

November 26, 2019

Harel Insurance and Finance Group ends the first nine months of 2019 with comprehensive profit after tax of NIS 451 million, despite provision of NIS 1.1 billion for the effects of interest

Return on Equity for the first nine months of 2019 was 10%

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**Harel Group's AUM reached an all-time record of NIS 270 billion after tax at September 30, 2019**

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Harel Insurance Investments and Financial Services Ltd. has published its financial statements for Q3 2019:

Comprehensive profit after tax decreased by 16% to **NIS 451 million** in the first nine months of 2019, as against NIS 537 million in the corresponding period last year.

Comprehensive profit after tax for the period, after adjustment for the increase recorded in the insurance liabilities due to the decline in the interest rate curve, was more than a billion shekels.

The comprehensive loss after tax in Q3 2019 was NIS 235 million, as against comprehensive profit after tax of NIS 287 million in the corresponding quarter last year. Results for the quarter were significantly affected mainly by a sharp decline in the interest rate curve which caused the Company to increase its insurance liabilities.

Comprehensive profit after tax in Q3 2019, after adjustment for the increase recorded in the insurance liabilities due to the decline in the interest rate curve, amounted to NIS 372 million.

Return on Equity for the first nine months of 2019 is 10%, as against 13% in the corresponding period last year.

The Group's total AUM at September 30, 2019 was NIS 270 billion, a 15% increase compared with December 31, 2018.

Equity attributed to the Company's shareholders was NIS 6.1 billion at September 30, 2019.

Total earned premiums, gross, and benefit contributions increased by 6% to NIS 20.4 billion in the first nine months of 2019, compared with NIS 19.2 billion in the corresponding period last year.

Total earned premiums, gross, and benefit contributions increased by 9% to NIS 7.2 billion in Q3 2019, compared with NIS 6.6 billion in the corresponding quarter last year.

During the Reporting Period, the Company distributed dividends amounting to NIS 236 million, of which NIS 107 million was distributed in the current quarter. **Over the last ten years, Harel Investments has distributed dividends to its shareholders aggregating NIS 2.3 billion.**

Michel Siboni, CEO of Harel Insurance & Finance Group, announced that: “In the first nine months of 2019, we have demonstrated impressive growth of AUM to NIS 270 billion, as well as an increase in premiums and improved underwriting in most sectors. Our business results are proof of the Group’s robustness and financial strength, and this despite the extraordinary effect of the decline in the interest rate curve and resulting increase in the Company’s insurance liabilities by more than NIS 1.1 billion. After adjustment for this extraordinary effect, Harel presents record post-tax profit for the period of more than a billion shekels, the highest amount ever in the Company’s history”. Siboni added that “the Company recently announced a further restructuring as part of the implementation of its new business strategy that was formulated three years ago, which places strong emphasis on the assimilation of technology tools. We have demonstrated a dramatic improvement in the customer experience, more accurate pricing consistent with the customer’s profile and improved interfaces vis-a-vis customers, employers and agents. The company’s success in the assimilation of these technology instruments exceeded our expectations. We are now ready to advance to the next stage which is necessary in view of changing customer consumer behavior, social media activity and the way in which customers interact with and utilize information. We will now launch the next phase of our business strategy in which we will focus on the development of products tailored to specific customer segments, concentrate on the customer, strengthen the customer’s relationship with the Company and with our insurance agents, and provide service which is tailored to the customer’s profile. Of course, this will be consistent with the changes taking place in the insurance industry and related sectors, in consumer habits, and with the emphasis on advanced technology processes of Big Data and CRM, just as cutting-edge companies do all over the world”.

Long-term savings

Comprehensive profit before tax in long-term savings activity (life assurance, pensions, provident and education funds) **in the first nine months of 2019 was** NIS 54 million, as against NIS 425 million in the corresponding period last year. The lower comprehensive profit is mainly attributable to the sharp decline in the risk-free interest rate curve used for testing the adequacy of the reserves (LAT), which led to an increase of the insurance liabilities, in contrast with an increase in the risk-free interest rate curve used for the LAT in the corresponding period last year which led to a decrease of the insurance liabilities. Additionally, implementation of the circular on the measurement of liabilities relating to the mortality tables caused Harel Insurance to increase the insurance liabilities in the life assurance and long-term savings segment by NIS 91 million, which led to a decrease of comprehensive profit before tax by the same amount. This decrease was partially offset by an increase in the collection of management fees.

The comprehensive loss before tax in long-term savings activity (life assurance, pensions, provident and education funds) **in Q3 2019 was** NIS 33 million, as against comprehensive profit of NIS 205 million in the corresponding quarter last year.

Total earned premiums, gross, and benefit contributions in long-term savings activity increased by 8% to NIS.13.8 billion **in the first nine months of 2019**, compared with NIS 12.8 billion in the corresponding period last year.

Total earned premiums, gross, and benefit contributions in long-term savings activity increased by 9% to NIS.4.9 billion in **Q3 2019**, compared with NIS 4.5 billion in the corresponding quarter last year.

Life assurance

Management fee revenues in life assurance amounted to NIS 465 million **in the first nine months of 2019**, compared with NIS 360 million in the corresponding period last year. Most of this increase is attributable to

an increase of the variable management fees, which amounted to NIS 150 million in the Reporting Period, compared with NIS 73 million in the corresponding period last year. Management fees in the Reporting Period are after supplementing a deficit of NIS 75 million in respect of investment losses created in 2018 in the profit-sharing policies portfolios.

The comprehensive loss before tax in life assurance in the first nine months of 2019 was NIS 50 million, as against comprehensive profit before tax of NIS 330 million in the corresponding period last year. The shift from profit to loss is mainly attributable to the sharp decline in the risk-free interest rate curve used for testing the adequacy of the reserves (LAT), which led to a NIS 293 million increase in the insurance liabilities, in contrast with an increase in the risk-free interest rate curve in the corresponding period last year which led to a NIS 51 million decrease in the insurance liabilities.

The comprehensive loss before tax in life assurance in Q3 2019 was NIS 70 million, as against comprehensive profit of NIS 170 million in the corresponding quarter last year.

Gross earned premiums in life assurance increased by 17% to NIS 4.8 billion in the first nine months of 2019, compared with NIS 4.1 billion in the corresponding period last year.

Gross earned premiums in life assurance increased by 20% to NIS 1.8 billion in Q3 2019, compared with NIS 1.5 billion in the corresponding quarter last year.

Pension funds

Comprehensive profit before tax from pension fund management in the first nine months of 2019 was NIS 59 million, as against NIS 61 million in the corresponding period last year.

Comprehensive profit before tax from pension fund management in Q3 2019 was NIS 22 million, as against NIS 23 million in the corresponding quarter last year.

Benefit contributions collected by the Group's pension funds increased by 8% to NIS 6.6 billion in the first nine months of 2019, compared with NIS 6.1 billion in the corresponding period last year.

Benefit contributions collected by the Group's pension funds increased by 5% to NIS 2.3 billion in Q3 2019, compared with NIS 2.2 billion in the corresponding quarter last year.

AUM in the Group's pension funds increased by 14% to NIS 71.3 billion at September 30, 2019, compared with NIS 62.6 billion in the corresponding period last year.

Provident funds and education funds

Comprehensive profit before tax in the provident funds and education funds increased by 32% to NIS 45 million in the first nine months of 2019, compared with NIS 34 million in the corresponding period last year.

Comprehensive profit before tax in the provident funds and education funds increased by 25% to NIS 15 million in Q3 2019, compared with NIS 12 million in the corresponding period last year.

Results in the Reporting Period were mainly affected by an increase in deposits and in AUM.

Benefit contributions collected by the provident funds and education funds decreased by 8% to NIS 2.4 billion in the first nine months of 2019, as against NIS 2.6 billion in the corresponding period last year.

The benefit contributions collected by the provident funds and education funds increased by 1% to NIS 809 million in Q3 2019, compared with NIS 802 million in the corresponding quarter last year.

AUM managed by the provident funds and education funds increased by 9% to NIS 43.8 billion at September 30, 2019, compared with NIS 40.2 billion in the corresponding period last year.

Health insurance

Comprehensive loss before tax in the health insurance segment in the first nine months of 2019 was NIS 326 million, as against comprehensive profit before tax of NIS 97 million in the corresponding period last year. The shift from profit to loss is mainly attributable to the sharp decline in the interest-rate curve, which led to an increase of NIS 663 million in the insurance liabilities, mainly in respect of long-term care activity.

Comprehensive loss before tax in the health insurance segment was NIS 480 million in Q3 2019, as against comprehensive profit before tax of NIS 82 million in the corresponding quarter last year.

Gross earned premiums in the health insurance segment increased by 6% to NIS 3.7 billion in the **first nine months of 2019**, compared with NIS 3.5 billion in the corresponding period last year.

Gross premiums earned in the health insurance segment increased by 8% to NIS 1.3 billion in **Q3 2019**, compared with NIS 1.2 billion in the corresponding quarter last year.

Non-life insurance

Comprehensive profit before tax in non-life insurance was NIS 512 million **in the first nine months of 2019**, compared with NIS 115 million in the corresponding period last year. The increase in comprehensive profit was affected by yields in the capital market which were higher than in the corresponding period last year, by the Supreme Court's decision in relation to the discounting interest rate applicable to compensation for personal injury in torts, which caused a reduction of NIS 260 million in the insurance liabilities, and to improvements in underwriting profit due to the application of a new motor property tariff and a decline in the frequency of claims. The increase in comprehensive profit was partially offset by a decline in the interest rate curve which led to an increase of NIS 157 million in the insurance liabilities.

Comprehensive profit before tax in non-life insurance in Q3 2019 was NIS 30 million, as against NIS 71 million in the corresponding quarter last year.

Gross earned premiums in non-life insurance amounted to NIS 2.5 billion in the **first nine months of 2019**, similar to the corresponding period last year.

Gross earned premiums in non-life in insurance amounted to NIS 858 million in **Q3 2019**, as against NIS 861 million in the corresponding period last year.

Harel Finance

Comprehensive profit before tax in the capital market and financial services segment was NIS 20 million in the **first nine months of 2019**, as against NIS 29 million in the corresponding period last year.

Comprehensive profit before tax in the capital market and financial services segment was NIS 6 million in **Q3 2019**, as against NIS 9 million in the corresponding quarter last year.

Revenues in the capital market and financial services segment decreased by 7% to NIS 150 million in the **first nine months of 2019**, as against NIS 161 million in the corresponding period last year.

Revenues in the capital market and financial services segment amounted to NIS 53 million in **Q3 2019**, as against NIS 54 million in the corresponding quarter last year.

The decrease in comprehensive profit and revenues for the period is mainly attributable to the conversion of the ETNs to mutual funds, effective from October 3, 2018.

AUM in the capital market and financial services segment managed by Harel Finance Investment House increased by NIS 9.9 billion from the beginning of the year to NIS 56.3 billion at September 30, 2019, compared with NIS 49.6 billion at September 30, 2018 and NIS 46.4 billion at December 31, 2018. At the date of publication of the financial statements, Harel Finance has AUM of NIS 59 billion. The increase in AUM is

attributable both to rising prices in the markets and to the fact that Harel Mutual Funds dominated mutual fund raisings in the first nine months of the year, raising a net amount of NIS 6 billion.

Equity

Equity attributed to the Company's shareholders increased by 3% to NIS 6.1 billion at September 30, 2019 compared with December 31, 2018, and this after the distribution of dividends in the amount of NIS 236 million since the beginning of the year.

The capital surplus of Harel Insurance at December 31, 2018, on a consolidated basis and before the transitional provisions (in terms of 100% SCR), is NIS 1.9 billion. Taking the transitional provisions into account, Harel Insurance has a capital surplus of approximately NIS 4.9 billion. This capital surplus takes into account relief and changes in the directives pertaining, among other things, to the rate of compliance with the required capital in the transitional period ending December 31, 2024. It is emphasized that in its current format, the model is extremely sensitive to changes in market and other variables.