012
	Percentage	
Quoted debt assets		
Linkage basis		
Linked to the CPI	1.0	1.6
In NIS	2.3	2.8
Linked to foreign currency	3.7	4.1
Unquoted debt assets		
Linkage basis		
Linked to the CPI	5.2	5.4
In NIS	0.3	4.5
Linked to foreign currency	3.6	3.8

d. Shares

	December 31 2013	December 31 2012
	NIS in thousands	
Quoted		
Reported at fair value through profit and loss held for trade	-	90
Available for sale	982,978	601,084
Total quoted shares	982,978	601,174
Unquoted		
Reported at fair value through profit and loss	1,137	888
Available for sale	50,692	30,631
Total unquoted shares	51,829	31,519
Total shares	1,034,807	632,693
Impairment allocated to profit and loss (accumulated)	97,630	95,791

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

e. Other financial investments

Other financial investments mainly include investments in ETFs, mutual fund participation certificates, investment funds, hedge funds, financial derivatives, futures contracts, options, structured products and amounts receivable in respect of exercise of an option.

	December 31	
	2013	2012
	NIS in thousands	
Quoted		
Available for sale	1,582,118	931,808
Derivative instruments (e1)	6,459	10,574
Total quoted financial investments	1,588,577	942,382
Unquoted		
Reported at fair value through profit or loss	32,224	79,491
Available for sale	311,939	309,138
Derivative instruments (e1)	21,980	6,921
Total unquoted financial investments	366,143	395,550
Total other financial investments	1,954,720	1,337,932
Impairment allocated to profit and loss (accumulated)	169,355	125,759

(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	
	2013	2012
	NIS in thousands	
Shares	59,823	47,424
CPI	99,994	50,439
Commodities	10,947	46,918
Foreign currency	(1,036,402)	113,171
Interest	(6,287)	5,157

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

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 in the Tel-Aviv Stock Exchange. The price quotations and interest rates used for discounting are determined by the company which won the tender published by the Ministry of Finance for the construction and operation of price quotations and discount rates pool for institutional entities. Beginning from March 20, 2011, the “Mirvah Hogen" Group provides price quotations and discount rates to institutional entities for revaluation of unquoted debt assets (hereunder – “Mirvah Hogen model".). From that date, the Sha'arei Ribit group ceased to supply these quotations to institutional entities. The Mirvah Hogen model is not primarily based on the credit rating of the asset but on the division of the market to deciles by yield to maturity and placing the unquoted asset in those deciles, in accordance with the risk premium derived from transaction/issue prices in the unquoted market.

Following the Supreme Court's ruling which ordered the cancellation of the tender won by the Mirvah Hogen group, a new tender was published. On October 15, 2012, the Ministry of Finance announced that the "Sha'arei Ribit" group won the aforementioned tender. The winning group will be responsible for the methodology for determining prices and interest rates for discounting the cash flows of unquoted debt assets. At this stage the Company is unable to estimate the effect of the expected change in methodology, on the fair value of unquoted debt assets and if there will be any such effect.

According to a letter published by the Ministry of Finance the transition to valuations based on the quotations of Sha'arei Ribit will not occur before April 2014. The exact date will be published at least 30 days prior to the date of transition.

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

	December 31	
	2013	2012
	Percentage	
AA and above	0.8	0.8
A	2.6	4.0
BBB	3.7	4.4
Lower than BBB	45.5	28.0
Not rated	7.7	8.2

(*) The sources for the level of rating in Israel are the rating company “Ma’alot”, “Midroog” and internal rating. The data from ”Midroog” was 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 37.b.4.b)1.

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

g. Fair value levels of financial assets

The table below analyses assets that are presented at fair value.

The carrying amounts of cash and cash equivalents, outstanding premiums, and debtors and receivables are the same or proximate to their fair value.

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Quoted debt assets	5,840,002	-	-	5,840,002
Unquoted debt assets	-	-	3,293	3,293
Shares	982,978	-	51,829	1,034,807
Other	1,588,577	20,950	345,193	1,954,720
Total	8,411,557	20,950	400,315	8,832,822
Unquoted debt assets for which disclosure of fair value is provided (Note 12b above)	-	26,461,330	32,945	26,494,275

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Quoted debt assets	5,224,001	-	-	5,224,001
Unquoted debt assets	-	-	-	-
Shares	601,174	-	31,519	632,693
Other	942,382	6,212	389,338	1,337,932
Total	6,767,557	6,212	420,857	7,194,626

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

g. Fair value levels of financial assets (Cont.)

Assets measured at fair value at level 3

	Measurement of fair value at reporting date				
	Financial assets at fair value through profit and loss and available for sale financial assets				
	Quoted debt assets	Unquoted debt assets	Shares	Other financial investments	Total
	NIS in thousands				
Balance as at January 1, 2013	-	-	31,519	389,338	420,857
Total gains (losses) recognized in:					
profit and loss	-	(84)	(134)	(69,152)	(69,370)
other comprehensive income	-	-	2,681	(2,467)	214
Acquisitions	-	-	20,823	73,342	94,165
Sales	-	-	(3,060)	(14,212)	(17,272)
Financial assets at fair value in company consolidated for the first time	-	3,377	-	11	3,388
Entry of company recognized as investment for consolidation	-	-	-	(31,667)	(31,667)
Balance as at December 31, 2013	-	3,293	51,829	345,193	400,315
Total profits (losses) for the period included in profit and loss for assets held as at December 31, 2013	-	(84)	(1,377)	(69,682)	(71,143)

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

g. Fair value levels of financial assets (Cont.)

	Measurement of fair value at reporting date				
	Financial assets at fair value through profit and loss and available for sale financial assets				
	Quoted debt assets	Unquoted debt assets	Shares	Other financial investments	Total
	NIS in thousands				
Balance as at January 1, 2012	-	-	30,056	410,634	440,690
Total gains (losses) recognized in:					
profit and loss	-	-	(2,447)	(59,786)	(62,233)
other comprehensive income	-	-	3,910	(13,130)	(9,220)
Acquisitions	-	-	-	69,872	69,872
Sales	-	-	-	(18,252)	(18,252)
Balance as at December 31, 2012	-	-	31,519	389,338	420,857
Total profits (losses) for the period included in profit and loss for assets held as at December 31, 2012	-	-	(2,447)	15,970	13,523

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

	December 31	
	2013	2012
	NIS in thousands	
Cash and deposits for immediate withdrawal	2,523,538	1,107,234
Short term deposits	2,383,477	1,269,029
Cash and cash equivalents	4,907,015	2,376,263

The cash in the banking corporations as at the balance sheet date, bear current interest based on the interest rate in respect of daily bank deposits at the average rate of about 0.9% - (year 2012- 1.5%).

Short term deposits deposited in banking corporations are for periods of one to three months. The deposits bear an average interest rate of about 1% (year 2012 - 2.3%).

Regarding the linkage terms of the cash and short term deposits, see Note 37.d.

NOTE 13a:- OTHER CASH AND CASH EQUIVALENTS

	December 31	
	2013	2012
	NIS in thousands	
Cash and deposits for immediate withdrawal	1,004,692	1,180,300
Short term deposits	545,575	1,081,529
Cash and cash equivalents	1,550,267	2,261,829

The cash in the banking corporations as at the balance sheet date, bear current interest based on the interest rate in respect of daily bank deposits at the average rate of about 0.9% - (year 2012 - 1.5%).

Short term deposits deposited in banking corporations are for periods of one to three months. The deposits bear an average interest rate of about 1% (year 2012 - 2.3%).

Regarding the linkage terms of the cash and short term deposits, see Note 37.c.

NOTE 14:- EQUITY

a. Composition of share capital

	December 31, 2013		December 31, 2012		December 31, 2011	
	Authorized	Issued and paid up*)	Authorized	Issued and paid up*)	Authorized	Issued and paid up*)
	NIS in thousands					
Ordinary shares of NIS 0.01 nominal value each	15,000	10,538	15,000	10,516	15,000	10,516

*) In nominal values.

b. Movement in share capital

1. There was no change in the Company's authorized share capital during the year.

2. The issued and paid up capital:

	Number of shares	NIS in thousand in par values
Balance as at January 1, 2011	1,051,640,025	10,516
Realization of employees options	16,068	*) -
Balance as at January 1, 2012	1,051,656,093	10,516
Realization of employees options	10,109	*) -
Balance as at December 31, 2012	1,051,666,202	10,516
Realization of employees options	2,144,852	22
Balance as at December 31, 2013	1,053,811,054	10,538

*) Less than NIS 1 thousand.

Regarding share-based payments, see Note 33.

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 Tel-Aviv Stock Exchange.

d. Distributed dividend

The following dividends were distributed by the Company:

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Year 2013: NIS 0.38 per share (distributed at two dates - NIS 0.19 at each date) Year 2012: NIS 0.14 per share Year 2011: NIS 0.14 per share	400,000	150,000	150,000

Regarding details of dividend declared subsequent to reporting date, see Note 40.a.

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

	December 31					
	2013	2012	2013	2012	2013	2012
	Gross		Reinsurance		On retention	
	NIS in thousands					
Life assurance and long term savings:						
Insurance contracts	25,486,051	24,234,686	99,173	86,961	25,386,878	24,147,725
Investment contracts	242,070	327,564	-	-	242,070	327,564
	25,728,121	24,562,250	99,173	86,961	25,628,948	24,475,289
Less amounts deposited in the Group under the defined benefit plan for the Group's employees	69,921	74,124	-	-	69,921	74,124
Total life assurance and long term savings	25,658,200	24,488,126	99,173	86,961	25,559,027	24,401,165
Insurance contracts included in the health insurance segment	436,133	352,101	17,909	10,865	418,224	341,236
Insurance contracts included in the general insurance segment	4,033,226	3,709,010	869,187	944,181	3,164,039	2,764,829
Total liabilities in respect of non-yield dependent insurance and investment contracts	30,127,559	28,549,237	986,269	1,042,007	29,141,290	27,507,230

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

	December 31					
	2013	2012	2013	2012	2013	2012
	Gross		Reinsurance		On retention	
	NIS in thousands					
Life assurance and long term savings:						
Insurance contracts	68,450,464	58,645,997	3,990	3,926	68,446,474	58,642,071
Investment contracts	737,341	273,477	-	-	737,341	273,477
	69,187,805	58,919,474	3,990	3,926	69,183,815	58,915,548
Less amounts deposited in the Group under the defined benefit plan for the Group's employees	120,135	121,016	-	-	120,135	121,016
Total life assurance and long term savings	69,067,670	58,798,458	3,990	3,926	69,063,680	58,794,532
Insurance contracts included in the health insurance segment	1,490,738	1,263,816	859	4,136	1,489,879	1,259,680
Total liabilities in respect of yield dependent insurance contracts and investment contracts	70,558,408	60,062,274	4,849	8,062	70,553,559	60,054,212

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					
	2013	2012	2013	2012	2013	2012
	Gross		Reinsurance		On retention	
	NIS in thousands					
Motor act and liability branches *)						
Provision for unearned premium	350,669	206,348	26,487	24,212	324,182	182,136
Excess of income over expenses (accumulation)	162,301	191,705	105,156	119,690	57,145	72,015
Outstanding claims and provision for premium deficiency	2,647,077	2,502,719	350,497	343,431	2,296,580	2,159,288
Total motor act and liability branches (see b.1 below)	3,160,047	2,900,772	482,140	487,333	2,677,907	2,413,439
From this liabilities in respect of the motor act branch (see c3 and c4 below)	1,630,776	1,427,354	44,530	48,483	1,586,246	1,378,871
Property and other branches:						
Provision for unearned premium	465,293	343,947	185,352	152,973	279,941	190,974
Provision for premium deficiency	3,899	6,461	-	-	3,899	6,461
Outstanding claims	403,987	457,830	201,695	303,875	202,292	153,955
Total property and other branches (see b2 below)	873,179	808,238	387,047	456,848	486,132	351,390
Total liabilities in respect of insurance contracts included in the general insurance segment	4,033,226	3,709,010	869,187	944,181	3,164,039	2,764,829
Deferred acquisition costs:						
Motor act and liability branches	52,351	28,436	5,675	4,371	46,676	24,065
Property and other branches	115,010	86,240	43,491	36,611	71,519	49,629
Total	167,361	114,676	49,166	40,982	118,195	73,694
Liabilities in respect of general insurance contracts less deferred acquisition costs:						
Motor act	1,601,360	1,415,296	44,530	48,483	1,556,830	1,366,813
Other liabilities branches	1,506,336	1,457,040	431,935	434,479	1,074,401	1,022,561
Property and other branches	758,169	721,998	343,556	420,237	414,613	301,761
Total liabilities in respect of general insurance contracts less deferred acquisition costs	3,865,865	3,594,334	820,021	903,199	3,045,844	2,691,135

*) Motor act and liability branches – including all the branches for which an excess reserve is calculated.

NOTE 17:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

a2. Insurance liabilities in respect of insurance contracts included in the general insurance segment according to their calculation method:

	December 31					
	2013	2012	2013	2012	2013	2012
	Gross		Reinsurance		On retention	
	NIS in thousands					
Actuarial valuations:						
Mr. Daniel Israeli – general insurance actuary Total actuarial valuation	2,861,701	2,662,298	383,112	366,307	2,478,589	2,295,991
Provisions on the basis of other valuations:						
Claims department valuation in respect of known outstanding claims	187,750	298,948	165,856	277,276	21,894	21,672
Addition to outstanding claims due to claims incurred but not yet reported (IBNR)	5,512	5,764	3,224	3,723	2,288	2,041
Provision for unearned premium	815,962	550,295	211,839	177,185	604,123	373,110
Excess of income over expenses (accumulation)	162,301	191,705	105,156	119,690	57,145	72,015
Total insurance liabilities in respect of insurance contracts included in the general insurance segment	4,033,226	3,709,010	869,187	944,181	3,164,039	2,764,829

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

	Year ended December 31					
	2013	2012	2013	2012	2013	2012
	Gross		Reinsurance		On retention	
			NIS in thousands			
Balance as at the beginning of the year (1)	2,872,336	2,916,465	482,962	528,399	2,389,374	2,388,066
Accumulated claims cost in respect of the current underwriting year (2)	676,934	394,685	48,095	33,325	628,839	361,360
Change in balances as at the beginning of the year as a result of linkage to the index	46,807	36,975	6,589	5,762	40,218	31,213
Change in accumulated claims cost estimate in respect of previous underwriting years (3)	6,145	(108,021)	(10,041)	(61,323)	16,186	(46,698)
Total change in accumulated claims cost	729,886	323,639	44,643	(22,236)	685,243	345,875
Payments for settlement of claims during the year						
In respect of current underwriting year	6,696	4,944	254	115	6,442	4,829
In respect of previous underwriting years	458,426	404,456	36,352	27,920	422,074	376,536
Total payments for the period (4)	465,122	409,400	36,606	28,035	428,516	381,365
Accumulation in respect of current underwriting year (5)	40,031	40,732	14,571	17,894	25,460	22,838
Accumulation recognized in profit in respect of the released underwriting year (6)	(83,021)	(59,429)	(55,112)	(43,174)	(27,909)	(16,255)
Balance of change in the accumulation (7)	13,586	60,329	26,007	30,114	(12,421)	30,215
Total change in the accumulation for the period	(29,404)	41,632	(14,534)	4,834	(14,870)	36,798
Balance as at the end of the year (1)	3,107,696	2,872,336	476,465	482,962	2,631,231	2,389,374

Comments:

(1) The opening and closing balances include: outstanding claims, provision for premium deficiency, the accumulation and unearned premium, net of deferred acquisition costs.

(2) The ultimate claims cost is: outstanding claims balance (without the accumulation), provision for premium deficiency, unearned premium net of deferred acquisition costs with the addition of the total claims payments including direct or indirect expenses for claims settlement. The ultimate claims cost is updated based on the model in light of actual claims development.

(3) The change in the estimate of ultimate claims cost for previous underwriting years in year 2013, derives mainly from an increase in provisions in third party and employers' liability which were partly offset by a reduction in provisions in the motor act insurance, professional liability and product liability. In 2012 the gross change is due to the decrease in provisions, especially in the motor act insurance branch.

(4) The payments include expenses for settlement of claims relating to underwriting years.

(5) The change in the accumulation in the year 2013, in respect of the current underwriting year on retention mainly derives from an increase in the branches: motor act, employers' liability and product liability.

(6) The accumulation recognized in profit or loss in 2013 is in respect of the underwriting year released in the motor act branch.

(7) The balance of change in the accumulation in the year 2013 is mainly due to the decrease in accumulation in the motor act and liability branches.

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. Properties and other branches

	Year ended December 31					
	2013	2012	2013	2012	2013	2012
	Gross		Reinsurance		On retention	
	NIS in thousands					
Balance as at the beginning of the year (1)	721,998	831,934	420,237	515,577	301,761	316,357
Accumulated claims cost in respect of events during the reported year (2)	652,531	509,366	202,328	165,857	450,203	343,509
Change in accumulated claims cost in respect of events prior to the reported year (3)	(59,001)	(24,239)	(59,171)	(15,902)	170	(8,337)
Payment to settle claims during the year						
In respect of events during the reported year	431,754	330,000	111,135	74,212	320,619	255,788
In respect of events prior to the reported year	215,619	243,784	134,203	154,906	81,416	88,878
Total payments (4)	647,373	573,784	245,338	229,118	402,035	344,666
Change in provision for unearned premium, net of deferred acquisition costs	92,576	(15,202)	25,500	(16,177)	67,076	975
Change in provision for premium deficiency	(2,562)	(6,077)	-	-	(2,562)	(6,077)
Balance as at the end of the year (1)	758,169	721,998	343,556	420,237	414,613	301,761

Comments:

(1) The opening and closing balances include: outstanding claims with the addition of provision for premium deficiency and, unearned premium, net of deferred acquisition costs.

(2) The accumulated claims cost in respect of events during the reported year includes the outstanding claims balance as at the end of the reported year plus the total claims payments during the reported period, including direct and indirect expenses for settlement of claims.

(3) The change in estimated accumulated claims derives from the decline in provisions for claims in which there is high reinsurance coverage, therefore the effect on retained claims is minimal.

(4) The payments for claims settlement during the year include payments in respect of events in the reporting year with the addition of changes in the balance of outstanding claims in respect of events prior to the reported year. Payments for claims settlement include direct and indirect expenses for claims settlement relating to the respective years of damage.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

c (1). Examination of development of valuation of liabilities in respect of insurance contracts net of deferred acquisition costs, gross in the motor act and liability branches *):

	December 31, 2013										
	Underwriting year										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
	NIS in thousands adjusted to the CPI of November 2013 **)										
Claims paid (accumulated) as at the end of the year:											
After the first year	11,527	9,341	11,359	10,871	11,946	9,529	6,623	5,906	5,008	6,718	
After two years	60,968	57,852	67,529	63,453	79,130	48,453	32,416	29,061	29,380		
After three years	134,073	122,509	120,179	131,003	134,073	91,382	78,863	69,276			
After four years	204,773	179,291	176,448	186,955	189,137	140,993	137,622				
After five years	265,007	257,832	223,826	237,977	249,927	205,145					
After six years	336,655	312,541	265,808	295,926	304,509						
After seven years	394,341	356,950	304,717	353,448							
After eight years	435,847	391,421	350,446								
After nine years	467,379	422,190									
After ten years	491,473										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	668,388	617,795	615,150	585,454	585,722	536,171	482,857	469,031	443,700	716,987	
After two years	691,109	657,364	633,349	596,684	606,307	550,785	500,510	484,387	459,373		
After three years	727,644	693,007	644,458	611,828	627,389	565,319	511,446	503,665			
After four years	582,756	559,206	521,838	536,647	561,060	485,943	434,989				
After five years	561,150	548,731	517,712	538,615	538,659	465,131					
After six years	548,168	529,483	498,975	526,790	515,560						
After seven years	559,849	520,863	469,119	518,057							
After eight years	555,134	511,367	469,065								
After nine years	560,872	519,564									
After ten years	559,842										
Excess (deficiency) after release of accumulation ***)	22,914	39,642	52,773	18,590	45,500	20,812					200,231
Deviation rate after release of accumulation in percentage	3.93%	7.09%	10.11%	3.46%	8.11%	4.28%					6.17%
Accumulated claims cost as at December 31, 2013	559,842	519,564	469,065	518,057	515,560	465,131	434,989	503,665	459,373	716,987	5,162,233
Accumulated payments up to December 31, 2013	491,473	422,190	350,446	353,448	304,509	205,145	137,622	69,276	29,380	6,718	2,370,207
Outstanding claims balance	68,369	97,374	118,619	164,609	211,051	259,986	297,367	434,389	429,993	710,269	2,792,026
Outstanding claims in respect of the years up to and including the underwriting year 2003											315,670
Total liability in respect of insurance contracts in the motor act and liability branches net of deferred acquisition costs as at December 31, 2013											3,107,696

(*) According to an examination the Company performed in the property and other branches, the uncertainty regarding the amount and timing of claims is usually resolved within a year. Therefore no information regarding claims development in these branches was provided.

(**) The above amounts are adjusted to inflation to make it possible to examine the claims development on the basis of real values.

(***) Surplus between the accumulated claims valuation in the fourth year (the first year after the release of the accumulation) and the accumulated claims valuation as at balance sheet date.

Comments:

1. The accumulated claims estimate at the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.
2. The data include the accumulation (excess of income over expenses).
3. The statistical significance of all underwriting years taken together is higher than each underwriting year taken separately. Therefore, it is preferable to examine the development of the Company's estimates at the level of all underwriting years taken together.

NOTE 17:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

c (2). Examination of development of valuations of liabilities in respect of insurance contracts net of deferred acquisition costs, on retention, in the motor act and liability branches:

	December 31, 2013										
	Underwriting year										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
	NIS in thousands adjusted to the CPI of November 2013 **)										
Claims paid (accumulated) as at the end of the year:											
After the first year	11,374	9,225	11,265	10,840	11,141	9,464	6,128	5,758	4,891	6,464	
After two years	60,355	56,396	64,798	60,748	62,015	46,989	31,001	27,459	27,953		
After three years	133,077	120,144	116,932	124,841	115,908	88,803	75,081	66,003			
After four years	202,790	174,973	172,752	179,364	169,728	136,901	131,067				
After five years	262,163	241,020	219,023	229,332	226,667	197,729					
After six years	332,839	292,295	258,755	285,284	278,713						
After seven years	383,424	331,990	295,834	334,255							
After eight years	417,284	365,304	340,146								
After nine years	446,966	394,833									
After ten years	470,658										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	606,793	549,052	509,135	480,707	488,766	454,358	397,236	393,176	391,503	654,321	
After two years	620,369	578,459	516,810	483,469	494,572	459,351	398,971	391,644	396,413		
After three years	649,143	610,394	523,711	495,693	508,197	471,045	406,878	407,512			
After four years	540,698	514,865	473,570	478,485	500,076	441,857	392,130				
After five years	524,715	507,337	469,574	481,829	483,969	425,092					
After six years	511,957	481,772	453,687	476,495	459,856						
After seven years	520,693	480,509	442,416	467,432							
After eight years	529,608	473,876	440,668								
After nine years	536,516	480,840									
After ten years	537,283										
Excess (deficiency) after release of accumulation ***)	3,415	34,025	32,902	11,053	40,220	16,765					138,380
Deviation rate after release of accumulation in percentage	0.63%	6.61%	6.95%	2.31%	8.04%	3.79%					4.69%
Accumulated claims cost as at December 31, 2013	537,283	480,840	440,668	467,432	459,856	425,092	392,130	407,512	396,413	654,321	4,661,547
Accumulated payments up to December 31, 2013	470,658	394,833	340,146	334,255	278,713	197,729	131,067	66,003	27,953	6,464	2,247,821
Outstanding claims balance	66,625	86,007	100,522	133,177	181,143	227,363	261,063	341,509	368,460	647,857	2,413,726
Outstanding claims in respect of the years up to and including the underwriting year 2003											217,505
Total liability in respect of insurance contracts in the motor act and liability branches net of deferred acquisition costs as at December 31, 2013											2,631,231

(**) The above amounts are adjusted to inflation to make it possible to examine the claims run-off on the basis of real values.

(***) As at the date of the financial statements.

Comments:

1. The accumulated claims estimate at the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.
2. The data include the accumulation (excess of income over expenses).
3. The statistical significance of all underwriting years taken together is higher than each underwriting year taken separately. Therefore, it is preferable to examine the development of the Company's estimates at the level of all underwriting years taken together.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

c (3). Examination of development of valuation of liabilities in respect of insurance contracts net of deferred acquisition costs, gross in the motor act branch

	December 31, 2013										
	Underwriting year										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
	NIS in thousands adjusted to the CPI of November 2013 **)										
Claims paid (accumulated) as at the end of the year:											
After the first year	9,342	7,087	9,512	8,708	8,537	7,053	3,845	3,774	2,945	3,637	
After two years	48,816	45,079	54,380	48,742	42,734	33,828	16,089	13,578	15,643		
After three years	107,632	91,944	93,871	92,204	80,025	62,000	41,695	35,905			
After four years	156,292	129,341	136,260	126,356	111,747	93,880	71,474				
After five years	199,093	170,985	168,147	157,894	146,688	132,604					
After six years	251,863	199,623	188,746	189,755	178,689						
After seven years	281,642	223,201	211,794	214,838							
After eight years	305,093	243,777	237,856								
After nine years	318,676	259,573									
After ten years	331,175										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	442,744	390,241	369,283	332,171	343,533	313,117	254,272	244,167	243,856	486,313	
After two years	448,614	402,307	369,441	329,130	343,142	314,059	250,327	242,788	247,302		
After three years	470,652	419,658	372,253	333,576	349,632	323,166	255,050	249,117			
After four years	387,676	331,473	337,092	317,326	329,064	289,155	233,358				
After five years	373,425	326,105	327,827	308,332	309,333	271,999					
After six years	365,794	318,008	323,931	296,890	287,311						
After seven years	373,752	313,080	307,183	287,582							
After eight years	372,233	303,916	293,524								
After nine years	365,940	299,315									
After ten years	362,225										
Excess (deficiency) after release of accumulation ***)	25,451	32,158	43,568	29,744	41,753	17,156					189,830
Deviation rate after release of accumulation in percentage	6.57%	9.70%	12.92%	9.37%	12.69%	5.93%					9.53%
Accumulated claims cost as at December 31, 2013	362,225	299,315	293,524	287,582	287,311	271,999	233,358	249,117	247,302	486,313	3,018,046
Accumulated payments up to December 31, 2013	331,175	259,573	237,856	214,838	178,689	132,604	71,474	35,905	15,643	3,637	1,481,394
Outstanding claims balance	31,050	39,742	55,668	72,744	108,622	139,395	161,884	213,212	231,659	482,676	1,536,652
Outstanding claims in respect of the years up to and including the underwriting year 2003											64,708
Total liability in respect of insurance contracts in the motor act branch net of deferred acquisition costs as at December 31, 2013											1,601,360

(**) The above amounts are adjusted to inflation to make it possible to examine the claims run-off on the basis of real values.
(***) As at the date of the financial statements.

Comments:

1. The accumulated claims estimate at the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.
2. The data include the accumulation (excess of income over expenses).
3. The statistical significance of all underwriting years taken together is higher than each underwriting year taken separately. Therefore, it is preferable to examine the development of the Company’s estimates at the level of all underwriting years taken together.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

c (4). Examination of development of valuation of liabilities in respect of insurance contracts net of deferred acquisition costs, on retention, in the motor act branch *):

	December 31, 2013										
	Underwriting year										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2014	Total
	NIS in thousands adjusted to the CPI of November 2013 **)										
Claims paid (accumulated) as at the end of the year:											
After the first year	9,342	7,087	9,512	8,708	8,537	7,053	3,845	3,774	2,945	3,637	
After two years	48,816	45,079	54,380	48,742	42,734	33,828	16,089	13,578	15,643		
After three years	107,632	91,944	93,871	92,204	80,025	62,000	41,695	35,905			
After four years	156,292	129,341	136,260	126,356	111,747	93,880	71,474				
After five years	199,093	170,985	168,147	157,894	146,688	132,604					
After six years	251,863	199,623	188,746	189,755	178,689						
After seven years	281,642	223,201	211,793	214,838							
After eight years	305,093	243,777	237,856								
After nine years	318,676	259,573									
After ten years	331,175										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	433,550	380,746	359,388	324,198	336,258	306,293	248,402	239,081	239,509	479,646	
After two years	436,150	389,610	360,634	321,439	334,717	307,007	244,545	237,132	241,424		
After three years	454,590	409,122	363,184	326,189	340,955	315,903	249,094	243,290			
After four years	376,246	322,638	329,789	311,135	323,823	284,027	229,660				
After five years	365,848	318,061	320,523	303,147	305,488	269,171					
After six years	358,398	310,403	318,522	293,518	284,043						
After seven years	367,563	308,452	304,162	284,956							
After eight years	368,050	301,472	290,701								
After nine years	363,736	298,252									
After ten years	361,511										
Excess (deficiency) after release of accumulation ***)	14,735	24,386	39,088	26,179	39,780	14,856					159,024
Deviation rate after release of accumulation in percentage	3.92%	7.56%	11.85%	8.41%	12.28%	5.23%					8.16%
Accumulated claims cost as at December 31, 2013	361,511	298,252	290,701	284,956	284,043	269,171	229,660	243,290	241,424	479,646	2,982,654
Accumulated payments up to December 31, 2013	331,175	259,573	237,856	214,838	178,689	132,604	71,474	35,905	15,643	3,637	1,481,394
Outstanding claims balance	30,336	38,679	52,845	70,118	105,354	136,567	158,186	207,385	225,781	476,009	1,501,260
Outstanding claims in respect of the years up to and including the underwriting year 2003											55,570
Total liability in respect of insurance contracts in the motor act branch net of deferred acquisition costs as at December 31, 2013											1,556,830

(**) The above amounts are adjusted to inflation to make it possible to examine the claims run-off on the basis of real values.
(***) As at the date of the financial statements.

Comments:

1. The accumulated claims estimate at the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.
2. The data include the accumulation (excess of income over expenses).
3. The statistical significance of all underwriting years taken together is higher than each underwriting year taken separately. Therefore, it is preferable to examine the development of the Company's estimates at the level of all underwriting year taken together.

NOTE 18:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG TERM SAVINGS

a. Details of the liabilities in respect of insurance contracts and investment contracts according to exposure

	Data as at December 31, 2013						
	Policies with savings component (including riders) according to policy's date of issue				Policies without savings component		Total
			From the year 2004		Risk sold as a separate policy		
	Until 1990 (*)	Until 2003	Non-yield dependent	Yield dependent	Individual	Group	
	NIS in thousands						
(a) According to insurance exposure:							
Liabilities in respect of insurance contracts							
Annuity without guaranteed coefficients	-	-	-	136,429	-	-	136,429
Annuity with guaranteed coefficients:	20,555,756	37,900,951	-	-	-	-	58,456,707
Up to May 2001							
From June 2001	-	8,366,356	113,449	17,415,226	-	-	25,895,031
Annuity in payment	2,566,679	1,110,181	303,762	158,915	-	-	4,139,537
Lump sum (without annuity option)	1,580,827	1,325,935	-	13,302	-	-	2,920,064
Other risk components	316,054	961,851	-	515,910	410,773	184,159	2,388,747
Total in respect of insurance contracts	25,019,316	49,665,274	417,211	18,239,782	410,773	184,159	93,936,515
Liabilities in respect of investment contracts	-	5,500	236,570	737,341	-	-	979,411
Total	25,019,316	49,670,774	653,781	18,977,123	410,773	184,159	94,915,926
(b) According to financial exposure:							
Non yield dependent	24,119,197	286,302	653,781	247,239	237,443	184,159	25,728,121
Yield dependent	900,119	49,384,472	-	18,729,884	173,330	-	69,187,805
Total	25,019,316	49,670,774	653,781	18,977,123	410,773	184,159	94,915,926

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

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

a. Details of the liabilities in respect of insurance contracts and investment contracts according to exposure (Cont.)

	Data as at December 31, 2012						
	Policies with savings component (including riders) according to policy's date of issue				Policies without savings component		Total
			From the year 2004		Risk sold as a separate policy		
	Until 1990 (*)	Until 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	-	-	-	-	-	-	-
Annuity with guaranteed coefficients:							
Up to May 2001	19,600,193	33,605,701	-	-	-	-	53,205,894
From June 2001	-	7,447,871	128,558	13,609,061	-	-	21,185,490
Annuity in payment	2,049,789	767,210	270,290	75,780	-	-	3,163,069
Lump sum (without annuity option)	1,746,105	1,299,418	-	9,352	-	-	3,054,875
Other risk components	355,373	971,570	-	430,062	343,190	171,160	2,271,355
			-				
Total in respect of insurance contracts	23,751,460	44,091,770	398,848	14,124,255	343,190	171,160	82,880,683
Liabilities in respect of investment contracts	-	66,610	260,954	273,477	-	-	601,041
Total	23,751,460	44,158,380	659,802	14,397,732	343,190	171,160	83,481,724
(b) According to financial exposure:							
Non yield dependent	23,029,473	347,300	659,802	193,539	160,976	171,160	24,562,250
Yield dependent	721,987	43,811,080	-	14,204,193	182,214	-	58,919,474
Total	23,751,460	44,158,380	659,802	14,397,732	343,190	171,160	83,481,724

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

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

b. Details of the results according to policy type

	Data as at December 31, 2013						
	Policies with savings component (including riders) according to policy's date of issue				Policies without savings component		Total
			From the year 2004		Risk sold as a separate policy		
	Until 1990	Until 2003	Non-yield dependent	Yield dependent	Individual	Group	
	NIS in thousands						
Gross premiums:							
Traditional/Endowment	66,024	46,712	-	-	-	-	112,736
Savings component	336,849	2,094,625	30,455	3,588,116	-	-	6,050,045
Other	75,113	332,238	-	460,701	427,717	86,461	1,382,230
Total	477,986	2,473,575	30,455	4,048,817	427,717	86,461	7,545,011
Receipts in respect of investment contracts credited directly to insurance reserves	-	-	-	524,749	-	-	524,749
Financial margin including management fees	318,914	924,169	9,495	194,532	-	-	1,447,110
Income (loss) from life assurance business	41,940	732,023	13,936	(184,266)	109,010	(26,366)	686,277
Other comprehensive income (loss) from life assurance business	111,562	4,350	(2,941)	3,542	3,016	3,202	122,731
Total comprehensive income (loss) from life assurance business	153,502	736,373	10,995	(180,724)	112,026	(23,164)	809,008
Profit from pension and provident funds							94,962
Other comprehensive income from pension and provident funds							1,914
Total comprehensive income from life assurance and long term savings							905,884
Annualized premium in respect of insurance contracts – new business	28	11	-	488,365	92,363	-	580,767
One time premium in respect of insurance contracts	234	13,352	30,455	845,334	-	-	889,375
Annualized premium in respect of investment contracts – new business	-	-	-	-	-	-	-
One time premium in respect of investment contracts	-	-	-	524,749	-	-	524,749
Transfers to the Company of insurance contracts and investment contracts	-	-	-	374,537	-	-	374,537
Transfers from the Company of insurance contracts and investment contracts	7,564	83,918	216	217,677	-	-	309,375

1. The products issued up to the year 1990 (including their increases) were mainly guaranteed yield and are mainly backed up by designated bonds.
2. Increases in existing policies are not included in the framework of the annualized premium in respect of new business, but in the framework of the original policy's activity results.
3. The financial margin includes gains (losses) from investments that were recognized in other comprehensive income, does not include additional income of Migdal Insurance collected as a percentage of the premium and calculated before deduction of investment management expenses. The financial margin in policies with a guaranteed yield is based on actual investment income for the reported year, net of the multiplication of the guaranteed rate of annual yield by the average reserve for the year, in various insurance reserves. In respect of yield dependent policies, the financial margin is the total of the fixed and variable management fees calculated on the basis of the yield and the average balance of the insurance reserves.

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

b. Details of the results according to policy type (Cont.)

	Data as at December 31, 2012						
	Policies with savings component (including riders) according to policy's date of issue				Policies without savings component		Total
			From the year 2004		Risk sold as a separate policy		
	Until 1990 (*)	Until 2003	Non-yield dependent	Yield dependent	Individual	Group	
	NIS in thousands						
Gross premiums:							
Traditional/Endowment	83,327	54,315	-	-	-	-	137,642
Savings component	339,935	2,087,113	45,032	3,394,998	-	-	5,867,078
Other	80,246	354,341	-	411,984	402,030	104,641	1,353,242
Total	503,508	2,495,769	45,032	3,806,982	402,030	104,641	7,357,962
Receipts in respect of investment contracts credited directly to insurance reserves	-	-	233	272,237	-	-	272,470
Financial margin including management fees	314,887	437,190	26,459	147,558	-	-	926,094
Income (loss) from life assurance business*)	(114,831)	232,377	4,753	(238,833)	142,110	(25,832)	(256)
Other comprehensive income from life assurance business*)	89,089	8,899	10,699	5,387	2,647	2,108	118,829
Total comprehensive income (loss) from life assurance business	(25,742)	241,276	15,452	(233,446)	144,757	(23,724)	118,573
Profit from pension and provident funds*)							88,667
Other comprehensive income from pension and provident funds*)							8,888
Total comprehensive income from life assurance and long term savings							216,128
Annualized premium in respect of insurance contracts – new business	72	52	-	780,966	74,474	-	855,564
One time premium in respect of insurance contracts	48	15,843	45,032	1,030,981	-	-	1,091,904
Annualized premium in respect of investment contracts – new business	-	-	-	-	-	-	-
One time premium in respect of investment contracts	-	-	233	272,237	-	-	272,470
Transfers to the Company of insurance contracts and investment contracts	-	-	-	409,329	-	-	409,329
Transfers from the Company of insurance contracts and investment contracts	6,508	86,802	232	179,391	-	-	272,933

*) Restated - See Note 2g regarding initial adoption of Revised IAS 19, Employee Benefits.

1. The products issued up to the year 1990 (including their increases) were mainly guaranteed yield and are mainly backed up by designated bonds.
2. Increases in existing policies are not included in the framework of the annualized premium in respect of new business, but in the framework of the original policy's activity results.
3. The financial margin includes gains (losses) from investments that were recognized in other comprehensive income, does not include additional income of Migdal Insurance collected as a percentage of the premium and calculated before deduction of investment management expenses. The financial margin in policies with a guaranteed yield is based on actual investment income for the reported year, net of the multiplication of the guaranteed rate of annual yield by the average reserve for the year, in various insurance reserves. In respect of yield dependent policies, the financial margin is the total of the fixed and variable management fees calculated on the basis of the yield and the average balance of the insurance reserves.
4. The change in the distribution of supplementary annuity on the basis of two K values, as described in Note 37b.3.b) (5) c. was done on December 31, 2012 and therefore did not affect the above results.

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

b. Details of the results according to policy type (Cont.)

	Data for the year ended December 31, 2011						
	Policies with savings component (including riders) according to policy's date of issue				Policies without savings component		Total
			From the year 2004		Risk sold as a separate policy		
	Until 1990	Until 2003	Non-yield dependent	Yield dependent	Individual	Group	
	NIS in thousands						
Gross premiums:							
Traditional/Endowment	94,384	62,319	-	-	-	-	156,703
Savings component	339,574	2,074,319	29,892	2,915,510	-	-	5,359,295
Other	85,492	367,696	-	389,627	349,729	138,225	1,330,769
Total	519,450	2,504,334	29,892	3,305,137	349,729	138,225	6,846,767
Receipts in respect of investment contracts credited directly to insurance reserves	-	-	-	-	-	-	-
Financial margin including management fees	145,753	223,293	9,972	97,152	-	-	476,170
Income (loss) from life assurance business*)	299,329	33,589	37,573	(155,268)	96,047	5,343	316,613
Other comprehensive loss from life assurance business*)	(205,889)	(18,813)	(14,183)	(7,842)	(6,326)	(7,386)	(260,439)
Total comprehensive income (loss) from life assurance business	93,440	14,776	23,390	(163,110)	89,721	(2,043)	56,174
Profit from pension and provident funds*)							89,084
Other comprehensive income from pension and provident funds*)							(2,042)
Total comprehensive income from life assurance and long term savings							143,216
Annualized premium in respect of insurance contracts – new business	21	25	-	632,446	77,403	-	709,895
One time premium in respect of insurance contracts	948	18,631	29,892	868,456	-	-	917,927
Annualized premium in respect of investment contracts – new business	-	-	-	-	-	-	-
One time premium in respect of investment contracts	-	-	-	-	-	-	-
Transfers to the Company of insurance contracts and investment contracts	-	-	-	231,818	-	-	231,818
Transfers from the Company of insurance contracts and investment contracts	13,293	98,555	-	100,353	-	-	212,201

*) Restated - See Note 2g regarding initial adoption of Revised IAS 19, Employee Benefits.

1. The products issued up to the year 1990 (including their increases) were mainly guaranteed yield and are mainly backed up by designated bonds.
2. Increases in existing policies are not included in the framework of the annualized premium in respect of new business, but in the framework of the original policy's activity results.
3. The financial margin includes gains (losses) from investments that were recognized in other comprehensive income, does not include additional income of Migdal Insurance collected as a percentage of the premium and calculated before deduction of investment management expenses. The financial margin in policies with a guaranteed yield is based on actual investment income for the reported year, net of the multiplication of the guaranteed rate of annual yield by the average reserve for the year, in various insurance reserves. In respect of yield dependent policies, the financial margin is the total of the fixed and variable management fees calculated on the basis of the yield and the average balance of the insurance reserves.

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

c. Additional information regarding yield dependent liabilities

	December 31 2013	Year ended December 31, 2013		
	Yield dependent liabilities	Premiums	Claims	Surrenders
	NIS thousands			
In respect of policies issued up to 2003:				
"Het" Fund (Fund No. 8)	29,650	802	409	692
"Tet" Fund (Fund No. 9)	2,013,190	58,193	35,886	15,167
"Yud" Fund (Fund No. 10)	48,197,249	2,502,151	678,325	732,160
In respect of policies issued from the year 2004	13,974,842	3,384,394	328,198	562,979
Investment baskets	4,235,533	996,799	132,363	249,168
Investment contracts	737,341	524,749	-	86,241
Total	69,187,805	7,467,088	1,175,181	1,646,407

	December 31 2012	Year ended December 31, 2012		
	Yield dependent liabilities	Premiums	Claims	Surrenders
	NIS thousands			
In respect of policies issued up to 2003:				
"Het" Fund (Fund No. 8)	29,358	898	1,131	971
"Tet" Fund (Fund No. 9)	1,875,135	58,894	29,232	37,008
"Yud" Fund (Fund No. 10)	42,129,345	2,523,812	585,962	1,001,284
In respect of policies issued from the year 2004	10,723,793	3,006,739	314,432	334,022
Investment baskets	3,888,366	1,104,479	103,892	205,146
Investment contracts	273,477	272,237	-	1,632
Total	58,919,474	6,967,059	1,034,649	1,580,063

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

c. Additional information regarding yield dependent liabilities (cont'd)

	December 31 2011	Year ended December 31, 2011		
	Yield dependent liabilities	Premiums	Claims	Surrenders
	NIS thousands			
In respect of policies issued up to 2003:				
"Het" Fund (Fund No. 8)	29,306	990	1,453	1,284
"Tet" Fund (Fund No. 9)	1,729,065	59,394	23,614	35,089
"Yud" Fund (Fund No. 10)	37,765,464	2,535,289	558,407	986,383
In respect of policies issued from the year 2004	8,245,250	2,655,840	255,123	262,323
Investment baskets	2,661,881	900,757	116,651	187,959
Total	50,430,966	6,152,270	955,248	1,473,038

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

d. 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, 2013
	2013	2012	2011	2010	2009	Before management fees	After management fees	
	In percentage							NIS in thousands
"Yud" Fund (Fund No. 10)	12.44	11.25	(3.01)	11.38	30.53	12.02	10.71	890,094
General track for policies beginning from the year 2004	11.71	10.64	(4.03)	11.02	30.29	11.40	10.02	147,307
Other								77,673
Total								1,115,074

	Annual gross nominal yield					Annual average nominal yield 5 years		Management fees for the year ended December 31, 2012
	2012	2011	2010	2009	2008	Before management fees	After management fees	
	In percentage							NIS in thousands
"Yud" Fund (Fund No. 10)	11.25	(3.01)	11.38	30.53	(16.36)	5.58	4.62	402,187
General track for policies beginning from the year 2004	10.64	(4.03)	11.02	30.29	(14.43)	5.62	4.30	112,190
Other								59,839
Total								574,216

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

e. Details of transfer of funds

	Year ended as at December 31		
	2013	2012	2011
	NIS in thousands		
Transfer to the Company from other entities			
Transfers from other insurance companies	167,698	172,446	124,374
Transfers from pension funds	92,839	81,491	33,684
Transfers from provident funds	114,000	155,392	73,760
Total transfers to the Company	374,537	409,329	231,818
Transfers from the Company to other entities			
Transfers to other insurance companies	132,182	110,492	90,109
Transfers to pension funds	79,688	91,501	54,534
Transfers to provident funds	97,505	70,940	67,558
Total transfers from the Company	309,375	272,933	212,201
Transfers, net	65,162	136,396	19,617

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, 2013				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Yield dependent	1,287,973	-	202,765	-	1,490,738
Other	60,315	21,372	353,097	1,349	436,133
Total	1,348,288	21,372	555,862	1,349	1,926,871

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

	Data as at December 31, 2012				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Yield dependent	1,073,448	-	190,368	-	1,263,816
Other	37,283	21,606	292,266	946	352,101
Total	1,110,731	21,606	482,634	946	1,615,917

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

a.2 Details of the liabilities in respect of insurance contracts according to insurance exposure:

	Data as at December 31, 2013				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Annuity being paid	83,885	16,263	968	-	101,116
Other risk components	1,264,403	5,109	554,894	1,349	1,825,755
Total	1,348,288	21,372	555,862	1,349	1,926,871

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

	Data as at December 31, 2012				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Annuity being paid	63,308	17,060	1,713	-	82,081
Other risk components	1,047,423	4,546	480,921	946	1,533,836
Total	1,110,731	21,606	482,634	946	1,615,917

*) 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.)

b. Details of the results according to policy type

	Data as at December 31, 2013				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Gross premiums	205,749	9,625	(* 551,162	(* 3,628	770,164
Profit from health insurance business	7,754	2,006	61,292	217	71,269
Other comprehensive income from health insurance business	582	389	4,959	3	5,933
Total comprehensive income from health insurance business	8,336	2,395	66,251	220	77,202
Annualized premium - new***)	29,606	-	122,767	-	152,373

*) Of this, individual premiums in the amount of NIS 500,171 thousand and group premiums in the amount of NIS 54,619 thousand.

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

***) Including policy riders.

	Data as at December 31, 2012				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Gross premiums	189,318	12,020	(* 487,662	(* 3,480	692,480
Profit (loss) from health insurance business****)	3,158	(388)	91,796	1,661	96,227
Other comprehensive income from health insurance business****)	596	362	5,098	1	6,057
Total comprehensive income (loss) from health insurance business	3,754	(26)	96,894	1,662	102,284
Annualized premium - new***)	24,473	-	78,681	-	103,154

*) Of this, individual premiums in the amount of NIS 444,869 thousand and group premiums in the amount of NIS 46,273 thousand.

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

***) Including policy riders.

****) Restated - See Note 2g regarding initial adoption of Revised IAS 19, Employee Benefits.

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 as at December 31, 2011				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Gross premiums	170,590	9,915	(* 432,200	(* 2,288	614,993
Profit (loss) from health insurance business****)	(57,022)	1,148	92,736	51	36,913
Other comprehensive loss from health insurance business****)	(833)	(655)	(7,798)	(3)	(9,289)
Total comprehensive income (loss) from health insurance business	(57,855)	493	84,938	48	27,624
Annualized premium - new***)	27,673	-	62,703	-	90,376

*) Of this, individual premiums in the amount of NIS 404,839 thousand and group premiums in the amount of NIS 29,649 thousand.

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

***) Including policy riders.

****) Restated - See Note 2g regarding initial adoption of Revised IAS 19, Employee Benefits.

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, 2012	72,987,004	615,753	73,602,757	1,389,311
Interest, linkage differences and investment income (1)	5,820,894	39,083	5,859,977	113,705
Increase in respect of premiums and deposits credited to liabilities (2)	5,911,496	272,470	6,183,966	116,286
Decrease in respect of claims, surrenders and maturities	*) (2,558,389)	(325,958)	(2,884,347)	(34,524)
Other changes (3)	*)719,678	(307)	719,371	31,139
Balance as at December 31, 2012	82,880,683	601,041	83,481,724	1,615,917
Interest, linkage differences and investment income (1)	7,136,857	46,078	7,182,935	162,748
Increase in respect of premiums and deposits credited to liabilities (2)	6,031,808	524,749	6,556,557	116,625
Decrease in respect of claims, surrenders and maturities	(2,540,881)	(188,056)	(2,728,937)	(23,560)
Other changes (3)	428,048	(4,401)	423,647	55,141
Balance as at December 31, 2013	93,936,515	979,411	94,915,926	1,926,871

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 all the premium recorded as income in the Company. The premium includes the premium for savings and part of the premium in products with fixed premium.

3. Other changes – the item includes changes in reserve in respect of outstanding claims, reserve for future claims, IBNR, annuities in payment, etc. (according to assumptions used at the end of the previous year). In addition, the paragraph includes the interest effect, linkage differences and investment income not included in the "interest, linkage differences and investment income" item, such as: interest, linkage differences and investment income for claims payment and non-savings premiums. In 2013 and 2012, an immediate provision was recorded in the amount of about NIS 63 million and NIS 257 million, respectively, in respect of a supplementary reserve for annuity (see Note 37.b.3.b).(5)).

*) Reclassified, for additional details see Note 2.d.

NOTE 21:- TAXES ON INCOME

a. Tax laws applicable to the Group's companies

1. General

The income of the Company and all other Group companies are subject to corporate tax according to the Income Tax Ordinance (New Version) 1961 - (hereunder - "the Ordinance"). Furthermore, the income of Group companies classified as "financial institutions" as defined in the Value Added Tax Law 1975 are subject to profit and salary tax. It is noted that the activity of companies classified as financial institutions in the insurance, pension and the finance branches constitute the major part of the Group's operations.

2. Income Tax Law (Adjustments for Inflation), 1985

The Income Tax Law (Adjustments for Inflation), 1985 was applicable to the Company and the subsidiaries until the end of 2007. According to the law, the results for tax purposes were measured adjusted to the changes in the CPI. In February 2008 the Knesset passed an amendment to the Income Tax (Adjustments for Inflation), 1985 which prescribed that the applicability of the adjustments law will be terminated in the 2007 tax year, and as of the 2008 tax year the provisions of the said law shall no longer be applicable, other than certain adjustments in respect of changes in the CPI for the period up to December 31, 2007. As a result, as from 2008 results are measured for tax purposes in nominal values.

3. Non-application of IFRS

As part of the amendments to the Income Tax Ordinance, a temporary order was prescribed for determining the tax liable income for the tax years 2007 up to and including 2011, so that Accounting Standard No. 29 of the Israel Accounting Standards Board shall not apply even if it was applied when preparing the financial statements for such years.

In a notice to the public published by the Tax Authority on January 1, 2013 it was reported that the Tax Authority intends to promote legislation to extend the said Temporary Order to the year 2012.

The meaning of the Amendment to the Ordinance is actually that IFRS do not apply when calculating the reported profit for tax purposes in respect of the aforementioned tax years. In the opinion of the Company, the Amendment to the Ordinance does not have a material effect on the tax expenses reported in the financial statements.

According to the framework of the tax arrangements for the insurance line of business (paragraph 4 below) the one-time effect of the transition to IFRS on the date of transition was spread over 3 years from 2008 up to and including 2010. Also, it was agreed that if and when the tax authority formulates its position on the subject in a manner which stands in contradiction to the principles of the agreement, the parties will discuss the resulting tax implications.

NOTE 21:- TAXES ON INCOME (Cont.)

a. Tax laws applicable to the Group's companies (Cont.)

4. Tax arrangements that are unique to the insurance industry

There is an industry agreement between the life assurance companies association and the Tax Authorities that arranges the unique issues of the insurance business, and provides mainly as follows:

a) Deferred acquisition costs (DAC) – Direct expenses of insurance companies for the acquisition of life assurance policies are deductible for tax purposes in equal portions over a period of four years. DAC in diseases and hospitalization insurance are amortized over a period of 6 years, like the period of amortization on the books.

b) Allocation of expenses to preferred income – Expenses will be allocated to income that is subject to reduced tax rates of insurance companies ("the 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 agreement depends on the source of the money creating the preferred income.

c) 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.

d) The tax applicable to the cancellation of the reserve for extraordinary risks in life assurance – The Arrangements in the State Economy Law (Legislative Amendments for Attaining the Budget Goals and the Economic Policy for the Fiscal Year 2007), 2007, dated January 11, 2007, prescribed regulations for the tax applicable due to the cancellation of the reserve for extraordinary risks in life assurance that was included in the financial statements as at December 31, 2006. According to the regulations, a portion of the reserve which is calculated at the rate of 0.17% of the insurance risk amount, on retention, in life assurance and for which a capital requirement was defined, will be exempt from tax. In the branch taxation agreement it was noted that the basis for the exemption is the capital requirement, as mentioned above, and in the event of a cancellation or decrease in the capital requirement, the parties will discuss the consequent tax implications, if any.

The existing industry agreement is in effect up to and including 2012. The tax provision in the financial statements for 2013 was prepared in accordance with the principles of the agreement for 2012.

NOTE 21:- TAXES ON INCOME (Cont.)

b. Amortization of acquisition of intangible assets

On August 2, 2009 the Israeli Tax Authority published the report of the committee that examined the tax effects of implementing the recommendations of the Bachar Committee (hereunder– the committee and the report). The committee included in its recommendations a number of basic principles that will serve as a foundation for the position of the Tax Authority with respect to taxation of the sale transactions that were executed following the recommendations of the Bachar Committee. In accordance with the recommendations of the committee, 80%-85% of the excess cost created in acquiring of the operations of provident fund management companies is to be allocated to goodwill and to the contractual right to jointly manage accounts (according to the details provided in the report). The remaining excess cost (15%-20%) will be allocated to other intangible assets whose amortization is not allowed for tax purposes by the buyer (such as the customer base, brands).

As regards transactions in which shares were acquired as opposed to transactions in which operations and other assets were acquired (transactions structured as a sale of shares), the committee decided that the sellers will be subject to tax like in an ordinary sale of shares and that the buyers will not be entitled to any amortization of the cost of acquisition.

The effect on the financial statements of implementing the report’s recommendations is immaterial.

c. The tax rates

1. The statutory tax rate applicable to financial institutions, which account for the main part of the Group's activity, comprises corporate tax and profit tax.

2. The profit tax rate on financial institutions will be 16.0% in the year 2011.

   In August 2012 a Value Added Tax Order (Tax Rate Applicable to Non-Profit Organizations and Financial Institutions) (Amendment), 2012, was published which determined that the profit tax rate applicable to financial institutions will be 17% of the profit generated. The amendment began from September 1, 2012 and its application in the year 2012 relates to one third of the profit generated in this year.

   In June 2013 the Value Added Tax Order (Tax Rate Applicable to Non-Profit Organizations and Financial Institutions) (Amendment) – 2013 was published and set the payroll tax rate applicable to financial institutions at 18% of salaries paid in respect of work performed in June and thereafter and profit tax will be 18% of profits generated. The profit tax increase in 2013 will apply proportionately to the profit generated in the year.

3. In December 2011, the Knesset passed the Law for Change in the Tax Burden (Legislative amendments), 2011 (hereunder - the Law). In the framework of the law, among other things, beginning in 2012, the Law eliminates the plan to reduce the rate of corporate tax and the corporate tax rate was increased to 25% as from 2012. In view of this increase in tax rate, the tax rates on real capital gains and real estate capital gains were also raised.

NOTE 21:- TAXES ON INCOME (Cont.)

c. The tax rates (Cont.)

On August 5, 2013 the Knesset passed the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) – 2013, which, inter alia, incorporated fiscal changes intended primarily to increase taxes in those years.

The changes included, inter alia, an increase in the corporate tax rate from 25% to 26.5% as from January 1, 2014. In addition, other changes were made including the taxation of "revaluation profits". As at the date of the publication of these financial statements, the relevant regulations have not been published. The Company estimates that the publication of the regulations will not have a material effect on the financial statements.

As a result of the aforesaid change, the statutory tax rate applicable to Group companies including financial institutions will be as detailed below:

Year	Corporate tax rate	Profit tax rate		Comprehensive tax rate in financial institutions
		%		
2011	24	16.0		34.48
2012	25	16.33	*)	35.53
2013	25	17.58	*)	36.21**)
2014 and thereafter	26.5	18.00		37.71

*) Weighted average rate.
**) Compared to tax rate of 35.90% before the amendment was published

The effect of the change in the tax rates as described above on the financial statements as at December 31, 2013 is reflected in an increase in the deferred tax liability in the amount of NIS 31 million thousand against an increase in tax expenses in the amount of NIS 22 million and against a decrease in other comprehensive income in the amount of NIS 9 million. In addition the change in the corporate tax rate resulted in a reduction of the Company's share of income of investee companies treated under the equity method in the amount of NIS 11 thousand.

The change in the tax rates in 2012 did not have a material effect on the financial statements of the Company.

d. Tax assessments

Corporate tax assessments

a) The Company and some of its subsidiaries received final tax assessments, by virtue of an agreement or by virtue of the statute of limitations, up to and including the year 2009. Migdal Insurance, Migdal Makefet Pension and Provident Funds Ltd. and other subsidiaries have received final tax assessments up to and including the year 2010.

NOTE 21:- TAXES ON INCOME (Cont.)

d. Tax assessments (Cont.)

b) In November 2012 Migdal Real Estate Holdings Ltd (hereinafter in this subsection - “the Company”) received tax assessments according to best judgment for the years 2007, 2009 and 2010 claiming that the income from dividends it received from an affiliate, which are derived from profits from revaluation of real estate assets, are subject to tax. The tax liability resulting from these tax assessments (including linkage differences and interest as at the date of publication of the financial statements) amounts to about NIS 65 million.

The Company’s disagreements with the assessments for the years 2007 and 2009 were dismissed by the tax office. The tax office issued orders on which the Company submitted in January 2014 an appeal to the Tel-Aviv District Court. The discussions with the tax authorities on the assessment for the year 2010 have not yet been concluded.
In the Company’s estimation, the tax authorities’ claims will be dismissed and provisions over and above provisions already made in the financial statements are not necessary.

e. Taxes on income included in the statements of profit and loss

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Current taxes	360,042	71,391	178,677
Deferred taxes relating to the creation and reversal of temporary difference, also see f below	(11,295)	35,353	(15,662)
Taxes in respect of previous years	(4,791)	1,174	(4,260)
Effect of change in tax rates	22,550	9,558	53,458
Taxes on income	366,506	117,476	212,213

NOTE 21:- TAXES ON INCOME (Cont.)

f. Deferred taxes

Composition:

	Deferred acquisition costs in life assurance and in health insurance	Available for sale financial assets	Fixed assets and investment property	Investments in affiliates	Intangible assets	Losses for tax purposes	Others	Total
	NIS in thousands							
Balance of deferred tax asset (liability) as at January 1, 2012	(299,052)	30,591	(60,513)	(41,014)	(76,686)	21,689	57,409	(367,576)
Changes recognized in profit and loss	(12,060)	(19,756)	1,739	834	(20,638)	6,047	8,481	(35,353)
Changes recognized in equity	-	(99,677)	-	-	-	-	(4,273)	(103,950)
Effect of change in tax rates	(7,158)	-	-	-	(429)	-	(1,971)	(9,558)
Company initially consolidated	-	-	-	-	(2,666)	-	-	(2,666)
Balance of deferred tax asset (liability) as at December 31, 2012	(318,270)	(88,842)	(58,774)	(40,180)	(100,419)	27,736	59,646	(519,103)
Changes recognized in profit and loss	10,654	(9,308)	(14,136)	1,758	(28,139)	12,176	38,290	11,295
Changes recognized in equity	-	(* (80,688)	(1,209)	-	-	-	(289)	(82,186)
Effect of change in tax rates	(16,422)	2,774	(4,076)	(3,551)	(2,117)	20	822	(22,550)
Balance of deferred tax asset (liability) as at December 31, 2013	(324,038)	(176,064)	(78,195)	(41,973)	(130,675)	39,932	98,469	(612,544)

*) Includes the effect of change in tax rate in the amount of NIS 8,588.

NOTE 21:- TAXES ON INCOME (Cont.)

f. Deferred taxes (Cont.)

The deferred taxes reported in the statements of financial position include:

	December 31	
	2013	2012
	NIS in thousands	
Deferred tax assets	19,630	15,263
Liabilities in respect of deferred taxes	(632,174)	(534,366)
	(612,544)	(519,103)

g. Theoretical tax

Hereunder is the reconciliation of the theoretical tax amount due, 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 income taxes recognized in the statement of profit and loss:

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Profit before taxes on income	983,101	335,606	507,718
Overall statutory tax rate applicable to financial institutions (see c above)	36.21%	35.53%	34.48%
Tax computed at the overall statutory tax rate	355,981	119,241	175,061
Deduction in respect of companies that are not financial institutions and are therefore not subject to profit tax	(4,675)	(4,602)	(8,025)
Increase (decrease) in taxes on income resulting from the following factors:			
Non-deductible expenses	16,013	14,972	9,980
Exempt dividend income	(14,006)	(12,331)	(2,550)
Differences in measurement basis	(1,796)	(5,527)	-
Effect of increase in tax rates on deferred taxes	22,550	9,558	53,458
Group's share of profits of affiliates	(10,995)	(9,018)	(13,357)
Increase (decrease) in losses for tax purposes for which no deferred taxes were allocated and utilization of losses for tax purposes from previous years, for which no deferred taxes were allocated in the past	12,309	3,126	2,064
Taxes in respect of previous years	(4,791)	1,174	(4,260)
Other	(4,084)	883	(158)
Taxes on income	366,506	117,476	212,213
Average effective tax rate	37.28%	35%	41.80%

NOTE 22:- ASSETS AND LIABILITIES FOR EMPLOYEE BENEFITS

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 2 r. See Note 33 regarding share-based payments.

Regarding benefits for those who hold key management positions see Note 38, in respect of related parties and an interested party.

Labor laws and the Severance Pay Law in Israel require the Company to pay severance pay to an employee upon dismissal or retirement or to make current deposits in a defined contribution plan, according to Section 14 as described below. The Company’s liabilities in this respect are treated as a post employment benefit.

The calculation of the Company's liability for employee benefits after termination of employment is made in accordance with a valid employment contract and is based on the Company’s forecast of the employee's salary at the time of dismissal or retirement.

Post employment benefits are usually financed by deposits classified as defined contribution plans or as a defined benefit plan as detailed below:

Defined contribution plans

The provisions of Section 14 to the Severance Pay Law, 1963, apply to a portion of the severance pay obligations. According to these provisions, the Company’s current contributions in insurance companies’ policies and/or in pension funds, releases the Company from any additional liability for severance pay to employees in respect of whom amounts were depositing, as mentioned above. These deposits and deposits in respect of provident benefits, constitute a defined contribution plan. In the years 2013, 2012 and 2011 the expenses in respect of the defined contribution plans amounted to NIS 54,055 thousand, NIS 50,186 thousand and NIS 41,639 thousand, respectively, and were included under administrative and general 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:- ASSETS AND LIABILITIES FOR EMPLOYEE BENEFITS (Cont.)

a. Composition of liabilities for employee benefits, net

	December 31 2013	December 31 2012
	NIS in thousands	
Liabilities in respect of defined benefit plan which is not financed	10,280	10,475
Liability in respect of financed defined benefit plan	263,768	272,619
Total liability in respect of defined benefit plan – see b1 below	274,048	283,094
Less - fair value of the plan's assets – see b2 below	72,286	72,884
Total net liability in respect of defined benefit plans	201,762	210,210
Short term benefits – provision for vacation	41,782	39,950
Other long term benefits – see c below	9,497	15,324
Share based payment settled in cash	720	12,623
Total liabilities for employee benefits, net	253,761	278,107

b. Information regarding defined benefit plans

1. Changes in the present value of the liability for defined benefit plan

	December 31 2013	December 31 2012
	NIS in thousands	
Balance as at January 1	283,094	285,301
Expenses recognized in profit or loss:		
Cost of interest	11,973	13,195
Current service costs	22,094	22,457
Net actuarial profit taken to other comprehensive income:		
Actuarial losses (gains) from demographic changes	-	(406)
Actuarial losses (gains) from changes in financial assumptions	(282)	(3,652)
Other actuarial losses (gains)	2,061	(5,652)
Other movements:		
Benefits paid	(44,892)	(28,645)
Entrance into consolidation	-	496
Balance as at December 31	274,048	283,094

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

b. Information regarding defined benefit plans (Cont.)

2. Plan assets

a) Plan assets

The plan assets include assets held by the employee long term benefit fund (provident funds for employees and pension funds) and the related insurance policies.

b) The movement in the fair value of the plan assets

	2013	2012
	NIS in thousands	
Balance as at January 1	72,884	70,767
Anticipated yield	3,237	*)2,731
Net actuarial profit (loss) recognized in other comprehensive income	3,453	*)3,539
Other movements:		
Deposits to plan by employer	2,220	1,619
Benefits paid	(9,508)	(5,906)
Entrance into consolidation	-	134
Balance as at December 31	72,286	72,884

*) Reclassified as a result of adoption of revised IAS 19 Employee Benefits

3. The main actuarial assumptions in determining liabilities in respect of defined benefit plans

	Year ended December 31		
	2013	2012	2011
	%		
Discount rate on December 31	4.37	4.33	4.70
Anticipated real salary increase	2.26	2.11	3.68
Anticipated inflation rate	2.63	2.72	2.45

Changes in one of the actuarial assumptions, assuming all other assumptions remain unchanged, will affect the defined benefit obligation as follows:

	December 31, 2013	
	+1%	-1%
	NIS in thousands	
Increase in future salary costs	11,873	(6,664)
Discount rate	(8,765)	11,953

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

b. Information regarding defined benefit plans (Cont.)

4. Expenses recognized in profit and loss

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Current service cost	22,094	22,457	22,991
Interest cost	11,973	13,195	13,363
Anticipated yield on plan assets	(3,237)	(2,731)	(3,138)
Total expenses in respect of employee benefits *)	30,830	32,921	33,216

*) The expenses were included in the salaries and related expenses under administrative and general expenses, see Note 32.

5. Actual yield

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Actual yield on the plan assets	6,690	6,270	3,963

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

- The Group estimates the expected deposits in plan assets in 2014 to fund the defined benefit plan to amount to about NIS 2,270 thousand.

- The Group estimates that the weighted average duration of the plan as at the end of the reporting period to be 10.5 years (in 2012 - 10.8 years).

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

c. Other long term benefits

	December 31 2013	December 31 2012
	NIS in thousands	
Liability for sick-pay	3,558	3,524
Anniversary grant and others	5,939	11,800
	9,497	15,324

NOTE 23:- CREDITORS AND PAYABLES

	December 31 2013	December 31 2012
	NIS in thousands	
Stock Exchange Clearinghouse and securities	148,717	172,310
Employees and other salary-related liabilities	176,774	126,803
Expenses payable	176,855	149,567
Suppliers and service providers	108,266	128,897
Government authorities and institutions	28,138	25,058
Deferred acquisition costs in respect of reinsurance	49,179	40,993
Insurance companies and brokers:		
Deposits by reinsurers	81,640	68,141
Other accounts	125,075	111,889
Total insurance companies and brokers	206,715	180,030
Insurance agents	420,349	422,841
Policyholders and members	243,632	225,920
Provision for profit participation of policyholders	10,757	9,245
Prepaid premium	65,962	115,392
Others	137,565	69,161
Total creditors and payables	1,772,909	1,666,217

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

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, are provided in Note 37.

a. Details of financial liabilities

	December 31			
	Book value		Fair value	
	2013	2012	2013	2012
	NIS in thousands			
1. Financial liabilities reported at amortized cost:				
Loans from banking institutions *)	25,285	68,793	25,285	69,118
Loans from non-banking institutions **)	103,658	44,456	104,773	47,053
Bonds constituting second tier capital	844,454	828,143	909,939	873,314
Total financial liabilities reported at amortized cost	973,397	941,392	1,039,997	989,485
2. Financial liabilities reported at fair value through profit and loss:				
Derivatives	112,764	103,031	112,764	103,031
Short sales	134,272	-	134,272	-
Total financial liabilities reported at fair value through profit and loss ***)	247,036	103,031	247,036	103,031
Total financial liabilities	1,220,433	1,044,423	1,287,033	1,092,516
*) Includes loans from a bank which is an interested party	12,150	16,092	12,150	16,092
**) Includes loan from an affiliate, see Note 38 h.3	101,653	39,995	102,768	42,591

***) The book value includes financial liabilities in respect of yield dependent policies in the amount of about NIS 97 million (2012 about NIS 80 million).

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

b. Financial liabilities reported at amortized cost – details regarding interest and linkage

Linkage basis	Effective interest December 31 2013	2012
	Percentage	
Linked to CPI	3.2	3.2
In NIS	3.0	2.1
Linked to foreign currency	1.8	2.0

c. Fair value levels of financial liabilities presented at fair value through profit or loss

The table below analyses financial liabilities that are presented at fair value.

The balance of creditors and payables in the financial statements are the same or proximate to their fair value.

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Derivatives	7,558	103,833	1,373	112,764
Short sales	134,272	-	-	134,272
Total financial liabilities	141,830	103,833	1,373	247,036
Financial liabilities which are unquoted and whose fair value is disclosed (Note 24a above)	-	1,039,997	-	1,039,997

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Derivatives	-	103,031	-	103,031
Total financial liabilities	-	103,031	-	103,031

d. Financial liabilities reported at fair value – the interest rates used to determine the fair value

	December 31 2013	2012
	Percentage	
Loans	2.4	0.6 *)
Debentures constituting second tier capital	1.5	2.1 *)
Other financial liabilities	0.7	1.4

*) Reclassified

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e. Issue of bonds (complex second tier capital at Migdal Insurance)

In the year 2012 a sub-subsidiary of the Company, Migdal Insurance Capital Raising Ltd. (hereunder - "Migdal Capital Raising") performed two private issuances to classified investors as detailed in the table below:

	Series A bonds	**Series B bonds**
Date of issue	1.2012	12.2012
Amount of issue (NIS in thousands) NIS 1 nominal value	500,000	324,656
Issue proceeds	497,529	322,942
Nominal interest rate	3.5%	2.35%
Effective interest rate	3.61%	2.46%
Linkage	Capital and interest	Capital and interest
Maturity date	12.2021	12.2024
Interest payment dates	2 semi annual payments beginning from June 30, 2012	2 semi annual payments beginning from June 30, 2013
Midroog Ltd. rating	Aa2	Aa2
First early repayment date	7 years after issue	6 years after issue
Possibility of listing for trade on the Stock Exchange	Exists. Reduction of 0.2% in the interest rate	Exists. Reduction of 0.2% in the interest rate
Pledge of bonds	Not secured under any pledge	Not secured under any pledge
Balance of deferred issue expenses as at December 31, 2013 (NIS in thousands) *)	1,851	1,446

*) Deferred issue expenses are amortized according to the effective interest method.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e. Issue of bonds (complex second tier capital at Migdal Insurance) (Cont.)

The bonds were listed in the trading system for institutional investors.

The issue proceeds were deposited in Migdal Insurance and it serves as complex second tier capital, in accordance with the Regulator's approvals. Migdal Insurance undertook to bear all the amounts required to settle the bonds of Series A and Series B holders. This commitment is subordinated until after the payment of Migdal Insurance's remaining liabilities to its creditors and it has preference over liabilities towards creditors in respect of components and instruments included in the first tier capital of Migdal Insurance.

The terms of Series A and Series B bonds determine mechanisms for the deferral of the payment of the interest and/or the principal if on their maturity date there will be certain "suspending circumstances", as defined below. The payment of the principal and/or the interest will be deferred until such suspending circumstances no longer exist or up to three years from the date of repayment of the initially determined principal and/or the interest, at the earlier of the two, unless the Regulator approved the payment of the interest at an earlier date.

"suspending circumstances" are implied when one or more of the following occur:

1. With respect to the deferral of the payment of interest -according to the latest financial statements of Migdal Insurance that were published prior to the repayment date of the interest, Migdal Insurance does not have distributable profits as defined in the Companies Law, 1999 (hereunder - "the companies law".

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

   (1) According to the Migdal Insurance's latest financial statements that were published prior to the relevant date of settlement of the interest and/or principal, the amount of the recognized equity of Migdal Insurance is lower than the minimum equity required from it (according to the capital regulations), and Migdal Insurance did not perform an equity supplementation as at the date of publication of the financial statements.

   (2) Migdal Insurance's Board of Directors instructed to defer the payment of the interest or the principal, if it thought that there is an actual concern regarding Migdal Insurance's ability to meet the minimum shareholders' equity required from it (pursuant to the Capital Regulations), or to repay on time the liabilities whose priority is higher than that of the bonds, provided that a prior approval is received from the Regulator of Insurance.

   (3) The Regulator instructed to defer the payment of the principal or interest if he realized that there is a significant damage to the recognized shareholders' equity of Migdal Insurance or there is a close actual concern regarding Migdal Insurance's ability to comply with the minimum shareholders' equity required from it (pursuant to the Capital Regulations).

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e. Issue of bonds (complex second tier capital at Migdal Insurance) (Cont.)

As long as all the payments of principal and/or interest whose repayment date is deferred have not yet been settled, Migdal Insurance will not perform any distributions, will not repay any capital note, liability certificate, or loan from its controlling shareholders or from those in whom the controlling shareholders have a personal interest, and will not pay any amount of money for any transaction that was approved or should be approved pursuant to the provisions of Section 270(4) final Section to the Companies Law, unless all the aforementioned deferred payments of the principal or interest have been settled. These restrictions will not apply to the types of payments as detailed in the Regulator's circular in relation to "the composition of the insurer's recognized shareholders' equity" (hereunder - "the composition of shareholders' equity circular").

Migdal Capital Raising will be entitled to redeem the bonds at an early redemption fully or partially, on condition that the first early redemption date will be at the end of six/seven years from the date of issue (Series A/Series B, respectively). In the event that this right for early redemption will not be exercised, there will be a payment of an additional interest over the interest that the bonds will bear at that time, for the balance of the period at the rate of 50% of the initial risk margin that was determined for the issue. The early redemption will be possible in one of the following cases: a) the issue of a capital instrument (as implied in the capital composition circular) which has the same or higher quality, or; b) receipt of the Regulator's approval at the conditions that will be set-forth.

It was determined that the bonds may be redeemed immediately under certain circumstances, such as a delay in the repayment of any amount of money regarding the bonds, beyond the determined period, the liquidation of Migdal Capital Raising, the appointment of a liquidator or an official receiver, etc. The deferral of the payments of the capital and interest in relation to the bonds, due to suspending circumstances as mentioned, does not grant the right for an immediate repayment of the bonds. The trustee will not be permitted to place the unpaid bonds for immediate redemption, without the prior written approval of the Regulator.

NOTE 25:- PREMIUM EARNED ON RETENTION

	Year ended December 31, 2013		
	Gross	Reinsurance	On retention
	NIS in thousands		
Premiums in life assurance	7,545,011	173,721	7,371,290
Premiums in health insurance	770,164	65,352	704,812
Premiums in general insurance	2,021,532	512,912	1,508,620
Total premiums	10,336,707	751,985	9,584,722
Less – change in the unearned premium balance *)	(264,133)	(34,648)	(229,485)
Total premiums earned	10,072,574	717,337	9,355,237

	Year ended December 31, 2012		
	Gross	Reinsurance	On retention
	NIS in thousands		
Premiums in life assurance	7,357,962	158,095	7,199,868
Premiums in health insurance	692,480	62,595	629,884
Premiums in general insurance	1,406,343	454,398	951,945
Total premiums	9,456,785	675,088	8,781,697
Less – change in the unearned premium balance *)	19,243	26,493	(7,250)
Total premiums earned	9,476,028	701,581	8,774,447

	Year ended December 31, 2011		
	Gross	Reinsurance	On retention
	NIS in thousands		
Premiums in life assurance	6,846,767	179,274	6,667,493
Premiums in health insurance	614,993	62,850	552,143
Premiums in general insurance	1,446,169	484,339	961,830
Total premiums	8,907,929	726,463	8,181,466
Less – change in the unearned premium balance *)	(15,840)	(7,429)	(8,411)
Total premiums earned	8,892,089	719,034	8,173,055

*) Mainly in general insurance, see Note 17.

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

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Profits (losses) from assets held against yield dependent liabilities			
Investment property	365,449	336,198	404,025
Financial investments:			
Quoted debt assets	960,483	1,436,366	450,817
Unquoted debt assets	622,167	1,264,472	164,057
Shares	1,802,668	824,008	(1,964,590)
Other financial investments	3,707,565	1,847,318	(551,418)
Cash and cash equivalents	(74,709)	11,821	32,656
Total profits (losses) from assets held against yield dependent liabilities, net	7,383,623	5,720,183	(1,464,453)
Profits (losses) from assets held against non-yield dependent liabilities, capital and others			
Income from investment property:			
Revaluation of investment property	4,900	4,631	10,327
Current income in respect of investment property	32,977	27,539	34,876
Total income from investment property	37,877	32,170	45,203
Profits (losses) from financial investments, except for interest and linkage differences rate differences and dividend in respect of:			
Available for sale assets (a)	121,943	90,138	(47,304)
Assets reported at fair value through profit and loss (b)	46,925	(20,456)	33,704
Assets reported as loans and debtors (c)	(4,927)	5,333	(8,347)
Interest income *) and linkage differences from financial assets not at fair value through profit and loss	1,714,524	1,581,519	1,766,789
Interest income and linkage differences from financial assets at fair value through profit and loss	654	479	1,782
Profit (losses) from exchange rate differences in respect of investments not measured at fair value through profit and loss and other assets **)	(23,922)	223	33,715
Income from dividend	108,730	114,591	299,961
Total profits from net investments and finance income	9,385,427	7,524,180	661,050
*) The above income includes interest in respect of financial assets not reported at fair value through profit and losses whose value was impaired	6,184	13,516	14,551

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

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

a. Net profits (losses) from investments in respect of available for sale assets

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Net profits from realized securities	209,219	200,516	150,338
Net impairment recognized in profit and loss	(87,276)	(110,378)	(197,642)
Total profits (losses) from investments in respect of available for sale assets	121,943	90,138	(47,304)

b. Profits (losses) from investments in respect of assets reported at fair value through profit and loss

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Net changes in fair value, including realization profit:			
In respect of assets designated upon initial recognition	1	(439)	8,313
In respect of assets held for trade	46,924	(20,017)	25,391
Total profits (losses) from investments in respect of assets reported at fair value through profit and loss	46,925	(20,456)	33,704

c. Profits (losses) from investments in respect of assets reported as loans and debtors

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Net profits from the realization of assets reported as loans and debtors	(746)	-	-
Net impairment recognized in profit and loss	(4,181)	5,333	(8,347)
Total profits (losses) from investments in respect of assets reported as loans and debtors	(4,927)	5,333	(8,347)

NOTE 27:- INCOME FROM MANAGEMENT FEES

a. Composition:

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Management fees in the pension and provident branches	441,058	426,321	395,216
Variable management fees in respect of life assurance contracts	636,600	*) 171,600	*) -
Fixed management fees in respect of life assurance contracts	473,578	402,143	351,500
Management fees in respect of investment contracts	4,896	473	-
Total income from management fees from members and policyholders	1,556,132	1,000,537	746,716
Other management fees	140,666	136,961	159,242
Total management fees	1,696,798	1,137,498	905,958

*) In 2012 the Company collected variable management fees in yield dependent policies issued between the years 1991 – 2003 in the amount of about NIS 172 million before tax, after it had not collected variable management fees in the amount of about NIS 357 million before tax in the year 2011.

a. Management fee reduction

In June 2012 the Supervision of Financial Services (Provident Funds) (Management Fees), Regulations 2012, the Supervision of Financial Services (Insurance) (Insurance Contract Conditions) (Amendment), 2012 and the Income Tax Regulation Draft (Principles for Approval and Management of Provident Funds) (Amendment No. 4), 2012, regarding the amendment to the management fees in pension saving products (hereunder – the Regulations), were published. In addition, in June 2012, the Institutional Entities circular regarding management fees for pension saving instruments (hereunder – the circular), was published. The aforementioned directives will be called “the management fees reform”.

NOTE 27:- INCOME FROM MANAGEMENT FEES (Cont.)

b. Management fee reduction (Cont.)

1) Changes in the maximum management fees rate

In accordance with the management fee reform, the maximum management fees rate for managers insurance, will change gradually (regarding new products), in the new general provident and pension funds. The change in the management fees will not apply to the following:

Insurance policies issued prior to the commencement of the regulations, yield guaranteed insurance fund, yield guaranteed provident fund, old pension fund, new comprehensive pension fund, educational fund, personally managed provident fund, central provident fund, segmental provident fund, provident fund for sick pay, provident fund for vacation and provident fund for other purposes.

Hereunder is a table that describes the main changes in the maximum annual management fees for various products (excluding members receiving annuity).

Maximum management fees	Managers insurance (participating in profits)	Provident fund	New general pension fund
Situation prior to amendment	Up to 2.0% of the accruals + 0.0% of the deposits or a lower rate than the accruals and a higher rate of the deposits (according to the mix approved by the Regulator when the management fees from the deposits were between 0.0% and 13.0%)	Up to 2.0% of the accruals + up to 0.0% of the deposits	Up to 2.0% of the accruals + 0.0% of the deposits
On the transitional period from January 1, 2013 up to December 31, 2013	Up to 1.1% of the accruals + up to 4.0% of the deposits		
Beginning from January 1, 2014	Up to 1.05% of the accruals + up to 4.0% of the deposits		

NOTE 27:- INCOME FROM MANAGEMENT FEES (Cont.)

b. Management fee reduction (Cont.)

2) The entrance of the Regulations into force and the change in the maximum management fees, are expected to decrease the management fees that will be collected by the financial institutions in the Group, compared to the management fees that would have been collected without the said change. In addition, the entrance of the regulations into force might increase the rate of cancellation of policies with higher management fees that the company sold in the past and their replacement or transfer to new policies with low management fees. The Company estimates that the discontinuation of marketing of life assurance plans combined with savings which include guaranteed pension coefficients, as mentioned in Note 37.b.3.b)(6), might moderate this issue.

NOTE 28:- INCOME FROM COMMISSIONS

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Insurance agencies' commissions	177,684	176,364	174,642
Reinsurance commissions, net of change in deferred acquisition costs in respect of reinsurance	145,349	133,947	154,710
Other commissions	37,077	40,199	50,564
Total income from commissions	360,110	350,510	379,916

NOTE 29:- OTHER INCOME

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Capital gain from the sale of fixed assets	-	200	86
Other capital gain	-	500	4,070
Other activities	35,446	16,325	5,099
Total other income	35,446	17,025	9,255

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

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
In respect of life assurance contracts:			
Claims paid and outstanding			
Death, disability and others	953,753	868,304	862,985
Less reinsurance	(* 116,463	76,177	52,750
	837,290	792,127	810,235
Surrenders	1,755,741	1,778,361	1,715,191
Maturities	848,464	793,309	760,395
Annuities	287,100	224,255	180,024
Total claims	3,728,595	3,588,052	3,465,845
Increase in liabilities in respect of life assurance contracts (except for change in outstanding) on retention	11,875,672	10,220,392	2,700,510
Increase in liabilities in respect of investment contracts for yield component	41,677	39,249	25,764
Total payments and change in liabilities in respect of insurance contracts and investments contracts on retention, in respect of life assurance contracts	15,645,944	13,847,693	6,192,119
Total payments and change in liabilities in respect of general insurance contracts:			
Gross	1,171,044	846,316	1,104,741
Reinsurance	172,294	138,840	277,498
On retention	998,750	707,476	827,243
Total payments and change in liabilities in respect of health insurance contracts:			
Gross	638,091	519,805	394,222
Reinsurance	40,365	29,068	33,625
On retention	597,726	490,737	360,597
Total payments and change in liabilities in respect of insurance contracts and investment contracts on retention:	17,242,420	15,045,906	7,379,959

*) Includes gain in the amount of NIS 52 million from a transaction of purchase of an old reinsurance portfolio in work disability from Generali and its sale to Swiss Re. See Note 38.e.1.c).

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

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Acquisition expenses:			
Acquisition commissions	509,636	442,402	393,284
Other acquisition expenses	481,879	437,955	412,718
Change in deferred acquisition costs	(111,537)	(85,009)	(83,771)
Total acquisition expenses	879,978	795,348	722,231
Other current commissions	552,215	539,727	510,695
Other marketing expenses	48,646	46,038	31,297
Total commission, marketing expenses and other acquisition expenses	1,480,839	1,381,113	1,264,223

NOTE 32:- ADMINISTRATIVE AND GENERAL EXPENSES

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Salaries and related expenses	1,074,238	983,883	940,380
Depreciation and amortization	210,080	178,595	146,575
Maintenance of office premises and communications	149,463	157,912	151,574
Marketing and advertising	75,461	88,256	93,636
Professional and legal counseling	45,835	47,889	52,817
Others	206,958	194,936	171,741
Total *)	(** 1,762,035	1,651,471	1,556,723
Less:			
Amounts classified under change in liabilities and payments in respect of insurance contract item	(115,213)	(109,218)	(106,269)
Amounts classified in commissions, marketing expenses and other acquisition expenses	(552,503)	(508,853)	(476,417)
Administrative and general expenses	1,094,319	1,033,400	974,037
*) Administrative and general expenses include expenses in respect of IT	366,832	323,772	271,248

**) Includes expenses of NIS 97 million in respect of a special grant given primarily to Group employees. See Immediate Report of the Company from November 25, 2013.

NOTE 33:- SHARE BASED PAYMENT

a. Expenses recognized in the financial statements

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

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
In respect of grants settled in cash	658	4,879	4,975
In respect of capital grants	403	3,885	7,955
	1,061	8,764	12,930

Share based payment transactions granted by the Company to its employees are described below. During the years 2011 through 2013 no changes or cancellations were made in the said employee benefit plans.

NOTE 33:- SHARE BASED PAYMENT (Cont.)

b. Additional information regarding share based payment plans

	Plan 2010 (2)	Plan 2009 (1)
Number of options issued to the Chairman	679,997	650,000
Number of options issued to the CEO	1,131,684	1,000,000
Number of options issued to the other employees included in the plan	13,552,606	9,698,875
Total options issued	15,364,287	11,348,875
Balance of unrealized options as at the balance sheet date	1,552,432	5,333,625
Conversion ratio	1	1
Adjusted realization price as at December 31, 2013 (3)	0.01	5.55
Date of grant to Chairman of the Board of Directors and CEO	10/2010	9/2009
Date of grant to other employees included in the plan	08/2010	8/2009
Vesting date *)	01/2013	1/2012
Expiration date *)	-	12/2014
Fair value (NIS in millions) as at the date of grant **)		
To the Chairman of the Board of Directors and the 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 option 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 realization period beyond the vesting period (see paragraph (2) below).

**) All the options that were granted in the aforementioned plans were deposited with a trustee in a capital track pursuant to Section 102 to the Income Tax Ordinance.

NOTE 33:- SHARE BASED PAYMENT (Cont.)

b. Additional details regarding the share based payment plan (Cont.)

(1) 2009 plan

On August 17, 2009, the Company's Board of Directors approved a share based payment plan for officeholders and managers in the Group.

The plan includes an allocation of 12,000,000 options that are not listed for trade on the Tel-Aviv Stock Exchange granting the participant who holds them the right to receive, through an allotment, up to 12,000,000 Ordinary shares NIS 0.01 nominal value each.

The vesting period of the 2009 Plan ended on December 31, 2011 and the realization period will end on December 31, 2014.

(2) 2010 plan

On August 24, 2010, the Company's Board of Directors approved a long term remuneration plan, in respect of the Group's officeholders and managers. The plan includes cash grants and a private allotment of up to 16,445,413 eligibility deeds (hereunder "the eligibility deeds" / "options"), which are not listed for trade on the Tel Aviv Stock Exchange Ltd. and which grant the participants who hold them the right to receive by way of an allotment up to 16,445,413 ordinary shares of NIS 0.01 par value of the Company. The shares are allotted in two stages when the conditions for their allotment are met, as detailed below, and in return for the payment of their par value. The Company has actually allotted 15,364,287 eligibility deeds.

On October 21, 2010, the Company's General Assembly approved the allotment of the eligibility deeds to the Company's Chairman of the Board of Directors.

The long term remuneration plan for the year 2010 is for the period of 6 years and include two consecutive stages of three years each (hereunder – "Stage I and "Stage II"). Unlike the previous remuneration plans, the share cost 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 (hereunder – "the target grant", which is paid to him 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 the 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 by 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 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 details regarding the share based payment plan (Cont.)

(2) (Cont.)

At the end of Stage II, which ends on December 31, 2015. Any participant who received an allotment of shares in respect of the profitability element at the end of Stage I, will be entitled to an allotment of additional shares of the Company (Stage II shares), without any additional payment (except for an insignificant payment of their par value). The number of shares will be determined on the basis of the Group's rating compared to four other groups in the same area of activity, according to parameters that were set forth in the plan.

The book value of the liability portion of this option plan (treated as a cash settled grant plan) was NIS 12,623 thousand as at December 31, 2012.

(3) In the 2009 Plan the exercise price of each option is determined by the multiplication of the conversion ratio which will be determined by the basic exercise price, with the addition of linkage difference to the CPI and adjusted for dividend distribution in accordance with the rules prescribed in the option program. In the 2010 plan the exercise price for each option is the par value of NIS 0.01 per share.

(4) In the framework of the acquisition of the subsidiary Infomed - Medical Internet Portal Ltd., on September 26, 2011, a put option was given to one of the shareholders according to which he will be entitled to realize his shares in the acquired company subject to continuing to provide the subsidiary with management services for a period of 60 months. The realization price of the option is a multiplier of 5 on the company's average annual net profit for the two years preceding realization of the option. This option is accounted for as a share-based payment settled in cash. The liability in respect of the said option is insignificant.

NOTE 33:- SHARE BASED PAYMENT (Cont.)

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:

	2013		2012		2011	
	Number of options	Weighted average realization price	Number of options	Weighted average realization price	Number of options	Weighted average realization price
		NIS		NIS		NIS
Share options:						
As at beginning of year	21,496,407	2.31	26,797,902	2.75	29,042,052	2.63
Forfeited during the year	(9,515,001)	0.14	(5,102,870)	4.50	(2,030,324)	1.76
Realized during the year *)	(5,095,349)	5.57	(198,625)	5.97	(213,826)	5.84
As at the end of the year	6,886,057	4.30	21,496,407	2.31	26,797,902	2.75
Realizable as at the end of the year	5,333,625	5.55	8,763,750	5.66	2,798,658	6.02

(*) The weighted average price of the share in respect of the options exercised in 2012 - 6.06, in 2011 - 6.27 and in the year 2010 - 7.62.

d. The weighted average remaining contractual life for the share options outstanding as of December 31, 2013 is 1.23 years (in 2012 – 2.59 years and in 2011 – 2.64 years). The anticipated term of these plans range between one to four years for each of the years presented above.

e. The range of exercise prices for 2009 plan share options exercisable in the year 2013 is NIS 5.65 – NIS 5.55 per option (in 2012 – NIS 5.97 – NIS 5.66, in 2011 – NIS 5.98 - NIS 5.66 per option). The exercise price of eligibility deeds in the 2010 plan exercisable in 2013 is NIS 0.01.

f. Measurement of the fair value of equity-settled share options

In the 2009 Plan the Company used the binomial model for measuring the fair value of equity-settled share options. In the 2010 plan, according to its economic nature which is derived from the new policy that the Company outlined, the Company used a model for pricing shares for the measurement of the fair value of the benefit which is partly settled by capital instruments. The measurement is made on the date of grant of the options to the Company's employees.

The following table lists the inputs to the binomial model used for the fair value measurement of the benefit granted to the employees of the Company.

	Plan 2010 (2)	Plan 2009 (1)
Dividend yield per share (%)	3.69	1.33
Expected fluctuation of the share prices (%) *)	-	33.78
Historical fluctuation of the share prices (%)	-	33.78
Risk-free interest rate (%)	2.99	1.49
Realization 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 prices reflects the assumption that the historical volatility of the share prices 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 paragraph b.2 above.

NOTE 34:- OTHER EXPENSES

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Amortization of intangible assets (except for computer software) *)	30,946	26,681	26,572
Other activities	19,726	6,430	187
Total other expenses	50,672	33,111	26,759

(*) For additional details see Note 4a.

NOTE 35:- FINANCE EXPENSES

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Interest expenses and linkage differences in respect of:			
Liabilities to banks and affiliate *)	6,118	5,321	9,334
Finance expenses in respect of bonds	41,994	25,205	-
Interest expenses to reinsurers	755	765	1,016
Exchange rate differences, net in respect of liabilities **)	(4,970)	734	12,247
Commissions and other finance expenses	8,426	6,951	2,555
Total finance expenses	52,323	38,976	25,152

*) For details regarding a loan from an affiliate see Note 38.h.3.
**) For exchange rate difference for financial investments See Note 26.

NOTE 36:- EARNING PER SHARE

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Basic and diluted earnings per NIS 1 share attributed to the Company's shareholders (in NIS)	0.59	(* 0.20	(* 0.28

*) Restated - see Note 2g regarding the initial adoption of the revised IAS 19 - Employee Benefits.

NOTE 36:- EARNING PER SHARE (Cont.)

a. Basic earnings per share

The calculation of the basic earnings per share for the year 2013, was based on the net profit attributed to the holders of ordinary shares in the amount of NIS 617,770 thousand (in 2012 and 2011 profit in the amount of NIS 217,236 and NIS 295,065 respectively) divided by the weighted average number of ordinary shares outstanding as detailed below:

Weighted average number of ordinary shares

	Year ended December 31		
	2013	2012	2011
	Number of shares (in thousands)		
Balance as at January 1	1,051,666	1,051,656	1,051,640
Effect of options exercised into shares	1,387	**) -	11
Weighted average number of ordinary shares used for calculation of basic earnings per share as at December 31	1,053,053	1,051,656	1,051,651

**) Less than NIS 1 thousand.

b. Diluted earnings per share

The calculation of the diluted earnings per share for the year 2013 was based on the net profit attributed to the holders of ordinary shares in the amount of NIS 617,770 thousand (in the years 2012 and 2011 a profit of NIS 217,236 thousand and NIS 295,065 thousand, respectively) divided by the weighted average number of ordinary shares outstanding during the period, after adjustment in respect of all the potential diluting ordinary shares as detailed below

Weighted average of the number of ordinary shares (diluted)

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Weighted average number of ordinary shares used for calculation of basic earnings per share	1,053,053	1,051,656	1,051,651
Effect of dilutive potential ordinary shares	1,688	13,219	14,020
Weighted average number of ordinary shares used for calculation of diluted earnings per share as at December 31	1,054,741	1,064,875	1,065,671

NOTE 36:- EARNING PER SHARE (Cont.)

b. Diluted earnings per share (Cont.)

The average market value of the Company's shares, for calculation of the dilutive effect of option warrants to shares, was based on the quoted market prices for the period in which the option warrants were outstanding.

In 2012 and 2011, in calculating the diluted earnings per share, 8,236,250 and 2,678,658 employee options, respectively, were not included since their inclusion has an anti-dilutive effect. See Note 33 regarding forfeited options in each of these years.

NOTE 37:- RISK MANAGEMENT

a. General

1. The principal risks

The Group operates in the insurance and long-term savings, and financial services areas of activity. The insurance activities focus on life assurance and long term savings (life assurance, pension funds and provident funds), health insurance and general insurance. Financial services activity focuses on the rendering of financial asset management services and the marketing of investments, transaction services on the TASE and in regulated markets and custodian services, underwriting and investment banking.

The Company's activities expose it to the following risks:

- market risks;
- liquidity risks;
- insurance risks;
- credit risks;
- operating risks.

These risks are accompanied by general risks such as: legal risks, goodwill risks, business risks (such as: increase in competition, change in public tastes) etc.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General (Cont.)

1. The principal risks (Cont.)

Market risks – The risk that the fair value or future cash flows of financial assets, financial liabilities or insurance liabilities will change as a result of changes in market prices. Market risks include, among others, risks resulting from changes in interest rates, stock exchange rates, the CPI and foreign currency exchange rates.

Liquidity risks – The risk that the Group will have difficulties in fulfilling obligations related to its liabilities on time.

Insurance risks –
Life assurance and health insurance risks and actuarial risks in pension funds (the actuarial risks in the pension fund rest with the members, and their effect on the managing company is with respect to the management fees) result from uncertainty in the anticipated future claims payment with respect to the assumptions relating to mortality/longevity rates, morbidity/disability rates, expenses, cancellations or surrenders.
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 credit spreads on the capital market.

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 an appropriate IT system infrastructure and/or system weaknesses and failures may expose the Group to the risk of incompliance with regulatory requirements and a failure of various operating processes.

For additional information on the risks, see paragraph b. below.

The Board of Directors of Migdal Insurance overseas business activities and the attendant risks and the risk management processes by defining the risk exposure policy and strategy including, inter alia, determining risk management policies, limits of exposure to risks and the manner of compliance with policies and risk exposure limitations.

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 activities:

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:

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General (Cont.)

2. Legal requirements (Cont.)

In the framework of the Supervision 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.

Credit management – directives were set in order to make sure that there will be appropriate management, supervision and control mechanisms for management of credit risks while carrying out investment activities, including regarding the establishment of a credit committee and its roles; setting a policy for providing credit as well as ways of supervision, control and reporting to the various investment committees and to the Board of Directors.

Reinsurers – directives regarding management of exposure to reinsurers ("reinsurers' exposure") were prescribed.

Capital requirements – directives were determined regarding the minimum capital requirements, for further details see Note 7.e.

Risk management -

- In the framework of the Bachar legislation a legal requirement was imposed on institutional entities (insurer, pension fund and provident fund) to appoint a risk manager. In October 2006 the Regulator published a circular concerning the appointment of a risk manager for insurance companies and pension funds. In August 2009, a circular was published on a risk management and control system for provident fund management companies ("Risk Management Circulars").

  The risk management according to the Risk Management Circulars, includes the identification of risks that are significant to the insurer's financial strength, examination of the quality of risk management and quantification of the risks in order to come to provide an evaluation of the required capital in order to bear these risks (the economic capital). In this respect, the economic capital is defined as the level of the capital that is required to guarantee the Company's repayment ability against an event of the largest loss that might occur at a given level of certainty and during a given period.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General (Cont.)

2. Legal requirements (Cont.)

Risk management (Cont.)

According to the Risk Management Circulars the duties of the risk manager are mainly:

- To identify insurance and financial risks which are significant to the insurer's financial strength and to its ability to meet obligations to present and future policyholders or the risks confronted by pension fund or provident fund members, to identify the material risks that stem from the assets held against the insurer's liabilities and the material risks that are derived from the assets that are held against yield dependent liabilities.

- Quantification of the exposure and evaluation of the potential risk of the significant risks that were identified according to the criteria defined by the insurer, the pension fund or the provident fund and for future periods that will be determined.

- The evaluation of the shareholders' equity (the economic capital) that is required from the insurance company in order to bear the material risks while taking the level of correlation between the various risks into account.

– Periodic reporting to the general manager, Board of Directors and the investment committees, as the case may be, which mainly includes the identification of the main risks, the estimate of their potential risk on the future financial situation of the insurer, the pension fund or provident fund members, and an evaluation of the controls and measures taken for management of these risks.

– To provide recommendations for improving the manner of managing the principal risks.

In January 2014, in the framework of the Comprehensive circular, the Chapter on Risk Management of Institutional Entities was published. The instructions included thereunder will become effective on April 1, 2014. This Chapter compiles some of the Circulars on Risk Management and even expands the responsibilities of the Chief Risk Officer especially with respect to his review, at least once a year of the risk and potential risks of assets held against the insurer's liabilities before the Board of Directors and the non yield dependent investment committee, for the purpose of determining the investment policy and its amendment.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General (Cont.)

2. Legal requirements (Cont.)

- Adoption of Solvency II ("the Directive")

In 2008 and 2010 the Regulator published circulars determining directives regarding the preparations of the insurance companies in Israel for implementing the directive Solvency II concurrently with the implementation of the Directive in the European Union countries. The Directive includes a comprehensive examination of the risks to which the insurance companies are exposed and the determination of standards for handling and measuring them, together with provisions for allocation of capital to risks that encompass their activities. Apart from the quantitative aspects, the Directive focuses also on the internal supervision and control activities, as well as market discipline, disclosure and reporting.

Under the circulars the Regulator informs the insurance companies about the actions they should take in order to adopt the Directive: adjustments of capital requirements, upgrade of the risk management system, the control and corporate governance in insurance companies, adjustment of the manner of supervision over insurance companies to the risk based method and adjustment of the general regulatory environment to the Directive's principles.

In September 2012 the Regulator published a letter regarding the Israeli solvency governance. In this letter the Regulator noted that due to the uncertainty regarding the timetable for implementing Solvency II in Europe, he intends to develop risk based solvency governance in the spirit of Solvency II. In his letter the Regulator specifies the measures he intends to take which include: an adjustment of the Regulation's outline to the Directive on the basis of the differences that were mapped; a report regarding the solvency according to the IQIS model (Quantitative Evaluation of the Capital position); which will be performed commencing from the middle of 2013; publishing a draft guideline for submitting the ORSA report (self evaluation of risk and solvency), submitting the draft ORSA report to the Supervision of Insurance, after discussing its findings in the Board of Directors, at the end of the year 2013. (As at the date of the publishing of the financial statements the guidelines for participation of the ORSA report have not been published.) The final ORSA report will be devised up to the end of the year 2014 and the insurers will submit it to the Regulator on a regular basis beginning from the year 2015; capital additions if it turns out that such additions are required according to the ORSA reports, IQIS results, the quality of the corporate governance and the risk management in the company, based on the methodology that will be published during the year 2014. In addition, the hierarchy of the regulatory interference will be regularized in the event of a financial deterioration in the insurance company's position. In addition, after obtaining adequate experience in the results of IQIS reporting, new risk based capital regulations will be published and the insurance companies will be required to maintain shareholders' equity accordingly.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General (Cont.)

2. Legal requirements (Cont.)

- Adoption of Solvency II ("the Directive") (Cont.)

During the period of preparations for the application of the Directive, guidelines are published from time to time for the calculation of capital requirements according to the Quantitative Impact Study (QIS) model, which includes the quantification of a variety of insurance and financial risks that the insurance companies confront based on the requirements defined in the relevant Regulator's circulars. Until now there were changes in these guidelines from year to year and the calculated results of the capital requirements have changed accordingly.

The implementation of Solvency II under the current IQIS model, may result in a significant increase in the Capital requirements.

The model, at this stage, is very sensitive to changes in market and other variables, therefore, the capital requirements derived from its application could be very volatile.

The model has not yet been approved and there are significant issues which are being discussed in Europe as well as in Israel. Furthermore, the rules determining the period during which the capital requirements are to be met, if and when necessary, have not yet been determined.

The Company is unable to predict the results of the above discussions and effect of the resulting regulatory decisions on future capital requirements and their effect in the future on the components of the business activities of insurance companies as a whole and on the Company in particular.

Operating risks – in addition to the above arrangements, the Regulator published directives regarding the management of specific exposures of which the main ones are: embezzlement and fraud ("the Embezzlement Circular") and data protection risks management ("data protection") and of IT risk management.

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 Regulator 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).

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General (Cont.)

2. Legal requirements (Cont.)

- Adoption of Solvency II ("the Directive") (Cont.)

In the financial services activities:

Migdal Capital Markets and its subsidiaries operate in accordance with the directives of various regulators including the Israel Securities Commission, and the Tel Aviv Stock Exchange which have set guideline rules and limitations on the activities of Group companies including rules for giving loans to customers and managing credit, managing security, and instructions regarding customer activities with respect to derivative financial instruments and instructions regarding the management of customer funds, and the management of mutual funds etc.

3. Description of procedures and methods of risk management

a) The risk management array includes:

In the insurance and long-term savings activities:

- a risk management forum headed by the insurance company's CEO in which managers from various fields, the actuaries of the various insurance fields and the risk manager participate.

- the risk management unit is responsible for the coordination of the following principal issues, in cooperation with the headquarter units responsible for the various issues: risk identification and their quantification, submission of reports regarding exposure to current or extraordinary risks to the reporting entities (in other words, to the investment committees, the Board of Directors, the risk management forum, etc.), application of risk evaluation systems and their management in the various fields in the Group and the application of the Regulatory directives relating to risk management in the various fields.

The Company has appointed a risk manager for the insurance company and institutional bodies managed by it.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General (Cont.)

3. Description of procedures and methods of risk management (Cont.)

a) The risk management array includes: (Cont.)

In the financial services activities:

The persons responsible for managing risks in Migdal Capital Markets entities are the CEOs of each entity.

In addition, a risk management department is engaged in adopting new regulation and in compliance with regulatory requirements and with internal management instructions. This department is not dependent on the CEO's of the subsidiary companies and it operates independently within Group companies on the dissemination of risk management methodologies, preparation of exposure presentations and the updating and distribution of policies under a planned methodology.

With respect to some of the activities policy documents have been defined in accordance, inter alia, with the risk appetite and management method.

The risk management department reports to the Board of Directors of Migdal Capital Markets and its subsidiaries on its findings including with regard to incompliance with Company policy and procedures.

b) The Group's risk management policy

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, as detailed below:

The insurance and long-term savings activities:

Market risks are managed by the investment managers in accordance with the law and the overall policy of the Board of Directors and of the investment committees of the asset portfolios of the members' funds: the profit participating policies, pension funds and provident funds (in which the risk is borne by the members), and that of the Nostro assets portfolios: the insurance businesses and Migdal Holdings ("the Investment Committees").

These bodies receive reports regarding exposure of the Group's various investment portfolios to changes in the money and capital markets which include, as mentioned, interest rates, foreign currency exchange rates and inflation, including management of the assets versus the liabilities, and with reference to this, they define the exposure levels to the various investment vehicles as a framework for investments made by the Group's investment department, subject to the Ways of Investment Regulations.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General (Cont.)

3. Description of procedures and methods of risk management (Cont.)

b) The Company's risk management policy (Cont.)

For information regarding the exposure to the linkage bases of the managed portfolios see paragraph c hereunder.

Liquidity risk is managed by the investment managers by regularly monitoring the average duration of assets compared to the average duration of liabilities in the various investment portfolios and by quantifying the anticipated loss in an extreme scenario of the immediate disposal of assets. The matter is discussed in the Board of Directors and in the investment committees of the managed portfolios, both the Nostro portfolios and the members' portfolios, the profit participating portfolios and the pension and provident funds portfolios. The exposure limits to risk factors of the assets in the managed portfolios is determined in accordance with this data.

The 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 carried by the members). The Board of Directors receives the exposure valuation of the maximum loss that is expected from the significant insurance risks, at the confidence level prescribed, based on the following risk components:

- the extent of the maximum anticipated loss as a result of the exposure to a single large damage, or an accumulation of damages in respect of an extremely large event (catastrophic event), as well as the exposure to an unexpected change of the risk factors that are covered in policies sold by the Company, at a given level of certainty during the period of one year.
- the effect of the measures taken by the Company for dispersion, reduction or limitation of the insurance risks, by underwriting procedures and rules for receipt of business and through reinsurance arrangements, in order to reduce the aforementioned anticipated loss as a result of the exposure to insurance risks.
- the effect of the Company's activities for reducing/limiting risks, including reinsurance arrangements, the potential effect of the exposures to significant insurance risks on the Company's future financial position and the required shareholders' equity against these risks (economic capital).

Regarding the estimate of the Company's exposure to insurance risks (and to the actuarial risk of the pension fund members), the Board of Directors determines the Company's or the fund's exposure limitations to these risks.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General (Cont.)

3. Description of procedures and methods of risk management (Cont.)

b) The Company's risk management policy (Cont.)

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 risk ratings, liquidity, collateral, 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 paragraph b.4.a).(2) below.

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 paragraph b.1.4.

Main operating risks – managed by the department heads and supported by various units including the control units, organization and methods unit, compliance officer, SOX manager, 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.)

c) Work processes and the method of identifying risks

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.

The overall risk facing the Company as a result of its activity in the various branches is quantified by calculating the capital versus risk (economic capital) that is required in order to cover the loss arising at a given level of probability over a given period of time for the following principal risk categories:

Market risks and liquidity risks:

The exposure of the investment portfolios to market risks is quantified by measuring the value at risk (VaR), which measures the maximum potential damage at a given probability over a given period of time, and also by examining the damage expected for the Group under various extreme scenarios. The exposure to interest risk is examined by comparing the average duration and internal rate of return of assets and liabilities (ALM) and by examining the effect of changes in interest curves on their fair value. The average duration gap serves as an indication of the liquidity risk in the portfolios (negative gap – a longer average duration of liabilities than of assets – low liquidity risk, and exposure to decline in interest rates and vice versa).
Regarding portfolios in which the exposure to liquidity risks is relatively high (such as the further education and provident funds) the expected loss as a result of an extreme scenario of immediate realization of funds, is also calculated.

In addition, in respect of the managed portfolios (the Nostro portfolios and the asset portfolios of the members' funds: the profit participating policies, pension funds and provident funds) various performance indices are calculated with respect to the relation between the return that is obtained and the level of risk in the portfolio.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General (Cont.)

3. Description of procedures and methods of risk management (Cont.)

c) Work processes and the method of identifying risks in the insurance companies (Cont.)

Insurance risks:

In life assurance, health insurance and pension funds – Quantification of the exposure to loss deriving from the risk components of life assurance, health insurance and the actuarial risks in pension funds such as risks of death and disease, life expectancy, a particularly large event such as an earthquake, war or act of terror (catastrophic event), and an increase in rates of cancellations and surrenders. The exposure is quantified by the effect of extreme scenarios on the value of the long term savings portfolios taking into consideration the correlation between the risk factors over a one-year horizon.

In general insurance – The exposure to a significant deterioration in the risk factors covered by the policies such as an individual large event of damage or cumulative damages in respect of a particularly large event, such as an earthquake (catastrophic event), and the effect of reinsurance arrangements on the potential loss for Migdal Insurance is quantified using stochastic models that measure the value at risk (VaR) at a given level of probability over a one-year horizon, mainly on the basis of the behavior of these risks in the past.

A calculation is also made of the exposure to a deterioration in future payments for outstanding claims in excess of the reserves existing for such claims.

Credit risks:

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 duration of the asset.

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.

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 paragraph b.4.b)(1) below.

The credit rating of reinsurers is determined principally according to the rating of Standard & Poor's (S&P). Where S&P has not issued a rating, the rating is determined by another rating company and converted according to a scale provided in the Ways of Investment Regulations.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General (Cont.)

3. Description of procedures and methods of risk management (Cont.)

c) Work processes and the method of identifying risks (Cont.)

Operating risks:

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.

New products:

The process of entering into a new insurance plan or new area of activity in the Group or the updating of existing products in respect of the creation of a new risk in existing activity, is executed according to a procedure for launching a new product that complies with, inter alia, regulatory instructions on this matter. The risks associated with the product are identified and quantified as follows:

Insurance risks – The exposure to insurance risks is measured by the appointed actuary while taking into consideration both the risk expectancy, which serves as a basis for pricing the product, and the exposure to potential losses expected in excess of the risk expectancy, under various scenarios and at various probabilities.

Market risks – In products involving any kind of guaranteed yield, the exposure to market risk is measured using stochastic tools that measure both the expected loss in respect of market risks (which is the basis for pricing the product) and the expected potential loss at a given level of certainty, in respect of such risks.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General (Cont.)

3. Description of procedures and methods of risk management (Cont.)

d) 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 and managed by the heads of the departments and the control manager, who examines the work procedures as well as compliance with Company policies and application of regulations and acts to locate and minimize risks, according to the annual control plan as part of the work plan approved by the Board of Directors.

- the risks management unit. See paragraph a.3.a) above.

- the internal auditor combines in his work plans issues that were defined in the risks survey as issues that require special attention.

Market risks and liquidity risks

The exposures of the Group's various asset portfolios are measured monthly and include the risk indices described in paragraph 3.c above, as well as the situation of the exposures to risk factors compared to limitations that were determined by the Board of Directors and the various investment committees.

The exposure to interest risk which is measured by means of the average duration gap between assets and liabilities, is performed once a quarter.

Exposure reports are provided regularly to the respective investment committees of the various asset portfolios. A summary of the asset portfolios' risk indices is reported by the CEO to the management and Board of Directors in the framework of the CEO's monthly report to the Board of Directors.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General (Cont.)

3. Description of procedures and methods of risk management (Cont.)

d) Risk management control is performed at a number of the Group centers as follows: (Cont.)

Insurance risks

In life assurance, health insurance and pension fund – There is ongoing control over developments in the exposures to insurance/actuarial risks, such as risks relating to death, life expectancy, loss of capacity to work, portfolio preservation, expenses, etc., and their effect on both the insurance reserves and the value of the long-term savings portfolio, as well as on the profitability of the products and the value of the Group's new sales.

In general insurance – There is ongoing control over the developments and trends in exposures to insurance risks of the various insurance branches, which mainly derive from changes in the frequency of the claims and their severity as well as in expenses and in other costs, and their effect on both the profitability of the products and on the insurance reserves.

Credit risks of investments

The details of borrowers of credit provided in the framework of the Group's various investment portfolios is examined once a quarter by the Group research unit, if there has been a change in the credit risk of the borrower. In addition, the credit unit regularly examines the financial covenants of the credit and compliance with the instructions of regulators, the Board of Directors and the investment committees. The exposure to credit risks of the various investment portfolios, including the exposure to borrowers, industries and segments, ratings of borrowers, problematic debts, etc., are brought before the investment committees once a quarter for discussion.

Reinsurers' credit risks

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 by the finance unit.
The finance unit regularly monitors collection from reinsurers.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General (Cont.)

3. Description of procedures and methods of risk management (Cont.)

d) Risk management control is performed at a number of the Group centers as follows: (Cont.)

Other operating risks

Information security – Surveys and penetration tests to information systems are performed in order to detect weak points and contend with them.
Fraud and embezzlement – These are handled together with the control unit and within controls integrated in work procedures.
The Company has a fraud and embezzlement manager who operates together with control units of the Company.
The Company is completing in these days an operating risk review including for fraud and embezzlement.
Regarding 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 improved its disaster recovery readiness by establishing an additional backup site in Israel (instead of the site abroad) which will facilitate RPO (Return Point Objective) and RTO (Return to Operations) within determined time span. Parallel to this decision, the Company adopted additional emergency reference scenarios for which it will provide a response.

Furthermore, during 2013 the Company performed a test of disaster recovery readiness which included transfers between sites.

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 a sensitivity analysis in these variables on the profit (loss) for the period and on comprehensive income see paragraph b.1.a).

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.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

1. Market risks (Cont.)

Market risks (capital instruments/real assets) – Risks deriving from a change in share prices or a change in the fair value of other assets.

Risks related to the Consumer Price Index – A real loss deriving from erosion in the value of shekel assets as the result of inflation being higher than the expectations reflected in the capital market, as compared to CPI-linked insurance liabilities.

Currency risk – The risk that the fair value or future cash flows of a financial instrument will change as a result of changes in foreign currency exchange rates.

The investment income standing against the insurance reserves and the shareholders' equity has a significant effect on the insurance companies' profits. A major part of the Group's asset portfolio is invested in quoted securities in the capital market, and in financial derivatives, which are characterized by fluctuations as a result of political, security and economic events in Israel and around the world. Quoted securities are reported based on their stock exchange value as at the reporting date. Therefore, the fluctuations in the value of Nostro investments are likely to have a significant effect on the Group's profitability and shareholders' equity and also on the value of the life assurance portfolio. A decline in the value of securities held against profit participating policies, pension funds and provident funds also reduces the fixed management fees received from these portfolios. The extent of the effect on profits depends on the characteristics of the insurance liabilities (yield dependent, non yield dependent) and the management fee terms of the products against which the relevant reserve is held.

Yield dependent liabilities are liabilities in respect of contracts in which the beneficiary is entitled to receive insurance benefits that depend on the yield derived from investments made against the liabilities in respect of these policies, less management fees as follows:

- In respect of policies issued until 2004, fixed management fees as well as variable management fees at the rate of 15% of the real yield after deducting the fixed management fees.
- In respect of policies issued as from 2004 – fixed management fees.

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.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

1. Market risks (Cont.)

In light of the aforementioned, the sensitivity tests and repayment dates of the liabilities specified in the following paragraphs do not include yield dependent contracts.

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, 2013 is about NIS 52 billion (previous year about NIS 46 billion), will affect the management fees by an amount of about NIS 78 million (previous year about NIS 69 million). When the yield on these contracts is negative, the Company does not collect variable management fees, and only collects the fixed management fees of 0.6% of the accrual, as long as there is no positive yield that covers the accumulated negative yield.

For additional information, see Note 27.

The effect of this change on policies that were issued from 2004 onwards is insignificant.

In non-yield dependent life assurance (in respect of the portion of the life assurance portfolio that is not backed by designated bonds), in general insurance and in equity there is no full correlation between the linkage basis of the assets and the linkage basis of the liabilities. In non-yield dependent life assurance - the major part of the life assurance portfolio is in respect of yield guaranteed policies, mainly backed by designated bonds (Hetz – life linked bonds) issued by the Bank of Israel for the duration of the policy’s entire term. Therefore, the Company has financial coverage overlapping the main liabilities regarding interest and linkage over the policy’s term. As at December 31, 2013, the designated bonds covered about 70% (previous year about 69%) of all the insurance liabilities in life assurance in these programs.

The changes in the capital market, in the CPI and in foreign currency exchange rates, might have a significant effect on the Group’s results of activities.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

1. Market risks (Cont.)

a) Sensitivity tests relating to market risks

Hereunder is a sensitivity analysis of the effect of a change in these variables on the profit (loss) for the period and on the comprehensive income (loss) (equity). The sensitivity analysis relates to the carrying amount of the financial assets, the financial liabilities and liabilities in respect of insurance contracts and investment contracts in respect of the relevant risk variable as at each reporting date, and assumes that there is no change in all the other variables. Thus, for example, the change in interest is under the assumption that all the other parameters have not changed. The sensitivity analysis does not include, as mentioned, the effects of the yield dependent contracts as detailed above. In addition, it is assumed that the said changes do not reflect an impairment of assets reported at amortized cost or of available for sale assets and therefore, the above sensitivity test did not include impairment losses in respect of these assets.

The sensitivity analysis only reflects the direct effects and does not reflect the ancillary effects.

It should also be noted that the sensitivity is not necessarily linear. Hence, larger or smaller changes in relation to the changes described below are not necessarily a simple extrapolation of the effect of those changes.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

1. Market risks (Cont.)

a. Sensitivity tests relating to market risks (Cont.)

As at December 31, 2013:

	The interest rate (1) (2)		Investments in capital instruments (3)		Rate of change in the CPI		Rate of change in the foreign currency exchange rate (5)	
	+1%	-1%	+10%	-10%	+1%	-1%	+10%	-10%
	NIS in thousands							
Profit (loss)	5,543	(20,774)	4,465	(5,738)	(24,369)	24,369	(54,229)	47,607
Comprehensive income (loss) (4)	(198,690)	218,035	191,313	(192,586)	(24,369)	24,369	91,521	(98,142)

As at December 31, 2012:

	The interest rate (1) (2)		Investments in capital instruments (3) *)		Rate of change in the CPI		Rate of change in the foreign currency exchange rate (5)	
	+1%	-1%	+10%	-10%	+1%	-1%	+10%	-10%
	NIS in thousands							
Profit (loss)	10,568	(10,557)	10,365	(9,423)	(27,810)	27,810	22,832	(22,832)
Comprehensive income (loss) (4)	(110,035)	120,237	130,019	(129,077)	(27,810)	27,810	120,742	(120,742)

*) Reclassified - For details see Note 2d.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

1. Market risks (Cont.)

a) Sensitivity tests relating to market risks

(1) With respect to fixed-interest instruments, the exposure is to the book value of the instrument, and for variable-interest instruments the exposure is in relation to cash flows from the financial instrument.

The sensitivity tests are based on the carrying value and not on economic value. The sensitivity tests did not take into account, from the assets with direct interest risk, unquoted debt assets at fixed interest, cash and cash equivalents, reinsurance assets, unquoted financial liabilities and liabilities in respect of insurance contracts and investment contracts.

(2) The sensitivity analysis does not include the effect on insurance liabilities since in life insurance and health insurance the discount rate is usually derived from the tariff interest and in general insurance the liabilities are not discounted. The Company performs adequacy tests of guaranteed-yield life assurance reserves against the value-in-force of the portfolio. See Note 2.j.1(g). The 1% decrease in interest will bring about a reduction in income and in comprehensive income by about NIS 800 million after tax (in 2013 as well as in 2012).

(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 express the effect on profit (loss) for the period.

(5) The change in foreign currency exchange rates includes the effect of non-monetary items and others whose value in the balance sheet amounts to about NIS 1.3 billion.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

1. Market risks (Cont.)

b) Direct interest risk

Direct interest risk is the risk that the change in the market interest will cause a change in the fair value or in the cash flows deriving from the asset or the liability. This risk relates to assets settled in cash. The addition of the word “direct” emphasizes the fact that the interest change can also effect other types of assets but not directly, such as the effect of the interest change on the share rates.

Hereunder are details of assets and liabilities according to exposure to interest risks:

	December 31, 2013		
	Non-yield dependent	Yield dependent	Total
	NIS in thousands		
Assets with direct interest risk:			
Quoted debt assets	5,840,002	19,207,628	25,047,630
Unquoted debt assets:			
“Hetz” bonds	18,793,306	750,360	19,543,666
Other	2,823,193	7,246,860	10,070,053
Other financial investments	2,615	-	2,615
Cash and cash equivalents	1,550,267	4,907,015	6,457,282
Reinsurance assets	986,269	4,849	991,118
Total assets with direct interest risk	29,995,652	32,116,712	62,112,364
Assets without direct interest risk (*)	8,920,571	38,701,115	47,621,686
Total assets	38,916,223	70,817,827	109,734,050
Liabilities with direct interest risk:			
Financial liabilities	1,116,572	-	1,116,572
Liabilities in respect of insurance contracts and investment contracts	30,127,559	70,558,408	100,685,967
Others	133,626	120,135	253,761
Total liabilities with direct interest risk	31,377,757	70,678,543	102,056,300
Liabilities without direct interest risk **)	2,379,576	157,773	2,537,349
Total liabilities	33,757,333	70,836,316	104,593,649
Total assets net of liabilities	5,158,890	(18,489)	5,140,401
Off balance sheet risk (liabilities to grant credit)	76,375	471,907	548,282

*) Assets without direct interest risk – include shares, fixed assets and investment property, deferred acquisition costs and other assets, as well as balance sheet groups of financial assets (outstanding premiums, insurance companies’ current balances and debtors and receivables) whose average duration is up to six months and therefore the interest risk is relatively low in their respect.

**) Liabilities without direct interest risk include: tax reserves, various credit balances, etc.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

1. Market risks (Cont.)

b) Direct interest risk (Cont.)

	December 31, 2012		
	Non-yield dependent	Yield dependent	Total
	NIS in thousands		
Assets with direct interest risk:			
Quoted debt assets	5,224,001	16,072,852	21,296,853
Unquoted debt assets:			
"Hetz" bonds	17,277,271	731,965	18,009,236
Other	3,061,721	7,612,104	10,673,825
Other financial investments	787	-	787
Cash and cash equivalents	2,261,829	2,376,263	4,638,092
Reinsurance assets	1,042,007	8,062	1,050,069
Total assets with direct interest risk	28,867,616	26,801,246	55,668,862
Assets without direct interest risk (*)	7,429,073	33,835,146	41,264,219
Total assets	36,296,689	60,636,392	96,933,081
Liabilities with direct interest risk:			
Financial liabilities	947,336	3,494	950,830
Liabilities in respect of insurance contracts and investment contracts	28,549,237	60,062,274	88,611,511
Others	157,091	121,016	278,107
Total liabilities with direct interest risk	29,653,664	60,186,784	89,840,448
Liabilities without direct interest risk **)	2,151,461	145,685	2,297,146
Total liabilities	31,805,125	60,332,469	92,137,594
Total assets net of liabilities	4,491,564	303,923	4,795,487
Off balance sheet risk (liabilities to grant credit)	142,636	805,490	948,126

*) Assets without direct interest risk – include shares, fixed assets and investment property, deferred acquisition costs and other assets, as well as balance sheet groups of financial assets (outstanding premiums, insurance companies' current balances and debtors and receivables) whose average duration is up to six months and therefore the interest risk is relatively low in their respect.

**) Liabilities without direct interest risk include: tax reserves, various credit balances, etc.

Comment:

With regard to discount rate used to calculate insurance liabilities in life assurance and health insurance see paragraph b.3.b) (3) (a) below. The Company does not discount insurance liabilities in general insurance. For additional details - see paragraph b.3.c) below.

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, 2013					
	Listed in Tel-Aviv 100 Index	Listed in other index	Not listed in Israel	Abroad	Total	% of Total
	NIS thousands					
Sector:						
Industry	229,706	65,616	8,915	155,655	459,892	44.5
Construction and real estate	36,433	9,894	2,570	32,221	81,118	7.8
Commercial	17,159	2,384	-	17,011	36,554	3.5
Communication and computer services	61,346	14,561	-	113,504	189,411	18.3
Banks	110,324	-	-	-	110,324	10.7
Financial services	25,441	-	-	57,682	83,123	8.0
Other business services	6,636	7,310	1,137	-	15,083	1.5
Holding companies	39,879	123	-	19,300	59,302	5.7
Total	526,924	99,888	12,622	395,373	1,034,807	100

	December 31, 2012					
	Listed in Tel-Aviv 100 Index	Listed in other index	Not listed in Israel	Abroad	Total	% of Total
	NIS thousands					
Sector:						
Industry	142,235	35,129	-	135,966	313,330	49.6
Construction and real estate	31,069	2,633	3,775	6,270	43,747	6.9
Commercial	6,317	5,852	-	6,972	19,141	3.0
Communication and computer services	49,442	15,750	-	69,736	134,928	21.3
Banks	69,369	-	-	-	69,369	11.0
Financial services	-	-	-	22,274	22,274	3.5
Other business services	-	4,510	-	-	4,510	0.7
Holding companies	13,024	39	-	12,331	25,394	4.0
Total	311,456	63,913	3,775	253,549	632,693	100

*) Not including investments in affiliates. See Note 7.a.1.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

2. Liquidity risks

Liquidity risk is the risk that the Group will have difficulties in fulfilling obligations related to its liabilities on time.

The Group is exposed to risks resulting from uncertainty regarding the date the Group will be required to pay claims and other benefits to policyholders in relation to the scope of the monies that will be available for that purpose at that same date. However, a significant part of its insurance liabilities in the life assurance segment are not exposed to the liquidity risks due to the nature of the insurance contracts as described below.

Yield dependent contracts, in life assurance – according to the terms of the contracts, the owners are entitled to receive only the value of the said investments. Hence, if the investment value increases there will be a corresponding increase in the Company’s liabilities, net of the management fees that the Company collects.

Non-yield dependent contracts, in life assurance in the sum of about NIS 27 billion, which form about 27% of the insurance liabilities in life assurance at December 31, 2013 (previous year, the sum of about NIS 25 billion and 29%, 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. These assets constitute, as at December 31, 2013 about 12% of the Group's total assets (about NIS 13 billion). As at December 31, 2012 these assets constitute about 12% of all the Group’s assets (about NIS 12 billion).

From the said asset balance, at December 31, 2013, the sum of about NIS 7 billion (previous year about NIS 6 billion) are 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 (Cont.)

Management of assets and liabilities

Migdal Insurance manages its assets and its liabilities in accordance with the Supervision Law requirements and regulations.

The tables below concentrate the estimated settlement dates of the Migdal Insurance's non-discounted insurance and financial liabilities. Since the amounts are non-discounted, they do not match the balances of the insurance and financial liabilities in the statement of financial position.

a) The estimated settlement dates of the liabilities in life assurance and health insurance are included in the tables as follows:
Savings monies – contractual settlement dates, namely, retirement age, without cancellation assumptions, under the assumption that the savings will continue as a lump sum and not as annuity.
Annuity in payment, occupational disability in payment and long-term care in payment – on the basis of an actuarial estimate.
Outstanding claims and risk reserves – reported under the column "without a defined settlement date".

b) The estimated settlement dates of the liabilities in respect of general insurance contracts were included in the tables as follows:
Liabilities in statistical insurance branches, estimated by an actuary are reported based on an actuarial estimate, according to past claims payments experience.
Insurance liabilities in non-statistical liability insurance branches and excess of income over expenses (accrual) are reported in the column - "without a defined settlement date".
Insurance liabilities in property and other insurance branches, which are not statistical, and in branches on which the actuary does not sign on a valuation - are included in the column of settlement up to 3 years.

c) The settlement dates of the financial liabilities and liabilities in respect of investment contracts were included on the basis of the settlement dates of the contracts. In contracts in which the opposing party is entitled to choose the time of payment, the liability is included on the basis of the earliest date that the Company can be required to pay the liability.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

2. Liquidity risks (Cont.)

Liabilities in respect of life assurance and health insurance contracts **)

	Up to one year	Over one 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						
As at December 31, 2013	4,067,229	7,638,859	8,522,115	8,087,008	4,395,643	237,700	32,948,554
As at December 31, 2012*)	3,700,868	6,332,923	7,437,470	7,316,515	4,915,641	262,491	29,965,908

*) Reclassified. See Note 2.d.
**) 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				
As at December 31, 2013	2,142,787	619,290	940,025	163,763	3,865,865
As at December 31, 2012	2,172,955	584,628	642,736	194,015	3,594,334

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

2. Liquidity risks (Cont.)

Financial liabilities and liabilities in respect of investment contracts:

	Up to 1 year (*)	Over 1 year and up to 5 Years	Over 5 years and up to 10 years	Over 10 years and up to 15 years	Over 15 years	Without a defined settlement date	Total
	NIS in thousands						
As at December 31, 2013:							
Financial liabilities **)	383,571	970,981	1,800	-	-	-	1,356,352
Liabilities in respect of non yield dependent investment contracts	89,878	73,503	68,818	5,795	378	-	238,372
Liabilities in respect of yield dependent investment contracts	-	-	-	-	-	737,341	737,341
As at December 31, 2012:							
Financial liabilities **)	210,897	133,222	853,414	1,858	-	-	1,199,391
Liabilities in respect of non yield dependent investment contracts ***)	90,810	137,041	38,063	64,928	371	-	331,213
Liabilities in respect of yield dependent investment contracts	-	-	-	-	-	273,477	273,477

*) Liabilities up to one year include the amount of about NIS 20 million (in 2012 - the sum of about NIS 33 million) to be settled upon demand. These liabilities were classified for settlement of up to one year even though the actual settlement date is likely to be in later years.

**) Including financial liabilities in respect of yield-dependent policies in the amount of about NIS 97 million at December 31, 2013 (in 2012 about NIS 80 million).

***) Reclassified. See Note 2.d.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. Insurance risks

a) General

Group insurance companies sell policies which cover various risks, such as mortality risk (risk of death mainly before retirement date and longevity risk for persons receiving an annuity after retirement), disability, morbidity (including long term care, worker disability and professional disability) fire, natural disaster (catastrophic event such as earthquake), theft, burglary, liability for bodily damages, etc. The pricing of the policies and the actuarial estimations with respect to the insurance liabilities of the Company, are made mainly on the basis of past experience and the known legal and regulatory environment. Changes in the risk factors, incidence of events and in their severity, and the legal and regulatory situation can affect the business results of the Group.

The obligation to deposit 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 and changes in it.

The 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.

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 is earthquake.

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) of about 1.80%, is about NIS 4,509 million, gross, and about NIS 222 million on retention. (Excluding one transaction in which there is maximum risk exposure covered entirely by reinsurance.)

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk

a) General

In life assurance business there is a requirement to hold capital against loss in respect of a particularly large-scale event with low probability at a rate of 0.17% of the amount at risk in respect of death (formerly the reserve for extraordinary risks). In addition, there is a CAT type reinsurance agreement which covers death claims and disability resulting from a catastrophe (such as an earthquake or war of any kind, including nuclear, biological or chemical war). The cover in this type of reinsurance agreement is USD 150 million after a deductible of USD 40 million in the event of an earthquake, and USD 80 million in the event of war.

For further information on various insurance branches for which the insurer is exposed to insurance risk, see details of insurance liabilities according to insurance risks in Note 3.d, 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, growth of one segment on the account of another segment, profitability of one segment over another segment, together with changes in management fees significantly affect the results of operations of the Group.

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 the competition between various long term savings products as well as the competition between all the entities in the sector, which is increasing over time. The preservation level of the life assurance portfolio including movement between different long term savings products (life assurance, pension funds, and provident funds) which have different profitability margins, has a significant effect on the profitability of insurance companies and on the embedded value of the long term insurance business of the companies. In view of the discontinuation of the marketing of new insurance products which have guaranteed annuity coefficients, as described in Note 37 b. 3. b) (6) below, the Company estimates that the life assurance plans sold as from 2001, which include guaranteed annuity coefficients will be less exposed to the risk of cancellation and surrender.

Regarding sensitivity analysis with respect to changes in cancellation and surrender rates see Note 37 b.3.b) (4)

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk (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 Regulator'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 track" insurance programs there is an identified savings component. The basic and main reserve is at the level of the accumulated savings plus 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.

"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 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

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

b) Insurance risk in life assurance and health policies (Cont.)

(2) Actuarial methods for calculating insurance liabilities (Cont.)

according to which the products were priced and/or on assumptions based on the claims experience, including the interest rates (hereunder – tariff interest), mortality or morbidity tables. The calculation is according to the net premium reserve method, which does not include the component that was loaded on the premium tariff for covering the commissions and expenses, in the anticipated flow of receipts and on the other hand it does not deduct the anticipated expenses and commissions. The reserve in respect of yield dependent traditional products is calculated according to the actual yield that was obtained, net of management fees.

Liabilities for annuities in payment are calculated in accordance with the anticipated mortality rate, based on updated mortality tables that were created after an examination of the Company's experience and on the basis of the rules and of data published in the Regulator'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 Regulator.

Changes in estimates regarding discount rates, life expectancy, cancellation rates and take-up rates of withdrawing of savings as annuities and/or other changes will affect the above liabilities.

These liabilities include the basic reserve which represents the surrender value of the policy accrued to the policyholder and the supplementary reserve for annuity. The provision for the supplementary reserve for annuities is accrued gradually using the K factor. This factor has a ceiling and cannot exceed the rate of future anticipated income from management fees or financial margin from investments held against insurance liabilities in respect of policies or from premium payments less expenses related to the policies. The K factor is calculated such that it brings to a gradual accumulation of reserves until the expected retirement date. A gradual provision is also made in respect of premiums which will be received in the future from the policy and as from the date of receipt of the premium.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

b) Insurance risk in life assurance and health policies (Cont.)

(2) Actuarial methods for calculating insurance liabilities (Cont.)

Beginning from December 31, 2012, following a circular published by the Regulator, the Company has begun to set two K rates. One in respect of policies in which the savings component is yield dependent (yield dependent policies) and the second in respect of policies in which the savings component receives a guaranteed yield (non-yield dependent policies) as compared to the previous calculation where a single K rate was set. The calculation of two K rates, as opposed to a single rate, enables a better allocation of the supplementary provision for annuity between the various insurance contracts.

Other life assurance programs include pure risk products (occupational disability, death, long term care) sold as independent policies or attached to policies with a basic program such as “Adif”, “Investment track” 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.

The reserves for the insurance of individual medical expenses are calculated based on the net premium reserve. The calculation assumptions regarding parameters relating to morbidity and cancellation were based on the Company’s experience, with a conservative margin, as generally accepted for the calculation of reserves.

The outstanding claims in the sub-branch surgery, medicine and grave diseases, are calculated according to the claim triangles (Chain Ladder, Bornhuetter-Ferguson) regarding claims that are 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 consists 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.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

b) Insurance risk in life assurance and health policies (Cont.)

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

(a) The discount rate

In respect of the insurance programs of the "Endowment" type and similar (Traditional) 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% to 5%, linked;

In respect of yield dependent products, issued in the years 1991 and onwards, a tariff interest rate of 2.5%, linked.
In accordance with the policy's conditions, changes in interest will be credited to the policyholders.

A decline in the long-term interest rate may increase the insurance reserves in respect of the free component (which is not backed be designated bonds) of policies in which the savings component includes a guaranteed yield which is higher than the discount interest rate, due to the need to provide an additional reserve within the framework of a liability adequacy test (LAT). The Company examined the adequacy of the liabilities in respect of the insurance contracts (LAT) and found that when taking the existing reserves into consideration, there is no need for a supplementation that derives from the LAT. See Note 2.j.1.g) above.

(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 the policyholders 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.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

b) Insurance risk in life assurance and health policies (Cont.)

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

(b) Mortality and morbidity rates (Cont.)

(2) Liability for annuity in payment is calculated according to the updated mortality tables.

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 life annuities.

It should be noted that in the last decades there is an opposite trend of increase in the life expectancy rate and a decrease in mortality rates. The mortality assumption that is used for calculating the liability for annuity, takes into consideration an assumption in respect of a future increase in life expectancy.

(3) The morbidity rates relate to the frequency of claims in respect of dread disease, occupational disability, long term care, surgery and hospitalization, disability from accidents, etc. These rates are determined on the basis of the Company's experience or reinsurers' research. In the long term care and occupational disability branches the period for payment of claims is determined in accordance with the Company's experience or reinsurers' research.

If the assumption regarding the morbidity rate will increase, also the insurance liability in respect of illnesses due to dread disease, occupational disability, long term care, surgery and hospitalization and disability from accidents, will increase.

(c) Annuity take-up rates

Life assurance contracts, that include a savings component, were managed, in respect of monies deposited up to the year 2008 in two tracks: a lump sum track or an annuity track. In part of the contracts the policyholder is entitled to choose the track at the time of retirement. Since the amount of the insurance liability is different in each of these two tracks, the Company must determine the take-up rates of policies where the policyholders will choose the annuity track. This rate is determined according to the Supervision's directives and adjusted to the Company's experience. Beginning from the year 2008 all the savings premiums that were deposited in the framework of life assurance are designated for annuity.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

b) Insurance risk in life assurance and health policies (Cont.)

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

(d) Cancellation rates

The cancellation rates affect the insurance liabilities in respect of deferred annuity and in respect of part of the health insurances. The cancellation of insurance contracts can be due to the cancellation of policies initiated by the Company due to discontinuation of the premium payments or surrenders of policies at the policyholders' request. The assumptions regarding the cancellation rates are based on the Company's experience and they are based on the type of product, the life span of the product and sales trends.

(e) Continuity rates

In group health insurances and long term care insurances the policyholders are entitled to continue to be insured under the same conditions, even if the group contract is not renewed. In respect of this option of the policyholders, the Company has a liability that is based on assumptions regarding the continuity rates of the group insurances and the continuity rates of the contracts with the policyholders after the group contract expires.

The higher the probability that the group contract will not be renewed (a higher continuity rate), the higher the insurance liability for continuity of insurance coverage under the previous conditions without the underwriting being adjusted for the change in the policyholders' state of health.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

b) Insurance risk in life assurance and health policies (Cont.)

(4) Sensitivity analysis

	December 31, 2013					
	Morbidity rate		Rate of cancellations (surrenders, settlements and reductions)		Mortality rate	
	NIS in thousands					
	+10%	-10%	+10%	-10%	+10%	-10% *)
Profit (loss)	(38,809)	-	(966)	1,219	53,288	(428,235)

	December 31, 2012					
	Morbidity rate		Rate of cancellations (surrenders, settlements and reductions)		Mortality rate *)	
	NIS in thousands					
	+10%	-10%	+10%	-10%	+10%	-10% *)
Profit (loss)	**(54,704)	-	(1,388)	1,652	37,544	**(391,426)

*) Mainly due to the supplementary reserve for annuities.

**) The comparative figures were reclassified so that the sensitivity analysis is carried out to reflect the reinsurers' share of the decline which was not taken into account last year.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

b) Insurance risk in life assurance and health policies (Cont.)

(5) Changes in the main assumptions used for calculating the supplementary reserve for annuities

a. Update of mortality assumptions

Hereunder are the principal points:

The Company recorded, in the second quarter of the year 2012, an immediate provision for the supplemental annuity reserve and decreased the comprehensive income in the amount of about NIS 180 million before tax following the publication of a draft position paper and a clarification letter in July 2012 with respect to the updating of the demographic assumptions in pension funds and life assurance (hereafter - “the draft”). The draft relates inter alia, to the new pensioners mortality tables and to the rate of future improvement in mortality.

b. Update of other assumptions

The Company updates other assumptions on the basis of its accumulated experience especially with respect to annuity take up rates as a result of which the Company recorded in 2013 and 2012 an immediate additional provision before tax in the amount of NIS 63 million and NIS 77 million, respectively.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

b) Insurance risk in life assurance and health policies (Cont.)

(5) Changes in the main assumptions used for calculating the supplementary reserve for annuities (Cont.)

c. The move to two K factors

In 2012 the Company began to determine two K rates for the purpose of the gradual building of the supplementary reserve for annuity as mentioned in b.3.b)(2) above.
The transition instructions included in the Regulator’s Circular determine that on the transition date the total reserve that is calculated on the basis of the two K rates will not be less than the total reserve that would have been calculated using a single K rate. The shift to two K rates, as mentioned did not change the supplementary reserve for annuities, since the reserve that is attributed to yield dependant policies decreased by NIS 420 million, whereas the reserve that is attributed to guaranteed yield policies increased by the same amount.

The supplementary reserve for annuity included in the Company’s books is NIS 2,433 million and NIS 2,069 million as at December 31, 2013 and 2012, 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, amount to NIS 1,946 thousand as at December 31, 2013.

It should be noted that the figures listed above, in connection with the supplementary reserve for annuity and in connection with the balance of the provisions to be recognized in the future, relate to funds already accumulated in the policies at the end of the reporting periods and do not include provisions in respect of amounts accumulated in the future.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

b) Insurance risk in life assurance and health policies (Cont.)

(6) Change in the provisions relating to the sale of life assurance plans that are combined with savings that include annuity coefficients with imputed guaranteed life expectancy (hereunder - “guaranteed annuity coefficients”)

In November 2012 the circular “Annuity Factors with Embedded Guaranteed Life Expectancy”. According to the Circular it was determined, among others, that starting from January 1, 2013, an insurance company will not market life assurance plans combined with savings that include guaranteed annuity coefficients, except for: 1. Whoever is at least 60 years old on the date of sale 2. Whoever has a life assurance contract with guaranteed annuity coefficients and wishes to cancel it altogether and transfer his money to a new insurance contract with guaranteed annuity coefficients, subject to additional rules set out in the Circular that was published in this regard.

According to a letter that was published following the aforementioned circular, the marketing of insurance plans with guaranteed annuity coefficients in the year 2013 will be on condition that the Regulator will approve the business plan that will be submitted to him. Furthermore, the volume of life assurance contract with guaranteed coefficients that will be sold in the year 2013, by virtue of the aforementioned permit, will not exceed NIS 75 million and the number of insurance contracts that will be sold will not be more than 6,000 contracts. Consequently, in 2013 there was a change in the product mix sold by the Group from January 1, 2013, with a significant decline in the weight of new sales of life insurance out of total sales of the Group’s pension savings products, and an increase in the weight of new sales of pension funds.

The discontinuation of marketing policies which include guaranteed annuity coefficients as mentioned above, might improve the preservation rate of policies marketed up to the year 2012, inclusive. Regarding this issue, also see Note 27b.2.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

b) Insurance risk in life assurance and health policies (Cont.)

(6) Change in the provisions relating to the sale of life assurance plans that are combined with savings that include annuity coefficients with imputed guaranteed life expectancy (hereunder - "guaranteed annuity coefficients") (Cont.)

Following the Regulator's publications as mentioned above, Midroog Ltd. (hereunder - "Midroog") decided in July 2012 to place a number of insurance companies in general, and in particular those who operate in the line of long term savings insurance, including the Company, into a follow-up list.

In September 2012, after Midroog examined the impact of the Regulator's publications as mentioned above, the insurance companies, including the Company, were removed from the follow-up list. Midroog stated that it will continue its follow-up of the impact of the cancellation of the annuity coefficient on the profitability of the insurance companies in the medium and long term.

c) General insurance contract insurance risks

(1) Summary description of the main insurance branches in which the Group operates:

The Group's activities focus on the branches of motor act, motor casco, property insurance and liability insurance.

Motor act insurance covers, pursuant to the motor insurance ordinance, the owner of the vehicle and the driver for any liability they may be liable to pursuant to the Road Accident Victims Compensation Law, 1975, due to bodily damage caused to the driver of the vehicle, the passengers in the vehicle, or pedestrians injured by the vehicle, as a result of the use of the motor vehicle. The claims in this branch are characterized by a long tail, namely, sometimes a long time passes from the date of the event to the time the claim is finally settled.

Motor casco insurance is a voluntary insurance and it is the most common voluntary insurance in the framework of general insurance. Motor casco insurance includes damage coverage for the insured vehicle and property damages that the insured vehicle will cause to a third party.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

c) General insurance contract insurance risks (Cont.)

(1) Summary description of the main insurance branches in which the Group operates: (Cont.)

The cover 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 Regulator of Insurance and it is a differential actuarial tariff (which is not uniform for all the policyholders and adjusted to risk). The said tariff is based on a number of parameters, those related to the vehicle insured by the policy (such as type of vehicle, production year, etc.), as well as those relating to the characteristics of the policyholders (number of drivers of the vehicle, age of the drivers, previous claims experience, etc.).

The underwriting process is performed partly through the tariff itself and partly through the underwriting policy of the Group as determined from time to time.
In most instances, the motor casco insurance policies are issued for a period of one year. Furthermore, in most cases, claims in respect of these policies are clarified close to the time of occurrence of the insured event.

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.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

c) General insurance contract insurance risks (Cont.)

(1) Summary description of the main insurance branches in which the Group operates: (Cont.)

Property insurances are designated to grant the policyholder coverage against physical damage to his property. The main risks covered by property policies are fire risks, explosions, theft, earthquake and natural disasters. The property insurances sometimes include coverage for consequential damage (loss of profits) due to the physical damage to the property. Property insurances constitute an important factor in comprehensive residential insurance, business premises insurances, engineering insurances, freight in transit (marine, cargo, aviation) etc.

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

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

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

- Provision for unearned premium
- Excess of income over expenses (accumulation)
- Outstanding claims and provision for premium deficiency

The provision for unearned premium reflects the premium component relating to the period after the balance sheet date, according to generally accepted accounting principles. These reserves do not reflect the actuarial liabilities of unexpired risks and therefore they do not depend on any special assumptions.

Excess of income over expenses (accumulation) – in branches were the time required to give notification of the damage and/or for determining the damage and compensation for the damage, takes a long time and might take a number of years, for example: in the liability and motor act branches, the excess of income over expenses reserve is calculated on a three year funded basis (hereunder – "the excess") which is comprised of the insurance fees and the income from investments computed at the rate of 3%, in real terms, net of claims and expenses, net of the reinsurers' share, separately for each branch and underwriting year. The accumulated excess until the end of the third year from the date of the beginning of the insurance, net of the unexpired risks reserve (hereunder – "the accumulation"), is included under the outstanding claims item. Losses, if any, are included in the current results.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk (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: (Cont.)

Regarding the proposed changes for calculating insurance reserves in general insurance, including the cancellation of the excess, see paragraph b.3.c) (6) below.

The outstanding claims, including the reinsurers' share therein, in the statistical branches (the liabilities, motor act, motor casco, comprehensive residential and personal accidents branches), were calculated by the appointed actuary in general insurance Mr. Daniel Israeli, who stated, inter alia, that the valuations were performed in accordance with generally accepted actuarial principles, and the assumptions and methods of valuation of the provisions were determined by him, according to his best professional judgment, and in accordance with the relevant guidelines, directives and principles.

The actuarial valuations are mainly based on data bases in respect of the paid claims that also include direct expenses for the settlement of claims and the deductible. Subrogations and salvage recoveries are taken into consideration in the data base that serves for calculating the actuarial estimates of the outstanding claims. In accordance with the directives of the Regulator 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.

In addition, according to the Regulator's directives, provisions for premiums that do not cover the anticipated cost of the claims (hereunder – 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.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

c) General insurance contract insurance risks (Cont.)

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

(b) In accordance with the Regulator's directives, the outstanding claims are calculated by the actuary, according to the generally accepted actuarial methods, consistently with the previous year. The choice of actuarial method suitable for each insurance branch is determined by the actuary, according to the compatibility of the method to the branch. The valuation of outstanding claims in the Group is based, in most of the branches, on actual claims payments and in some of the branches it is based on the accumulated cost of the claims. The main assumption in these models is: the stability of the claims development, namely, past behavioral pattern will also continue in the future.

(c) In the motor act, employer's liability, third party and motor casco branches, the calculations are based on the actual claims payments. In comprehensive residential, professional liability, product warranty and personal accidents branches, the calculations are based on the accumulated cost of the claims (the actual claims payment with the addition of individual valuations).

(d) When valuating exceptionally large claims, the valuation is based on individual estimates of the Company's experts.

(e) Regarding special cases that were not fully expressed in the payments, as detected by the Company from time to time, there are specific provisions on the basis of the relevant legal and/or statistical estimates.

(f) There might be new events which are not really expressed in the present claims payments. If it turns out that the actual experience will be different from the accumulated experience in the present claims payments, additional provisions might be required in the future.

(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.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

c) General insurance contract insurance risks (Cont.)

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

(h) Assumptions that were determined in the past might change in accordance with new information that will be received in the future. In such cases, the outstanding claims will change according to the change in the assumptions and the actual results, and the differences resulting during the reported year will be included in the general insurance business statement.

(i) The actuarial calculations do not include a reduction due to discounting of future claims payments. In branches where there are big variances, there is an addition for the risk margin (standard deviation).

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

(k) The outstanding claims are calculated on a gross level and the reinsurers' share in the outstanding claims is estimated taking the type of agreement into consideration (proportional/non-proportional).

(3) Details of the actuarial methods in the main insurance branches

The following actuarial models were utilized in order to estimate the outstanding claims, in a combination with the various assumptions:

(a) Link ratio: - this statistical method is based on the claims development (payment development and/or total claims development, development of the number of claims, etc.), in order to estimate the anticipated development of existing and future claims. This method is mainly suitable after a sufficient period of time has passed from an event or the underwriting of the policy, and there is enough information from the existing claims in order to estimate the total anticipated claims. The Sherman Power Curve method provides an appropriate curve for the link ratio.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk (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 (apriori) that is known to the company or in the branch, and an additional estimate based on the claims themselves. The early estimate utilizes premiums and loss ratio for evaluating the total claims. The second estimate utilizes the actual claims experience based on other methods (such as link ratios). The combined claims valuation weighs the two estimates, and a larger weight is given to the valuation based on the claims experience as time passes and additional information is accumulated for the claims. The use of this method is mainly suitable for the recent period where there is not enough information from the claims or for a new business, or a business with insufficient historical information.

(c) Averages: - in certain cases, like in the Bornhuetter-Ferguson method, when the claims experience in the recent periods is insufficient, the historical average method is utilized. In this method the claims cost is determined based on the cost of the claim per policy for earlier years and the number of policies in the later years. Likewise, the claims cost is calculated based on the forecast of the number of claims (the link ratio method) and the historical average claim.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

c) General insurance contract insurance risks (Cont.)

(3) Details of the actuarial methods in the main insurance branches (Cont.)

(d) Other

For claims regarding occupational diseases in employers' liability insurance, which are claims based on prolonged damage, a provision is calculated on the basis of future expected cost. In claims of this type there is no specific date on which the employee was injured and the damage is formed as the result of prolonged exposure to the risk factors. Claims of this type are characterized by a very long period of time between the beginning of exposure to the risk factors and the date the claim is reported (long tail claims).

(4) Hereunder is a description of the actuarial methods that were applied in the main insurance lines:

(a) Motor act and liability lines:

The basic models used by the Company are the Link Ratio, which is based on the actual data and the adjustment of the Sherman Power Curve if necessary. The model is at the level of the underwriting year and is calculated at the level of the gross claims.

In the recent underwriting years, the Company uses the Bornhuetter Ferguson method, which is based on claims per policy in the motor act line and on the Loss Ratio basis in the liability branches.

Since the valuation of the outstanding claims is calculated, as mentioned, at a gross level, there is a model for estimating the reinsurance outstanding claims.

In non-proportional reinsurance (excess of loss), the model for the old underwriting years is based on the treatment of individual claims, whereas in the recent underwriting years it is based on the risk rate derived from the reinsurance premium. In proportional reinsurance, including facultative, it is based on the estimate of individual outstanding claims for old years and recent years according to the loss ratio rate.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk (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:

The Company uses the Link Ratio model which is based on actual payments at the level of monthly damages. There are separate models for accident damages and theft damages for private and commercial vehicles up to 3.5 tons and for other kinds of vehicles. The data is at a gross level.

In the recent damage months, the Company uses the Bornhuetter Ferguson method, which is based on claims per policy.

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

(c) Comprehensive residential:

The Company uses the Link Ratio model which is based on the cumulative cost of the claims (claim payments plus individual estimates). The model is applied at the level of monthly damages and the data is at the level of gross claims.

In the last damage month, the Bornhuetter Ferguson method was used. This model is based on claims per policy.

In this line of business, the reinsurance is proportional and the retention is calculated based on the actual reinsurance rates in each damage year.

(d) Personal accidents:

The Company uses the Link Ratio model based on the cumulative cost of claims (claim payments plus individual estimates). The model is applied at the underwriting year level and the data used is at the level of the gross claims.

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

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

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk (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:

Based on the directives of the Regulator of Insurance, the Group also examined calculation of the actuarial reserves in the other main lines: comprehensive business premises insurance, engineering insurance, contractors insurance, marine insurance, aircraft insurance and insurance of goods in transit.

Due to a lack of statistically significant information, an actuarial model was not applied for these lines.

The outstanding claims with respect to these lines were included based on estimates that included the following components:

- Known outstanding claims, that include an appropriate provision for handling expenses up to the end of the period, but were not yet paid as at the financial statements date. This provision is mainly based, on an individual valuation of each claim, based on the opinion received from the Company's attorneys and experts handling the claims. Most of the claims are backed by reinsurance and therefore the effect of the deductible collected from the policyholder is immaterial.

- A provision for claims incurred but not yet reported (IBNR) based on past experience.

(5) There were no significant changes in assumptions and actuarial methods as compared with actuarial estimations in the previous year, including with respect to the interest discounting method – see b. 3. c)(2) (i) above. In the compulsory motor vehicle and liability branches, except for third party liability, a change was made in the method of recognizing changes because of the volatility of the model following the estimation of the actuary that the model's forecasted results in the fourth quarter represents a change in the trend and the model's results were taken in full in the final results. This change did not have a material effect on the total valuations in these branches. In the motor vehicle property branch the estimation of the provision in 2013 in respect of theft damages was based on the claim department's estimates with the addition of IBNR, whereas in 2012 the actuarial estimation was based on claim payment development. The above did not have a material effect on the estimations included in the financial statements.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

c) General insurance contract insurance risks (Cont.)

(6) Proposed changes for calculating insurance reserves in general insurance

In January 2013 the Supervision of Financial Services Regulations (Insurance) (Insurance Reserve Calculation in General Insurance), 2013 (hereunder – "the new regulations") and a circular (hereunder together – "the Amendment"), were published and they deal with the update of the existing law provisions regarding the calculation of insurance reserves in general insurance.

The amendment cancels the Supervision of Insurance Business Regulations (Methods of Calculating Provisions for Future Claims in General Insurance), 1984, and the new regulations will replace them. The main change that will take place when the regulations come into force will be the cancellation, beginning from the financial statements as at December 31, 2014, of excess income over expenses reserve (hereunder – "the excess reserve"). Presently Migdal Insurance calculates the excess reserve for the period of 3 years in general insurance branches with long tail claims (mainly motor act and liability), for which an actuarial valuation is calculated.

In addition in July 2012 the Regulator's draft position document was published (hereunder – "the Regulator's Position") regarding the best practice for actuaries when calculating the insurance reserves in general insurance for the purpose of the financial statements to adequately and properly reflect the insurance liabilities. The Regulator's Position includes, among others, the following determinations:

a. "An adequate reserve for covering the insurer's liabilities" means that it is fairly likely – namely, the probability of at least 75% that the insurance liabilities that were determined will be sufficient to cover the insurer's liabilities.

b. Whenever there is more certainty regarding the compatibility of the assumptions and models, the actuary should chose the assumptions and models that best estimate the anticipated insurance liabilities. A margin for uncertainty should be added to this, separately.

c. The discount rate of the liabilities flow (products with long tail liabilities).

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

c) General insurance contract insurance risks (Cont.)

(6) Proposed changes for calculating insurance reserves in general insurance (Cont.)

d. Grouping – for calculating margins in respect of uncertainty in the 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.

e. Determination of the amount of insurance liability for policies sold in proximity to the reporting date and for risks after the balance sheet date.

Migdal Insurance is examining the overall effect of the amendment on the financial statements, together with the Regulator's Position. At this stage it is not possible to evaluate the effect, since the Regulator's Position is under discussion and clarification between the insurance companies and the Regulator.

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

Credit risk is, as mentioned, the risk of loss if a borrower fails to meet its obligations, or if there is a change in the credit margins in the capital market.
The failure of a counterparty to meet its obligations due to a deterioration of its repayment ability, including insolvency, may affect the Group's business results.
Credit assets that are given from members' monies and quotable credit assets in the Nostro portfolios, calculated according to fair value, are also influenced by changes in the credit margins as reflected in the capital market or from a downgrading of the debtor's credit rating.

With respect to the rating sources, see paragraph d.2 below.

The book value approximates the maximum credit risk. Therefore, the "total" column represents the maximum credit risk.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

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

a) Debt assets credit risks

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

	December 31, 2013		
	Quoted *)	Unquoted	Total
	NIS in thousands		
In Israel	5,553,451	21,616,499	27,169,950
Abroad	286,551	-	286,551
Total debt assets	5,840,002	21,616,499	27,456,501

	December 31, 2012		
	Quoted *)	Unquoted	Total
	NIS in thousands		
In Israel	4,879,458	20,318,444	25,197,902
Abroad	344,543	20,548	365,091
Total debt assets	5,224,001	20,338,992	25,562,993

(*) 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

(2) Details of assets divided into ratings

(a) Debt assets

	Local rating *)				
	December 31, 2013				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets in Israel					
Quoted debt assets					
Government bonds	3,569,025	-	-	-	3,569,025
Corporate bonds	1,045,899	873,617	23,242	41,668	1,984,426
Total quoted debt assets in Israel	4,614,924	873,617	23,242	41,668	5,553,451
Unquoted debt assets:					
Government bonds	18,793,306	-	-	-	18,793,306
Corporate bonds	298,586	428,801	29,470	3,294	760,151
Deposits in banks and financial institutions	1,030,959	-	-	-	1,030,959
Other debt assets according to security:					
Mortgages	-	-	-	39,315	39,315
Loans on policies	-	-	-	127,442	127,442
Other security	291,665	311,666	-	222,915	826,246
Not secured	5,021	22,549	-	11,510	39,080
Total unquoted debt assets in Israel	20,419,537	763,016	29,470	404,476	21,616,499
Total debt assets in Israel	25,034,461	1,636,633	52,712	446,144	27,169,950
From this debt assets according to internal rating	167,449	306,121	-	-	473,570
Includes debt assets in internal rating whose rating was reduced by the Company	72,434	56,096	-	-	128,530

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, 2013				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets abroad					
Quoted debt assets					
Government bonds	58,252	-	-	-	58,252
Corporate bonds	42,111	182,331	3,857	-	228,299
Total quoted debt assets abroad	100,363	182,331	3,857	-	286,551
Unquoted debt assets					
Deposits in banks and financial institutions	-	-	-	-	-
Total unquoted debt assets abroad	-	-	-	-	-
Total debt assets abroad	100,363	182,331	3,857	-	286,551

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

NOTE 37:- RISK MANAGEMENT (Cont.)

b. 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, 2012				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets in Israel					
Quoted debt assets					
Government bonds	3,189,292	-	-	-	3,189,292
Corporate bonds	827,524	835,420	12,649	14,573	1,690,166
Total quoted debt assets in Israel	4,016,816	835,420	12,649	14,573	4,879,458
Unquoted debt assets					
Government bonds	17,277,271	-	-	-	17,277,271
Corporate bonds	401,926	455,719	35,302	411	893,358
Deposits in banks and financial institutions	1,230,725	827	-	-	1,231,552
Other debt assets according to security:					
Mortgages	-	-	-	56,124	56,124
Loans on policies	-	-	-	154,657	154,657
Other security	199,907	317,100	-	169,732	686,739
Not secured	5,032	12,522	-	1,189	18,743
Total unquoted debt assets in Israel	19,114,861	786,168	35,302	382,113	20,318,444
Total debt assets in Israel	23,131,677	1,621,588	47,951	396,686	25,197,902
From this debt assets according to internal rating	83,980	369,718	-	-	453,698
Includes debt assets in internal rating whose rating was reduced by the Company	-	40,212	-	-	40,212

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) Debt assets credit risks (Cont.)

(2) Details of assets divided into ratings (Cont.)

(a) Debt assets (Cont.)

	International rating *)				
	December 31, 2012				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets abroad					
Quoted debt assets:					
Government bonds	85,663	-	-	-	85,663
Corporate bonds	44,709	189,041	3,995	21,135	258,880
Total quoted debt assets abroad	130,372	189,041	3,995	21,135	344,543
Unquoted debt assets:					
Deposits in banks and financial institutions	-	8,104	-	12,444	20,548
Total unquoted debt assets abroad	-	8,104	-	12,444	20,548
Total debt assets abroad	130,372	197,145	3,995	33,579	365,091

*) 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.)

(b) Credit risks in respect of other assets (In Israel)

Additional information

	Local rating *)				
	December 31, 2013				
	AA and above	BBB to A	Lower than BBB	Not rated	Total
	NIS in thousands				
Debtors and receivables, except for reinsurers' balances	-	-	-	269,949	269,949
Deferred tax assets	19,630	-	-	-	19,630
Other financial investments	-	-	-	226,609	226,609
Cash and cash equivalents	1,480,867	15,257	-	-	1,496,124

	Local rating *)				
	December 31, 2012				
	AA and above	BBB to A	Lower than BBB	Not rated	Total
	NIS in thousands				
Debtors and receivables, except for reinsurers' balances	-	-	-	242,905	242,905
Deferred tax assets	15,263	-	-	-	15,263
Other financial investments	-	-	-	219,723	219,723
Cash and cash equivalents	1,641,508	560,583	-	-	2,202,091

*) 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.)

b) 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, 2013				
	AA and above	BBB to A	Lower than BBB	Not rated	Total
	NIS in thousands				
Unutilized credit lines	26,324	50,051	-	-	76,375

	Local rating *)				
	December 31, 2012				
	AA and above	BBB to A	Lower than BBB	Not rated	Total
	NIS in thousands				
Unutilized credit lines	46,611	96,025	-	-	142,636

*) 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, 2013				
	A and above	BBB	Lower than BBB	Not rated	Total
	NIS in thousands				
Other financial investments	-	-	-	1,728,111	1,728,111
Cash and cash equivalents	54,051	92	-	-	54,143

	International rating *)				
	December 31, 2012				
	A and above	BBB	Lower than BBB	Not rated	Total
	NIS in thousands				
Other financial investments	-	-	-	1,118,209	1,118,209
Cash and cash equivalents	59,738	-	-	-	59,738

*) 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.)

b) Additional information regarding credit risks

(1) In August 2013 the Regulator approved that Migdal Insurance will use an internal credit rating model (hereunder - "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 Regulator 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 Regulator'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 Supervision of Financial Services Regulations (Insurance) (Minimum Capital Required from an Insurer) - 1998 (hereafter – “ 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 Regulator 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, the Regulator instructed that up to January 1, 2009 the rating companies who received approval from the Commissioner of the Capital Market, Insurance and Savings to operate as a rating company in accordance with the Capital Market Circular 2004/1, to publish a conversion scale between the local and international rating.

(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 paragraph 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 516,522 thousand (2012 – NIS 446,330 thousand) see Note 10.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

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

b) Additional information regarding credit risks

(6) Aging of investments in unquoted financial debt assets:

	December 31	
	2013	2012
	NIS in thousands	
Debt assets whose value was not impaired		
Without arrears	21,483,425	20,065,747
In arrears(*):		
Up to 90 days	8,728	16,096
Between 90 to 180 days	4,425	3,188
Over 180 days	35,663	31,066
Total debt assets whose value was not impaired	21,532,241	20,116,097
Debt assets whose value was impaired:		
Gross assets whose value was impaired	136,040	272,104
Impairments recognized in profit and loss (accumulated)	(51,782)	(49,209)
Total unquoted debt assets	21,616,499	20,338,992

It should be noted that the above amounts do not constitute the actual amount in arrears, but rather the debt balance involved in the arrears.

*) Mainly loans on policies against which there are full redemption values and/or mortgages.

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

(7) Details of exposure to economic sectors for investments in quoted and unquoted financial debt assets

	December 31, 2013		
	Balance sheet credit risk		Off balance sheet risk
	Amount NIS in thousands	% Of the total	NIS in thousands
Economic sector			
Industry	332,033	1.2	-
Construction and real estate	774,707	2.8	21,466
Electricity and water	124,376	0.5	43,509
Commercial	38,591	0.1	-
Transportation and storage	105,349	0.4	11,400
Communication and computer services	187,457	0.7	-
Banks	2,564,107	9.3	-
Financial services	202,856	0.7	-
Other business services	13,990	0.1	-
Holding companies	287,977	1.0	-
Private individuals	401,182	1.5	-
Other	3,293	-	-
Government bonds	22,420,583	81.7	-
Total	27,456,501	100	76,375

NOTE 37:- RISK MANAGEMENT (Cont.)

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

(7) Details of exposure to economic sectors for investments in quoted and unquoted financial debt assets (Cont.)

	December 31, 2012		
	Balance sheet credit risk		Off balance sheet risk
	Amount NIS in thousands	% Of the total	NIS in thousands
Economic sector			
Industry	299,471	1.2	109,442
Construction and real estate	563,592	2.2	33,194
Electricity and water	-	-	-
Commercial	6,802	-	-
Transportation and storage	20,887	0.1	-
Communication and computer services	226,654	0.9	-
Banks	2,661,587	10.4	-
Financial services	114,071	0.4	-
Other business services	454,683	1.8	-
Holding companies	273,214	1.1	-
Private individuals	381,702	1.5	-
Other	8,104	-	-
Government bonds	20,552,226	80.4	-
Total	25,562,993	100	142,636

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.)

4.1. Reinsurers' credit risks

Migdal Insurance insures part of its business by reinsurance, most of which is done through reinsurers abroad. However, the reinsurance does not release the direct insurers from their commitment towards their policyholders according to the insurance policies.

Migdal Insurance is exposed to risks resulting from uncertainty regarding the reinsurers' ability to pay their share in the liabilities in respect of insurance contracts (reinsurance assets). Therefore, the financial stability of reinsurers and their ability to meet their financial obligations may affect the business results of the Company. This exposure is managed by a current follow-up of the reinsurers rating in the international market and their following through on monetary liabilities.

The Company is exposed to concentrated credit risk to an individual reinsurer, due to the reinsurance market structure and the limited amount of reinsurers with sufficient rating.

In accordance with the Regulator's directives, once a year the Company's Board of Directors determines the limits of the maximum exposure to the reinsurers with whom the Company has engaged and/or will engage, which is mainly based on their international rating. These exposures are managed in the Company by individual valuation of each of the reinsurers separately.

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

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

4.1. Reinsurers' credit risks (Cont.)

	As at December 31, 2013										
			Reinsurance assets							Debts in arrears (b)	
Rating group: (d)	Total reinsurance premiums for 2013	Balances in debit (credit) net	In life assurance	In health insurance	In property insurance	In liability insurance	Deposits by reinsurers	Amount of letters of credit received from reinsurers	Total exposure (a) (c)	Between half a year and one year	Over one year
	NIS in thousands										
AA and above											
Swiss Reinsurance Co	120,635	(31,379)	5,172	4,924	31,505	36,903	4,020	-	43,105	-	-
Munich Reinsurance Co.AG	51,407	(8,553)	3,139	3,994	18,484	69,641	-	-	86,705	-	-
Others	132,410	(13,053)	90,391	9,359	54,478	42,928	15,234	5,673	163,196	1	1
	304,452	(52,985)	98,702	18,277	104,467	149,472	19,254	5,673	293,006	1	1
A											
Assicurazioni Generali SpA (e)	216,668	(11,921)	2,181	452	124,362	190,132	11,533	747	292,926	-	-
Others (g)	225,371	(28,065)	2,076	39	154,010	107,133	50,853	592	183,748	25	34
	442,039	(39,986)	4,257	491	278,372	297,265	62,386	1,339	476,674	25	34
BBB (g)	-	(21)	-	-	494	-	-	-	473	-	-
Lower than BBB – or unrated (f)	5,494	(3,920)	204	-	3,714	35,403	-	-	35,401	275	7
Total	751,985	(96,912)	103,163	18,768	387,047	482,140	81,640	7,012	805,554	301	42

Comments:

1. (a) The total exposure to reinsurers is: debit (credit) balances, net, reinsurance assets, net of the deposits and net of the amount of letters of credit received from reinsurers as a guarantee for their liabilities.
   (b) After deduction of the provision for doubtful debts in an amount of NIS 1,290 thousand.
   (c) The total provisions for doubtful debts, plus the reduction in the reinsurers' share in outstanding claims and in reserves amounts to about NIS 2,095 thousand which constitutes about 0.3% of the exposure as at December 31, 2013. The reduction with respect to previous years' results, among others, from the recognition of part of the debts as bad debts and from the collection of old debts.
   (d) The rating is determined mainly according to the S&P rating company. In cases where S&P did not provide a rating, the rating was determined by another rating company whose rating was converted in accordance with a conversion scale as determined pursuant to the Ways of Investment Regulations. Each rating includes all the ranges, for example: A includes A- through A+.
   (e) The total premiums of the Company's former controlling shareholder include premiums in facultative reinsurance at the rate of 100% in the amount of about NIS 58 million in respect of one policyholder. Includes premiums of NIS 39 million in life assurance transferred to Swiss Re following transfer of worker disability policies - See Note 38.e.1.c).
   (f) The non-rated group includes balances for outstanding claims through brokers from business that was received up to and including the year 2003 in the amount of about NIS 7,497 thousand.
   (g) Including an insignificant balance in respect of a reinsurer from the Generali Group which is the Company's former controlling shareholder.
2. The total exposure of the reinsurers in the event of an earthquake at the maximum probability of damage of 1.80% (MPL according to model used by the Company) is about NIS 4,287 million. The most significant reinsurer is Generali, which is the former controlling shareholder in the Company, and its share in this exposure is about NIS 933 million.
3. There are no other reinsurers apart from those detailed above that the exposure in their respect is above 10% of the overall exposure of reinsurers or the premium in their respect is over 10% of the premiums for reinsurance for the year 2013. There is an exposure of NIS 88 million to an Israeli insurance company with respect to life assurance reinsurance.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

4.1. Reinsurers' credit risks (Cont.)

Rating group: (d)	Total reinsurance premiums for 2012	Balances in debit (credit) net	Reinsurance assets: In life assurance	Reinsurance assets: In health insurance	Reinsurance assets: In property insurance	Reinsurance assets: In Liability insurance	Deposits by reinsurers	Amount of letters of credit received from reinsurers	Total exposure (a) (c)	Debts in arrears (b): Between half a year and one year	Debts in arrears (b): Over one year
	As at December 31, 2012 – NIS in thousands										
AA and above											
Swiss Reinsurance Co	77,937	(19,839)	2,450	4,708	25,400	23,973	2,224	-	34,468	-	-
Munich Reinsurance Co.AG	47,026	(9,349)	2,240	5,670	23,956	74,391	-	-	96,908	-	-
Others	128,089	(5,287)	83,176	4,105	56,943	42,441	16,337	10,043	154,998	53	2
	253,052	(34,475)	87,866	14,483	106,299	140,805	18,561	10,043	286,374	53	2
A											
Assicurazioni Generali SpA (e)	228,160	(20,551)	2,705	194	208,008	200,882	9,752	803	380,683	-	-
Others (g)	171,678	(16,491)	258	324	123,272	110,183	34,147	638	182,761	7	7
	399,838	(37,042)	2,963	518	331,280	311,065	43,899	1,441	563,444	7	7
BBB (g)	16,575	(502)	-	-	16,935	8,070	5,681	-	18,822	-	-
Lower than BBB – or unrated (f)	5,623	(3,306)	58	-	2,334	27,393	-	-	26,479	291	154
Total	675,088	(75,325)	90,887	15,001	456,848	487,333	68,141	11,484	895,119	351	163

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 NIS 1,309 thousand.
   (c) The total provisions for doubtful debts, plus the reduction in the reinsurers' share in outstanding claims and in reserves amounts to about NIS 2,092 thousand which constitutes about 0.2% of the exposure as at December 31, 2012. The reduction with respect to previous years' results, among others, from the recognition of part of the debts as bad debts and from the collection of old debts.
   (d) The rating is determined mainly according to the S&P rating company. In cases where S&P did not provide a rating, the rating was determined by another rating company whose rating was converted in accordance with a conversion scale as determined pursuant to the Ways of Investment Regulations. Each rating includes all the ranges, for example: A includes A- through A+.
   (e) The total premiums of the Company's former controlling shareholder include premiums in facultative reinsurance at the rate of 100% in the amount of about NIS 56 million in respect of one policyholder.
   (f) The non-rated group includes balances for outstanding claims through brokers from business that was received up to and including the year 2003 in the amount of about NIS 8,692 thousand.
   (g) Including an insignificant balance in respect of a reinsurer from the Generali Group which is the Company's former controlling shareholder.
2. The total exposure of the reinsurers in the event of an earthquake at the probability of damage of 1.70% (weighed MPL) is about NIS 3,693 million (the MPL is estimated by the latest models held by the Group). The most significant reinsurer is Generali, which is the former controlling shareholder in the Company, and its share in this exposure is about NIS 861 million.
3. There are no other reinsurers apart from those detailed above that the exposure in their respect is above 10% of the overall exposure of reinsurers or the premium in their respect is over 10% of the premiums for reinsurance for the year 2012.

NOTE 37:- RISK MANAGEMENT (Cont.)

5. General risks

a. Economic and employment conditions

The employment rate has a significant impact on the Group's business in the life assurance and long term savings sector. A deterioration of the employment rate, a decline in the number of employed, an increase in the unemployment rate and a decline in the level of salaries of the employed, affects the amount of new sales and the cancellation rates in the portfolio. In addition, the general condition of the economy affects the Group's business in the different sectors in which it operates. A recession could result in an increase in bad debts, an increase in disability claims, a decline in the insurance coverage purchased in the policies and an increase in the level of fraud.

b. Changes in regulation

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.

The regulation in the insurance and long term savings has a significant impact on the prices and on the management fee rates collected on various products and on the expense levels of the companies. The legal pronouncements, guidelines and agreements related to the structure of savings in the economy and primarily in respect of pension savings, including tax implications thereon, impact the changes in business volume in this sector and the level of product alternatives, including the possibility of the transfer of savings between products. Furthermore, changes in the law and in regulation may affect the Company with respect to products sold in the past, though retroactive implementation and by way of interpretation of agreements entered in the past and as a consequence of competition. Consequently, these pronouncements affect the life assurance and long term savings portfolio of the companies and the future sales of these products.

In 2012 the reform in management fees affected the pension fund savings and their profitability.

In addition, the insurance companies are subject to capital requirements. Changes in regulations in capital requirements may affect the activities and profitability of Group companies.
Furthermore, Group insurance agencies are also subject to regulation, including regulations as to the holding of agencies by an insurance company and requirements placed on the marketer of pension products. Changes in the law with respect to the activities of insurance agencies affect the activities of the agencies and their profitability.

c) Increase in competition

The increase in competition in the sectors in which the Group operates, may hurt Group profitability. The Regulator, under regulatory organization, has been leading processes during the past decade to increase competition in the long term savings sector, both by way of the level of product alternatives and by way of the level and structure of management fees. For additional details regarding the effect of the reduction in management fees see Note 27 b.

NOTE 37:- RISK MANAGEMENT (Cont.)

5. General risks (Cont.)

d) Changes in customer preference

The public’s inclination to chose alternatives to the products of various sectors or alternative products within the various sectors or its inclination not to purchase insurance may affect the demand for the Group’s products and the profitability of the various sectors.

e) Legal precedents and authority of Regulator to give fundamental decisions

Group companies are exposed to judicial decisions, including class action suits which are filed against other entities in the industry and against the Group companies, and quasi-judicial decisions given by the Regulator within the framework of its powers to discuss policyholder complaints and / or conduct an audit, which constitute a binding legal precedent in relation to the Group's activities affecting the Group's operations in a manner that could result in a change of obligations and / or the bearing of costs that were not anticipated at the date of the transaction.

f) Legal proceedings

The Group's financial institutions are party to legal proceedings, including class actions and decisions of the Regulator 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 treatment of insurance plans / pension / provident funds of the Company in a manner different than in the past, including the imposing of financial sanctions.

g) Damage to goodwill

Goodwill and reputation is 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.

h) Negotiation of a collective labor agreement

Migdal Insurance is opening negotiations with the Histadrut to formulate a collective labor agreement. The negotiation process may cause labor unrest and harm the current operations of Migdal Insurance, including through strikes or slowdowns by workers. Also the signing of a collective agreement by Migdal Insurance may reduce management flexibility and impose additional costs on Migdal Insurance.

NOTE 37:- RISK MANAGEMENT (Cont.)

5. General risks (Cont.)

c. Details of assets and liabilities distributed into linkage basis

	December 31, 2013					
	In NIS unlinked	In NIS linked to the CPI	Denominated in foreign currency or linked thereto	Non-monetary items and others	Liabilities in respect of yield dependent contracts	Total
	NIS in thousands					
Assets						
Intangible assets	-	-	-	1,453,585	-	1,453,585
Deferred tax assets	-	-	-	19,630	-	19,630
Deferred acquisition costs	-	-	-	1,736,124	85	1,736,209
Fixed assets	-	-	-	758,865	-	758,865
Investments in affiliates	68,711	633	-	584,853	-	654,197
Investment property for yield dependent contracts	-	-	-	-	4,697,884	4,697,884
Other investment property	-	-	-	610,204	-	610,204
Reinsurance assets	185,475	780,562	20,232	-	4,849	991,118
Current tax assets	-	75,773	1,101	-	10,371	87,245
Debtors and receivables	237,399	1,145	14,042	23,568	38,948	315,102
Outstanding premiums	54,555	258,784	34,687	-	168,496	516,522
Financial investments for yield dependent contracts	-	-	-	-	60,990,179	60,990,179
Other financial investments:						
Quoted debt assets	1,825,200	3,728,251	286,551	-	-	5,840,002
Unquoted debt assets	179,198	21,423,083	14,218	-	-	21,616,499
Shares	-	-	-	1,034,807	-	1,034,807
Others	-	1,763	20,833	1,932,124	-	1,954,720
Total other financial investments	2,004,398	25,153,097	321,602	2,966,931	-	30,446,028
Cash and cash equivalents for yield dependent contracts	-	-	-	-	4,907,015	4,907,015
Other cash and cash equivalents	1,428,220	-	122,047	-	-	1,550,267
Total assets	3,978,758	26,269,994	513,711	8,153,760	70,817,827	109,734,050

NOTE 37:- RISK MANAGEMENT (Cont.)

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

	December 31, 2013					
	In NIS unlinked	In NIS linked to the CPI	Denominated in foreign currency or linked thereto	Non-monetary items and others	Liabilities in respect of yield dependent contracts	Total
	NIS in thousands					
Total capital	-	-	-	5,140,401	-	5,140,401
Liabilities						
Liabilities in respect of non-yield dependent insurance contracts and investment contracts	688,728	29,394,008	44,823	-	-	30,127,559
Liabilities in respect of yield dependent insurance contracts and investment contracts	-	-	-	-	70,558,408	70,558,408
Deferred tax liabilities	-	-	-	632,174	-	632,174
Liabilities for employee benefits, net	51,999	-	-	81,627	120,135	253,761
Liabilities in respect of current taxes	-	28,405	-	-	-	28,405
Creditors and payables	1,011,690	466,184	167,147	67,358	60,530	1,772,909
Financial liabilities	194,507	903,533	11,728	13,422	97,243	1,220,433
Total liabilities	1,946,924	30,792,130	223,698	794,581	70,836,316	104,593,649
Total capital and liabilities	1,946,924	30,792,130	223,698	5,934,982	70,836,316	109,734,050
Total balance sheet exposure	2,031,834	(4,522,136)	290,013	2,218,778	(18,489)	-
Exposure to base assets through derivative instruments in Delta terms	976,391	(99,994)	(917,137)	40,740	-	-
Total exposure	3,008,225	(4,622,130)	(627,124)	2,259,518	(18,489)	-

NOTE 37:- RISK MANAGEMENT (Cont.)

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

	December 31, 2012					
	In NIS unlinked	In NIS linked to the CPI	Denominated in foreign currency or linked thereto	Non-monetary items and others	Liabilities in respect of yield dependent contracts	Total
	NIS in thousands					
Assets						
Intangible assets	-	-	-	1,267,683	-	1,267,683
Deferred tax assets	-	-	-	15,263	-	15,263
Deferred acquisition costs	-	-	-	1,624,573	99	1,624,672
Fixed assets	-	-	-	786,214	-	786,214
Investments in affiliates	78,650	-	-	526,336	-	604,986
Investment property for yield dependent contracts	-	-	-	-	3,916,486	3,916,486
Other investment property	-	-	-	538,204	-	538,204
Reinsurance assets	154,038	851,465	36,504	-	8,062	1,050,069
Current tax assets	-	94,834	2,687	-	2,708	100,229
Debtors and receivables	197,397	-	1,520	23,887	31,979	254,783
Outstanding premiums	51,845	220,820	29,322	-	144,343	446,330
Financial investments for yield dependent contracts	-	-	-	-	54,156,452	54,156,452
Other financial investments:						
Quoted debt assets	1,823,489	3,055,969	344,543	-	-	5,224,001
Unquoted debt assets	132,630	20,166,593	39,769	-	-	20,338,992
Shares	-	-	-	632,693	-	632,693
Others	-	-	6,999	1,330,933	-	1,337,932
Total other financial investments	1,956,119	23,222,562	391,311	1,963,626	-	27,533,618
Cash and cash equivalents for yield dependent contracts	-	-	-	-	2,376,263	2,376,263
Other cash and cash equivalents	2,181,547	-	80,282	-	-	2,261,829
Total assets	4,619,596	24,389,681	541,626	6,745,786	60,636,392	96,933,081

NOTE 37:- RISK MANAGEMENT (Cont.)

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

	December 31, 2012					
	In NIS unlinked	In NIS linked to the CPI	Denominated in foreign currency or linked thereto	Non-monetary items and others	Liabilities in respect of yield dependent contracts	Total
	NIS in thousands					
Total capital	-	-	-	4,795,487	-	4,795,487
Liabilities						
Liabilities in respect of non-yield dependent insurance contracts and investment contracts	542,669	27,947,157	59,411	-	-	28,549,237
Liabilities in respect of yield dependent insurance contracts and investment contracts	-	-	-	-	60,062,274	60,062,274
Deferred tax liabilities	-	-	-	534,366	-	534,366
Liabilities for employee benefits, net	67,897	89,194	-	-	121,016	278,107
Liabilities in respect of current taxes	-	2,970	-	-	-	2,970
Creditors and payables	882,182	469,831	127,753	117,075	69,376	1,666,217
Financial liabilities	11,037	906,630	40,895	6,058	79,803	1,044,423
Total liabilities	1,503,785	29,415,782	228,059	657,499	60,332,469	92,137,594
Total capital and liabilities	1,503,785	29,415,782	228,059	5,452,986	60,332,469	96,933,081
Total balance sheet exposure	3,115,811	(5,026,101)	313,567	1,292,800	303,923	-
Exposure to base assets through derivative instruments in Delta terms	(212,883)	50,439	68,102	94,342	-	-
Total exposure	2,902,928	(4,975,662)	381,669	1,387,142	303,923	-

NOTE 37:- RISK MANAGEMENT (Cont.)

d. Information regarding financial investments for yield dependent contracts

1. Composition of investments according to linkage basis

	December 31, 2013				
	In NIS unlinked	In NIS linked to the CPI	Denominated in foreign currency or linked thereto	Non-monetary items and others	Total
	NIS in thousands				
Cash and cash equivalents	2,726,177	-	2,180,838	-	4,907,015
Quoted assets	7,411,199	11,074,001	722,428	28,985,316	48,192,944
Unquoted assets	317,640	7,830,829	442,013	9,127,386	17,717,868
Total assets	10,455,016	18,904,830	3,345,279	38,112,702	70,817,827
Exposure to the base asset through derivative instruments in Delta terms	19,141,482	-	(23,623,818)	4,482,336	-

	December 31, 2012				
	In NIS unlinked	In NIS linked to the CPI	Denominated in foreign currency or linked thereto	Non-monetary items and others	Total
	NIS in thousands				
Cash and cash equivalents	2,013,477	-	362,786	-	2,376,263
Quoted assets	5,984,400	10,048,081	129,535	25,291,980	41,453,996
Unquoted assets	74,034	8,428,074	415,029	7,888,996	16,806,133
Total assets	8,071,911	18,476,155	907,350	33,180,976	60,636,392
Exposure to the base asset through derivative instruments in Delta terms	10,823,652	-	(11,632,618)	808,966	-

NOTE 37:- RISK MANAGEMENT (Cont.)

d. Information regarding financial investments for yield dependent contracts

2. Credit risk for assets in Israel

	Local rating *)				
	December 31, 2013				
	AA and above	BBB to A	Lower than BBB	Not rated	Total**
	NIS in thousands				
Debt assets in Israel:					
Government bonds	10,931,593	-	-	-	10,931,593
Other debt assets - quoted	3,802,825	4,343,096	78,537	79,509	8,303,967
Other debt assets - unquoted	3,252,527	3,476,046	59,699	458,588	7,246,860
Total debt assets in Israel	17,986,945	7,819,142	138,236	538,097	26,482,420
From this debt assets at internal rating	733,613	2,113,201	7,966	-	2,854,780
Includes debt assets at internal rating whose rating was reduced by the Company	331,563	915,696	-	-	1,247,259

	Local rating *)				
	December 31, 2012				
	AA and above	BBB to A	Lower than BBB	Not rated	Total**
	NIS in thousands				
Debt assets in Israel:					
Government bonds	8,358,428	-	-	-	8,358,428
Other debt assets - quoted	4,416,833	3,911,504	12,790	64,891	8,406,018
Other debt assets - unquoted	3,773,951	3,220,479	71,037	546,637	7,612,104
Total debt assets in Israel	16,549,212	7,131,983	83,827	611,528	24,376,550
From this debt assets at internal rating	378,778	2,096,349	6,652	-	2,481,779
Includes debt assets at internal rating whose rating was reduced by the Company	-	591,688	-	-	591,688

*) The sources for the rating level in Israel are the rating companies “Ma’a lot” and “Midroog. The rating company’s data were converted into rating signs according to generally accepted conversion coefficients. Each rating includes all the ranges, for example: A includes A- through A+.

**) The book value constitutes a close approximation of 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

3. Credit risk for assets abroad

	International rating *)				
	December 31, 2013				
	A and above	BBB	Lower than BBB	Not rated	Total**
	NIS in thousands				
Total debt assets abroad	167,149	313,460	241,819	-	722,428

	International rating *)				
	December 31, 2012				
	A and above	BBB	Lower than BBB	Not rated	Total**
	NIS in thousands				
Total debt assets abroad	24,197	-	16,174	-	40,371

*) The sources for the rating level aboard are the rating companies S&P, Moody's and Fitch, which were approved by the Regulator of Insurance. Each rating includes all the ranges, for example: A includes A- through A+.

**) The book value constitutes a close approximation of 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. The Company's controlling shareholder as from October 29, 2012 is Mr. Shlomo Eliahu. Mr. Shlomo Eliahu holds shares in the Company through Eliahu Insurance, directly and indirectly.

2. Within the completion of the control acquisition transaction, the Company received an undertaking from Generali towards it, by virtue of the agreement for the transfer of control signed between Eliahu and Generali, pursuant to which Generali undertook to allow Migdal Insurance to continue and renew with it reinsurance treaties, at Migdal Insurance's discretion, for a period of five years, up to the exposure limit to Generali effective at that time. For additional details see e. below. The Company has decided, on the basis of a legal opinion received, that although Generali is no longer a 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 only for reasons of prudency, to approve transactions with Generali through legal procedures applied for the approval of transactions with controlling shareholders. This policy will be applied for a period of 24 months from the date of transfer of control in the Company.

3. Mr. Shlomo Eliahu, holds, directly and indirectly (except for his holdings via the Company and its subsidiaries) approximately 27.1% of the share capital of Union Bank Ltd. ("Union Bank"). As per reports published by Union Bank, Shlomo Eliahu Holdings Ltd. has ceased to be considered a controlling shareholder of Union Bank as from October 29, 2012. In addition, Mr. Shlomo Eliahu held until October 2013, directly and indirectly (except for his holdings via the Company and its subsidiaries) shares of Bank Leumi L'Israel Ltd. ("Bank Leumi") which exceed 5%.

4 Accordingly, the Group's transactions with Union Bank are considered as transactions in which the Company's controlling shareholder has a "personal interest" (This is in addition to them being, starting from the date on which he started serving as a Director in the Company, transactions in which a Senior Officer in the Company has a personal interest) and transactions of the Group with Leumi Bank were considered until October 2013 to be transactions in which Mr. Shlomo Eliahu has a personal interest.

5 In addition to the above, Bank Leumi was an interested party of the Company until January 2013 at which time Bank Leumi informed the Company that its holdings in shares of the Company fell below 5% of the share capital of the Company. Consequently, transactions of the Company with Bank Leumi until October 2013 are considered as transactions in which an interested party has a personal interest even before the control in the Company passed to Mr. Shlomo Eliahu.

6 According to the above mentioned, Group transactions with Union Bank are presented as transactions in which the controlling shareholder has an interest as from October 2012 whereas transactions between the Company and Bank Leumi until and including September 2013 are presented as transactions in which the controlling shareholder and/or an interested party has a personal interest.

7 The details below with respect to transactions with interested parties is divided into two parts, one - transactions with Mr. Shlomo Eliahu or transactions in which Mr. Shlomo Eliahu has a personal interest, and two – transactions with Generali.

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

a. General (Cont.)

8. There is no specification of transactions with a controlling shareholder or with whom the controlling shareholder has a personal interest, which are negligible in accordance with the negligibility tests set by the Board of Directors, for transactions with a controlling shareholder or the controlling shareholder has a personal interest therein or an interested party, as detailed in paragraph i below.

9. In addition to the details of transactions with a controlling shareholder, as described above, the note on related parties includes a section regarding affiliates and remuneration of key officers (including directors).

10. Key officers of the Company may purchase from time to time, insurance policies, investment policies or other financial products issued by the Group at market prices and in the ordinary course of business. Details of these transactions are not provided in b. and c. below.

11. Regarding details of indemnity and waiver letters given directors and key officers in the Company see Note 39.2.d. below.

12. Part of the insurance and monetary activities of the Company and its subsidiaries, during the ordinary course of business, is done with the former controlling shareholders of the Company, Generali Group, with related parties, with Eliahu Insurance and with the Union Bank Group and with Bank Leumi. The following details do not include income, expenses and balance sheet balances resulting from said activities, except as detailed below.

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

b. Balances with interested and related parties (except for key management personnel)

Composition:

	December 31, 2013			
	Eliahu Group	Generali	Affiliates	Union Bank Group and and other related parties *)
	NIS in thousands			
Reinsurance assets	-	317,182	-	-
Debtors and receivables	-	-	-	-
Debt assets	-	-	179,615	166,107
Shares	-	-	-	4,921
Creditors and payables	-	(23,464)	-	-
Financial liabilities	-	-	(101,653)	(12,150)

*) The highest balance of debt assets during the year of an interested party amounted to NIS 5,157,530 thousand.

Composition: (Cont.)

	December 31, 2012			
	Eliahu Group	Generali	Affiliates	Bank Leumi Group, Union Bank Group and and other related parties *)
	NIS in thousands			
Reinsurance assets	58	411,894	-	-
Debtors and receivables	255	-	-	-
Debt assets	-	-	68,045	3,943,857
Shares	-	-	-	419,571
Eliahu Insurance's share in liabilities in respect of co-insurance insurance contracts	(23,326)	-	-	-
Creditors and payables	-	(30,303)	-	(1,093)
Financial liabilities	-	-	(39,995)	(16,092)

*) The highest balance of debt assets during the year of an interested party amounted to NIS 4,814,422 thousand.

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

c. Transactions with interested and related parties

	Year ended December 31, 2013			
	Eliahu Group	Generali *)	Affiliates	Bank Leumi Group, Union Bank Group and and other related parties
	NIS in thousands			
Premiums earned - reinsurance	-	208,390	-	-
Reinsurance commission	-	34,562	-	-
Reinsurance claims and outstanding claims	-	63,857	-	-
Premiums received	-	9,994	-	-
Commissions and profit participating in group insurances	-	-	-	10,518
Distribution and operating agreements	-	-	-	21,274
Agent commission and other commissions	-	-	7,073	7,641
Leasing fees/usage fees	-	126	260	2,518
Transaction costs	-	-	-	836
Other	-	-	-	286

*) With regard to the transaction to purchase reinsurance portfolio see Note 37.b.1.4.

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

c. Transactions with interested and related parties

	Year ended December 31, 2012			
	Eliahu Group	Generali	Affiliates	Bank Leumi Group, Union Bank Group and and other related parties
	NIS in thousands			
Premiums earned - reinsurance	-	245,180	-	-
Reinsurance commission	-	43,816	-	-
Reinsurance claims and outstanding claims	-	72,917	-	-
Premiums received	-	9,052	-	-
Eliahu Insurance's share in premiums	9	-	-	-
Eliahu Insurance's share in payments and change in liabilities in respect of gross insurance contracts	185	-	-	-
Commissions and profit participating in group insurances	-	-	-	14,911
Distribution and operating agreements	-	-	-	23,897
Agent commission and other commissions	-	-	7,448	3,507
Leasing fees/usage fees	-	274	-	3,229
Advertising services	-	-	1,200	-
Income from commissions	-	-	-	505

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

c. Transactions with interested and related parties

	Year ended December 31, 2011		
	Generali	Affiliates	Bank Leumi Group, and other related parties
	NIS in thousands		
Premiums earned - reinsurance	271,159	-	-
Reinsurance commission	59,654	-	-
Reinsurance claims and outstanding claims	166,955	-	-
Premiums received	10,852	4,783	3,374
Commissions and profit participating in group insurances	-	-	18,353
Distribution and operating agreements	-	-	28,411
Agent commission and other commissions	-	6,243	9,773
Leasing fees/usage fees	174	-	1,776
Advertising services and other services	-	3,611	-
Income from commission	-	-	732

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

d. <u>Controlling shareholder – the Company's transactions with Mr. Shlomo Eliahu or with whom Mr. Shlomo Eliahu has a personal interest and which are not Bank Leumi, Union Bank and Generali</u>

1. Transactions under Section 270 (4) of the Companies Law

a) General insurance portfolio acquisition from Eliahu

On September 30, 2013, the General Assembly of the Company, following the approval by the Audit Committee and the Board of the Company and of the Audit Committee and Board of Directors of Migdal Insurance, as described below, approved the agreement of Migdal Insurance with its controlling shareholder, Eliahu insurance concerning the absorption of new business of Eliahu Inaurance in general insurance as from 2013. The transaction consideration was fixed at NIS 260 million (hereinafter - "the purchase consideration"), which was paid on October 1, 2013. The said approval is pursuant to an agreement signed by the parties in November 2012 in which the following actions were taken as from January 1, 2013 (hereinafter - "Agreement"):

(1) Eliahu Insurance provided Migdal Insurance with a list of all agents with whom Eliahu Insurance is connected in general insurance (hereinafter - "Eliahu Agents"), the agreements with them and all related relevant information. Also Migdal insurance and Eliahu made arrangements for approaching Eliahu Insurance agents for the referral to Migdal insurance of proposals for new/renewed policies of Eliahu customers (in whole or in part - as determined by Migdal Insurance), under the conditions laid down by Migdal Insurance as prescribed in the agreement. Accordingly, agreements were signed with Eliahu insurance agents, some of whom were also agents of Migdal Insurance, determining terms for new business in general insurance. Under the agreement, the terms of the engagement with Eliahu Insurance do not require Migdal insurance to write new insurance policies and new policies will be written for those Eliahu customers Migdal chooses without a commitment to certain conditions and at its sole discretion, including in cases where underwriting is required.

(2) Migdal Insurance has employed about 65 Eliahu employees who are employed in absorbing the new general insurance business.

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

d. Controlling shareholder – the Company's transactions with Mr. Shlomo Eliahu or with whom Mr. Shlomo Eliahu has a personal interest and which are not Bank Leumi, Union Bank and Generali (Cont.)

1. Transactions under Section 270 (4) of the Companies Law (Cont.)

a) General insurance portfolio acquisition from Eliahu (Cont.)

(3) Migdal Insurance has chosen to use the Eliahu Insurance IT system for policy production operations and for transactions with Eliahu agents in certain sectors during the first months after absorption of the business.

For implementation of the agreement a special committee of independent Directors was appointed (hereinafter - "the Committee"). Professor Yoram Eden CPA was requested to prepare a valuation of the new policies, hereinafter, respectively - "valuation" and "assessor") and Prof. Amir Barnea was asked to prepare a fairness opinion (Fairness Opinion) (hereinafter , respectively - "fairness opinion "and fairness opinion provider"). The methodology used in the valuations was discounting cash flow (DCF), whereby the fair value of the new policies, as of December 31, 2012, was set at the mid-point of a range and amounted to approximately NIS 364 million. This estimate does not include an element of synergy estimated at an amount of NIS 73 million. The assessor proposed to establish an adjustment mechanism whereby the price adjustment will be limited to an amount of up to NIS 200 million. The fairness opinion, dated June 27, 2013, and completion of this opinion dated August 11, 2013, determined that the valuation was prepared using an appropriate methodology and conservative assumptions and that the fair value of the transaction not including the use of the value adjustment mechanism ranges between NIS 270 million and NIS 400 million. On August 13, 2013, after having received the approval of the audit committee of the Company and of Migdal Insurance, the Company's Board of Directors and the Board of Directors of Migdal Insurance approved the transaction between Migdal Insurance and Eliahu Insurance and the purchase consideration, an amount which reflects in the opinion of the governing bodies of the Company and of its Board of Directors as at the date of the approval of the transaction, a fair and reasonable price.

This transaction was accounted for as a business combination. As part of the transaction tangible assets were not purchased and liabilities were not transferred to Migdal Insurance. For additional information, see Note 4.b.

Migdal Insurance bore the direct cost related to the acquisition of an insignificant amount included in general and administrative expenses in the income statement.

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

d. Controlling shareholder – the Company’s transactions with Mr. Shlomo Eliahu or with whom Mr. Shlomo Eliahu has a personal interest and which are not Bank Leumi, Union Bank and Generali (Cont.)

1. Transactions under Section 270 (4) of the Companies Law (Cont.)

a) General insurance portfolio acquisition from Eliahu (Cont.)

Indemnification

According to the agreement it was agreed that Eliahu Insurance will indemnify Migdal Insurance (as per the set mechanism) in respect of any liability that will apply to Migdal Insurance or a claim or demand that will be filed against it or any damage that will be incurred by it in respect of one or more of the following cases: any liability or responsibility regarding Eliahu customers whose reason is prior to the date upon which any new policy is signed in Migdal Insurance; any liability or responsibility towards Eliahu agents that is not related to new policies or to Migdal Insurance's activity vis-à-vis the agents as to the new policies; regarding Eliahu employees – in respect of claims or arguments of any Eliahu employee who was not employed by Migdal Insurance, or the rights of Eliahu employees who were employed by Migdal Insurance, stemming from the period that preceded their employment in Migdal Insurance or in respect of any claim or argument of any employee who was employed by Migdal, and whose claim is based on his previous employment in Eliahu (such as claims of continuity, change in wage conditions, etc.); any other liability or responsibility towards a third party whose reason or origin is in a period prior to January 1, 2013; any other exposures of Migdal Insurance in respect of Eliahu's activity in the past or in the future.

For additional details related to the transaction and a description of the main matters see immediate reports of the Company from September 16, 2013 and September 30, 2013.

b) Shlomo Eliahu

(1) Mr. Shlomo Eliahu serves as a Director of the Company and of Migdal Insurance as of October 29, 2012 (see immediate report dated October 29, 2012, reference number 2012-01-266556), and as of October 1, 2013 he is the Chairman of the Board of Directors of the Company (see the immediate report dated September 3, 2013, reference number 2013-01-137121).

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

d. Controlling shareholder – the Company's transactions with Mr. Shlomo Eliahu or with whom Mr. Shlomo Eliahu has a personal interest and which are not Bank Leumi, Union Bank and Generali (Cont.)

1. Transactions under Section 270 (4) of the Companies Law (Cont.)

b) Shlomo Eliahu

(1) (Cont.)

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. Remuneration policy of the Company which was approved on September 12, 2013 (see immediate report dated September 12, 2013, reference number 2013-01-144555) includes remuneration to the Chairman of the Board which include a fixed monthly salary of up to NIS 160,000 (linked), social security contributions and benefits and a variable component of the annual bonus, subject to the approval of the governing bodies of the Company, with a target amount of about NIS 1.1 million, and which may reach a maximum of up to NIS 1.5 million. The compensation of the Chairman according to the remuneration policy, which has been waived by Mr. Shlomo Eliahu, as mentioned above, is, therefore, estimated at an annual amount of up to NIS 3.9 million, and in the case of the maximum grant equal to about NIS 4.3 million, before payroll tax paid by the Company.

Regarding the statement of Mr. Shlomo Eliahu regarding the termination of his appointment as Chairman of the Board of Directors at a date no later than April 1, 2015 -See the immediate report dated February 11, 2014, reference number 2014-01-037291

(2) It should be noted that in connection with the acquisition of control of Migdal by Mr. Shlomo Eliahu, the Antitrust Commissioner approved the transaction on June 12, 2012 under the condition that: starting from the closing date the Company shall not enter an agreement with trading companies in which the controlling shareholder holds at least 5% of the share capital (directly or indirectly), for transactions made in respect of assets held on behalf of members in which the consideration for which shall be paid from the assets of members, except by way of a tender in which each trading company has an equal opportunity to participate (hereinafter - "the Tender") and which fulfills the prescribed conditions.

Under the terms stipulated at least four trading companies will participate in the tender. The tender documents will be posted on the company website and will include, among others, the minimum conditions for participation in the tender, the method and the dates for submission of bids, the contract period and terms, and the method and criteria for selecting the winners. The Company shall not conduct any negotiations or contacts with trading companies, or anyone on their behalf, in connection with the tender details and terms, before publishing the tender documents and thereafter and until the selection of the winners of the tender, except for clarifications regarding proposals submitted by participants in the tender. The tender proposal of a related trading company can be selected only if the total monetary consideration paid by the Company under the proposal of this company is the lowest offered in the tender.

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

d. Controlling shareholder – the Company's transactions with Mr. Shlomo Eliahu or with whom Mr. Shlomo Eliahu has a personal interest and which are not Bank Leumi, Union Bank and Generali (Cont.)

1. Transactions under Section 270 (4) of the Companies Law (Cont.)

c) Mr. Eliahu Eliahu

On March 6, 2013 the General Assembly of the Company approved the remuneration of Mr. Eliahu Eliahu. The approval was given following approval by the Audit Committee and the Board of Directors of Migdal Insurance and approval of the Compensation Committee and Board of Directors of the Company. The terms of employment of Mr. Eliahu Eliahu, brother of Mr. Shlomo Eliahu , the controlling shareholder of the Company, who serves as Head of the Central District in General Insurance in Migdal Insurance are as follows: A monthly salary of NIS 50,000 and related benefits including recreation, vacation, sick pay, vehicle maintenance, expense reimbursement, social benefits, disability insurance and deposits in training fund. The cost to the employer of the employment of Mr. Eliahu Eliahu in 2013 was about NIS 963 thousand before payroll tax.

Since the continued employment of Mr. Eliahu Eliahu shall need to be brought before the governing bodies of the Company for approval, including the approval of the General Assembly in accordance with Section 275 of the Companies Law, three years from start of employment on January 1, 2013, the employment agreement of Mr. Eliahu Eliahu shall be valid following the three year period only if it is approved as detailed above.

For further information see the Company's immediate report dated February 28, 2013 (Ref. No. 2013-01-050631) and amended immediate report dated March 11, 2013 (Ref. No. 2013-01-002080).

d) Mr. Israel Eliahu - Remuneration

Mr. Israel Eliahu, son of Mr. Shlomo Eliahu, the controlling shareholder of the Company, serves as a director of the Company and of Migdal Insurance. Subsequent to balance sheet date, he was also appointed as Chairman of the Board of Migdal Capital Markets. As remuneration for his services in the Company and in Migdal Insurance, Mr. Israel Eliahu is entitled to an annual remuneration in the amount of NIS 123,000 and remuneration for attending meetings of the Board and / or committees in the amount of NIS 4,740 per meeting. VAT tax will be added to the above amounts, as applicable. The above amounts will be updated on February 1 and August 1 of each year by the rate of increase in the CPI from the last index published before the date of the update as compared to the index in March 2011. As of the date of the financial statements the annual compensation amounts to NIS 129,140 and the remuneration for participation in a meeting amounts to NIS 4,975.

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

d. Controlling shareholder – the Company's transactions with Mr. Shlomo Eliahu or with whom Mr. Shlomo Eliahu has a personal interest and which are not Bank Leumi, Union Bank and Generali (Cont.)

1. Transactions under Section 270 (4) of the Companies Law (Cont.)

d) Mr. Israel Eliahu - Remuneration (Cont.)

Mr. Israel Eliahu is entitled to compensation if he attends the full meeting or most of the meeting. For participating in the meeting through telecommunication he shall be entitled to 60% of the participation fees for a regular meeting and for participating in a decision in writing he shall be entitled to 50% of the participation fees for a regular meeting.

The annual compensation and compensation for participation are in accordance with the remuneration policy of the Company and are identical to amounts paid to outside directors and other directors who are not the company chairman (range between the maximum annual compensation / maximum participation compensation for companies of the Company's ranking in the Companies Regulations (Rules Regarding Compensation and Expenses of External Directors), 2000 ("Compensation Regulations") and the maximum annual compensation / maximum participation compensation, respectively, set forth in the Compensation Regulations for an expert outside director serving in a company of the Company's ranking).

For further information see the Company's immediate report dated November 19, 2013 (Ref. No. 2013-01-196653).

e) The terms of office of Mr. Ofer Eliahu CEO of Migdal Insurance

On December 26, 2013, the Board of Directors of the Company appointed Mr. Ofer Eliahu as CEO of Migdal Insurance. On February 11, 2014 the appointment of Mr. Ofer Eliahu as CEO of Migdal Insurance, came into force, after the Regulator announced that he had no objection to the appointment as stated (see immediate reports of the Company on December 26, 2013 reference No. 2013-01-109669 and February 11, 2014 reference No. 2014-01-037291). Since Mr. Yonel Cohen resigned as CEO of Migdal Insurance on December 31, 2013, Mr. Ofer Eliahu served as acting CEO of Migdal Insurance beginning on January 1, 2014. Prior to the appointment of Mr. Ofer Eliahu as CEO of Migdal Insurance, Mr. Ofer Eliahu served as from January 29, 2013, as Deputy CEO of Migdal Insurance, first as manager of the general insurance business division and reinsurance, and then as manager of the division of customers, distribution channels and service of the Migdal Group (see the Company's Immediate Reports dated January 29, 2013 reference No. 2013-01-024852 and July 15, 2013 reference No. 2013-01-093204). During the year 2013 Mr. Ofer Eliahu did not receive any compensation from the Company and/or Migdal Insurance in respect of his services in Migdal Insurance.

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

d. Controlling shareholder – the Company’s transactions with Mr. Shlomo Eliahu or with whom Mr. Shlomo Eliahu has a personal interest and which are not Bank Leumi, Union Bank and Generali (Cont.)

1. Transactions under Section 270 (4) of the Companies Law (Cont.)

e) The terms of office of Mr. Ofer Eliahu CEO of Migdal Insurance (Cont.)

On February 24, 2014, the Board of Directors of the Company and of Migdal Insurance, after approval of the audit committee of Migdal Insurance and the remuneration committee of the Company, on February 20, 2014 approved the terms of employment of Mr. Ofer Eliahu as CEO of Migdal Insurance, effective from January 1, 2014. A General Assembly of the Company will be convened on April 1, 2014 to approve the terms of employment of Mr. Ofer Eliahu, see immediate report dated February 25, 2014 (Ref. No. 2014-01-046174) ("immediate report"). Under the terms of the proposed transaction, Migdal will pay Mr. Eliahu a monthly salary of NIS 170,000. The salary will be linked to the CPI, and will be updated once a year, at the beginning of the calendar year, in accordance with the increase in the CPI relative to the index published in January 2014. The monthly salary will be the full consideration for all positions filled in the Group. Mr. Ofer Eliahu will not be entitled to any remuneration in respect of his services in any other position in the Group to which he is appointed, if he is appointed in the future. Migdal Insurance will provide Mr. Ofer Eliahu, for the fulfillment of his duties, a motor vehicle customarily provided by Migdal to managers of his status and position. A motor vehicle at the maximum level under the income tax tables, as updated from time to time. The Company will bear the entire cost of using the vehicle and its maintenance, including gross up of the income tax imposed in respect of the use of the vehicle. Mr. Ofer Eliahu can choose to purchase a vehicle by himself and get a refund for the maintenance and use of the vehicle which is not to exceed the cost the Company would have incurred on the vehicle the Company would have provided Mr. Ofer Eliahu under the terms set out above, including the cost of grossing up the income tax. For further details regarding the terms of employment, such as provisions for pension insurance, reimbursement of expenses, entertainment and travel, vacation and sick days, non-competition etc., see the immediate report.

Each party may at any time and for any reason and at its sole discretion terminate the agreement by giving notice three months in advance. Migdal Insurance may require Mr. Ofer Eliahu to cease work prior to the end of the notice period and terminate the employment relationship immediately, for any reason, and without payment for notice.

Mr. Ofer Eliahu confirmed that the contractual agreement with him is not, and he shall not claim that it is a continuation of his employment with Eliahu Insurance, and he, therefore confirmed that he does not and will not have claims or demands against the Company for the period of his employment with Eliahu insurance, and he shall not have rights arising on a cumulative basis or calculated on the basis of his period of employment in Eliahu Insurance.

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

d. Controlling shareholder – the Company's transactions with Mr. Shlomo Eliahu or with whom Mr. Shlomo Eliahu has a personal interest and which are not Bank Leumi, Union Bank and Generali (Cont.)

1. Transactions under Section 270 (4) of the Companies Law (Cont.)

e) The terms of office of Mr. Ofer Eliahu CEO of Migdal Insurance (Cont.)

Also, in light of the draft circular concerning remuneration policy of institutional entities published on December 25, 2013, by the Capital Market, Insurance and Savings Department of the Treasury ("Draft Circular"), the agreement with Mr. Ofer Eliahu includes the consent of Mr. Ofer Eliahu to make adjustments and changes to the agreement as may be found necessary, in order for it to comply with the principles of the final circular. To the best knowledge of the Company, the terms of employment presented for approval in this report are compatible with the principles contained in the draft circular.
Since the continued employment of Mr. Ofer Eliahu shall need to be brought before the governing bodies of the Company for approval, including the approval of the General Assembly in accordance with Section 275 of the Companies Law, three years from start of employment, the employment agreement of Mr. Ofer Eliahu shall be valid after the three year period only if it is approved as detailed above.

f) Insurance of officer who is a controlling shareholder or his relatives - the controlling shareholder and his relatives are insured under a group E&O insurance policy for a period of seventeen months from August 1, 2013 to December 31, 2014, with a liability limit of $ 100 million per event and period and for an annual premium of U.S. $ 731,413. The insurance policy, including for the controlling shareholder and his family, is in accordance with the remuneration policy of the Company (see the Company's immediate report dated August 13, 2013 Reference No. 2013-01-116520). It is noted that letters of indemnity to officers serving in the Company at the date of the report including the controlling shareholder and/or other officers that the controlling shareholder has a personal interest in them (Shlomo Eliahu and relatives serving as officers, Ofer Eliahu and Israel Eliahu) have not yet been submitted for approval and therefore at the date of the report they do not have a letter of indemnity from the Company. Regarding letters of indemnity to officers who are the controlling shareholder or in whom the controlling shareholder has a personal interest, see Note 39 (2).

2. Transactions which are not included in Clause 270(4) of Companies Law and are not negligible

There are no transactions which are not included in Clause 270(4) of the Companies Law and are not negligible.

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

e. The. Generali Group - Company contracts with Generali or with whom Generali has a personal interest

On October 29, 2012 the transaction whereby Assicurazioni Generali SpA ("Generali") sold its shares in the Company to Mr. Shlomo Eliahu (through a company he controls) was completed and thus Generali ceased to be the controlling shareholder of the Company. As part of the completion of the acquisition of control, the Company received a commitment from Generali, under the agreement to transfer control between Eliahu and Generali, whereby Generali has undertaken to allow Migdal Insurance to continue to renew its reinsurance contracts, at the discretion of Migdal Insurance, for a period of five years, up to the existing exposure limit to Generali at that date.. See in this regard the Company's immediate report dated October 29, 2012 (Ref. No. 2012-01-266412). In light of the transfer of control, apparently the agreements of Migdal insurance with Generali are no longer transactions with a controlling shareholder and therefore do not require approval in accordance with the law applicable in relation to transactions of a public company with its controlling shareholder. However, due to the position of the Israel Securities Authority in other contexts, which saw transactions with a former controlling shareholder as transactions in which the new controlling shareholder has a personal interest, the Company decided, based on a legal opinion received, that although Generali is no longer the controlling shareholder and despite their being no reason to see Mr. Shlomo Eliahu as having a personal interest in transactions with Generali, and only for the sake of precaution, to approve agreements with Generali though procedures prescribed by law for approval of transactions with a controlling shareholder, until the end of 24 months from the date of transfer of control of the Company. See immediate report from May 28, 2013 and amended report from June 23, 2013 (Ref. No. 2013-01-075304 and 2013-01-071106, respectively).

1. Transactions under Clause 270(4) of the Companies Law

a) Reinsurance transactions - reinsurance contracts

1) General

The Group enters into reinsurance contracts (“reinsurance contracts”) and facultative agreements ("selective agreements") (“facultative agreements”) with various reinsurers (hereunder collectively – “the reinsurance transactions”). Reinsurance transactions are executed in the Company’s various areas of activity, life assurance, health insurance and general insurance (property and liabilities insurance). Generali has a material part in reinsurance contracts and facultative agreements, as part of the reinsurance Generali provides to all the Generali group companies around the world. It is clarified that Generali does not take part in all the reinsurance transactions of Migdal Insurance and that part of Migdal Insurance’s liabilities are not even ceded to reinsurers but remain as retention.

As from July 12, 2013, Generali is ranked by S & P at A- (with negative outlook) and by AM Best at A (with a negative outlook). Generali is also rated by other rating agencies - Moody's at BBB + (with a negative outlook) and Fitch at A- (with negative outlook) at a scale comparable with S & P.

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

e. The. Generali Group - Company contracts with Generali or with whom Generali has a personal interest (Cont.)

1. Transactions under Clause 270(4) of the Companies Law (Cont.)

a) Reinsurance transactions - reinsurance contracts (Cont.)

2) Annual approvals - reinsurance contracts

(1) Annual approval for the year 2013 - all the reinsurance contracts with Generali in general insurance, life assurance and health insurance for the year 2013, that are in the ordinary course of business and at market terms were approved on an annual basis. These transactions were classified as an "irregular transaction" in accordance with Section 270(4) of the Companies Law since the aggregate of the transactions might be material. The transactions were submitted for approval in accordance with Regulation 1(5) of the Companies Regulations (Relief in Transactions with an Interested Party) – 2000 ("the Relief Regulations"). The transaction is at market terms and in the ordinary course of business and does not impair the interests of the Company.

The Company's Board of Directors and Migdal Insurance approved the Company's engagement in reinsurance contracts for the year 2013 on January 14, 2013 after receiving the approval of the Audit Committees of the Company and of Migdal Insurance on January 10, 2013. For the annual approval for the year 2013 see the Company's immediate report from January 14, 2013, (ref. no. 2013-01-013173).

Within the context of the approval of the said engagement, the Company and Migdal Insurance have established criteria and standards to make sure that all reinsurance contracts that Migdal Insurance will make with the Generali group according to this annual approval, are under market conditions and these examinations are detailed in the immediate report mentioned above.

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

e. The. Generali Group - Company contracts with Generali or with whom Generali has a personal interest (Cont.)

1. Transactions under Clause 270(4) of the Companies Law (Cont.)

a) Reinsurance transactions - reinsurance contracts (Cont.)

2) Annual approvals - reinsurance contracts (Cont.)

(2) Annual approval for the year 2014 - all the reinsurance contracts in general insurance, life assurance and health insurance for the year 2014, that are in the ordinary course of business and at market terms were approved on an annual basis. These transactions were classified as an “irregular transaction” in accordance with Section 270(4) of the Companies Law since the aggregate of the transactions that might be material. The transactions were submitted for approval in accordance with Regulation 1(5) of the Relief Regulations. The transaction is at market terms and in the ordinary course of business and does not impair the interests of the Company.

The Company’s Board of Directors and Migdal Insurance approved the Company’s engagement in reinsurance contracts for the year 2014 on January 23, 2014 after receiving the approval of the Company's Audit Committee and of Migdal Insurance from January 20, 2014. For the annual approval for the year 2014 see the Company’s immediate report from January 23, 2014, (ref. no. 2014-01-023344).

Within the context of the approval of the said engagement, the Company and Migdal Insurance have established criteria and standards to make sure that all reinsurance contracts that Migdal Insurance will make with the Generali group according to this annual approval, are under market conditions and these examinations are detailed in the immediate report mentioned above.

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

e. The. Generali Group - Company contracts with Generali or with whom Generali has a personal interest (Cont.)

1. Transactions under to Clause 270(4) of the Companies Law (Cont.)

a) Reinsurance transactions - reinsurance contracts (Cont.)

3) Generali's rate of participation in premiums and exposure in reinsurance contracts

General Insurance

Regarding Generali's actual rate of participation in premiums and exposure in reinsurance contracts in the year 2013, as approved and as actually occurred, as well as the maximum rate of participation that was approved in 2014 for general insurance, see the Company's immediate report dated January 23, 2014, (Ref. No. 2014-01-023344).

The total reinsurance premiums that were transferred to the Generali Group regarding the coverage of reinsurance contracts in general insurance which are included in the annual approval for the year 2013, is about NIS 37 million, which form about 14% of the reinsurance premium regarding reinsurance contracts in general insurance in the said year.

The total insurance amounts for exposure to earthquakes which were transferred to Generali in the framework of reinsurance contracts in general insurance within the annual approval as at December 31, 2013 is about NIS 249 million in MPL terms, which constitutes about 9% of the total exposure to earthquakes, under the framework of reinsurance contracts in general insurance as at December 31, 2013.

The total reinsurance premiums and insurance amounts for exposure to earthquakes to Generali Group regarding the coverage of reinsurance contracts in general insurance which are included in the annual approval for the year 2014, will be determined according the volume of business that the Group will perform during the year 2014.

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

e. The. Generali Group - Company contracts with Generali or with whom Generali has a personal interest (Cont.)

1. Transactions under to Clause 270(4) of the Companies Law (Cont.)

a) Reinsurance transactions - reinsurance contracts (Cont.)

3) Generali's rate of participation in premiums and exposure in reinsurance contracts (Cont.)

Reinsurance contracts - life assurance health insurance and Long Term Care (LTC)

Regarding the Generali's actual rate of participation in premiums in reinsurance contracts in the year 2013, as it actually was, as well as the maximum rate of participation that was approved for the year 2014 in the area of life assurance, health insurance (including LTC), see the Company's immediate report dated January 23, 2014, (Ref. No. 2014-01-023344).

It should be noted that in the areas of life assurance and health insurance, as well as LTC, in which the policies are long term policies, the reinsurance contracts usually cover (excluding catastrophe insurance contracts) policies that will be sold from the year of approval and they are valid until the cancellation of the policies, even if the reinsurance contract is not renewed during the following years. Likewise, policies in the aforementioned areas of activity that were sold in previous years by Migdal Insurance are covered by previous years' reinsurance agreements (contractual and facultative), as well as with Generali, commencing from the 70's and onwards (hereunder - "the old portfolio").

The total reinsurance premiums to the Generali Group in connection with the reinsurance contracts covering life insurance and health care, including LTC and including the old portfolio in 2013, is about NIS 50 million (including premiums of about NIS 39 million in life insurance credited to the reinsurer Swiss Re for the acquisition of a portfolio of PHI policies, see Section e.1. c) and which constitute about 21% of total reinsurance premiums in connection with reinsurance contracts in life and health insurance, including LTC.

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

e. The. Generali Group - Company contracts with Generali or with whom Generali has a personal interest (Cont.)

1. Transactions under to Clause 270(4) of the Companies Law (Cont.)

a) Reinsurance transactions - reinsurance contracts (Cont.)

3) Generali's rate of participation in premiums and exposure in reinsurance contracts (Cont.)

The total reinsurance premiums to the Generali Group in connection with the reinsurance contracts covering the above sectors in respect of new business in 2013 (not including the old portfolio) is about NIS 0.3 million, constituting about 4% of the total reinsurance premiums in connection with reinsurance contracts in the above sectors in respect of new business in 2013 (not including the old portfolio). Under the life and health insurance reinsurance contracts, Migdal Insurance is eligible to receive profit participation commissions.

The Group did not engage in facultative agreements in life assurance and health insurance for new business in the year 2013. Premiums in relation to engagement in facultative agreements that were signed in the past and are still in force, are included in the abovementioned premium amounts of the old portfolio.

The total amount of Generali Group's reinsurance premiums regarding the coverage of reinsurance contracts in life assurance and health insurance including LTC that are included in the annual approval for the year 2014, will be determined according to the volume of the business that the Group will perform during the year 2014.

With respect to a transaction for the sale of the Company's old PHI reinsurance portfolio see Section e.1.c) below. The data detailed above is before the said transaction.

b) Reinsurance transactions - facultative agreements in reinsurance

1) Authorization framework for facultative reinsurance agreements with Generali for 2013-2014 until December 31, 2014

On July 2, 2013, the General Assembly approved the framework for contracts of Migdal insurance with Generali Group companies as from July 2013 and through December 31, 2014 (the "approval period") in facultative reinsurance agreements in general insurance, according to the conditions detailed in the Company's Immediate Reports dated May 28, 2013 and June 23, 2013 (see the respective reference 2013-01-081204 and reference number 2013-01-071106) (hereinafter - "framework approval").

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

e. The. Generali Group - Company contracts with Generali or with whom Generali has a personal interest (Cont.)

1. Transactions under to Clause 270(4) of the Companies Law (Cont.)

b) Reinsurance transactions - facultative agreements in reinsurance (Cont.)

1) Authorization framework for facultative reinsurance agreements with Generali for 2013-2014 until December 31, 2014 (Cont.)

Migdal Insurance and Generali entered facultative reinsurance agreements in the field of general insurance also in the past. The Board of Directors approved the terms of the framework for contracts of Migdal with Generali for the years 2010-2012. The conditions were also approved by the General Assembly of shareholders on January 20, 2010 (see the Company's immediate report dated December 6, 2009 Reference No. 2009-01-309663 and the Company's immediate report dated January 20, 2010 Reference No. 2010-01-360477) ("framework approval for facultative reinsurance agreements in general insurance for 2010-2012").

After the end of the approval period of facultative reinsurance agreements in general insurance for the years 2010 to 2012, the Company continued and brought for approval, for precautionary reasons and until the completion of the examination in relation to approvals for these transactions as described in the introduction to Section 2, the agreements of Migdal with the Generali Group companies in facultative reinsurance in general insurance, in the form of monthly approvals in accordance with Article 1 (5) of the Relief Regulations as their being transactions on market terms conducted in the ordinary course of business for the benefit the Company. See, in this regard approvals of facultative reinsurance agreements in general insurance in 2013 the immediate report dated December 18 , 2012 (Ref. No. 2012-01-313764), the immediate report dated January 14, 2013 (reference number 2013-01-013173), the immediate report dated January 15, 2013 (reference number 2013-01 -013 668), the immediate report dated February 28, 2013 (Ref. No. 2013-01-050661), the immediate report dated March 19, 2013 (Ref. No. 2013-01-011020), the immediate report dated April 25, 2013 (Ref. No. 2013-01 - 045 667) and the immediate report dated May 28, 2013 (Ref. No. 2013-01-074824). The framework approval replaced the above monthly approvals with respect to the facultative reinsurance agreements in general insurance until the end of the approval period, which is the period in which the Company will operate in relation to transactions with Generali as transactions that require approval as transactions with the controlling shareholder.

The framework conditions also include criteria for examining market conditions and materiality, which all together comprise the framework conditions for the agreements.

In addition, the framework agreement determines different conditions, criteria and limitations including: conditions and limitations that relate to the transferred premiums and the total volume of the facultative transactions each year; conditions and limitations that relate to the insurance amounts that will be transferred to the Generali Group (exposure); and conditions and limitations that relate to a single transaction in property insurance and liabilities insurance;

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

e. The. Generali Group - Company contracts with Generali or with whom Generali has a personal interest (Cont.)

1. Transactions under to Clause 270(4) of the Companies Law (Cont.)

b) Reinsurance transactions - facultative agreements in reinsurance (Cont.)

1) Approval of a framework for facultative reinsurance agreements with Generali for the years 2013 to 2014 until December 31, 2014 (continued)

Each facultative agreement with Generali Group which meets the general framework conditions and meets the test of the market conditions and the materiality that were set-forth in the approval, will be considered as an "ordinary transaction" which does not require an additional approval of the Audit Committee and the Board of Directors. Whenever the general framework conditions are met, but in view of the circumstances, the market conditions test or the materiality condition set forth in the framework agreement are not met, the transaction will be considered as an "irregular transaction" which will require an approval pursuant to Regulation 1(3) to the Relief Regulations, after the Audit Committee and the Board of Directors will examine the details of the engagement.

2) Generali's participation rate in premiums and exposure of facultative reinsurance agreements.

General insurance - for the actual participation rate of Generali in premiums and exposure of facultative reinsurance agreements in general insurance in 2013 as was approved and actual and as to the maximum participation rates approved for 2014, see the Company's immediate report dated May 28, 2013 (Ref. No. 2013-01 -074 824).

The total amount of reinsurance premiums in connection with the Generali group reinsurance facultative agreements in respect of general insurance contained in the annual approval for 2013 is about NIS 125 million, representing about 53% of the total reinsurance premiums in connection with facultative reinsurance agreements in general insurance in that year.

The total amounts of insurance for exposure to earthquakes with the Generali Group in connection with reinsurance cover in respect of general insurance facultative agreements as at December 31, 2013 is about NIS 34 billion, representing about 40% of the total exposure in connection with earthquake facultative reinsurance coverage in general insurance as at December 31, 2013.

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

e. The. Generali Group - Company contracts with Generali or with whom Generali has a personal interest (Cont.)

1. Transactions under to Clause 270(4) of the Companies Law (Cont.)

b) Reinsurance transactions - facultative agreements in reinsurance (Cont.)

3) Monthly approvals - Facultative reinsurance transactions approvals in accordance with the regulations for relief in 2013 and prior to approval of the General Assembly.

As specified in Section 1) above, until the framework approval, facultative reinsurance transactions with Generali in 2013 were brought for approval under monthly approvals in accordance with the regulations for relief.

c) Acquisition of old reinsurance portfolio in work disability from Generali and sale of the portfolio to Swiss RE.

On November 25, 2013 Migdal Insurance signed an agreement with Generali, the former controlling shareholder of the Company, whereby Generali sold its reinsurance portfolio for PHI policies for the period January 1, 1970 to December 31, 2012 for a consideration of about NIS 30 million.

Under the agreement, Generali will no longer serve as a reinsurer in relation to reinsurance coverage for PHI policies of Migdal Insurance as of January 1, 2013 and the parties will release one another from any liability and/or obligation under the PHI reinsurance policies mentioned above. The mutual release also includes a waiver by Generali of rights in respect of all reserves held by Migdal, including reserves held by Migdal as against Generali's obligations towards it with respect to claims received and outstanding and those incurred but not reported.

On the same day, Migdal Insurance signed a reinsurance agreement with another reinsurer, Swiss Re, in which Swiss Re will pay a total of about NIS 82 million for taking over all the liabilities of Generali, as is, in respect of the insurance portfolio sold to cover the reinsurance in the portfolio.

After the implementation of the exit agreement with Generali and the agreement with Swiss Re in place of Generali, Generali's insurance liability in respect of the portfolio sold was transferred in its entirety to Swiss Re on "back to back" terms such that the terms of the reinsurance coverage are unchanged.

As a result of these transactions, Migdal Insurance recognized a profit of about NIS 52 million before tax in the income statement for the period ended December 31, 2013.

In this respect, see the Company's Immediate Reports dated November 26, 2013 (Ref. No. 2013-01-203196 and reference number 2013-01-203211).

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

e. The. Generali Group - Company contracts with Generali or with whom Generali has a personal interest (Cont.)

1. Transactions under to Clause 270(4) of the Companies Law (Cont.)

d) Granting an exemption from responsibility and a liability for indemnification which was granted to the Company's officeholders who are serving as officeholders in Generali

Pursuant to Clause 275 (1A) (2) to the Companies Law, regarding existing transactions in which the Company is a party and in which the Company's controlling shareholder might have a personal interest, the Audit Committee decided on November 29, 2011, to limit up to November 30, 2020 (the period of about nine additional years from the date of approval by the Audit Committee and about fourteen years altogether from the date of the original decision regarding the exemption from responsibility and liability for indemnification) the period of events during which the Company's existing exemption and indemnification arrangements will apply, insofar as they will not be replaced by other arrangements, as well as letters of exemption or indemnity that will be provided from time to time by the Company according to the arrangements for exemption and indemnification existing in the Company, in relation to the officeholders in the Company where the controlling shareholder of the Company might be regarded as having a personal interest for granting the exemption and indemnity letters, to those serving or will serve from time to time. For further details regarding the exemption period, see the Immediate Report the Company published on November 29, 2011 (Ref. No. 2011-01-344328).

e) Approval of updated indemnification letters for officeholders of the Company in which the controlling shareholder might be considered as having a personal interest to grant them the indemnity letter

On February 7, 2012, the Company's General Assembly approved the granting of updated indemnity letters to officeholders in a company in which the controlling shareholder of the company, might be considered as having a personal interest therein, as appointed from time to time. These updated indemnity letters are the same as the indemnity letters that will be granted to all the Company's Directors and officeholders. Also see Note 39.2.d in this respect.

For more information about these letters of indemnity, see immediate report issued by the Company dated 07.02.2012, dated 02.02.2013 and dated 28.12.2011 (Ref. No. 2012-01-036555, reference number 2012-01-032109 and reference number 2011-01-378141 respectively).

Officers for whom the grant of indemnification was brought for approval were two directors, Alessandro Corsi and Sergio Balbinot and also officer Livio Steindler. It should be noted that the grant of indemnity to officers serving the Company at balance sheet date, namely, the controlling shareholder and/or other officers in which the controlling shareholder has a personal interest (Mr. Shlomo Eliahu and his relatives serving as officers in the Company, Ofer Eliahu and Israel Eliahu) have not yet been submitted for approval and, therefore, at the date of this report, they do not have letters of indemnity from the Company.

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

e. The. Generali Group - Company contracts with Generali or with whom Generali has a personal interest (Cont.)

2. Transactions not under Clause 270(4) of the Companies Law and not negligible

Extension of the lease contract in Aachen

On September 22, 2008 the Company's audit committee approved the transaction with Generali ABM, a subsidiary of Generali in Aachen, Germany, to extend the leasing contract regarding the backup site in Aachen, Germany which provides services for Migdal's computer unit. This agreement was presented for reasons of caution for the periodic review of the Audit Committee on January 19, 2012, and was approved by the committee. The engagement ended at the end of 2013.

f. Union Bank - Transactions in which the controlling shareholder has a personal interest

With the change in the controlling shareholder on October 29, 2012, Union Bank became a corporation in which the controlling shareholder has a personal interest due to the Company's controlling shareholder's 27% holding, directly or indirectly, in Union Bank. According to reports released by the Union Bank, as of October 29, 2012 Shlomo Eliahu Holdings Ltd. ceased being included as a controlling shareholder of Union Bank. Financial data in relation to transactions with the Union Bank group are from the date the control of the Company was transferred as stated above. Data contained in tables above do not include data relative to the period prior to the change of control of the Company.

1. Transactions under Section 270 (4) of the Companies Law

a) Banking operations activities - Treasury and Investment

On January 29, 2013 Board of Directors of the Company approved that Group companies (excluding Migdal Capital Markets), after approval was given by the audit committee of the Company on January 27, 2013, conduct transactions, inter alia, with Union Bank, within the context of treasury and current investment activities of the Company and its subsidiaries. This activity was carried out in the past, however, from the date of transfer of control of the Company, this activity requires receiving approvals which were not required in the past.

The engagements that were approved are engagements during the ordinary course of business and under market conditions. In addition, due to different market conditions between engagements, the approved engagements included conditions which when fulfilled will make it possible to ensure that the engagements are performed under market conditions and do not deviate from the standard conditions in respect of similar transactions with other banks. These criteria were determined, among others, after considering the volume of assets of Migdal Insurance Group, the volume of its business activities, including the activity that is relevant to the type of transaction, the frequency of the transactions under consideration, the existence of similar transactions in the customer financial management market and provision of services in the capital market in general and in the Group in particular, the volume of the transactions and their effect on the activities of Migdal Insurance Group and its business results, as well as the practices utilized by the Migdal Insurance Group. In addition, each of these engagements, as well as the commissions that are paid in their respect to the bank do not have a material effect on the Company's profitability, its property or its liabilities. Therefore the engagements that were approved were defined, subject to the aforementioned, as engagements that are not "irregular transactions".

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

f. Union Bank - Transactions in which the controlling shareholder has a personal interest (Cont.)

1. Transactions under Section 270 (4) of the Companies Law (Cont.)

a) Banking activities - Treasury and Investment (Cont.)

Nevertheless, due to the volume of the assets that are managed and/or deposited with the bank and/or the volume of activity that is performed through them in unquoted derivatives and for the sake of prudence, the Company decided to classify the engagement for the management of a bank account, for making deposits, to receive securities custodian services and activities in unquoted derivatives (OTC), as significant engagements, In addition, for sake of prudence, it was decided to also regard the engagements between the banks and the funds that manage only one bank account, as significant engagements. Based on the aforementioned and for sake of prudence only, as mentioned above, these engagements were classified as significant transactions and thus as "irregular transactions" (hereunder together: "engagements that were classified as significant"). In view of the aforementioned, the engagements that were classified as significant were presented for approval pursuant to Regulation 1(5) to the Reliefs Regulations (Engagements Under Market Conditions) during the ordinary course of business, which do not compromise the Company.

The engagements will be re-examined and approved once every three years or when there is a change in circumstances. See also the Immediate Report dated January 30, 2013 (Ref. No. 2013-01-025002).

On April 25, 2013 the Company's Board of Directors approved agreements of Migdal Capital Markets and its subsidiaries, after approval was given by the audit committee of the Company on April 24, 2013, with, inter alia, the Union Bank Group, similar to the approvals granted Group companies, as described above, and with adjustments arising from differences between the activity of Migdal Capital Markets and the activity of the other Group companies. In this regard, see also the immediate report dated April 28, 2013 (Ref. No. 2013-01-046258).

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

f. Union Bank - Transactions in which the controlling shareholder has a personal interest (continued)

2. Transactions that are not mentioned in Section 270 (4) of the Companies Law and are not negligible

There are no transactions not listed in Section 270 (4) of the Companies Law which are not negligible.

g. Bank Leumi

On January 7, 2013, Bank Leumi Holdings reported to the Company that its shares in the Company fell below 5% of the share capital of the Company.

Mr. Shlomo Eliahu, the controlling shareholder of the Company, held directly and indirectly (excluding holdings of the Migdal Group in Bank Leumi) approximately - 8.5% of the shares in Bank Leumi. In the reporting period, Mr. Shlomo Eliahu sold Bank Leumi shares held by him and as a result, as of October 10, 2013, the holdings of Mr. Shlomo Eliahu in Bank Leumi, directly and indirectly through subsidiaries (excluding Migdal Group holdings in Bank Leumi) constitute less than 5% of the shares of Bank Leumi at that date and from that date onwards Company transactions with Bank Leumi are no longer classified as transactions in which the controlling shareholder has a "personal interest". At balance sheet date, the holdings of Mr. Shlomo Eliahu in Bank Leumi , directly and indirectly through subsidiaries (excluding Migdal Group holdings in Bank Leumi), constituted approximately 2.78 % of the share capital of Bank Leumi. Further to the above, the financial data in relation to Company transactions with Bank Leumi include transactions completed up to and including September 2013 and data in the above tables do not include data for the period subsequent to the said date.

The Company and subsidiary companies make transactions in the ordinary course of business, inter alia, with Bank Leumi in transactions in which management fees are set and prices collected from Bank Leumi employees whose pension plans and additional insurance coverage purchased on the side of pension insurance are conducted through Migdal Insurance.

The Company and its subsidiaries, before transfer of control of the Company to the Eliahu Group which act made Bank Leumi a company in which the controlling shareholder has a personal interest, entered agreements with Bank Leumi and its associated companies (hereinafter - " Bank Leumi " or "the Leumi Group ") in several primary sectors of Group operations including insurance transactions, insurance brokerage, collection services, pension products consulting, distribution of mutual funds, pension products operation, financial services and leasing of properties. Accordingly, the data set forth below with respect to transactions with Bank Leumi in 2013 include comparative data for the years 2011 and 2012.

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

g. Bank Leumi (Cont.)

1. Transactions under Section 270 (4) of the Companies

a) Banking activities - Treasury and investment activities with Bank Leumi

On January 29, 2013, the Board of Directors of the Company approved that Group companies (excluding Migdal Capital Markets), after approval was given by the audit committee of the Company on January 27, 2013, conduct transactions, inter alia, with the Leumi Group in the framework of treasury and investments activities of the Company and its subsidiaries. This activity was also carried out in the past, however, from the date of transfer of control of the Company, and due to the fact that the controlling shareholders have a personal interest in transactions with Bank Leumi, this activity requires approvals which were not required in the past.

The agreements approved are contracts in the normal course of business and under market conditions. In addition, because market conditions differ from contract to contract, the approved agreements include conditions which if upheld, will make it possible to ensure that the agreements are made under market conditions which do not exceed acceptable conditions for similar transactions with other banks.

These criteria were determined, inter alia, while taking into consideration the size of the assets of Migdal Insurance, the scope of its business and operations, and including operations relevant to the type of transaction, the frequency of the transactions in question, the existence of similar transactions in financial management of clients and providing services in the capital market in general and to the Group in particular, the volume of transactions and their impact on Migdal Group activity and to the results of Migdal Insurance and customary practice in the Migdal Insurance Group. Furthermore, each transaction in itself and the commissions paid to the bank thereon do not materially affect the Company's profitability, assets or liabilities. Therefore, the agreements approved, subject to the following conditions, are not "irregular transactions." However, due to the high volume of managed assets and / or deposited in the bank and / or scope of activities performed through non-negotiable derivatives and as a precaution, the Company decided to classify transactions to manage a bank account, making deposits, custodian services in securities and activities in non-negotiable derivatives (OTC) as significant engagements.

In addition, for reasons of precaution, the Company decided to consider contracts between the bank and the funds that manage only a single bank account as a significant engagement. As noted above, and only as a precautionary measure, these contracts were classified as significant and therefore are classified as “irregular agreements "(hereinafter together: "agreements classified as significant”).

The engagements will be reexamined and approved every three years or upon a change in circumstances.

Accordingly, the agreements classified as significant were also brought for approval in accordance with Regulation 1 (5) of the Relief Regulations (Transactions at market conditions, in ordinary course of business and which do not detract from the benefit of the Company). See also the immediate report dated January 30, 2013 (Ref. No. 2013-01-025002).

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

g. Bank Leumi (Cont.)

1. Transactions under Section 270 (4) of the Companies (Cont.)

a) Banking activities - Treasury and investment activities with Bank Leumi (Cont.)

On April 25, 2013 the Company's Board of Directors approved for Migdal Capital Markets and its subsidiaries, after approval was given by the audit committee of the Company on April 24, 2013, transactions, inter alia, with Bank Leumi similar to the approval granted to the Group companies, as described above, with adjustments resulting from differences between the activities of Migdal Capital Markets Group and those of other Group activities. In this regard, see also the immediate report dated April 28, 2013 (Ref. No. 2013-01-046258).

In 2013, 2012 and 2011 Migdal Insurance paid for collection services of insurance premiums provided by Bank Leumi fees amounting to NIS 1,006 thousand, NIS 1,336 thousand and NIS 1,265 thousand, respectively.

Fees paid by the Company and its subsidiaries to Bank Leumi, in respect of brokerage and custodian service in 2013, 2012 and 2011 amounted to NIS 430 thousand, NIS 907 thousand and NIS 1,086 thousand, respectively.

The Company and its subsidiaries from time to time make long-term deposits and short-term deposits, hold cash balances and standing revolving deposits in Bank Leumi and purchase bonds and capital notes.

Migdal Mutual Funds Management Ltd., a subsidiary of Migdal Capital Markets (1965) Ltd., markets mutual funds through Bank Leumi. The total amount paid to Bank Leumi in 2013, 2012 and 2011 in respect of distribution fees for mutual funds amounted to NIS 9,033 thousand, NIS 11,366 thousand and NIS12,282 thousand, respectively.

b) Fund operating

On January 14, 2013, the Company's Board of Directors approved an agreement, after approval was given by the audit committee of the Company on January 2, 2013, between Migdal Makefet and Leumi Capital Market Services Ltd., a Leumi Group company, with respect to the purchase of operational services for all provident funds and vocational funds managed by Migdal Makefet. The main terms of the agreement are as follows: the transfer of the operation of any fund managed by Migdal Makefet which until that date was operated by another operator to be operated by Leumi Capital Market, update of appendix of operating services and adapting it for changes in regulations that have occurred since the signing of the original agreement and the implementation of the conversion of the funds that were not included in the original agreement to the systems of Leumi Capital Market. The consideration for operational services are fees calculated as a function of the amount of assets operated not to exceed an annual rate of 0.07 % of assets managed by Migdal Makefet and operated by Leumi Capital Markets. The term of the agreement is for three years.

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

g. Bank Leumi (Cont.)

1. Transactions under Section 270 (4) of the Companies (Cont.)

b) Fund operating (Cont.)

The agreement for operational services is a contract in the ordinary course of business of the Company and under market conditions and was entered for the benefit of the Company. However, as a precautionary measure only, it is classified as a significant engagement and therefore it is treated as an “irregular transaction”. Accordingly, the contract was brought for approval in accordance with Regulation 1(5) Relief Regulations (Transactions under market conditions in the ordinary course of business and does not detract from the benefit of the Company). Also, see the immediate report dated January 15, 2013 (Ref. No. 2013-01-013635).

The total amount paid to Bank Leumi in respect of operational services, including operational services rendered during the years 2011 and 2012 before the extension of the agreement, as mentioned above, amounted to NIS 7,504 thousand, NIS 8,460 thousand and NIS 12,000 thousand in 2013, 2012 and 2011, respectively.

2. Transactions not mentioned in Article 270 (4) of the Companies Law and are not negligible

a) Property insurance to borrowers of Bank Leumi

On January 10, 2013, the Company's audit committee and the audit committee of Migdal Insurance Company approved the Company’s participation in a transaction for insurance of property of Bank Leumi borrowers. The insurance is for a period of 12 months in 2013 and the premium was about NIS 10 million in respect of which Migdal Insurance will pay Bank Leumi the maximum commission prescribed by law for that matter. The audit committee found that the transaction is a transaction that is not "irregular." The contract was conducted in the ordinary course of the insurance business of Migdal Insurance. The terms of the deal are under market conditions as a similar commission rate was paid this year to another bank for insurance of property of borrowers (other than a related party). The transaction is not material as there is full reinsurance coverage of the transaction. The premiums for the transaction do not exceed 2% of the total general insurance premiums of the Company. Regarding this, the last total annual premiums reported were for 2012 and the total premiums at September 2013 were calculated on an annual basis. The transaction was reported in the immediate report dated January 13, 2013 (Ref. No. 2013-01-011751).

Insurance brokerage - Migdal Insurance paid Ma’alot Insurance Agency Inc., a Leumi Group company, brokerage commissions for insurance products in 2013, 2012 and 2011 totaling about NIS 4,776 thousand, about NIS 4,639 thousand and about NIS 5,019 thousand, respectively.

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

g. Bank Leumi (Cont.)

2. Transactions not mentioned in Article 270 (4) of the Companies Law and are not negligible (Cont.)

b) Distribution agreements - Migdal Makefet and Bank Leumi have signed agreements under which the bank is paid commissions for performing transactions in pension consulting services as defined in the law for pension products consulting. The total amount paid for said services to Bank Leumi in 2013, 2012 and 2011 amounted to NIS 3,708 thousand, NIS 3,922 thousand and NIS 4,128 thousand, respectively.

c) Rental Properties – The Company and its subsidiaries rent property to Leumi Group companies nationwide. Rent in respect of these assets amounted to a total of NIS 2,518 thousand and NIS 3,229 thousand in 2013 and 2012, respectively.

h. Affiliates

1. Regarding investments in affiliates and dividends distributed by affiliates, see Note 7 investee companies.

2. During June 2009, Migdal Real Estate Holdings Ltd. (hereinafter - "Real Estate Holdings") was issued a capital note by an affiliate, Ramat Aviv Mall Ltd. (hereinafter - "Ramat Aviv") of NIS 76 million for a period not less than 5 years. The said amount is not linked to the CPI and does not bear interest. The capital note is presented in the financial statements at its present value (NIS 68,771 thousand) linked to the CPI.

3. a) In November 2010, the Ramat Aviv granted a loan to its shareholders pro - rata to their holdings. Real Estate Holdings' share is about NIS 64 million. This amount is linked to the CPI, bears interest at a rate of 4.2% and will be repaid in five equal annual installments beginning from November 2011. As at December 31, 2013, the loan balance is NIS 27 million.

b) In January 2013 Ramat Aviv provided additional loans to its shareholders pro - rata to their holdings. Real Estate Holdings' share is about NIS 75 million. The loans bear interest at a rate of prime + 0.6% and are intended to be repaid in one payment on June 30, 2014. Under the loan agreement there is an option for early repayment under certain conditions specified in the agreement. Subsequent to balance sheet date a partial early repayment was made in the amount of about NIS 45 million.

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

h. Affiliates (Cont.)

4. Migdal Insurance paid an affiliate, Reshef Insurance Agency (2004) Ltd., commissions for marketing insurance products and pension products in the years 2013, 2012 and 2011 in the total amounts of about NIS 3,263 thousand, NIS 3,063 thousand, and NIS 2,960 thousand, respectively.

5. Migdal Insurance paid an affiliate, Orlan Insurance Agencies (1994) Ltd., commissions for marketing insurance products and pension products in the year 2013 and 2012 in the total amount of about NIS 3,370 thousand and NIS 2,278 thousand respectively.

i. The Company’s policy regarding negligible transactions

1. The Company's Board of Directors has adopted guidelines and principles for the classification of a transaction of the Company or a company under its control ("the Group") pursuant to Regulation 41 (a) (6) of the Securities Regulations (Preparation of Annual Financial Statements), 2010 ("Negligible Procedure ") . These principles and guidelines are also used to examine the scope of the disclosure and reporting required pursuant to the Securities Regulations (Periodic and Immediate Reports), 1970 ("The Reporting Regulations") for public companies in connection with transactions with interested parties and/or controlling shareholders, both in periodic report as determined in Regulation 22 to the Reporting Regulations, as well as for examining the necessity for an immediate reporting framework regarding such transaction, as determined in Regulation 37 (a) (6) to the Periodic Reports Regulations.

2. On March 26, 2012 the Company’s Board of Directors decided to update the guidelines and rules for classification of a negligible transaction, as detailed below:

   The Group conducts or may conduct transactions with a controlling shareholder during the ordinary course of business, including, but not only, the following types of transactions: reinsurance transactions, both reinsurance contracts and facultative agreements, acquisition of assets, leasing of real estate, acquisition of products and services via a controlling shareholder, cooperation including in relation to joint investments, receipt of financial or economic services. It should be clarified that the abovementioned transactions do not constitute a final list.

   The Company’s Board of Directors prescribed, that a transaction of a controlling shareholder of the Company or its subsidiaries will be considered as a “negligible transaction”, if it has all the following conditions:

   (1) It is not an irregular transaction (as defined in the Companies Law).

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

i. The Company's policy regarding negligible transactions (Cont.)

2. (Cont.)

(2) In the absence of special considerations under the circumstances, a controlling shareholder's transaction, will be considered as negligible if:

a. The scope of the transaction does not exceed NIS 8 million and in a reinsurance transaction (the volume of the premiums transferred to the insurer after deducting commissions it pays to the Company), the controlling shareholders' share does not exceed NIS 4 million, and these amounts are adjusted to the increase of the known CPI as at January 2012 and -

b. The results of its measurement versus the relevant criteria (one or more), as noted below, is less than half a percent (0.5%).

The relevant criteria for examining the classification of a certain transaction with a controlling shareholder as a negligible transaction are:

- In the sale of insurance or acquisition of reinsurance – premium ratio.
- In the acquisition of an asset – asset ratio. In the sale of an asset – profit ratio, asset ratio.
- In the acquisition/sale of products or other services – income or expense ratio in respect of services, as applicable.
- Receipt of monetary liability – liability ratio.

Regarding this matter:

Premium ratio means: the premiums of the event divided by the amount of the annual premiums in the relevant activity segment (life assurance and long term savings, health insurance, general insurance), calculated on the basis of the last 4 quarters for which audited or reviewed financial statements were published.

Asset ratio means: the volume of assets in the event (acquired or sold assets), divided by the amount of assets; the ratio will be measured separately in relation to members monies under group management and in relation to the Nostro monies.
In the event of a joint transaction of the members and Nostro monies, the relevant ratio will be examined separately regarding each type of asset in accordance with the total amount of the Nostro/members' share, whichever relevant to the transaction, versus the total assets, Nostro/members monies, whichever relevant, according to the last audited/reviewed financial statement.

Profit ratio means: the profits or losses attributed to the event divided by the annual comprehensive profit or loss for the period (including changes in capital reserves) the average in the last three calendar years.

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

i. The Company's policy regarding negligible transactions (Cont.)

2. (Cont.)

Regarding this matter: (Cont.)

Liabilities ratio means: the liability in relation to the event divided by the amount of liabilities according to the last known audited/reviewed financial statements.

Shareholders' equity ratio means: the increase or decrease in the shareholders' equity divided by the shareholders' equity according to the last known audited/reviewed financial statements.

The income ratio from various services means: the scope of income relating to the event divided by the annual average annual income during the last three years which are not from premiums, are calculated on the basis of the last four quarters for which audited or reviewed financial statements were published.

The expenses ratio in respect of various services means: the volume of expenses in relation to the event divided by the annual administrative and general expenses, calculated on the basis of the last four quarters for which audited or reviewed financial statements were published.

In relation to perennial transactions, the volume of the transaction for the purpose of examining the insignificance, will be calculated on an annual basis, for example, in an insurance transaction for several years, the annual insurance premiums paid or collected will be considered as the transaction's volume.

In cases where, at the Company's discretion, all quantitative criteria mentioned above are not relevant for the examination of the insignificance of the controlling shareholder's transaction, the transaction will be considered negligible in accordance with another criteria that will be determined by the Company, provided that the relevant criteria calculated for the transaction will be less than 0.5% and the scope of the transaction will not exceed NIS 8 million, and this amount will be linked to the CPI as mentioned above.

The examination of the qualitative considerations of the controlling shareholder's transaction may lead to the classification of the transaction as not being negligible despite the above mentioned. So for instance, and only for example, a controlling shareholder's transaction will not generally be considered as being negligible 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's transaction the controlling shareholders are expected to receive benefits which are important to report about them to the public.

A transaction that was classified by an investee of the Company as being negligible will be considered as negligible also on the Company's level. Such a transaction which was classified by the investee as not negligible will be examined versus the relevant criteria at the Company's level.

The Company's Board of Directors will examine the need to update the provisions of this procedure from time to time, taking into account transactions with controlling shareholders in which the Company is engaged and changes in the relevant provisions of the law.

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

j. Remuneration and benefits to key management personnel (including Directors)

Remuneration and benefits to key management personnel and interested parties (including Directors)

Some of the key management personnel of the Company are entitled to a bonus, salary, non-cash benefits (such as a vehicle, medical insurance, etc.).

Key management personnel also participate in the program of options into shares of the Company. For more information, see Note 33 regarding share-based payment arrangements.

Key management of the Company might purchase, from time to time, insurance contracts, investment contracts or other financial products issued by the Group under market conditions, during the ordinary course of business.

For details about waivers and indemnity letters to Directors and other officeholders of the Company, which were granted by Migdal Holdings and by interested parties of the Company (Generali, Bank Leumi, Leumi Real Estate Holdings Ltd.) (formerly - Sal Holdings Ltd.) owned by the Bank Leumi), see Note 39. 2. d.

Remuneration policy for company officers for 2013-2014

On September 12, 2013 the General Assembly of the Company approved, after receiving the recommendation of the Compensation Committee of the Company and approval of the Board of Directors, the remuneration policy for officers in accordance with Amendment 20 of the Companies Law - 1999 (hereinafter - "the compensation policy.") For details on the remuneration policy of the Company see immediate reports dated August 11, 2013, August 22, 2013 and September 2, 2013 (hereinafter - "summons report") and the immediate report dated September 12, 2013.

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

j. Remuneration and benefits to key management personnel (including Directors) (Cont.)

1. Remuneration of company officers

Below are details regarding the remuneration and benefits to key management personnel (including directors):

	Benefits to key management personnel					
	Year ended December 31					
	2013		2012		2011	
	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	20,379	12	21,057	11	22,808
Post-employment benefits	9	957	12	3,241	10	335
Other long-term benefits	7	460	10	408	7	454
Share-based payment (see Note 33)	7	117	12	2,950	11	4,002
		21,913		27,656		27,599

*) For Company officers serving in Migdal Insurance, the amount of short-term benefits include special bonus awarded to the officer. The special grant was approved for payment by the Board of Directors of the Company and of Migdal Insurance, after approval by the Company's Compensation Committee and the Audit Committee of Migdal Insurance, dated December 3, 2013 to all employees and officers in the Group, in appreciation for the contribution of all employees to the Company's achievements during the transition from and replacement of the controlling company. For further information see the Company's immediate report dated November 25, 2013 Reference No. 2013-01-202638 and includes a provision for an annual bonus for officers serving in Migdal Insurance in 2013, which was granted subject to the approval of the governing institutions of the Company. The amount included for retired officers is as approved by the governing institutions of the Company.

2. Benefits to directors not employed by the Company

	Year ended December 31					
	2013		2012		2011	
	Number of persons	Amount	Number of persons	Amount	Number of persons	Amount
		NIS in thousands		NIS in thousands		NIS in thousands
Management fees to non-employees	14	8,454	16	6,838	14	6,558
Share-based payment (see Note 33)	1	2	1	488	1	750
		8,456		7,326		7,308

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

j. Remuneration and benefits to key management personnel (including Directors) (Cont.)

3. Interested party - Company Chairman / CEO

a) Mr. Aharon Fogel

Mr. Aharon Fogel served from December 1, 2000 as Chairman of the Board of Directors of the Company and Chairman of Migdal Insurance, on a part-time basis, according to the February 2001 agreement, amended in February 2008. Commencing in August 2011, Mr. Aharon Fogel also served as " Chairman of the Board of Migdal Capital Markets and also served as a director of Migdal Health. On September 30, 2013, Mr. Aharon Fogel ceased to fill the above positions.

The monthly payment to Mr. Aharon Fogel included the following components: monthly management fees in the amount of NIS 144,444, linked to the CPI published in December 2007 (an amount of NIS 169,281 at the date of this report), imputed vehicle and vehicle maintenance, daily newspaper, screening medical examination and the like. In addition, according to the terms of the contract Mr. Aharon Fogel was entitled, upon completion of his term, to a one-time payment equal to six monthly payments of management fees.

As of the date of this report, Mr. Aharon Fogel holds 650,000 stock options issued under the share-based payment plan for 2009. The fair value of the options at the date of their issue was NIS 1,300 thousand. Mr. Aharon Fogel was allocated 679,997 eligibility warrants, under the long-term compensation plan for 2010, the fair value of which at the date of grant was NIS 1,366 thousand. In April 2013, Mr. Aharon Fogel was left with 125,422 eligibility warrants and was issued 115,410 shares of which 52,699 shares on account of the persistence component and 62,711 shares in respect of the profitability component and the rest of the eligibility warrants were converted into cash. For details of the remuneration plans, see immediate reports of the Company on December 24, 2006, August 18, 2009 and September 5, 2010 (Ref. No. 2006-01-169972, 2009-01-200589 and 2010-01-612342, respectively), presented by reference. For further information, see Note 33.

On October 10, 2013 the General Assembly of the Company approved to Mr. Aharon Fogel, after approval of the Remuneration Committee and the Board of Directors, the payment of an annual bonus with respect to 2013, relative to the period of his term this year (nine months), in the amount of NIS 787 500, which is in accordance with the remuneration policy for officers of the Company, issued by the Company on September 2, 2013 (Reference Number : 2013-01-134847). For further details regarding the remuneration policy, see section J above. In addition, the General Assembly approved, after approval of the Compensation Committee and the Board of Directors, a retirement bonus in the amount of nine monthly management fees totaling NIS 1,523,528 plus VAT by law. For further details regarding the terms of the office of Mr. Aharon Fogel, including in connection with the annual bonus and retirement allowance approved by the General Assembly as mentioned above, see the Company's immediate report dated September 16, 2013 (Ref. No. 2013-01-147438) and Company's immediate report dated October 10, 2013 (Ref. No. 2013-01-162804).

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

j. Remuneration and benefits to key management personnel (including Directors) (Cont.)

3. Interested party - Company Chairman / CEO (Cont.)

b) Mr. Yonel Cohen

Mr. Yonel Cohen served as CEO of the Company and CEO of Migdal Insurance from June 15, 2008 to December 31, 2013. He also served in other capacities in the Migdal Group, Chairman of Migdal Makefet Pension and Provident Fund Ltd., Chairman of Migdal Health & Wellness Ltd. and recently with the resignation of Mr. Aharon Fogel in September 2013, he was appointed Chairman of Migdal Capital Markets Ltd.

The monthly salary of Mr. Cohen included the following components: monthly management fees in the amount of NIS 220,000 (linked to the CPI for June 2008), which at the date of his retirement equaled NIS 252,423 before VAT. Under the terms of his employment, Mr. Cohen was entitled to imputed vehicle and vehicle maintenance and other related conditions including vacation, sickness and expense reimbursement for entertainment and accommodations in connection with the performance of his duties and the like. In addition, according to the terms of the contract with Mr. Yonel Cohen was entitled upon completion of his term, to an adaptation grant equal to six monthly management fee payments, i.e. a total of NIS 1,514,536 along with payment of vehicle maintenance expenses and imputed vehicle use for a total of NIS 139,333, paid in return for Mr. Cohen’s commitment not to engage in and/or provide services, directly or indirectly, either in person or through a corporation under his control or custody in the fields of activity of the Company for a period of six months from the date he ceased providing services to the Company. It is noted that the adaptation grant was modified with the consent of Mr. Cohen, to make it compatible with the remuneration policy, even though the Company has explicitly stated that the adoption of the remuneration policy shall not affect existing commitments.

In addition, Mr. Cohen is entitled to payment under a consulting and non-competition agreement, which originated during his tenure with Mivtach Simon Insurance Agencies Ltd. ("Mivtach Simon"). Under a services agreement between Mivtach Simon and a company owned by Mr. Cohen ("previous agreement"), Mivtach Simon undertook that under any case of termination of the agreement with Mr. Cohen, a company owned by Mr. Cohen shall receive a monthly payment in respect of consulting fees and non-competition with Mivtach Simon (which at the date of this report amounted to a total of about NIS 8,516 thousand) for a period of 36 months from the end of the previous agreement. It was also agreed as part of the previous agreement that this period will be extended by two months for each year from January 1, 2004 in which Mr. Cohen will continue to provide services to Mivtach Simon. In August 2009, after the appointment of Mr. Cohen, as CEO of Migdal Insurance, the Company signed a service agreement with a company wholly owned by Mr. Cohen regulating the terms of service (hereinafter - "the CEO Agreement"). The CEO agreement replaced for all intents and purposes the previous agreement.

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

j. Remuneration and benefits to key management personnel (including Directors) (Cont.)

3. Interested party - Company Chairman / CEO (Cont.)

b) Mr. Yonel Cohen (Cont.)

Under the CEO Agreement, an addendum was signed between Mivtach Simon and a company owned by the CEO whereby Mivtach Simon undertook to continue to honor the commitment taken in relation to the payment for consulting and non-competition with respect to the CEO’s period of employment with the Company and with Migdal Insurance and accordingly to continue calculating the period of payment of consulting and non-competition in relation to the CEO's tenure in the Company and in Migdal Insurance. Accordingly, this period extended for two more months for each year in relation to the period of tenure in the Company and in Migdal Insurance. Given the above, the company owned by the CEO accumulated a period of 20 months beyond the period of 36 months under the preceding agreement for services, namely the total period accumulated under the consulting and non-competition agreement equaled 56 months, which amounts to a total of NIS 8,558 thousand according to the CPI for December 2013 (known index 1/2014). Actual payment will be linked on the date of payment. Payments will be made from the date of termination of the CEO Agreement.

As of the date of the financial statements, Mr. Cohen holds 1,000,000 options issued to him under share-based payment plan for 2009. The fair value at the date of issuance of the options was NIS 2,000 thousand. Mr. Cohen was allotted 1,131,684 eligibility warrants under the long-term incentive plan for 2010, the fair value of which at the date of grant of the above entitlement is about NIS 2,273 thousand. Under this plan, in April of 2013, a total of 192,096 shares were allotted, 87,715 shares in respect of the persistence component and 104,381 on account of profitability. The remaining eligibility warrants were converted into cash. For details of these compensation plans, see the Company's immediate report dated August 18, 2009 reference No. 2009-01-200589 and the Company's immediate report dated September 5, 2010 reference No. 2010-01-612342, respectively. For further information, see Note 33 to the financial statements.

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

j. Remuneration and benefits to key management personnel (including Directors) (Cont.)

3. Interested party - Company Chairman / CEO (Cont.)

b) Mr. Yonel Cohen (Cont.)

On February 24, 2014 the Board of Directors of the Company and of Migdal Insurance, after the approval of the audit committee of Migdal Insurance and the Remuneration Committee of the Company dated February 18, 2014 approved payment of an annual bonus to Mr. Cohen for the year 2013 according to the remuneration policy in the amount of NIS 2.1 million, on the basis of the approval of the Annual General Assembly of the Company dated September 12, 2013 (see immediate report of the Company's dated August 8, 2013 reference No. 2013-01-112608, amended report dated August 11, 2013 reference No. 2013-01-113697 and supplementary reports dated August 22, 2013 and September 2, 2013 reference No. 2013-01-124023 and reference number 2013-01-134847, respectively, and report on the results of the General Assembly on September 12, 2013 reference No. 2013-01-144555). The total grant was calculated in accordance with the results of the Company pursuant to the quarterly financial statements published by the Company on November 19, 2013 and the general assessment component as determined by the Board.

For more information about the terms of the resignation of Mr. Cohen and conditions of the contractual agreement with him, including with respect to payment of the annual bonus for the year 2013, as detailed above, see the Company's immediate report dated February 25, 2014 (Ref. No. 2014-01-046174).

On February 24, 2014 the Board of Directors of the Company and of Migdal Insurance, after the approval of the audit committee of Migdal Insurance and the Compensation Committee of the Company, dated December 3, 2013 approved the payment of a special bonus in the amount of two monthly salaries, i.e. a total of NIS 388,343 plus VAT under law awarded in the December 2013 salary to all employees and officers in the Group, in appreciation of the contribution of all employees to the Company's achievements during the transition period of the controlling interest in the Company (see the Company's immediate report dated November 25, 2013 reference No. 2013-01-202638). The bonus payment to Mr. Cohen is in excess of the Company's remuneration policy. Accordingly, a General Assembly meeting was convened on April 1, 2014 to approve payment of the special bonus, see the Company's immediate report dated February 25, 2014 (Ref. No. 2014-01-046174).

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

j. Remuneration and benefits to key management personnel (including Directors) (Cont.)

3. Interested party - Company Chairman / CEO (Cont.)

c) Ms. Anath Levin

Ms. Anath Levin has been appointed to serve as CEO of the Company and Chairman of Migdal Insurance and she began to serve in these positions as of February 1, 2014 and February 11, 2014, respectively. On February 24, 2014 the Board of Directors of the Company and of Migdal Insurance, after the approval of the audit committee of Migdal Insurance and Remuneration Committee of the Company, dated December 3, 2013, approved the terms of employment of Ms. Levin under the agreement with the Company, effective from February 1, 2014. Accordingly, a General Assembly was convened on April 1, 2014 to approve the terms of employment. See Company's immediate report dated February 25, 2014 (Ref. No. 2014-01-046174) (“immediate report”). Under the terms of the proposed transaction, Migdal will pay Ms. Levin a monthly salary of NIS 185,000. The salary will be linked to the CPI, and will be updated once a year, at the beginning of the calendar year, in accordance with the increase in the CPI with respect to the base index, the index published in November 2013. The monthly salary shall constitute full consideration for all positions filled in the Group and Ms. Levin will not be entitled to remuneration for serving in any other position in the Group to which she is appointed, if appointed in the future. The Company will provide Ms. Levin, for work purposes, a motor vehicle generally provided in Migdal to executives in her position. The vehicle cost is about NIS 450,000. The Company will bear all the expenses for car use and cost of maintenance, including gross up of the imputed income tax on the car and its use.

Ms. Levin will get a signing bonus amounting to three monthly salaries (excluding cost of fringe benefits and social contributions), which shall be paid on the date of the first paycheck.

Either party may at any time and for any reason, at their sole discretion, terminate the agreement by giving prior notice of six (6) months in advance. The Company may terminate the employment of Ms. Levin before the end of the notice period and terminate the working relationship immediately, subject to payment for notice (total monthly payment to Ms. Levin had she continued to be employed during the notice period, including fringe benefits) and subject to Ms. Levin being allowed to continue to use the vehicle provided to her by the Company until the end of the notice period.

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

j. Remuneration and benefits to key management personnel (including Directors) (Cont.)

3. Interested party - Company Chairman / CEO (Cont.)

c) Ms. Anath Levin (Cont.)

In case of termination of the agreement between Ms. Levin and the Company, provided that one year has expired from the commencement of employment with the Company, Ms. Levin will be entitled to be paid salary for the period of adaptation with no social benefits and without fringe benefits, but including the vehicle (in kind or value) which will be paid each month in the adaptation period (the " adaptation compensation"). The "adaptation period" is a period equivalent to the shorter of: (a) a period of six (6) months from the date of termination of employment which, at the time of termination of employment the remuneration committee and the Board of Directors shall approve in light of customer satisfaction and Ms. Levin's contribution to the Company and their determination that the period is appropriate and should not be shortened, and (b) the period until the date on which the Ms. Levin begins to work/provide services in another place, whichever is the earlier, unless the governing institutions of the Company approve the continued payment of adaptation compensation even though Ms. Levin began work/ provides services elsewhere on a part time basis. The compensation adjustment will be given to Ms. Levin, among others, in consideration for her commitment to non-competition during a period of three (3) months from the day employee - employer relations between her and the Company are terminated.

For further details regarding other conditions of employment, such as expense reimbursement, per diem, leave, pension insurance provisions, notice, non-competition and other, see immediate reports mentioned above.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities

a. Preface

Hereunder, in paragraphs b to e (inclusive) there are details regarding legal and other material proceedings against the Company and/or subsidiaries which are not in the ordinary course of their business (hereunder - "the proceedings"). In the framework of the proceedings, in paragraph b below there is a description of outstanding requests to approve claims as class actions, including claims that were approved to be filed as class actions. Paragraph c below includes class actions that have ended during the reporting period, paragraph d below includes other material claims and paragraph e includes legal and other proceedings.

In proceedings which Management believes, based, among others, on the legal opinion it received, it is more likely than not that the defense arguments of the Company and/or the subsidiaries will be accepted and the proceeding will be rejected (the case itself will be rejected, or if a there is a request for a class action, the court will reject the approval as a class action), no provision was included in the financial statements. In proceedings in which it is more likely than not that the defense arguments of the Company and/or the subsidiaries, as a whole or in part will be rejected, provisions for covering the exposure estimated by the Company and/or the subsidiaries were included in the financial statements. With respect to proceedings that are in the preliminary stage and it is not possible to estimate the chances of the proceedings, no provision was included in the financial statements. If the Company and/or the subsidiaries are willing to come to a compromise in any of the proceedings, a provision in the amount of the compromise to be reached is included in the financial statements, even if it is more likely than not that the defense arguments of the Company and/or the subsidiaries will be approved or the proceedings are at a preliminary stage in which it is not possible to estimate the chances of the proceedings.

In respect of requests to approve claims as class actions as described in paragraph b below, which were approved as class actions by the District Court, the financial statements include provisions for covering the exposure estimated by the Company and/or the subsidiaries, unless the Management believes, based among others, on the opinion of their legal advisors, it is more likely than not that the defense arguments of the Company and/or the subsidiaries regarding the claim itself will be approved and the claim, even if it will be deliberated as a class action, will be rejected.

In Management's estimation, based, among others, on the opinions of legal counsel, adequate provisions were included in the financial statements, where necessary, to cover the exposure estimated by the Company and/or its subsidiaries, or in respect of the amount the Company and/or the subsidiaries are prepared to pay to come to a compromise, as the case may be.

It is not possible, at this early stage, to assess the chances of the requests for class actions listed in b. 25, 26 and 27 below, and the request for approval of the derivative claim in d. 1. below and, therefore, a provision is not included in the financial statements in respect of these actions.

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

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions

During the last few years there was a considerable increase in the requests to approve claims as class actions that were filed against subsidiaries of the Company, as well as in the number of claims against subsidiaries that were approved as class actions. This is part of the general increase in requests to approve claims as class actions as a whole, and it also applies to companies that are engaged in the same activities as the subsidiaries, mainly due to the legislation of the Class Actions Law, 2006. This trend significantly increases the potential exposure of the Company and/or the subsidiaries to losses in the event of the approval of class actions against the Company and/or the subsidiaries.

Requests to approve claims as class actions are filed through a procedural apparatus pursuant to the Class Actions Law, 2006 (hereunder - the Class Actions Law). The procedural proceedings in respect of the requests to approve claims as class actions is divided into two main stages: first, the stage of deliberating the request to approve the claim as a class action (hereunder - "the request for approval" or "the approval stage", respectively). If the request for approval is absolutely denied - the deliberation stage is ended regarding the class action level. A request for permission to appeal can be filed to the appellate levels in respect of a decision that was made at the approval stage. At the second stage, if the request for approval is approved, the class action will be deliberated (hereunder - "the stage of the claim as a class action"). An appeal against a judgment at the stage of the claim as a class action can be filed to the appellate levels. Pursuant to the Class Actions Law, the apparatus consists of, among others, specific arrangements regarding compromise agreements, in the approval stage as well as in the stage of the claim as a class action. It also contains arrangements in respect of the plaintiff's resignation from the request for approval or from the class action.

The requests to approve claims as class actions detailed below are in various stages of the deliberation process and some are in the process of appeal.

The amounts of the following claims are reported at the amounts valid at the date they were filed, unless stated otherwise.

Hereunder are details of applications to approve claims as class actions

1. In September 1999, a claim against Migdal Insurance was filed with the Tel Aviv Jaffa District Court, together with a request to approve the claim as a class action, regarding the use of mortality tables A49-52. The claim was filed by a life insurance policyholder of Migdal Insurance, under the allegation that old mortality tables were used in computing the premiums of its life assurance policies. The claim was filed in connection with contractual allegations, unlawful enrichment, violation of the Consumer Protection Law, and pursuant to the Financial Services Supervision Law (Insurance), 1981. The Court was requested to declare that the plaintiff is entitled to cancel the insurance agreements with Migdal Insurance and/or is entitled to take all remedies that follow from breach of contract. In his claim or in the request for approval, the claimant did not include an estimate of the remedies demanded for the group he wishes to represent.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

1) (Cont.)

The District Court rejected in limine the claim and the request for approval. The plaintiff appealed against this decision to the Supreme Court. The Supreme Court accepted the appeal and ruled that there had been no justification to dismiss the claim in limine. Therefore, the case was remanded in order to consider the request for approval.

A request to reject the claim in limine due to the statute of limitations, was filed with the District Court. The District Court approved part of the request and determined that the causes for the claims should be limited and restricted only to Sections 55 and 58 of the Law for Supervision of Insurance Businesses (Amendment No. 7), 1997, as well as to limit the members of the group (class) represented to only those who acquired life assurance policies commencing from the start of the Law, namely, from August 5, 1997.

The plaintiff filed an appeal against the District Court's above decision. On July 15, 2013, the appellant withdrew from his decision to appeal and the appeal was denied. The District Court’s hearing of evidence of the parties regarding the class action request has been scheduled for certain dates in April and May of 2014.

2) In April 2006 a claim was filed against Migdal Insurance with the Tel Aviv District Court together with a request to approve the claim as a class action. The plaintiffs contend that Migdal Insurance had collected insurance premiums in respect of a disability insurance policy until the end of the insurance period, including the last three months of the insurance period according to the policy, even though the policyholders could not have received any insurance benefits during that period according to the policy terms, even if an insurance event had occurred. The Court was requested to order Migdal Insurance to cease collecting insurance premiums in respect of the said period and to order it to refund the insurance premiums it had collected from the group members in respect of the aforementioned period with the addition of linkage differences and interest as stated in Section 28(c) of the Insurance Contract Law from the date of the claim until the actual date of refund. The plaintiffs contend that according to an expert opinion they received, the initial estimate of the damage for 1998-2004, which includes the damage, they contend, was caused by Migdal Insurance and the other insurance companies amounts to NIS 47.61 million, out of which the amount that is demanded from Migdal Insurance is NIS 19.2 million.

The District Court approved the claim as a class action and in its decision it determined that the remedy will be the refund of the insurance premium Migdal Insurance actually collected from its policyholders in the policy for the last three months of the policy, with the addition of linkage differences and interest from the date of collection and up to the actual refund. Migdal Insurance filed a request for permission to appeal against the decision to the Supreme Court. On January 21, 2013, the request for permission to appeal was deliberated in the Supreme Court. On April 11, 2013, a ruling was given on the request to appeal whereby the decision to approve the class action was canceled and hearings for the approval of the class action reverted to the District Court on the question of approval of the class action. Preliminary discussions are being held in the case.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

3) In April 2007 a claim was filed with the Tel Aviv Jaffa District Court, together with a request to approve the claim as a class action, against Migdal Stock Exchange Services (Securities) Ltd. (hereunder – Stock Exchange Services") and against a number of banks and other stock exchange members (hereunder – the defendants). Stock Exchange Services is a wholly owned subsidiary held, indirectly, by the Company. The claimants contend that they own participation units in various mutual funds that were managed by subsidiaries of the defendants, including participation units in mutual funds managed by subsidiaries of the banks and that were sold, among others, to stock exchange members.

The grounds for the claim are, among others, collection of commissions in respect of the acquisition and sale of securities (brokerage commission) and/or foreign exchange rate differences in respect of the acquisition/sale of foreign currency, from the mutual funds managed by the subsidiaries of the aforementioned entities, at rates that are considerably higher than the rates that were collected from their other clients.

In addition, it was also alleged that in the framework of the transactions for the acquisition of the mutual funds from the banks, subsidiaries of the stock exchange members agreed that the banks will continue to serve as the securities agents of the mutual funds that were sold, hence enabling the banks to continue collecting excessive commissions, unlawfully. In doing so, the claimants' claim that the defendants allegedly acted, among others, against the provisions of Section 69 to the Law for Joint Investments in Trust. The group that the claimants wish to represent consist of all those who acquired, hold and/or held during the periods relevant to the claim, participation units in mutual funds managed by the managers of mutual funds that were and/or are controlled by any of the defendants. The personal damage that was caused to the claimants, as they allege, amounts to the total sum of about NIS 1.7 thousand. The alleged damages estimated by the plaintiffs for the relevant period (from January 1, 2004) in respect of all the defendants at NIS 386 million.

The plaintiffs allege that from the above amount Stock Exchange Services is responsible for the sum of NIS 48.5 million. Stock Exchange Services is sued alone for part of the amount and in respect of the other part it is sued together and separately with the First International Bank of Israel Ltd., from which a subsidiary of Stock Exchange Services acquired the mutual funds of Dikla. The remedy that is demanded in this claim is that the defendants be ordered to pay back the sums that the claimants contend were collected unlawfully, as well as a mandatory injunction ordering the defendants to change the manner of their operations and to refrain from collecting the sums that are illegally collected by them.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

3) (Cont.)

On July 8, 2012, the Securities Authority's position was filed, noting that it is not necessary for it to express an opinion regarding the case and it leaves the decision to the Court's discretion since the case is based on a legal situation that no longer exists.

The case was transferred for discussion in the Court’s Economic Department and is scheduled for proof in March 2014.

4) In August 2007 a claim and request to approve the claim as a class action were filed against Migdal Insurance with the Tel Aviv Jaffa District Court. The claimant contends that contrary to the directives of the Regulator of Insurance, Migdal Insurance did not inform the claimant in the insurance proposal, before signing the insurance contract, the rules that will apply to calculation of insurance benefits when an insurance event occurs (total loss, constructive total loss and theft of a vehicle). The claimant contends that Migdal Insurance unlawfully reduced the amount of the insurance benefits paid to him following an accident in which the motor vehicle was declared a total loss, contrary to the circular of the Regulator of Insurance which orders payment of the full amount of insurance benefits without taking into consideration any reducing variables.

The group the claimant wishes to represent consists of any person or other legal entity that purchased from Migdal motor vehicle insurance from January 1, 2001 and until the date of filing the request for approval and during which period an insurance event occurred following which the insured vehicle was declared a “constructive total loss” and/or the insured vehicle was caused damage defined as a “total loss”, including a stolen motor vehicle, and Migdal Insurance did not pay the full amount of the insurance benefits and/or the full value of the vehicle on the date of the insurance event and/or did not replace the vehicle with a vehicle of the same type and quality. The remedies requested by the claimant are as follows: orders instructing Migdal Insurance to act precisely according to the directives of the Regulator of Insurance and to repay its policyholders the entire amounts that were unlawfully deducted from the insurance benefits; and the awarding of special compensation to the claimant. The personal damage that was caused to the claimant, as she contends, amounts to NIS 509. The amount of alleged damages caused to the group members is NIS 122 million.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

4) (Cont.)

The parties submitted to the Court for its approval, a compromise agreement based on the opinion of an expert appointed by the Court. Concurrently, the deliberation of this issue was transferred to another entity with whom requests for approval on the same subject filed against other insurance companies are being deliberated, and wherein requests for approving a compromise agreement had also been filed. On May 9, 2012, the Regulator submitted a notice on his behalf to the Court, in which he informed that on April 30, 2012 a draft decision in principle was issued regarding the request for approval, which determines the refund of monies to policyholders in cases where the provisions of the circular with respect to the deducting variables have been violated. In addition, in the framework of the aforementioned notice, the Regulator requested that the settlement of the compromise arrangement be delayed until the end of the administrative proceedings. On December 3, 2012, the Attorney General announced that the Regulator has decided not to order a full scale refund in the framework of the administrative proceedings and he thinks that there is no need for his continued involvement in the claim by giving instructions to the insurance companies. The case is in the process of deliberation on the request for approval of the compromise agreement reached.

5) In January 2008 a claim was filed with the Tel Aviv Jaffa District Court against Migdal Insurance and other insurance companies, together with a request to approve the claim as a class action. The claimants allege, that the “sub-annual factor” payment is a payment the insurance company is entitled to collect from its policyholders when the insurance rate is fixed at an annual sum and is actually paid in a number of installments. The claimants allege, that the defendants were not entitled to collect sub-annual payments in relation to the “policy factor” which, they allege, is a component that is collected due to the necessity to collect the premium from the policyholder and to distribute it between the various policy components.
The claimants also allege that the defendants collected sub-annual payments at a rate higher than that permitted with respect to policies other than life assurance policies and with respect to the savings component of the policy, contrary to the Circulars of the Regulator of Insurance on the matter.

The group the claimants wish to represent consists of: All those who entered with the defendant and the other companies sued together with the defendant, in an insurance contract and from whom “sub-annual” payments were collected in unlawful circumstances or amounts.

The remedies demanded by the claimants are as follows: refund of the sub-annual amount unlawfully collected from the Group members as defined above, and an injunction instructing the defendants to change their mode of operation.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

5) (Cont.)

The claimants contend they were caused personal damages with respect to one insurance year in the amount of about NIS 1,600. The claimants contend the overall damage to the group defined above is approximately NIS 2.3 billion, out of which the amount attributed to Migdal Insurance, is approximately NIS 827 million. The Regulator of Insurance has submitted his position on the case. Preliminary deliberations are being conducted on the request to approve the claim as a class action.

6) In January 2008, a claim was filed with the Tel Aviv Jaffa District Court against Migdal Insurance, together with a request to approve the claim as a class action. The claim and the request for approval filed by four claimants were also filed against four other insurance companies.

The claimants allege that the defendants collected from their policyholders management fees in “profit-participating” type life assurance policies, contrary to the Regulations for the Supervision of Insurance Business (Conditions in Insurance Contracts), 1981 and contrary to the Circular of the Regulator of Insurance. The claimants allege that the defendants collected fixed management fees at a rate higher than the permissible rate, as well as variable management fees on a monthly basis rather than at year end, thereby depriving the policyholders of the return on those variable management fees collected during the year.

The group the claimants wish to represent consists of anyone who was or is a policyholder of the Company or the other companies that were sued together with the Company, in a life assurance with savings policy of the “profit-participating” type issued from 1992 through 2003, inclusive.

The remedies that are demanded are as follows: a refund of the excess management fees unlawfully collected or the deprived return, as well as an injunction instructing them to change their mode of operation.

The claimants contend the personal damages caused to each of the claimants who was a Migdal Insurance policyholder with respect to one year is about NIS 7. The claimants contend the overall damage to the group defined above is the nominal amount of approximately NIS 244 million, out of which the amount attributed to Migdal Insurance, the claimants contend, is approximately NIS 101 million.

The Court approved the agreements reached between the parties that the arguments in the request for approval relating to the fixed management fees be stricken from the claim and the request for approval.

The parties submitted a compromise agreement for approval to the Court. The Court appointed a person to examine the compromise settlement agreement and ordered that the settlement agreement be sent to the Attorney General and the Regulator of Insurance for their position. A preliminary hearing is scheduled for May 13, 2014.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

7) In April 2008, a claim was filed with the Jerusalem Labor Court against Migdal Insurance, together with a request to approve the claim as a class action. The plaintiff contends that Migdal Insurance pays to its insured women who reach the age of retirement a monthly pension that is lower than the pension it pays to an insured man under the same circumstances, on the basis of the higher life expectancy of women. Conversely, as alleged by the plaintiff, Migdal Insurance charges its female policyholders the same “risk” premium that it charges its male policyholders even though the mortality rates of women are much lower. According to the plaintiff, sometime after 2000, Migdal Insurance and the other insurance companies amended the policies by removing the said discrimination, and established different “risk” premiums for women that are lower than the accepted rates for men. Nevertheless, according to the plaintiff, Migdal Insurance did not amend the discrimination in the old policies that were issued before the date of the change, and the plaintiff alleges that it continues such discrimination through the present. The plaintiff also alleges that Migdal Insurance tried to conceal the said discrimination, by specifying in the policy different pension coefficients for men and women, but did not state anything regarding the rate of the risk premium.

The group the plaintiff seeks to represent is all women who purchased from Migdal Insurance “Executive Pension Plan” insurance policies in which distinctions were made between men and women in respect of pension payments but no distinctions were made between them in respect of the risk premium, including – but not only – policies called “Yoter”, “Atid”, “Adif”, etc.

The remedies sought from the Court are to order that: (a) Migdal Insurance practices discrimination against the law, and any provision and/or action based on this discrimination is null and void; (b) Accordingly, all the group members will be entitled to select between the following alternatives: (1) To equalize pension coefficients for women to those used for insured men of the same age and to order that in the event of a lump sum payment instead of an annuity, the lump sum payment for insured women shall be increased by the ratio of the pension coefficient of an insured man to the pension coefficient of an insured woman at the relevant age; (2) To reduce the amounts for risk that was collected and to set them at appropriate risk amounts for an insured woman, whereby the reduced amounts shall be added to the accumulated amount of savings; (c) To issue appropriate orders regarding the other members of the group who have not been located and/or have not exercised their right to choose between these alternatives.

The plaintiff does not stipulate the amount of damage allegedly caused to her. She estimates that in light of the size of the group (estimated at tens of thousands of women), the overall amount of damage to the members of the group is hundreds of millions of shekels. The parties submitted written summaries and await the Court’s decision on the request.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

8) In February 2010 a claim and request for approval of the claim as a class action were filed with the Tel Aviv Jaffa District Court against Migdal Insurance by a policyholder of motor vehicle insurance (property damage and third party property damage). According to the plaintiff, Migdal Insurance does not pay and/or compensate its policyholders in respect of damage caused to the protective devices installed in their motor vehicles at Migdal Insurance’s request and signs its policyholders on settlement letters in a manner which is unlawful and contrary to the directives of the Regulator of Insurance.

The group the plaintiff requests to represent is any person who as from April 1, 2004 received insurance benefits from Migdal Insurance in respect of damages to a private car or a commercial motor vehicle of up to 4 tons, including for total loss, constructive loss or theft, and did not receive all or part of the insurance benefits in respect of the loss or damage that was caused to the protective devices installed in the motor vehicle at the request of Migdal Insurance.

The plaintiff alleges that he has been caused personal damages in the amount of NIS 6,000. According to the plaintiff, he does not have the information required for accurately estimating the size of the group and the compensation to the public. Nevertheless, the plaintiff estimates the damages caused to the entire group at NIS 81.9 million.

The remedies requested in the framework of the claim consist of monetary compensation to the group members in the amount of NIS 81.9 million, either directly or by means of compensating the public, compensation to the plaintiff and fees to the attorneys representing the plaintiff as a percentage of the overall compensation awarded the group members.

On July 2, 2012, the parties submitted a compromise arrangement for the Court's approval, wherein Migdal Insurance undertook, without admitting to any wrongdoing and/or obligation, the following: (1) to pay the group members, as defined in the compromise arrangement, part of the cost of the protective devices installed in their vehicles and which were demanded by Migdal Insurance under a policy that was in force at the time of the insurance event, net of depreciation, as detailed in the compromise arrangement (2) to pay compensation according to the minimum amount set (3) to pay the plaintiff's legal counsel legal fees and pay compensation to the plaintiff represented in the case. The amount of the compromise agreement is immaterial.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

8) (Cont.)

On July 19, the Attorney General submitted his opinion regarding the compromise arrangement. According to the opinion, if the protective devices are installed in the vehicle at the insurer's request or if they match the insurer's demand (even if they were installed before the beginning of the insurance contract), the insurer should indemnify the policyholder for the entire loss of the protective device. Nevertheless, in the event that the policyholder installed a more expensive and elaborate protective device the insurance company is required to pay for only the cost of the protective device it demanded. The opinion states that it does not take a position regarding the claim or the request for approval in this case. The Court appointed an examiner on its behalf before approval of the settlement agreement. On December 4, 2013 the examiner submitted his opinion. On February 3, 2014, the Attorney General submitted his position on the examiner’s opinion. In accordance with the Court's decision, the parties may submit their position as to the examiner’s opinion and to the response of the Attorney General.

9) In April 2010, a claim and request for approval of the claim as a class action were filed with the Petach Tikva District Court against Migdal Insurance and 3 other insurance companies by the Israel Consumer Council. According to the plaintiff, the defendants breach their duties to locate persons who have rights to moneys that were deposited in insurance policies, of any kind whatsoever or in relation to them, in deposits and in other rights that the holders of the rights are or were entitled to receive, which are held with the defendants and have not been claimed; to manage the moneys separately from other amounts; and to transfer any unclaimed moneys to the Administrator General when their transfer is required. According to the plaintiffs, as a result of the defendants’ omissions the rights’ holders do not receive the moneys, and excessive amounts of management fees are charged in respect of the moneys. In addition, the plaintiff alleges that the defendants become unlawfully enriched from the revenues generated by the unclaimed moneys.

The group the plaintiff requests to represent consists of all the holders of rights in moneys held by the Company and other insurance companies that are sued together with the Company, under their responsibility or control, who according to the plaintiff the defendants did not notify that they have rights to moneys held by the defendant, as their duties require them to do. The plaintiff did not estimate the number of the group members and the amount of the claim.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

9) (Cont.)

The remedies requested by the plaintiff in the claim include, inter alia, ordering the defendants to transfer the moneys to the rights' holders and in order to do so ordering the defendants to carry out all actions necessary, as provided in directives of the Regulator of Insurance; ordering the defendants to transfer unclaimed moneys to the Administrator General as required in the Administrator General Law and in directives of the Regulator of Insurance; to return to the group members amounts they were unlawfully charged, by means of commissions and management fees, contrary to directives of the Regulator of Insurance; to return the revenues generated as a result of unlawfully holding the moneys of the group members and to order the defendants to pay the trial expenses. The parties are proceeding with mediation.

10) In April 2010 a claim and request for approval of the claim as a class action were filed with the Petach Tikva Central District Court against Migdal Insurance and other insurance companies. The plaintiffs allege that when the insurance stops, for any reason whatsoever, this usually occurs after the premium was already paid for the month in which the insurance stopped, since the premium for that month is paid in advance at the beginning of the month. According to the plaintiffs, even though the policyholder is entitled to a refund in respect of a proportionate part of the month, the defendants do not return to the policyholders a proportionate part of the premium or the amount is returned in nominal values.

The group the plaintiffs request to represent in the claim consists of all those who hold or held any kind of insurance policy of the Company or any of the insurance companies that are sued together with the Company, by any insurance policy, other than property insurance, and the insurance policy was stopped for any reason whatsoever, either following its cancellation by the policyholder or following occurrence of the insurance event. According to the plaintiffs the group consists of about 2 million policyholders.

One plaintiff claims that he was caused personal damages by Migdal Insurance in the amount of NIS 23.27 and another plaintiff claims that she was caused personal damages by Migdal Insurance in the amount of NIS 56.29. The plaintiffs estimate that the group members were caused damages in the nominal amount of about NIS 225 million over a period of 10 years.

The remedies sought are: a monetary remedy returning the excess premiums that the group members were unlawfully charged and/or were unlawfully not returned to them and/or the revaluation differences that were not paid; a mandatory injunction ordering the defendants to change their method of operation and return the insurance fees from the date the right arose for their return with the addition of linkage differences and interest; compensation to the plaintiffs and the fees of the attorneys representing the plaintiffs. The case is submitted for written summaries after evidence.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

11) In April 2011, a claim was filed with the Tel Aviv Jaffa District Court against Migdal Insurance, together with a request to approve the claim as a class action, by a policyholder of managers insurance and by a plaintiff who filed a claim in respect of bodily injuries as a result of a car accident that were caused, as he alleges, by another policyholder of Migdal Insurance.

The plaintiffs contend that Migdal Insurance makes unlawful use of foreclosure orders that did not confiscate any assets at the time they were sent to it, but they were still registered in Migdal Insurance’s registries, but they have no legal effect. As a result, they contend that Migdal Insurance prevents and/or delays monies that are due to policyholders and/or beneficiaries and/or to third parties under liability insurance and by doing so it is unlawfully enriched on their expense.

The group the plaintiffs wish to represent in this claim is anyone who was entitled, during the 7 years prior to the date the claim was filed, to receive from Migdal insurance benefits and/or monies that were provided under any type of insurance policy whatsoever and were unlawfully delayed by Migdal Insurance under the contention that there are foreclosure orders registered with it. The plaintiffs estimate that 15% of the monies that are managed by Migdal Insurance (which are estimated by the plaintiffs at about NIS 109 billion), are foreclosed at third party foreclosures and at least half of these foreclosure orders are expired and/or they did not take any asset and/or existing or future rights whose materialization is certain. Hence, the plaintiffs estimate that the monies that are held-back with Migdal Insurance amounts to NIS 8,175 billion. The plaintiffs contend that to the amount of the claim they should add interest and linkage differences for an average period of delay, which the plaintiffs estimate is about three years; a special interest pursuant to Section 28a to the Insurance Contract Law; an additional amount in respect of the collection of management fees on the held-back amounts, as well as another sum of money in respect of unlawful enrichment. The plaintiffs estimated the total sum of the claim at NIS 13,427 billion. The personal damage that was caused to the plaintiffs, as they contend, due to the contentions under this claim, amounts to NIS 40,564.

The remedies sought are, among others, a declarative remedy that Migdal Insurance breached the duties imposed on it by preventing and/or delaying the transfer of money to the group members, in respect of unlawful foreclosures; a mandatory injunction in order to prevent future delay in transferring monies to the group members due to legally ineffective foreclosures; to cancel all the foreclosure orders that are no longer in force and/or they have no legal force and to report to the Execution if and which asset of the debtor is in the possession of Migdal Insurance; to inform those who are going to make an insurance agreement with Migdal Insurance and/or its policyholders and/or third parties who are filing claims by virtue of the liability insurance, that foreclosure orders were sent to Migdal Insurance and due to this when the time comes Migdal Insurance will not be able to pay the money; a decree ordering Migdal Insurance to compensate the group members and to repay the held-back monies, as contended by the plaintiffs, illegally, with the addition of interest and linkage differences by law, as well as a special interest pursuant to Section 28a to the Insurance Contract Law, and the repayment of the profit and/or the commissions and management fees that were collected by Migdal Insurance in respect of these monies. At the Court's recommendation, the parties are undergoing a mediation procedure. (In this respect, also see claim No. 13 below.)

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

12) In April 2011, a claim was filed by a life assurance policyholder with the Petach Tikva Central District Court against Migdal Insurance and other insurance companies, together with a request to approve the claim as a class action.

The plaintiff contends that Migdal collects monies that are called "the policy factor" and/or "other management fees" but the right to collect these monies is not established and proper disclosure is not provided. The plaintiffs contend that on April 12, 2011 the Petach Tikva Central District Court received a request to approve a claim as a class action which was filed against another insurance company and which is the same as the claim filed by them against the defendants in this claim.

The group the plaintiffs wish to represent is anyone who is and/or was insured by the Company and/or by other companies sued under this claim and he was charged any amount of money for “other management fees” and/or “the policy factor”. In the framework of this claim the plaintiffs filed a plea for the payment of compensation/refund equal to the amount of the policy factor that was actually collected from the group members, plus the yield that was deprived from them in relation to this sum of money due to the fact that the amount that was deducted from the premium for the policy factor was not invested in their favor, after the multiplication of the yield amount by the coefficient of 85% in view of the insurance company’s entitlement to 15% of the yield. Another remedy that is requested is to issue a mandatory order to instruct the defendants to change their actions in respect of the collection of a commission that is called “other management fees” and/or “the policy factor”.

The plaintiffs contend that the personal damage that was caused to all the plaintiffs during one year is estimated at NIS 1,522 in nominal values, which was calculated for convenience purposes, as contended by the plaintiffs, in respect of one specific year only. According to various estimates and assumptions in relation to the collection of the policy factor during the last seven years by the defendants and the relevant annual yields, the group members’ claim was estimated at the amount of NIS 2,325,335,040 nominal values.

In the framework of approving the claim as a class action, substantiation proceedings were performed and the Regulator of Insurance's position was provided including those related to risk of damage to the stability of insurance companies if the claim is accepted. The case is at the stage of submitting written summaries.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

13) In June 2011, a claim was filed with the Central District Court against Migdal Insurance, Hamagen Insurance Company Ltd. (hereunder - Hamagen), and against other insurance companies, together with a request to approve the claim as a class action, by a motor act insurance policyholder and by a third party in motor act insurance.

The plaintiffs contend that insurance benefits or money to which they were entitled from the Company or from other defendants were delayed by the defendants due to foreclosures or receivership decrees or any rights whatsoever of third parties and who finally received the insurance benefits or other monies from the defendants, at nominal value only or only with the addition of linkage differences not including interest.

The personal damage that was caused to one plaintiff against Hamagen (which was merged with Migdal and eliminated), as he contends, due to the causes for the claim, amounts to NIS 193.24, whereas the personal damage that was caused to another plaintiff against Migdal Insurance and another insurance company that was included in another claim, amounts to, as he contends, NIS 11,236.25. All the plaintiffs estimate that the total damage caused to the entire group members who are policyholders of the Company and other insurance companies that were included in the claim, is above NIS 350,000,000.

On December 12, 2012, the Court gave its decision to accept the request to approve the claim as a class action (hereunder - "the decision of approval").

In the decision of approval the represented group was defined as all those beneficiaries (namely, policyholders and those who suffered damages) who received insurance benefits after June 1, 2008 and their right for receiving payment was delayed because of a foreclosure on the asset, or receivership decrees or any rights whatsoever of third parties, provided that the yields from the monies during the period of delay were not transferred to the beneficiary in full.

The grounds for the claim in respect of which the class action was approved is the group members' right to receive linkage differences and interest that represent the benefit that the respondent insurance companies gained during the period of the delay, either by virtue of Section 1 to the Unlawful Enrichment Law or by virtue of Section 28(a) to the Insurance Contract Law, 1981.

The remedies sought are the payment of linkage differences and interest to the group members, at the rate that reflects the benefits that the respondent insurance companies gained during the period of the delay.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

13) (Cont.)

In view of the merger of Hamagen into Migdal Insurance and in view of the fact that the grounds for the personal claim against Hamagen arose before June 1, 2008, the Court determined that the plaintiffs' attorney should notify the Court whether it is necessary to take further proceedings against Hamagen, and if it is necessary to continue with the proceedings against Hamagen, it will be necessary to find a petitioner who is a member of the group so that he can serve as a representative plaintiff. The plaintiffs filed an amended statement of claim, which announced that due to the merger of Hamagen into Migdal Insurance they give up their claim against Hamagen. The parties are in a mediation process (see in this context also the claim described in paragraph 11 above).

14) In July 2011, a claim was filed with the Central District Court against Migdal Insurance, together with a request to approve the claim as a class action, by a policyholder of comprehensive motor vehicle insurance of Migdal Insurance. The claim is in respect of the alleged collection of credit fees from the general insurance policyholders of Migdal Insurance at a rate which is higher than the maximum annual interest rate that Migdal Insurance is permitted to collect or at an interest rate which is higher than the rate it presents to its policyholders.

The group members the plaintiff wishes to represent are all the policyholders and/or the beneficiaries who were insured by Migdal Insurance with insurance policies in the general insurance branches, and who paid Migdal Insurance excess credit fees and/or collection fees and/or payment arrangement fees, while deviating from the provisions of the law and/or while deviating from the interest rates that were presented to the policyholders in the policies, beginning from May 1, 1984.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

14) (Cont.)

The plaintiff's personal damage, as revaluated as of the date of filing the request for approval, was set at NIS 15.93, whereas the estimate of the damage caused to the entire group members beginning from May 1984, as revaluated as of the date of filing the request for approval, is between the alternate amounts of NIS 252,974,106 and NIS 868,658,649.

The remedies sought by the plaintiff are (1) to instruct Migdal Insurance to refund to the group members the money that was allegedly overcharged unlawfully, with the addition of linkage differences to the consumer price index and with the addition of interest by law, and a special interest as defined in the Insurance Contract Law, from the date of each payment up to the date of the actual repayment of the sums of money (2) to order a compensation to the group members or to the public, in respect of the yields that were accumulated from the monies that were allegedly excessively collected (3) to order Migdal Insurance to stop overcharging its policyholders for credit fees and/or payment arrangement fees and/or collection fees for each policy and/or an addition to a policy that will be issued by it from the date of filing the request and onwards and to stop collecting credit fees and/or payment arrangement fees and/or collection fees for each existing policy and/or any addition to existing policies for which the credit fees were collected in excess. On March 6, 2014, the parties filed with the Court a request to approve a compromise settlement agreement.

15) In February 2012, an action and motion for approval of the action as a class action were filed in Tel Aviv Jaffa District Court against Stock Exchange Services, by a company with a securities deposit account in the matter of the commissions paid for transactions in securities and overseas options.

The plaintiff contends that Stock Exchange Services collects a commission from its customers for overseas correspondent services, which is actually paid by Stock Exchange Services and/or is due to the foreign correspondent banks. The plaintiff has no data on the actual payments made by Stock Exchange Services to the foreign correspondents or whether it receives refunds for this commission.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

15) (Cont.)

The group that the plaintiff wishes to represent is all of the customers of Stock Exchange Services who bought and/or sold securities and/or options, etc., through it during the last 7 years, and from whom Stock Exchange Services collected commissions for a foreign correspondent beyond the commissions stated on the correspondent's website and/or collected foreign correspondent commissions from them that actually exceed that paid eventually by Stock Exchange Services to the foreign correspondents. Likewise, the plaintiff wishes to represent all the mutual funds managed by "Migdal" and/or its representative offices that engage in the purchase and sale of securities, including options and overseas options including the overseas stock funds managed by the Migdal Group ("Mutual Funds"), and anyone for whom Stock Exchange Services executes transactions on a foreign stock exchange and collects overseas correspondent fees from him. The personal damage that the plaintiff contends it has sustained totals NIS 24,217. The damage sustained by the class members was estimated by the plaintiff at NIS 43,344,000.

The remedies sought by the claim are, inter alia, to order Stock Exchange Services to compensate and/or indemnify the class members for the excessive commissions and/or for the overcharged amounts related to the correspondent commissions in the U.S.

The case is under preliminary deliberation proceedings in the framework of the motion to approve the claim as a class action. The first hearing was already held on February 11, 2013 and in this hearing the Court decided that Mutual Funds are not included in the group of plaintiffs. On July 8, 2013, the Court ordered stock market services to disclose agreements with the foreign broker. An additional hearing has not yet been scheduled. The parties are proceeding with mediation.

16) In April 2012, a claim was filed with the Haifa District Court against Migdal Insurance, together with a request to approve the claim as a class action, by a third party which sued a policyholder who was insured by Migdal's comprehensive motor insurance. The plaintiff alleges that Migdal Insurance compensates third parties for the damage of impairment in value, based on the date the claim was received and not according to the date of the accident, despite the Regulator's decision from 2011, whereby in the case of a third party claim the damage of impairment in value can be calculated according to the date the claim was submitted.

The group the plaintiff wishes to represent are any person who, during the 7 years prior to the date of filing this claim, received from Migdal Insurance, insurance benefits for the damage to his vehicle due to impairment in value that was not calculated according to the value of the vehicle on the date of the accident, either if he was insured with Migdal Insurance by a comprehensive insurance or if he received insurance benefits as a third party.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

16) (Cont.)

The plaintiff estimated her personal damage at NIS 707, not including interest and linkage differences up to the date of the actual payment. The plaintiff estimates that the group members have 67,200 vehicles who had suffered an impairment in value during the 7 years prior to filing the claim and the average damage is NIS 500. Accordingly, the plaintiff estimates the damage caused to the entire group members at NIS 33,600,000.

The remedies sought in the context of this claim are, among others, to repay monies and/or to provide a personal compensation to the group members or alternatively, if it is not possible to refund the group members, to determine alternative systems to compensate the group members due to the allegedly unlawful reduction in the insurance benefits; to order a declarative remedy whereby Migdal Insurance violated the law when it did not calculate the impairment in value according to the value of the vehicle on the date of the accident; to issue a mandatory injunction that from now on the impairment in value will be calculated according to the date of the accident.

The parties reached a settlement agreement which was submitted for the Court's approval.

17) In May 2012 a claim was filed with the Jerusalem District Court against Migdal Insurance, together with a motion to approve the claim as a class action. The claim and the motion for approval were also filed against other insurance companies.

The plaintiffs contend that contrary to the Law of Equal Rights for People with Disabilities, the defendants refuse to insure them or alternatively they set implausible conditions for them, which are not based on the relevant information for each candidate for insurance and they do not examine each request as an individual request. The plaintiffs also contend that the defendants did not give the plaintiffs any substantial reasons for refusing to insure them and only gave a laconic reason not based on the relevant data and medical information of each of the plaintiffs, but on a very general reason - the illness from which each of the plaintiffs suffers. The group the plaintiffs wish to represent in this case are all those who wish to insure themselves with the Company and other companies who are sued in this case, during the effective period in which the defendants refused to insure them under any of the individual insurances, such as: health insurances, travelling, pension, personal accidents, long term care, work disability; due to an illness or disability they endure (the first group), as well as people with disabilities who did not turn to or will not turn to the defendants to be insured by them in the future, since they know that the defendants will not agree to insure them due to their disabilities (the second group). The plaintiffs specified that their personal damage is hurt of feelings and dignity, in equality and autonomy, as well as financial damage without proving damage. The plaintiffs did not quantify their personal damage.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

17) (Cont.)

The plaintiffs estimate, among others, on the basis of a social survey from 2010 of the Central Bureau of Statistics and from Ministry of Finance reports that the group consists of 700,000 members with severe disabilities, of which 538,100 are members of the first group and 161,900 are members of the second group. The plaintiffs request compensation for the first group for the damage of hurting their feelings and their dignity of NIS 225,300,000; for the damage of violating their equality and autonomy - the sum of NIS 269,050,000; for the financial damage without proving any damage the sum of NIS 439,820,000. Accordingly, the plaintiffs estimate the damage caused to the entire first group at NIS 934,170,000.

The declarative remedies sought regarding the total group members (first and second) are, among others, that the defendants had violated the provisions of the law stated above, as well as the mandatory injunction which obligates the defendants to perform a fair underwriting procedure, by examining each insurance application individually on the basis of the personal information of each insurance applicant; a mandatory injunction which obligates the defendants, in the event that they decide not to insure the applicant after a fair procedure of examining the application, to provide the reasons for their refusal, while relating to the information on which they based their refusal, and to inform the applicant about his right to appeal the decision before the Regulator of Insurance or before the complaints committee, or to submit a claim against the decision to the Court; to determine procedures for the refusal or agreement to provide insurance to a person with disabilities; to grant retroactive coverage to the group members who will be found eligible to be insured following an egalitarian underwriting procedure; as well as compensation to the plaintiffs and legal fees for the attorneys who represent the plaintiffs. Migdal Insurance submitted its response to the request of approval as well as additional supplementary pleadings. Preliminary discussions are being conducted in the case.

18) In May 2012 a claim was filed with the Tel Aviv District Court against Migdal Insurance and a sub-subsidiary of Migdal Insurance - Ichud Insurance Agencies Ltd. together with a motion to approve the claim as a class action, by two plaintiffs who applied for an offer from the defendants, for a comprehensive motor insurance for a vehicle of a disabled person.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

18) (Cont.)

The plaintiffs argue that they were being discriminated when they received from the defendants offers for a comprehensive motor insurance for a disabled vehicle, which also includes coverage for accessorizing the vehicle for the disabled, under conditions that are worse than conditions that people who do not have disabilities get and at rates which are substantially higher than the market price. The group the plaintiffs wish to represent in this claim are all the people with mobility disability, who have a vehicle that includes a special accessory for the disabled whose value (the value of the accessory) is higher than NIS 30,000 and who entered into a comprehensive motor insurance contract with the defendants and/or applied to any of the defendants to obtain an offer for comprehensive motor insurance and/or who did not apply to any of the defendants to receive an offer for a comprehensive motor insurance, because of their discriminatory practice not to insure disabled persons as from October 7, 2005. The plaintiffs quantified their personal damages at the sum of NIS 60,000 for compensation without proving any damage. The plaintiffs' estimate, based on data of the National Insurance, the size of the group at 2,000 people as at November 1, 2011. Accordingly, the plaintiffs contend that the total group members are entitled to the sum of NIS 120 million for compensation without having to prove any damage.

The remedies sought in this claim are, inter alia, compensation without having to prove any damage to the group members; issuing a decree to the defendants ordering them to stop the discrimination of people with disabilities regarding comprehensive motor insurance; a decree instructing the defendants to insure any vehicle of a disabled person, including its special accessories at a real value and at reasonable prices which reflect a reasonable estimate of the insurance risk; to instruct the defendants to repay the excessive insurance fees they received from the group members in accordance with Section 19(35)(b) to the Equality Law, as well as compensation to the plaintiffs and legal fees to the attorneys who represent the plaintiffs. Proceedings included deliberations on the request for class action approval and the case have been scheduled for proof in March, 2014.

19) In June 2012 a claim was filed with the Tel Aviv District Court against Migdal Insurance, together with a motion to approve the claim as a class action, by a plaintiff who is insured by comprehensive motor insurance.

The plaintiff contends that Migdal Insurance unlawfully deducts from the insurance benefits it pays to the policyholders in the event of a total loss or a constructive total loss, the amount of the licensing fees which are due to the policyholders from the licensing office by virtue of the Transportation Regulations, 1961. Alternatively, the plaintiff contends that the offsetting that Migdal performs is incorrect and the amount that is deducted is higher than the amount that is actually paid back to the policyholder by the licensing office.

The group the plaintiff wishes to represent in this claim is all the policyholders for whom Migdal Insurance made a proportional offset of the licensing fees from the insurance benefits in respect of the remaining period.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

19) (Cont.)

The plaintiff quantified her personal damage at the amount of NIS 1,106. The plaintiff estimates that the group consists of about 1,500 policyholders and under the assumption that the average damage amounts to NIS 1,000, the damage to the total group members was estimated by the plaintiff at about NIS 4.5 million.

The remedies sought in the framework of the claim are, among others, to order Migdal to immediately stop the proportional offsetting of the licensing fees for its policyholders. Alternatively, to order Migdal Insurance to immediately stop the erroneous offset for its policyholders. In addition, to order Migdal Insurance to pay the group members the amounts that were excessively deducted unlawfully, with the addition of linkage differences and interest by law, up to the actual date of payment, as well as compensation to the plaintiff and legal fees to the attorneys who represent the plaintiff. Proceedings in the case are postponed in order to receive the decision of the Regulator of Insurance on the issue.

20) In August 2012 a claim was filed with the Central District Court against Migdal Insurance, together with a motion to approve the claim as a class action, by a plaintiff who has a life insurance policy. The claim was filed by other plaintiffs against four other insurers. The grounds for the claim are management fees that are collected from the premium in life insurance policies that are combined with savings which were issued from the year 2004. The plaintiffs contend that the collection of management fees in the aforementioned policies does not meet the provisions of the Supervision of Financial Services Regulation (Insurance) (Conditions of Insurance Contracts), 1981 (hereunder - "the Supervision Regulations"). The plaintiffs claim that the said manner of collection does appear on the website of the Regulator of Insurance's office, in the context of the description of management fees regarding new policies from the year 2004, however, no Regulator's circular that grants a permission to collect management fees from the said premium was found, and even if there was such a circular, the plaintiffs contend, it would not have been valid in view of the Supervision Regulations and the Regulator of Insurance had exceeded his authority, insofar as he gave the insurance companies a permit to operate in contrary to what was determined in the Supervision Regulations.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

20) (Cont.)

Therefore, the plaintiffs allege that the collection of management fees for life insurance policies that are combined with savings, insofar as it is collected from the premium, is not valid and these management fees should be returned to the policyholders. Alternatively, the maximum allowable management fees are 2% of the value of the investment portfolio and any management fees that exceed this rate should be returned to the policyholders. Furthermore, and in any case, even if it is allowed to collect management fees from the premium and even if it is sweepingly allowed to collect the full 2% from the value of the investment portfolio, the policyholders should be refunded for the premium that was collected from them due to its calculation based on the "total charges" (collection of management fees from the premium in relation to the total amount paid by the policyholder, including the management fees themselves) and/or due to the collection in relation to the various risk components in the policy, which are not intended for savings.

The group the plaintiffs wish to represent is anyone who was or is insured by one or more of the defendants by a life insurance policy which is combined with savings and issued from the beginning of the year 2004, including a risk policy that was presented as a policy combined with savings and this relates to active policies as well as settled or redeemed policies.

The plaintiff quantified his personal damage at NIS 224.9 per year of insurance. The plaintiff's damage regarding the alternative allegations amounts to, as he contends, NIS 32.7 (the calculation of the premium) and NIS 9.3 (in relation to the risk components), for one year of insurance.

The plaintiffs estimate that the damage to the group members during the last 7 years, from all the defendants, is estimated at the nominal minimum amount of about NIS 569 million (under the assumption of the payment of maximum management fees). Alternatively, the amount of about NIS 65 million (in relation to the calculation of the premium) and alternatively the sum of about NIS 132 million (in relation to the risk components). The remedies sought in this claim are, the refund of the excess management fees that were collected unlawfully, as well as a mandatory conjunction ordering the defendants to change the manner of their actions accordingly. A response was filed. A preliminary hearing is scheduled for May 18, 2014.

21) In January 2013 a claim was filed with the Central District Court against Migdal Insurance, together with a motion to approve the claim as a class action, by a health insurance policyholder with Migdal Insurance. The plaintiff alleges that when a premium lens is transplanted during a cataract operation, Migdal Insurance pays only partial insurance benefits, at the value of "ordinary" lenses and refuses to pay the difference between the cost of "ordinary" lenses and the cost of premium lenses, although the policy does not state any restriction in this respect.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

21) (Cont.)

The group the plaintiffs wish to represent in this case is all Migdal Insurance's policyholders during the three years prior to filing the claim and the motion for approval and from the date of the motion for approval and thereafter, who were insured by Migdal Insurance under health insurance policies that include a coverage for "transplants" and/or "prosthesis" as defined in the policies "worldwide surgery insurance" and/or "the new international surgery insurance" and who received from Migdal Insurance during the period of entitlement and thereafter, only partial insurance benefits and/or on dates that are later than those prescribed pursuant to the Insurance Contract Law, in respect of transplants and/or prosthesis and/or lenses that were transplanted in their eyes, after they received Migdal's approval to undergo the surgery and also they did not receive from Migdal Insurance, apart from the benefits it paid, and/or on the dates set forth by law, any "linkage differences" and/or "linked interest" and/or "special interest" at percentages and amounts they were entitled to receive from Migdal, pursuant to Sections 27 - 28a to the Insurance Contract Law.

The personal damage caused to the plaintiff as she claims, following the alleged actions of Migdal Insurance, amount to NIS 8,712. The plaintiff estimated the alleged amount for the entire group members at NIS 10 million.

The main remedies that are sought in this case are, to approve the plaintiff's claim and to order Migdal Insurance to pay the plaintiff and the group members the total insurance benefits due to them in accordance with the policies, also to pay them linkage differences and interest, to submit a declaratory judgment whereby the defendant acted unlawfully when it did not pay the full insurance benefits and did not pay the linkage differences and interest and to issue mandatory injunctions ordering Migdal to provide all the information and relevant data regarding the dispute in this case, which instruct Migdal Insurance to pay the group members insurance benefits which cover all the expenses they had for the cost of the transplants and/or the prosthesis that were transplanted in their eyes during the cataract surgery, which were approved by Migdal Insurance. The parties submitted a compromise agreement to the Court for approval. At a court hearing, it was determined that a judgment confirming the arrangement shall be given only after the latest deadline given the various policyholders to submit their reservations to the arrangement has passed.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

22) In January 2013 a claim was filed with the Central District Court against Migdal Insurance, together with a motion to approve the claim as a class action, by a plaintiff who is insured by a motor act insurance policy with the Israeli Motor Vehicle Insurance Pool (the Pool). The grounds for the claim is the collection of insurance premium for motor act insurance for the whole year even if the insurance is paid by the policyholder after the date stated in the insurance certificate. The plaintiff alleges that although the policy enters into force only on the date of the actual payment, the payment is for the insurance year that begins on the date stated on the insurance certificate. The group the plaintiff wishes to represent in this case is those insured by the Pool and all the other insurance companies that are sued under this claim, for motor act insurance, and who have paid the premium later, namely, after the date stated in the insurance certificate that was issued for them, during the period of 7 years prior to filing the claim. Alternatively, the group the plaintiff wishes to represent is the aforementioned group of policyholders who are insured with Israeli Motor Vehicle Insurance Pool (the Pool) only.

The plaintiff quantified her personal damage from the Israeli Motor Vehicle Insurance Pool at NIS 46. The plaintiff estimates that the damage to the group members during the last 7 years at NIS 45,162,000.

The remedies sought in the context of this claim are, the refund of the excessive premium fees that were collected unlawfully, with the addition of linkage differences and interest, and to order to pay the defendant and her attorney an appropriate compensation and legal fees. The respondents submitted their responses to the request to approve the claim as a class action. A hearing of the case is scheduled for March 25, 2014.

23) In May 2013, an application for approval of a class action was filed against Migdal Insurance with the Tel-Aviv – Jaffa District Court on the matter of the alleged non-payment of interest and linkage differentials on payment of insurance benefits. The lawsuit was filed by two persons insured in health insurance policies. The suit was filed on grounds under the Insurance Contract Law, unjust enrichment, breach of contract, breach of the Regulator of Insurance Circular "Investigating and settling claims and handling public complaints", breach of statutory duty and breach of the duty of disclosure and the obligations of not misleading and taking advantage of the ignorance of the consumer in insurance law.

The group that the plaintiffs seek to represent is anyone who has received during the seven years preceding the filing of the claim and/or will receive until judgment, claim insurance benefits from Migdal, to which interest was not attached to the insurance proceeds (the "first group") and all those received during the 7 years preceding the filing of the claim and/or will receive until judgment, claim insurance benefits from Migdal to which linkage differentials were not attached to the insurance proceeds (the " second group").

Personal damages allegedly sustained by the plaintiffs due to the alleged actions of Migdal amount to a maximum of NIS 21.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

23) (Cont.)

The damage estimated by the plaintiffs to the members of the first group for unpaid interest, using a conservative calculation based on ordinary interest and not linked interest is about NIS 59 million per year and about NIS 415 million cumulatively over 7 years (if the Court holds that interest should be calculated from the date of the occurrence of the insured event) and about NIS 24 million per year and about NIS 168 million over seven years (if the Court holds that interest should be calculated from 30 days after delivery of the claim to the insurance company). These amounts must be accompanied by linkage differentials and interest on Migdal's debt for unpaid interest from actual claim payment date and until the date Migdal will pay the interest and linkage differentials as compulsory by law.

The damage estimated by the plaintiffs to the members of the second group is about NIS 56 million per year and NIS 392 million over seven years. These amounts must be accompanied by linkage and interest on Migdal's debt for unpaid linkage from insurance compensation payment date and until the date Migdal will pay the interest and linkage differentials as compulsory by law.

24) In September 2013, a claim was lodged with the Petah Tikva Magistrate Court together with a request for approval of a class action against Migdal Insurance by a person insured by Migdal Insurance. The group the plaintiff wishes to represent is Israeli citizens living in Judea and Samaria and the Golan Heights (except Ma'ale Adumim), who purchased insurance coverage that gives them the right to have a private doctor visit them and perform laboratory tests at home. The plaintiff alleges that Migdal Insurance discriminates against the members of the group and enriches itself unlawfully and ties them to an insurance transaction at unreasonable terms whereby Migdal sells members location based insurance on the one hand ("house call") and on the other hand pretends to include a clause in the policy conditions under which due to the location of the home of the members, it is exempt from the provision of the service for which it has collected the proceeds.

The plaintiff claims personal damages due to Migdal's alleged actions of NIS 41.64. Damages estimated by the plaintiff to the group members are estimated at NIS 1,856,727.
The case is scheduled for hearing evidence on the request for approval of a class action during the month of April 2014.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

25) In October 2013, a claim was filed in the Central District Court of Lod against Migdal Insurance and other insurance companies, together with a request to approve the claim as a class action. The claim is in respect of the update of insurance premiums due to a change in the insured's age and due to change in the CPI, at a date earlier than the date at which the insurance premium was to be updated. The plaintiffs claim that the defendants improperly updated the insurance premium due to the change in the insured's age on the first of the month and not at the precise day in the month on which he was born. The plaintiffs also allege that the defendants unlawfully determined the base index as the first month in which the insured sought to join an insurance plan and not the date at which he actually joined the insurance plan. The group the plaintiffs wish to represent is anyone who was joined by the defendants or any of them to an insurance plan in which the premium is updated at a date earlier than the date the premium was due to be updated and/or in which the base index used is lower than the index that was supposed to be used (mainly in life and health insurance - including work disability, disability, sickness, etc.).

Personal damage caused to the plaintiffs due to the alleged actions of the defendants amounts to NIS 146.07.

Damage caused to all the group members according to the plaintiffs due to the alleged actions of the defendants is estimated at the amount of NIS 399 million for all defendants. The plaintiffs claim that the distribution of the damages between the defendants is according to their share as specified in Table D - 7 of the report of the Commissioner of Insurance for the years 2004 to 2006. A preliminary hearing on the request to approve a class action is scheduled for September 22, 2014.

26) In December 2006, a claim was filed with the Tel Aviv Jaffa District Court, against Migdal Insurance, together with a request to approve the claim as a class action, with respect to group life assurance policies to insure persons who have taken mortgage loans from Leumi Mortgage Bank. The claim and request for approval were also filed against Leumi Mortgage Bank under the Class Actions Law.

The grounds of the claim and the request for approval is the alleged payment of partial insurance benefits, in group life assurance policies of Migdal Insurance, written on mortgage loans marketed by Leumi Mortgage Bank, where the amount of the insured loan is lower than the amount of the loan taken by the policyholder from Leumi Mortgage Bank.

All this, it is argued, is contrary to these policies and other relevant documents. According to the plaintiff, the Company promised to pay insurance benefits on the balance of the loan she took from Leumi Mortgage Bank Insurance upon the occurrence of an insurance event or at the maximum insurance amount, the lower of the two. According to the plaintiff, the Company may not pay only partial insurance benefits in accordance with the ratio of the amount of the insured loan and the amount of the original loan.

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

1. Contingent liabilities (Cont.)

b. Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

26) (Cont.)

The amount of the plaintiff's personal claim is NIS 253 thousand. The plaintiff estimates the aggregate alleged damages to the group and accordingly the claim in the class action at an amount of NIS 150 million.

On September 7, 2010 a compromise agreement was approved and received the validity of a judgment (hereinafter "the judgment") which established a mechanism for determining the amount of compensation by different parameters in relation to the group members to whom an insurance event occurred. In addition, the compromise agreement provides that members of the group to whom an insurance event had not occurred will receive an offer to purchase supplemental insurance at a discount, subject to the completion of a health declaration and completion of an underwriting process.

On February 11, 2014 a request for an extension of the date to apply for cancellation of the judgment approving the settlement agreement was submitted to the Court by one of the group members arguing that there was a defect in the judgment and alleging that Migdal Insurance has violated the compromise agreement.

27) On March 10, 2014 a claim and request to certify the claim as a class action was lodged in the Central District Court against Migdal Insurance and other insurance companies. The claim against Migdal Insurance was filed by a plaintiff insured under the compulsory motor insurance of Migdal. The claim alleges that Migdal Insurance overcharges, contrary to the law, on premiums for compulsory motor vehicles insurance where the insurance certificate is paid by the insured at a date later than that specified in the certificate of insurance. According to the plaintiff, the insured pays the full insurance premium for the period in which no insurance coverage is acquired, namely, for the period from the effective date specified in the certificate of insurance to the date of actual payment. The group that the plaintiff wishes to represent is insured who insured their vehicles for compulsory insurance as of January 13, 2006 and paid the amount specified in the insurance certificate subsequent to the date specified in the insurance certificate as the date of commencement of the insurance. The plaintiff quantified his damages from Migdal Insurance in the amount of NIS 266 (in terms of principal). The aggregate amount of damage caused to the group according to the plaintiff is NIS 24,078,171 as of February 2014. Migdal Insurance’s share of the estimated aggregate damages for all compulsory insurance is NIS 8,704,575. The remedies sought in the claim are refund of premium collected for the days not covered by insurance, plus linkage differences and interest until the date of actual payment as well as providing a permanent order to correct behavior in the future regarding the collection of premiums on compulsory motor vehicles insurance. The plaintiffs also sought the award of compensation and appropriate legal fees.

The statement of claim stated that there is another claim on the same or similar matter which was previously submitted. The claim to which the plaintiff makes reference is the claim described in paragraph 22 above, which was also filed against Migdal Insurance.

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

1. Contingent liabilities (Cont.)

c. Class actions that have ended

28) In May 2006 a claim was filed against Migdal Insurance with the Tel Aviv Jaffa District Court, together with a request to approve the claim as a class action. The main allegation in the claim is that in matters relating to the insurance coverage for accident disability that is included in the life assurance policy of Migdal Insurance, Migdal Insurance customarily lowers its liability by using a formula that significantly reduces the rate of compensation, which results in the compensation not being paid according to the rate of disability that was determined but a much lower compensation, and thus the defendant limits its liability according to the policy. The group for which the class action is filed includes any person who is insured or is a beneficiary or who was insured or was a beneficiary during the seven years prior to filing the claim, with a policy that provides coverage for accident disability, which states that the compensation is the amount of insurance as stated in the policy according to the appropriate percentage of disability that was or will be determined, but notwithstanding compensation was paid to him according to a lower rate of disability that was determined. The remedy requested for the entire group members is the payment of the difference between the amount of compensation the plaintiff contends is due according to the policy and the amount of compensation that was actually paid. The claimant contends that his personal damages amount to about NIS 11 thousand. The request for approval does not include an estimate of the damage caused to the group and the plaintiff alleges that this is due to the lack of information required in order to estimate the overall damages.

On February 27 2014, judgment was given in the class action ordering the supplementation of the compensation through multiplication of the perpetual partial disability caused to the insured by the maximum insurance amount defined in the policy in respect of members of the group as follows: group members entitled to relief are policyholders who purchased an accident disability policy which at the date of filing the request for approval, three years had not passed from the date the insured event occurred, i.e. from the date of the accident and who received insurance benefits which are not equal to the product of the permanent partial disability and the maximal amount of insurance, including all those the cause of which was created until the judgment even if the insurance benefits were created by the decision of the Regulatory of Insurance and even if the claimant signed a waiver or settlement agreement provided that written waiver or settlement agreement does not explicitly refer to this claim, waiving his right to get the insurance benefits despite the judgment, as stated above (hereafter the "group"). Of the group above, persons who are not eligible to receive supplementation include policyholders whose claim was settled by way of a court judgment and policyholders who signed a settlement agreement and/or waiver which specifically refer to the request and/or claim.

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

1. Contingent liabilities (Cont.)

c. Class actions that have ended (Cont.)

The judgment also held that Migdal Insurance is entitled to offset from the amounts owed to each member of the group mentioned above, debt amounts which are undisputed. The Court appointed an administrator to check the eligibility of members and the payment of the compensation to which they are entitled. The Court judgment also ordered payment of remuneration and fees to the plaintiff's attorney which amounts are not significant for Migdal Insurance. The deadline to appeal the judgment has not yet passed. On August 29, 2013, the Regulator sent the Company a draft resolution which also addresses the said issues raised in the claim and judgment (see the description of the draft decision in paragraph 39) c) below).

29) In June 2011, a claim was filed with the District Court against Migdal Platinum (Migdal Platinum is a company that was merged into Makefet on January 1, 2011), together with a request to approve the claim as a class action, by two members of the educational fund "Migdal Kahal Educational Fund" and a member in the educational fund "Migdal Platinum Educational Fund General Track". The plaintiffs contend that the Company and the other insurance companies that are sued together with it, who are managing companies of provident funds, chose to favor some of the members and to grant them better conditions with the management fees that are collected from them for managing their provident fund. The plaintiffs contend that granting a privilege to one member or to part of the members implies a discrimination against the rest of the members and it deprives the other part of the members from a financial right.

The group the plaintiffs wish to represent in this case is the members of the provident funds that are managed by the Company and other management companies who were sued together with the Company, who collected from them management fees that are higher than the minimum management fees of the fund.

The petitioner filed a plea to the High Court of Justice against the Commissioner of the Capital Market, Insurance and Savings, demanding that he compel the provident funds to uphold the duty of equality regarding the collection of management fees. Makefet is not a party to the plea proceedings.

On February 26, 2013, the High Court of Justice gave a judgment which rejected the appeal and determined that management fees are not relevant to the rights of the members of the fund assets, but to the accounting between the management company and each of the members. However, the High Court of Justice gave instructions to the Capital Market Commissioner regarding his supervisory obligations. The parties have reached a settlement that was approved by the Central District Court decision dated June 25, 2013.

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

1. Contingent liabilities (Cont.)

c. Class actions that have ended (Cont.)

30) In December 2009 a claim and request for approval of the claim as a class action were filed with the Petach Tikva District Court against Migdal Platinum by a member of Maoz Educational Fund (hereinafter – “the fund”) which is managed by Migdal Platinum (Migdal Platinum is a company that was merged on January 1, 2011 into Migdal Makefet Pension and Provident Funds). According to the plaintiff, the fund was publicized and marketed by Migdal Platinum as a “conservative” educational fund. Nevertheless, in 2007 and 2008 the fund held unrated debentures in the amount of 50% of its assets, which reflects a high level of risk that is inappropriate for a “conservative” fund. According to the plaintiff, in 2008 the fund lost about 35% of the assets of the fund’s members, a rate indicating that the fund was managed carelessly and unprofessionally. The group the plaintiff requests to represent consists of any person who was a member of the fund at any time from August 8, 2006 until the date of submitting the request for approval.

The parties filed an agreed upon request to approve a compromise agreement whereby Migdal Makefet Pension and Provident Funds (hereunder - "Makefet") will, among others, take various actions in the area of disclosure and financial education of the fund members and the members of the educational funds it manages, including, among others, the issue of an information booklet to assist in learning the information regarding the investment segment; presentation of courseware on the website regarding members' reports; producing a film-strip on the issue of investments in the capital market; and to set up a course for the fund members in the area of investments. In addition, according to the agreement with Makefet, among others, to bear the expenses and a special remuneration for the plaintiff, as well as legal fees for his legal advisors. On July 7, 2013 the Central District Court gave judgment which approves the compromise agreement and sets procedures for its performance.

31) In December 2011, a claim was filed with the Tel Aviv District Court against Makefet, together with a motion to approve the claim as a class action, by two members of the pension fund "Migdal Makefet Ishit".

The plaintiffs allege that they were added by Makefet to a "basic" track as a default option track, wherein they pay for insurance coverage for "disability and death risks" which is an insurance for dependents and since they are unmarried this insurance coverage is insignificant and/or redundant, and they were not given any explanation regarding this issue and they did not give their approval for this.

On February 12, 2013 the Court accepted the plaintiff’s request to dismiss the claim and determine fees to the plaintiff’s legal counsel and to the representative plaintiffs.

32) In December 2003, a claim was filed against Migdal Insurance with the Tel-Aviv–Jaffa District Court, together with a request to approve the claim as a class action. The claim deals with the issue of mortality tables (see section 1 above). The claim is in respect of non-disclosure by Migdal Insurance of its use of an out of date mortality table (A49-52) for determining the life insurance premium and updated mortality tables for making annuity and pension payments and in respect of non-disclosure of fee amounts included in payments collected from policyholders. The plaintiff estimated the amount of the claim in the amount of NIS 900 million.

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

1. Contingent liabilities (Cont.)

c. Class actions that have ended (Cont.)

32) (Cont.)

The District Court dismissed the class action motion in limine due to the expiry of the Statute of Limitations. The plaintiff appealed the ruling to the Supreme Court. The Court has given a judgment granting validity to an agreement reached by the parties to settle the appeal.

33) In April 2006 a claim was filed with the Tel Aviv Jaffa District Court against Migdal Insurance together with a request to approve the claim as a class action with respect to the unlawful charging of a premium for the risk component and expenses of managers insurance policies during the period between filling out the insurance proposal and the date Migdal Insurance actually approves the proposal.

On December 25, 2013, a judgment was given approving the settlement agreement reached by the parties in this lawsuit and in the claim referred to in section 34 below. The main points of the compromise agreement, which has been validated as a judgment are presented below.

The "Represented group" includes any policyholder who contracted with Migdal insurance in each of the policies listed below (and only where there is no qualifying period), from April 9, 1999 to March 31, 2009 and a premium was charged from the first of the month and the proposal form was filled by the insured after the first of that month: individual policies: term life; death from accident; accident disability; professional disability; ordinary disability; PHI; Head up; Still alive (terminal); disability and dependent pension and Bank Leumi Mortgage Bank group policy. Policies which include a savings component and additional risk cover for the individual, self-employed (provident fund for self-employed) and managers (salaried employees and controlling shareholders) endowment; endowment involved 1/2 cover; short term policies (including "education savings" of all kinds); All Life; More (better); Migdalor (including its new variations).

The settlement agreement stipulates that Migdal Insurance refund to group members the excess premiums collected such that Migdal Insurance will provide group members during one of the six months after the judgment confirming the settlement agreement becomes valid (the" Effective Date "), a benefit equal to the monetary value of 15 days of "risk" premium which Migdal Insurance collected on average as risk premium from the group (hereinafter - the "benefit") in the way and manner as stated in the settlement agreement. The total value of the benefit to the represented group is NIS 10,101,849, as determined by an expert who examined the data on which the compromise agreement is based.

Migdal Insurance paid each of the representative plaintiffs compensation of NIS 100,000 and paid the legal counsel representing the plaintiffs fees of a total of NIS 600,000, plus VAT.

Parties to the action in question and to claim 33 below, submitted to the Court a request to approve the compromise settlement, in which the group represented and the benefit to be granted to its members have been defined. The amount of the compromise settlement refund is based on the opinion of an expert appointed by the Court. On December 25, 2013, judgment was given approving the compromise agreement.

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

1. Contingent liabilities (Cont.)

c. Class actions that have ended (Cont.)

34) In May 2007, a claim was filed with the Tel Aviv-Jaffa District Court against Migdal Insurance, together with a request to approve the claim as a class action which are similar to the claim and request to approve the claim as a class action detailed in claim 32 above. The claim is with respect to the illegal charging of a premium for the risk component of managers insurance policy, for the period commencing from the first day of a certain month (the month in which the policyholder signs the insurance proposal) and up to the date the policyholder actually paid the premium for the first time, and at least up to the date of the policy’s inception by Migdal Insurance. On December 25, 2013, judgment was given approving the compromise agreement. The main terms of the compromise agreement in this claim and in claim 32 above are detailed in claim 33 above.

35) In January 2011, a claim and request for approval of the claim as a class action were filed with the Regional Labor Court in Tel-Aviv Jaffa against Migdal Insurance and Makefet by a party insured by Migdal Insurance in life insurance and a member in Makefet pension fund. The plaintiffs contend that their employers were systematically late in depositing monies in the Managers Insurance and the pension fund. The plaintiffs contend that it was Migdal Insurance and Makefet's duty to see to it that the employers make the deposits on time and since they did not do so, it was the defendants' duty to allocate the money, plus arrears interest, in favor of the plaintiffs and to credit them for the yield on these amounts. The group of the plaintiffs wish to represent in this claim is the group members of the pension funds, educational funds, managers insurance and provident fund managed by the defendants and/or by anyone on their behalf, whose employers were late in making the deposits by more than 15 days from the end of the month for which the employee is entitled to a salary and they were not credited by arrears interest and/or they did not receive any yield in respect of the arrears interest and the amounts of the principal.

On October 21, 2012 the Court rejected the request for class action status. The plaintiffs appealed this decision to the National Labor Court and soon thereafter filed a request to withdraw the appeal. The Court summoned the parties to a hearing to take place on October 22, 2013. Following which, an application was filled for a decision on a joint application to withdraw the appeal. On December 3, 2013, judgment was given withdrawing the appeal, subject to payment of fees and compensation to the class action plaintiff.

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

1. Contingent liabilities (Cont.)

d. Other material actions

Hereinafter is a description of other significant claims filed against Migdal Insurance:

The amount of the claim appearing below is presented as of the date of filing:

36) In February 2014 a derivative action was filed against Migdal Insurance in the Tel Aviv – Jaffa District Court - General Department. The claim was also filed against General Health Services (Ottoman society) (hereafter "GHS") and against other insurance companies (together with the defendant: "Defendants"). Together with the claim against the defendants, the plaintiff filed an application for approval of a derivative action (the "Request Approval"). The reason for the claim is GHS's failure to exhaust the right it has in law to have insurance companies participate in expenses incurred within the framework of Additional Health Services ("AHS"). The plaintiff alleges that the right to have insurance companies participate is due to overlapping liabilities between the GHS and commercial health insurance policies sold by insurance companies and stems from a general principle of wide application in law common to all branches of the law of obligations and under the provisions of sections 56 and 59 of the Contracts Law (General Part), 1973 and enrichment laws. The remedy sought is charging each of the insurance company defendants to pay to GHS at least half of the payments incurred by GHS to cover expenses it incurred for AHS programs both for the component of performing operations and selecting the surgeon in Israel and for the component of providing medical advice for the period of seven years prior to filing the claim in cases in which persons insured with GHS also had commercial health insurance in respect of these components. Damages claimed in the suit against all insurance companies is estimated at NIS 1 billion plus interest and linkage differences.

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

1. Contingent liabilities (Cont.)

e. Legal and other proceedings

Below is a description of additional material legal and other proceedings against the Company and/or the subsidiaries.

37) The Company and/or the subsidiaries are parties to additional legal claims, which are not claims for insurance coverage as per the policy, filed by customers, former customers and various third parties in insignificant amounts, for a total amount of approximately NIS 84 million. The grounds for the claims against the Company and/or its subsidiaries under these proceedings, are varied.

38) On November 3, 2013 the New Histadrut General Federation of Laborers (the "Histadrut") announced, that as of November 3, 2013, it is the representative organization of workers in Migdal Insurance (see the Company's immediate report dated November 3, 2013, Ref: 2013-01 - 181 320). On January 30, 2014 Migdal Insurance announced that it agrees to enter into negotiations with the employee representatives regarding a collective agreement and that it recognizes the Histadrut as being the representative of the employees of Migdal Insurance (see the Company's immediate report dated January 30, 2014, ref: 2014-01-028051).

Legal proceedings were conducted between Migdal Insurance and the Histadrut both prior to the recognition with respect to the recognition of the Histadrut as the representative organization of employees in Migdal Insurance and in relation to the Histadrut's allegations that Migdal Insurance acted to prevent the organization of the employees, and subsequent to the recognition. As part of the said legal proceedings on December 5, 2013, a temporary order was given by the Regional Labor Court in Tel - Aviv ("the Regional Court"), which was later extended prohibiting Migdal Insurance from contacting employees regarding their organization, the implications thereof and the realization of their right to organize, both directly or indirectly ("temporary order"). On January 20, 2014 a conditional order under Section 38 of the Labor Law Court, 1969, and pursuant to Section 6 of the Contempt of Court Ordinance was granted against Migdal Insurance by the Regional Court which imposes on Migdal Insurance and on the Chairman of the Board and controlling shareholder, Mr. Shlomo Eliahu, an order to uphold the temporary order forbidding them from contacting Migdal Insurance employees about their organization and the realization of their right to organize (the "decision"). The decision also stipulates that in case of any further violation of the temporary order as aforesaid, both Migdal Insurance and Mr. Eliahu, personally, shall pay a fine of NIS 200,000 (each) for each violation.

Migdal Insurance and the Chairman of the Board Mr. Shlomo Eliahu, appealed the decision to the National Labor Court and the appeal is still pending. It is noted that because of the recognition of the Histadrut as the representative labor organization and the entering of negotiations with the Histadrut, as stated above, the temporary order and the conditional order of contempt are not relevant anymore. Moreover, in the framework of existing negotiating procedures between Migdal Insurance and the Histadrut, as of the date of this report, the parties agreed to freeze any legal proceedings pending between the parties, including also the appeal pending before the National Labor Court mentioned above.

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

1. Contingent liabilities (Cont.)

e. Legal and other proceedings (Cont.)

39) From time to time complaints are filed against the Group, including complaints to the Commissioner of Capital Market, Insurance and Savings Division of the Ministry of Finance (hereunder – “the Commissioner”) with respect to rights of policyholders according to insurance policies and/or the law. These complaints are handled regularly by the Group’s Public Complaints Departments. The Commissioner’s decisions on these complaints, if and insofar as a decision has been made, are sometimes, and in recent years more often, across the board decisions relating to a group of policyholders. Usually the Commissioner publishes a draft decision before he issues a final version of the decisions.

Furthermore, from time to time, and also following policyholders' complaints, the Commissioner conducts inspections on his behalf at the Group's institutional entities and/or requests to receive information wherein, among others, there are requests to make changes in various products, and/or guidance regarding the Group's treatment of various products in the past, including guidelines for making refunds and/or guidelines and/or instructions regarding the operations carried out by the institutional entities, including guidelines for the amendment and/or performance of various actions. On the basis of the findings of the inspections and/or the information that was provided, the Commissioner imposes financial sanctions pursuant to the Enforcement Authority Law, following a notice about the intention to impose a financial sanction, and hence there is a chance to argue against the intention to impose the financial sanction.

a) In August 2013 the Regulator published a decision in principle on the subject of raising fees without notice. According to the decision management companies are required to check all accounts in which management fees were raised during the period from January 1, 2006 through December 31, 2009 and to refund to all members management fees collected during this period (and to whom one of the exceptions listed in the draft decision do not apply) not in accordance with Regulation 53 Tax Regulations Income (Rules for Approval and Management of Provident Funds), 1964 (the "Directive") (which is valid until December 31, 2012). Amounts credited to a member under this decision will bear interest at the interest rate of the average shekel interest rate in the refund period, published by the Ministry of Finance under the Adjudication of Interest and Linkage Law, 1961 (a rate of 5.1%) from the date when excess management fees were collected through the date of payment under the decision. Also stated in the decision are cases in which exemption will be given for individual examinations and cases in which an exemption from refunds will be granted. The decision also sets general guidelines for reimbursement include guidelines to the management company to prepare a detailed work plan for implementing the refund guidelines; to check and document the number of cases in which management fees to members were unlawfully increased during the refund period and to provide details on the number of cases to which the exemptions provided in the decision apply. At the time of restitution, the management company will send a letter to members eligible for reimbursement and upon implementation the management company shall

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

1. Contingent liabilities (Cont.)

e. Legal and other proceedings (Cont.)

39. (Cont.)

prominently publish on its website for at least three months notice of the decision guidelines, possibility for eligibility for restitution of excess fees illegally collected and contact details for making enquiries as to this entitlement.

Not later than January 1, 2015 the management company shall provide the Regulator a summary of reimbursement data and will retain data on the manner of implementation of the decision. The management company shall submit not later than January 1, 2015 a final report of the internal auditor of the Company confirming that the company has fulfilled the above instructions and has sent notifications to members. A management company to whom a member's account entitled to restitution is transferred, shall provide the information required only so as to enable the reimbursing management company to perform the refund to the member, within 20 business days of the filing of a request for such information by the refunding management company, including information pertinent to tax laws.

b) In addition, there is a pending draft decision against Migdal Insurance regarding one time deposits in yield guaranteeing policies (whose draft was published in December 2012). According to the draft decision, the Supervisor is of the opinion that the insurance companies should have informed and/or obtained consent to crediting one-time deposits made in yield guaranteed policies with the yields for profit participating policies. In the draft decision the Commissioner instructs to perform certain actions while dividing the policyholders into two groups - one group consists of policyholders whose one-time deposits bore equal or higher yield than the guaranteed yield, and the other group consists of policyholders whose one-time deposits bore yields that were lower than the guaranteed yield. Migdal Insurance filed its response to the draft decision, a hearing was held, data was provided to the Regulator at his request and Migdal is awaiting his decision.

c) On August 29, 2013, the Regulator sent Migdal Insurance a draft decision concerning accident disability insurance policy. According to the draft decision the Regulator considers that in the case of partial disability from an accident, the Company applies a formula which reduces the rate of compensation to the insured (hereinafter - the "adjustment") and in the case of disability of a number of organs, Migdal Insurance weighs the disabilities in accordance with the National Insurance regulations, without there being an appropriate provision in the policy (hereinafter - the "weighting"). The Regulator informed Migdal Insurance that he intends to order the reimbursement of funds of the rate of the disability compensation reduction performed to insured who filed a claim against the Company from May 17, 2006 onwards. It should be noted that as regards the adjustment a judgment was granted against Migdal Insurance in a class action (see 27 above). The draft decision relates to the period from the providing of a similar ruling against another insurance company on the same issue and after the date of the filing of the above class action. Migdal Insurance submitted its position in relation to the two subjects of the draft decision. In relation to the subject of the adjustment and for purposes of investigation of its position, Migdal Insurance was requested to provide additional data and plan for performing the reimbursement of the adjustment. Migdal Insurance is awaiting the Regulator's response relative to his position on the weighting subject.

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

1. Contingent liabilities (Cont.)

e. Legal and other proceedings (Cont.)

39) (Cont.)

d. On July 29, 2012, a subsidiary received an audit report regarding the members' rights in a pension fund it manages and which was prepared by the Commissioner of the Capital Market, Insurance and Savings with the Ministry of Treasury (below: "the Commissioner") at the subsidiary during the year 2011 (below: "the audit report"). The audit report relates to various issues including findings regarding the management of the members' rights in the pension fund, as well as settlement of claims, risk arrangement, mobility, reports to members, redemptions, management fees, as well as the manner of management of the member's entire rights in the fund, in cases where the members of the pension fund have more than one pension plan (account) (management at the level of policyholder). During the audit the subsidiary rendered its opinion regarding the findings of the audit which were furnished to it, including the actions that it took or is taking in respect of various issues that were included in the audit report and it continues to make the amendments and take the actions that are required according to the report. The Commissioner took administrative enforcement actions in connection with the various findings of the report and announced his intention to impose a financial sanction regarding the findings of the report. A financial sanction of NIS 150 thousand was imposed on the Company in respect of four violations relating to specific malfunctions in connection with certain groups of members (for not providing a data file for a receiving fund at the time of transferring the funds, delay in providing a certification about the transfer of money to a member who transfers from the fund, not sending quarterly and annual reports to the members and sending these reports in delay).

The subsidiary received notice of the intent to impose a monetary sanction in respect of breach of Article 50 of the Supervision Law. The Company was told not to respond to this notice as the matter is seen as being cancelled. In relation to the audit report the subsidiary transferred to the Regulator, at his request, an update to the table which was transferred to the Regulator, in relation to the implementation of a work plan.

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

1. Contingent liabilities (Cont.)

e. Legal and other proceedings

40) In addition to the requests for approval of claims as class actions that were filed against the Group, and the other material claims filed against the Group and the legal and other proceedings, there is a general exposure which cannot be estimated and/or quantified, due to, among others, the complexity of the services granted by the Group to its policyholders. The complexity of these arrangements entails, among others, a potential for interpretation and other arguments resulting from differences in information between the Group and the third parties to the insurance contracts that relate to a long list of commercial and regulatory conditions.

This exposure is expressed mainly in the areas of pension and long term insurance savings, including health insurance, in which the Group operates. In these areas the policies are managed over the years in which there are changes in policies, regulations and legal trends, including court rulings.

These changes are made by EDP systems that undergo frequent changes and adaptations. The complexity of these changes and application of change with respect to many years, creates increased operating exposure. Receipt of a new interpretation to insurance policies and long term pension products may, at times, affect the Group's future profitability with respect to the existing portfolio, in addition to the exposure involved in the demands to compensate customers for past activities. It is not possible to anticipate the kind of arguments that will be raised in this area and the exposure resulting from any arguments that are raised in respect of the insurance contract, among others, by the procedural apparatus pursuant to the Class Actions Law.

Alongside these aspects, the Capital Markets Division which supervises insurance is working to formulate principles for writing insurance plans and in this context posted on July 10, 2013 a document (Sh. 2013-30527) containing a list of guiding principles and guidelines for the formulation of insurance plans which includes a list of improper practices which are presumed to be discriminatory and should not be included in an insurance plan and proper practices which should be included in insurance plans. It is not possible to predict whether and to what extent insurers are exposed to claims regarding the interpretation of provisions in insurance plans and the proper application of the said principles and practices that can arise in part through the hearings mechanism set forth in the Class Action Law.

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

1. Contingent liabilities (Cont.)

e. Legal and other proceedings (Cont.)

40) (Cont.)

Furthermore, long-term savings products are characterized by a prolonged lifespan and are extremely complex, particularly in view of the various regulations relating both to management of the products and to taxation, attribution of the deposits, investment management, the insured's employment status, his deposit payments, etc. As part of the changes in regulations and legal trends, in December 2011, Circular no. 2011-9-10 was published for institutional entities - "Improvement of data on the rights of members in the institutional entities". This circular was replaced by circular No. 2012-9-16. The circular prescribes the operations that an institutional entity must perform in relation to the data specified in the holdings interface, within the context of the circular on a uniform structure for the transfer of information in the pension savings market, and it obligates the institutional entity to improve the holdings interface data so that the data in the holdings interface are complete and continuous insofar as such data are available for the duration of the savings period. With respect to members who joined before 1997, the data must be improved at least from 1997, and for provident funds that are not insurance funds or provident funds that pay an annuity, the information on deposits, transfers and withdrawals will be improved at the very least as of January 1, 2005 and thereafter. The circular contains instructions for the gradual implementation of the guidelines during the period from December 31, 2012 through June 30, 2016.

The Group's institutional entities are studying and continuously dealing with improvement of the data on policyholders' rights, in connection with management of the products by the institutional entities, based on the gaps that emerge from time to time. The financial institutions have completed the gap survey required by the circular and have begun to perform improvements under an approved work plan. The institutional entities are unable to estimate and quantify the scope and costs of the aforementioned improvement processes, and the implications also with respect to past activity. Financial institutions have made provisions as necessary. At this stage, it is impossible to fully assess whether additional provisions must be made in connection with the process of improving data on members’ rights as required in the circular.

41) Hereunder is a summary table of the amounts that are demanded under pending requests to approve claims as class actions, claims that were approved as class action and other material claims against the subsidiaries, as stated by the plaintiffs in the statements of claims that were filed on their behalf. It should be noted that the claimed amount does not necessarily comprise a quantification of the amount of exposure that is estimated by the Company and/or the subsidiaries, since these estimates were made by the plaintiffs and they will be deliberated under legal proceedings. It should also be noted that the table below does not include proceedings that have ended, including proceedings that were concluded after a compromise agreement in their respect was approved and proceedings that have ended and the time allowed to lodge an appeal has not yet elapsed.

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

1. Contingent liabilities (Cont.)

e. Legal and other proceedings

41) (Cont.)

Type	Number of claims	Claimed amount NIS in thousands (1)
Claims approved as class actions	1	350,491
Amount related to the Group was stated	0	-
The claims relates to a number of companies and no specific amount was attributed to the Group	1	350,491
The claim amount was not stated	0	-
Pending requests to approve claims as class actions (2) (3) (4) (5)	26	21,172,004
Amount related to the Group was stated	16	16,524,137
The claims relates to a number of companies and no specific amount was attributed to the Group	7	4,647,867
The claim amount was not stated	3	-
Other material claims	1	1,000,000
Pending request to approve derivative claim		
The claim relates to a number of companies and no specific amount was attributed to the Group	1	1,000,000

(1) All the amounts are in NIS thousands and at the date of filing the requests or the claims, as the case may be.

(2) Including a claim approved as a class action. An appeal has been lodged on the decision to approve the class action and the Court of Appeal has decided to return the request for approval to the District Court for discussion (see paragraph 2 above).

(3) Whenever various alternative amounts of claims were stated in the requests to approve claims as class actions, the highest amount from among the amounts that were stated was taken into account (see paragraphs 14, 20 and 23 above).

(4) Including requests to approve claims as class actions wherein the exact claimed amount was not stated (see details regarding a request to approve a claim as a class action in paragraph 7 above, where the claimed amount was estimated at millions of NIS without stating the precise amount of the claim).

(5) In places where the amount is specified as being in respect of the Group, the amount is in respect of the Group.

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

1. Contingent liabilities (Cont.)

e. Legal and other proceedings

42) The total amount of the provision in respect of the class actions and other material claims, that were filed against the Group, as detailed in the summary table above, is about NIS 29 million (as at December 31, 2012 - NIS 63 million)

43) The total provisions in respect of all the proceedings against the Group, including class actions and other material claims is NIS 101 million (as at December 31, 2012 - NIS 78 million).

2. Commitments

a. For details regarding the commitment for the absorption the new business of Eliahu Insurance in general insurance, see Note 38 d 1.

b. Commitments for investments and granting of credit

1) With respect to other financial investments, Migdal Insurance has commitments for future investments in investment funds as at December 31, 2013, in the total sum of about NIS 664 million, of which the sum of NIS 473 million is in respect of yield dependent contracts (in 2012 the sum of about NIS 661 million, out of which the sum of NIS 460 million is in respect of yield dependent contracts).

2) The balance of commitments for additional investments of Migdal Insurance in acquired corporations amounts to about NIS 128 million, of which NIS 115 million is in respect of yield dependent contracts (in 2012 NIS 100 million in respect of yield dependent contracts). In addition, Migdal insurance undertook to provide credit, upon request, in the amount of about NIS 548 million, of which about NIS 472 million is in respect of yield dependent contracts (in 2012 about NIS 948 million, of which about NIS 805 million is in respect of yield dependent contracts).

c. Commitments for acquisition of real estate assets

In respect of real estate investments, the Group has a commitment for future investments totaling, as at December 31, 2013, about NIS 187 million, of which the sum of about NIS 178 million is in respect of yield dependent contracts (in 2012 – NIS 916 million and NIS 828 million, respectively). Part of the above amounts are based on a calculation mechanism determined in the agreement.

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

2. Commitments (Cont.)

d. Indemnity and waiver letters to officeholders

1) Indemnity letters given up to 2006

a) The Company rendered indemnity letters to officeholders in investees and other corporations in which they serve by virtue of their capacity as officeholders in a subsidiary as well as to a number of the Group employees, whereby Migdal Insurance will indemnify them under the circumstances and reservations as detailed in the indemnity letter in respect of a monetary liability that will be imposed on them as a result of actions they will carry out by virtue of their post as officeholders in the aforementioned corporations, or in respect of activities as detailed in the indemnity letter.

b) The Company rendered waiver letters to officeholders in investees and other corporations in which they serve by virtue of their capacity as officeholders in Migdal Insurance and subsidiaries of Migdal Insurance, whereby the Company, under the circumstances and reservations as detailed in the waiver letter, had waived any claims against officeholders with respect to any action and/or omission that they will perform as officeholders in the aforementioned corporations.

c) The Company rendered indemnity letters to officeholders of the Migdal Insurance, of subsidiaries of Migdal Insurance and investees, whereby they will be indemnified, in the amount, circumstances and reservations as detailed in the indemnity letters, in respect of any monetary liability that will be imposed on them with respect to the following issues:

(1) Prospectus of the Company from the year 1996.

(2) Liabilities that will be applicable to the Company and/or the Migdal Group companies due to the fact that the Company is a company whose shares are held by the public and are listed for trade on the stock exchange, providing that the liability for indemnification will be applicable only to liabilities deriving from operations that were performed during the period of up to one year from the date of the prospectus.

d) The Company rendered waiver letters and an undertaking to dismiss claims regarding officeholders in corporations that belong to the Migdal Group, whereby under the circumstances and reservations as detailed in the waiver letters and the undertaking, it waived the claims against the officeholders with respect to any action and/or omission that will be performed by them in their capacity as officeholders in each of the corporations, including actions with respect to the areas detailed below:

(1) Prospectus of the Company from the year 1996.

(2) Liabilities that will be applicable to the corporation due to the fact that the Company is a company whose shares are held by the public and are listed for trade on the stock exchange.

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

2. Commitments (Cont.)

d. Indemnity and waiver letters to officeholders (Cont.)

1) Indemnity letters given up to 2006

d) (Cont.)

The Company also undertook, under the circumstances and reservations as detailed in the waiver letters and the undertaking, to dismiss any claim that will be filed against the corporations or any one of them, if as a result of the claim, as mentioned, the officeholders will be sued by any of the corporations by a claim that will not be dismissed in limine.

2) Letters of release and indemnity that were rendered in 2006

In November 2006, a special general meeting of the Company's shareholders approved the granting of a commitment to exempt and indemnify officeholders of the Company.

Accordingly, the Company informed its officeholders as follows:

Commitment for release - the Company releases its officeholders from any responsibility towards it, to the extent that this is permitted by law, for any damage that is and/or may be caused to it and/or may be caused due to a breach of the duty of caution that applies to the officeholders in their bona fide activity by virtue of their capacity as the Company's officeholders and/or at its request as officeholders 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 (hereunder - "the Other Company"), as specified in the letter of release and indemnity given to the officeholder.

Undertaking for indemnity - the Company undertakes in advance to indemnify the Company's officeholders, including officeholders of the Other Company based on the text of the waiver and indemnity letter given to the senior officeholders. Based on the letter of indemnity and subject to the provisions of the law, the Company undertook to indemnify the officeholders for any liability or expense specified in the letter of indemnity that is imposed on them or any expense they may incur due to activity they undertook (including activity before the date of the letter of indemnity) and/or that they may undertake in their capacity as officeholders of the Company and/or of the Other Company, provided that the activity relates, directly or indirectly, to one or more of the categories of event listed in the addendum to the letter of indemnity, and provided that the maximum amount of indemnity in respect of Section 2.1.1 of the letter of indemnity, inclusive and in aggregate, payable by the Company to each officeholder does not exceed 25% of an aggregate amount equal to the Company's (consolidated) equity according to the last consolidated annual financial statements before actually giving the indemnity, and this for each of the officeholders, severally and together, for a single event and in aggregate, and in addition to amounts that may be received from an insurance company, if they are received, as part of the insurance purchased by the Company.

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

2. Commitments (Cont.)

d. Indemnity and waiver letters to officeholders (Cont.)

3) Limit to letters of release and indemnity given in 2011

In November 2011 the Company's Audit Committee decided to limit until November 30, 2020, the period during which the release and indemnification arrangements of the Company will apply, as long as they will not be replaced by other arrangements, as well as the release or indemnification certificates which will be granted from time to time by the Company according to the Company's release and indemnification arrangements, regarding officeholders of the Company in whom the controlling shareholder might be considered to have a personal interest to grant these officeholders who are serving or will serve the Company from time to time release and indemnification certificates.

See the Company's immediate report dated November 29, 2011 (Ref. 2011-01-344238).

4) On February 7, 2012 the General Meeting of the Company approved:

- To grant updated indemnity letters to directors serving on the date of approval and as shall be appointed from time to time. The update of the existing letters of indemnity, includes, among other things, a reference to the main issues, as follows:

a) A prior undertaking to indemnify in respect of a financial liability imposed on an officer for payment to victims in respect of a violation of an administrative proceeding, and expenses incurred by the officers in connection with an administrative proceeding conducted against them, including reasonable litigation expenses, including attorney's fees, in accordance with the entry into force of the Law of Administrative Enforcement and Amendment of the Securities Law - 1968 ("Securities Act") and in accordance with the Law for Enhanced Enforcement in the Capital Market (Legislative amendment) - 2011.

b) The maximum indemnification amount to be paid to officers in Migdal as a whole, under any indemnity letters issued and to be issued from time to time, has not changed, but has been amended such that it shall not exceed an amount equal to 25% of its equity (consolidated) according to the latest financial statements published by the Company prior to the actual indemnification (instead of being determined in accordance with the last annual financial statements published by the Company prior to the actual indemnification).

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

2. Commitments (Cont.)

d. Indemnity and waiver letters to officeholders (Cont.)

4) On February 7, 2012 the General Meeting of the Company approved: (Cont.)

c) Clarification was given that the undertaking to indemnify also applies to other positions filled by the holder of a letter of indemnity in Migdal Group companies and/or other companies in which he serves on behalf of the Migdal Group.

d) Clarification was given that the undertaking to indemnify applies both in respect of an event held in Israel and an event held outside of Israel.

- The grant of updated indemnity letters to officers of the Company in whom the controlling shareholder of the Company may be considered as having a personal interest in granting letters of indemnity to certain offices and as appointed from time to time ("certain officers"). The updated letters of indemnity granted to certain officers are identical to letters of indemnity to be granted directors and are in the form attached. The provisions of the updated indemnification letters to be granted certain officers shall, subject to law, apply also in relation to actions taken prior to their amendment.

- It should be noted that the letters of indemnity granted officers serving at the time of the report and who are the controlling shareholder and/or other officers in which the controlling shareholder has a personal interest (Shlomo Eliahu and relatives serving as officers in the Company, Ofer Eliahu and Israel Eliahu) have not yet been brought for approval and therefore, as at reporting date, they did not have a letter of indemnity from the Company.

For more information about these letters of indemnity, see immediate report published on December 28, 2011 Reference No. 2011-01-378141, immediate report dated February 2, 2012 (Reference No. 2012-01-032109) and immediate report of February 7, 2012 (Ref. No. 2012-01-036555).

5) Officeholders Insurance:

a) On April 24, 2012, an Extraordinary General Assembly of the Company approved a commitment to a directors and officers (D&O) liability insurance policy for all the officeholders of the Company, its subsidiaries and affiliates, as they may be from time to time, for the period from April 1, 2012 up to March 31, 2013, with a limit of liability of USD 100 million per event and for the period. The total group premium is USD 447,225.

b) On April 23, 2013 an Extraordinary General Assembly of the Company approved an extension of the period of the Company's contract for professional liability insurance policy covering company officers and directors for an additional four months such that the policies will end on July 31, 2013 in consideration of an additional premium of U.S. $ 166, 647.

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

2. Commitments (Cont.)

d. Indemnity and waiver letters to officeholders (Cont.)

5) Office Insurance: (Cont.)

c) On August 13, 2013, the Board of Directors of the Company decided, pursuant to the Companies Regulations (Relief with Interested Parties) Regulations, 2000, to approve the renewal of the directors and officers professional liability policy including in respect of the controlling shareholder and his relatives who serve as officers of the Company for a period of seventeen months from August 1, 2013 and until December 31, 2014 at a liability limit of $ 100 million per event and for the period in consideration of an annual premium of U.S. $ 731,413 subject to the approval of the Company's remuneration policy, see details in the Immediate Report dated August 13, 2013 - reference 2013-01-116520.

6) Within the framework of an agreement dated December 1, 2004 that was signed in respect of the acquisition of Makefet shares, the purchasers undertook that the letters of indemnity given by Makefet to its officeholders, will not be cancelled or changed to the extent they relate to events that have occurred up to the acquisition date.

In addition, the purchasers have given an undertaking within the acquisition agreement, that if any claim or allegation whatsoever will be filed in connection with Makefet, against the seller or a party acting on its behalf or for it, whether it relates to the period before the acquisition date or to the period after the acquisition date, they will compensate the seller or the party acting on its behalf or for it for the said claim.

7) Migdal Insurance granted Old Yozma a letter of indemnity unlimited by time, whereby a subsidiary will indemnify Old Yozma under the circumstances as determined in the letter of indemnity, in respect of any monetary liability that Old Yozma will be charged for, with respect to the transfer of shares of Migdal Pension Funds Management Ltd. (hereinafter – “Migdal Pension”) to the direct ownership of Migdal (Migdal Pension was merged within Makefet and the determining date for the merger was December 31, 2005). The undertaking to indemnify includes an undertaking to indemnify in connection with any debt or expense that Old Yozma will be charged for by virtue of the letter of indemnity that will be issued by Old Yozma to its officeholders.

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

2. Commitments (Cont.)

e. Other commitments

1) In June 2012 an agreement was signed with MD-1regarding the establishment of a back-up site in Tirat Hacarmel. The engagement is for the period of 10 years beginning from the date the back-up site is furnished to the Group, with an entitlement to extend the engagement for another period of one year, at the same terms as determined in the agreement. The engagement can be ended by the Group, at its discretion, before the end of the ten year period, provided that if a notice regarding the termination of the agreement, is given before the end of five years from the date of furnishing the back-up site, the termination is subject to the payment of an amount of money determined in the agreement.

2) With respect to a transaction between Migdal Makefet and Leumi Capital Services Ltd. regarding a contract to receive operational sercives, see Note 38.g.1. b.).

3) With respect to investment in the Group companies, see Note 7.

4) A subsidiary of Migdal Capital Markets (1965) Ltd. (hereinafter - "the subsidiary") is associated with FMR in an agreement pursuant to which FMR provides the subsidiary with the software, through which the subsidiary gives orders for transactions in securities and financial derivatives to the stock exchange, and by which the subsidiary performs its back office management. In addition, under the agreement FMR provides the subsidiary software used to control and to revalue the funds of Migdal Funds, managed by a subsidiary. On December 31, 2013 the subsidiary and FMR signed a new agreement, effective from September 30, 2012 through March 31, 2015.

f. Guarantees

1) Within the context of its membership of the TASE Clearing House (hereunder - "the Clearing House"), a subsidiary of Migdal Capital Markets ("the subsidiary") is responsible, together with the other members of the Clearing House, for any loss caused to the Clearing House due to the non-payment of any amount whatsoever that a TASE member is obliged but failed to pay, or securities that a Clearing House member should have transferred and failed to do so. To guarantee the liabilities of the Clearing House members, as mentioned above, the by-laws of the Clearing House set forth a risk-fund mechanism in which each Clearing House member deposits an amount derived from its relative share of trade on the Stock Exchange. Each Clearing House member's share is calculated according to his average balance versus the Clearing House, compared to the average balance of all the Clearing House members during the six months prior to the calculation.

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

2. Commitments (Cont.)

f. Guarantees (Cont.)

1) (Cont.)

Accordingly, the subsidiary deposited its share in the amount of NIS 17,576 in the risk fund at December 31, 2013, in a shekel deposit which is pledged in favor of the TASE Clearing House (On December 31, 2012, the amount of the deposit was NIS 29,630 thousand).

2) The subsidiary makes shekel deposits in a bank which renders Maof clearing services, that are pledged to the bank and serve as collateral for the liabilities of the subsidiaries and its customers in respect of derivatives trading. The amount of the deposits varies from time to time, in line with the TASE requirements, which are based, inter alia, on the volume of transactions performed by the subsidiary and its customers, and on TASE scenarios with respect to the Maof index and foreign currency exchange rates. At the reporting date, these deposits amounted to NIS 63,142 thousand (On December 31, 2011 - NIS 42,577 thousand).

3) In respect of the commitments for equity supplementation in the Group companies, see Note 7.e.14.

g. Holdings in trust

A subsidiary of Migdal Capital Markets holds in trust, for its customers (which include, inter alia, mutual funds managed by another subsidiary of Migdal Capital Markets (Migdal Funds)), securities investment portfolios and cash in the value of about NIS 11.6 billion as at December 31, 2013 (December 31, 2012 – about NIS 17.2 billion).

Furthermore, the Capital Markets group manages investment portfolios and mutual funds for customers who are not related parties in the total amount of about NIS 30 billion as at December 31, 2013 (December 31, 2012 – about NIS 34 billion).

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

2. Commitments (Cont.)

h. Leases

1) Leases under which the Group has operating leases

The Group has entered operating lease agreements with respect to vehicles. The average lease term is three years and the contract does not include an option to extend the lease.

The minimum lease fees that will be paid for the irrevocable operating lease contracts as at December 31, are:

	December 31	
	2013	2012
	NIS in thousands	
First year	25,157	27,582
Second year up to five years	19,436	21,944
	44,593	49,526

For details about land that is leased, see Notes 6 and 8.

2) Leases in which the Group is the operating Lessor

The Group leases out investment property to external entities. The lease agreements are for an average period of 3 to 7 years. Usually the lessees have an option to extend the period of lease according to the conditions that were set in the agreement.

Hereunder are the minimum lease fees that will be received under irrevocable lease contracts (not including the option period):

	December 31	
	2013	2012
	NIS in thousands	
First year	295,143	260,667
Second year up to five years	613,619	641,897
More than five years	472,500	583,650
	1,381,262	1,486,214
Of which the minimum future lease fees receivable that relate to assets in which the Group is a financial lessee	670,209	582,460

During the year ended as at December 31, 2013 the Group recognized the sum of NIS 3,436 thousand as income in the statement of profit and loss in respect of contingent leasing fees (in 2012 – NIS 3,035 thousand).

For additional information regarding income recognized in respect of investment property, see Notes 8 and 26.

NOTE 40: - SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

a. On March 18, 2014, the Board of Directors approved the distribution of dividends in the amount of NIS 200 million, subject to the approval of the General Assembly. At the same time, the Board of Directors of Migdal Insurance approved the distribution of a dividend of NIS 200 million.

   The date of the dividend distribution (both by the Company and by Migdal Insurance) is set for May 19, 2014.

b. For details regarding approval of the appointment of Ms. Anath Levin as CEO and as Chairman of the Board of Migdal Insurance and the appointment of Mr. Ofer Eliahu as CEO of Migdal Insurance and the determination of their salaries see Notes 38. d.1.e) and 38 g.3. c.

a. Quoted debt assets

Composition:

	December 31			
	Carrying amount		Amortized cost	
	2013	2012	2013	2012
	NIS in thousands			
Government bonds – available-for-sale	3,505,117	3,252,562	3,445,805	3,128,831
Other debt assets				
Non-convertible – avalable-for-sale	2,212,725	1,949,048	2,085,981	1,839,420
Convertible designated on initial investment as fair value through profit or loss	-	-	-	-
Total quoted debt assets	5,717,842	5,201,610	5,531,786	4,968,251
Impairment recognized in profit or loss (on a cumulative basis)	1,833	7,669		

b. Shares

	December 31			
	Carrying amount		Cost *)	
	2013	2012	2013	2012
	NIS in thousands			
Quoted – available-for-sale	982,713	601,084	773,522	513,420
Unquoted – available-for-sale	50,692	30,631	41,116	23,736
Total shares	1,033,405	631,715	814,638	537,156
Impairment recognized in profit or loss (on a cumulative basis)	97,630	95,791		

*) Net of provision for impairment

c. Other financial investments

Other financial investments include mainly investments in ETFs, participation certificates in mutual funds, hedge funds, investment funds, financial derivatives, future contracts, options and structured products and receivables from realization of options.

	December 31			
	Carrying amount		Cost *)	
	2013	2012	2013	2012
	NIS in thousands			
Quoted				
Available-for-sale	1,582,118	931,808	1,403,916	875,172
Derivative instruments	4,682	10,574	2,531	15,117
	1,586,800	942,382	1,406,447	890,289
Unquoted				
Reported at fair value through profit or loss	32,224	54,505	48,711	63,676
Available-for-sale	311,939	309,138	307,647	301,369
Derivative instruments	21,749	6,231	709	-
	365,912	369,874	357,067	365,045
Total other financial investments	1,952,712	1,312,256	1,763,514	1,255,334
Impairment recognized profit or loss (on a cumulative basis)	169,355	125,758		

*) Net of provisions for impairment