

June 10, 2020

Due to the COVID-19 crisis: Harel Insurance and Finance Group ends Q1 2020 with a loss of NIS 555 million

This after recognizing investment losses of NIS 820 million before tax in the quarter

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**Since the end of the Reporting Period, prices on the capital market have risen, completely offsetting the investment losses for the quarter**

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Harel Group held AUM of NIS 258 billion at March 31, 2020, and at the date of publication of the reports AUM is NIS 275 billion

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**Notwithstanding a loss of NIS 0.5 billion, there is no significant change in the Company's equity due to the retrospective application of a regulatory directive which increased the equity by NIS 0.4 billion**

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Harel Insurance Investments and Financial Services Ltd. has published its financial statements for Q1 2020:

The comprehensive loss after tax in Q1 2020 was NIS 555 million, as against comprehensive profit after tax of NIS 376 million in the corresponding quarter last year.

Return on Equity (in annual terms) in Q1 2020 was a negative 33%, compared with RoE (in annual terms) of 24% in the corresponding quarter last year.

The Group's AUM was NIS 258 billion at March 31, 2020, compared with NIS 250 billion in the corresponding quarter last year, an increase of 3% and NIS 275 billion at the date of publication of the financial statements.

Equity attributed to the Company's shareholders was NIS 6.35 billion at March 31, 2020.

Harel is the market leader in total premiums earned, gross, benefit contributions and amounts received for investment contracts, which in Q1 2020 increased by 4% to NIS 7.7 billion, compared with NIS 7.4 billion in the corresponding quarter last year.

In a statement, Michel Siboni, CEO of Harel Insurance and Finance Group said: "The results in the report reflect the financial stability of Harel, Israel's largest and leading insurance company, in terms of market value, the volume of premiums and equity, even in this challenging period. Harel's Nostro

investment losses resulting from the COVID-19 crisis have been fully offset since the end of the first quarter, and after the end of the quarter the volume of assets managed by Harel increased substantially, offsetting most of the decline that occurred in the first quarter. In the last three years, Harel has made digital innovation its top priority. Despite the difficulties facing us in this period, this strategy enabled us, , to turn the COVID-19 crisis into a business opportunity. This, by using innovative digital capabilities and remote applications, at the same time maintaining optimal information security and achieving full synchronization of the timing, management and control systems of the Company's employees, enabling us to utilize the time of our work teams to the best effect. During the lockdown, thousands of Harel employees worked by remote access, providing full customer service, and with the claims filing system, the Group's sales and service fully functioning all of which were made accessible to our agents and customers. For example, we successfully increased the sales of digital products, such as our unique motor insurance product Harel Switch, in which the cost of the insurance is a direct outcome of the distance travelled, as well as other insurance products. Additionally, during the quarter we signed an agreement to provide operating services for Hachshara Insurance which will provide us with a fixed annual income of NIS 28 million, based on the computer and operating infrastructures that are already in place in Harel". Siboni added that: "Even in this crisis period, Harel has maintained its dominant position in Israel's insurance market and I am certain that we will come out of this challenging period even stronger".

Long-term savings

The comprehensive loss before tax in long-term savings activity (life assurance, pensions, provident and education funds) **in Q1 2020 was** NIS 99 million, as against comprehensive profit of NIS 203 million in the corresponding quarter last year.

The shift from profit in the corresponding quarter last year to loss in the reported quarter, is mainly attributable to investment losses in the capital market due to the outbreak of the COVID-19 pandemic, in contrast with investment profit in the corresponding quarter last year, and to the non-collection of variable management due to negative yields on the assets held to cover the yield-dependent liabilities, as against the collection of variable management fees in the amount of NIS 71 million in the corresponding quarter last year.

Total premiums earned, gross, benefit contributions and amounts received for investment contracts in long-term savings activity in Q1 2020, increased by 4% to NIS 5.5 billion, compared with NIS 5.3 billion in the corresponding quarter last year.

Life assurance

There was a comprehensive loss before tax in life assurance of NIS 118 million in Q1 2020, as against comprehensive profit before tax of NIS 168 million in the corresponding quarter last year.

The shift from profit in the corresponding quarter last year to loss in the reported quarter, is mainly attributable to investment losses in the capital market due to the outbreak of the COVID-19 pandemic, in contrast with investment profit in the corresponding quarter last year, and to the non-collection of variable management due to negative yields on the assets held to cover the yield-dependent liabilities, as against the collection of variable management fees in the amount of NIS 71 million in the corresponding quarter last year. At March 31, 2020, the estimate for the non-collection

of management fees due to the negative yield until a cumulative positive yield is attained was NIS 290 million. Notably, in the period after the reporting date and up to immediately prior to the date of publication of the financial statements, following rising prices in the capital market after the reporting date, the estimate for the non-collection of management fees was reduced to NIS 78 million.

Gross earned premiums in life assurance increased by 13% to NIS 1.7 billion in Q1 2020, compared with NIS 1.5 billion in the corresponding quarter last year.

Pension funds

Comprehensive profit before tax from pension fund management in Q1 2020 was NIS 11 million, as against NIS 20 million in the corresponding quarter last year. The lower comprehensive profit is mainly attributable to investment losses in the capital market resulting from the outbreak of the COVID-19 pandemic, erosion of the management fees rate and the Nostro losses of the management company.

Benefit contributions collected by the Group's pension funds increased by 5% to NIS 2.2 billion in Q1 2020, compared with NIS 2.1 billion in the corresponding quarter last year.

AUM in the Group's pension funds increased by 7% to NIS 70.6 billion at March 31, 2020, compared with NIS 65.8 billion in the corresponding period last year.

Provident funds and education funds

Comprehensive profit before tax in provident funds and education funds was NIS 8 million in Q1 2020, as against NIS 15 million in the corresponding quarter last year. The decline in comprehensive profit is mainly attributable to investment losses in the capital market resulting from the outbreak of the COVID-19 pandemic, erosion of the management fees rate and the Nostro losses of the management company.

Benefit contributions collected by the provident funds and education funds amounted to NIS 0.8 billion in Q1 2020, as against NIS 0.9 billion in the corresponding quarter last year.

AUM in the provident funds and education funds was NIS 40.4 billion at March 31, 2020, as against NIS 42.8 billion in the corresponding period last year.

Health insurance

Gross earned premiums in the health insurance segment amounted to NIS 1.2 billion in Q1 2020, similar to the corresponding quarter last year.

There was a comprehensive loss of NIS 352 million before tax in the health insurance segment in Q1 2020, as against comprehensive profit before tax of NIS 107 million in the corresponding quarter last year. The shift from profit to loss is mainly attributable to investment losses in the capital market resulting from the outbreak of the COVID-19 pandemic and to an increase of NIS 181 million in the insurance liabilities in the personal lines long-term care sector due to changes in the risk-free interest

rate curve and a decrease in the difference between the fair value and book value of non-marketable assets.

Non-life insurance

Gross premiums earned in non-life insurance increased by 3% to NIS 853 million in Q1 2020, compared with NIS 825 million in the corresponding quarter last year.

There was a comprehensive loss before tax in non-life insurance of NIS 79 million in Q1 2020, as against comprehensive profit of NIS 82 million in the corresponding quarter last year. The shift from profit to loss is mainly attributable to investment losses in the capital market resulting from the outbreak of the COVID-19 pandemic and to losses in the winter months of January - February 2020 which were offset by reduced insurance liabilities due to the increase of the risk-free interest rate curve.

Harel Finance

Comprehensive profit before tax in the capital market and financial services segment was NIS 16 million in Q1 2020, compared with NIS 5 million in the corresponding quarter last year.

Revenues in the capital market and financial services segment increased by 38% to NIS 66 million in Q1 2020, compared with NIS 48 million in the corresponding quarter last year.

AUM in the capital market and financial services segment managed by Harel Finance Investment House amounted to NIS 50.3 billion at March 31, 2020,, compared with NIS 49.9 billion at March 31, 2019 and NIS 59.0 billion at December 31, 2019. The lower volume of AUM is attributable to sharply falling share prices and a large volume of redemptions in March 2020.

At the date of publication of the financial statements, Harel Finance has AUM of NIS 52.7 billion. The increase in AUM is attributable both to rising prices in the capital markets and to the raising of new amounts.

Equity

Equity attributed to the Company's shareholders is NIS 6.35 billion at March 31, 2020.

Notwithstanding the NIS 0.5 billion loss, there is no significant change in the Company's equity due to the retrospective application of a regulatory directive regarding LAT of the reserves which increased the equity by NIS 0.4 billion

The capital surplus of Harel Insurance at June 30, 2019, on a consolidated basis and before the transitional provisions (in terms of 100% SCR), is NIS 780 million. Taking the transitional provisions into account, at June 30, 2019, Harel Insurance has a capital surplus of approximately NIS 4.2 billion. This capital surplus takes into account relief and changes in the directives pertaining, among other things, to the required rate of compliance with the capital in the transitional period ending December 31, 2024. It should be emphasized that in its current format, the model is extremely sensitive to changes in market and other variables and that the events in the Reporting Period and after the date

of the report, as a result of the outbreak of the COVID-19 pandemic, could affect the Company's solvency ratio. However, at this stage, the Company is unable to estimate the full extent of the effects. At the beginning of April 2020, the pension and provident activity was transferred from Harel Insurance to Harel Investments, a move that should improve the liquidity and cash surpluses of Harel Investments.