

August 31, 2020

## **Harel Insurance and Finance Group ended Q2 2020 with comprehensive profit of NIS 560 million, a 47% increase over the corresponding quarter last year**

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**Harel Group ends the first half of 2020 with comprehensive profit of NIS 5 million**

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**In the second quarter of the year, rising prices on the capital market offset the first quarter's losses, helping to increase the volume of the Group's assets**

**The Company posted its highest-ever equity at NIS 6.9 billion**

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**Harel Group held AUM of NIS 269 billion at June 30, 2020, and at the date of publication of the reports AUM is NIS 279 billion**

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**Harel Insurance Investments and Financial Services Ltd. has published its financial statements for Q2 2020:**

**Comprehensive profit after tax in the first half of 2020** was NIS 5 million, compared with comprehensive profit after tax of NIS 758 million in the corresponding period last year.

**Comprehensive profit after tax in Q2 2020** was NIS 560 million, compared with NIS 382 million in the corresponding quarter last year.

**Return on Equity (in annual terms) in the first half of 2020 was 0.1% and in Q2 2020 was 34%**, as against RoE (in annual terms) of 23% in the corresponding period and quarter last year, and 15% for 2019 as a whole.

**Harel leads the market with gross earned premiums and benefit contributions amounting to NIS 13.2 billion in the first half of 2020**, similar to the corresponding period last year.

**Total earned premiums, gross, and benefit contributions amounted to NIS.6.3 billion in Q2 2020**, as against NIS 6.6 billion in the corresponding quarter last year.

**The Group's AUM increased by 3% to NIS 269 billion at June 30, 2020**, compared with NIS 260 billion in the corresponding quarter last year. Between the end of the quarter and publication of the reports, AUM increased to NIS 279 billion.

**Equity attributed to the Company's shareholders was NIS 6.9 billion at June 30, 2020.**

**Michel Siboni, CEO of Harel Insurance and Finance Group**, announced that: "Results for the present quarter that we conclude with profit of NIS 560 million, reflect Harel Group's financial robustness and the fact that it Israel's predominant insurer with respect to market value, the volume of premium and equity. In the past few years, Harel has concentrated on the integration of digital innovation which significantly improved the quality of our underwriting and streamlined expenses. This has enabled us to offer our customers more competitive and customized value propositions. As a result, even in this challenging period we have posted growth in the health and non-life insurance sectors and I am certain that this trend will continue.

"We are proud that Harel was ranked in first place in the "solidarity index" published by Israel's Capital Market Authority which examined the extent to which the insurance companies gave consideration to their customers during the COVID-19 pandemic".

## Long-term savings

**Comprehensive profit before tax in long-term savings activity** (life assurance, pensions, provident and education funds) **in Q2 2020 was** NIS 227 million, as against a comprehensive loss before tax of NIS 6 million in the corresponding quarter last year. The shift to profit in the current quarter from loss in the corresponding quarter last year is mainly attributable to a revised study regarding the age of retirement and exercising of annuity integrated with the age-dependent model as a result of which the insurance liabilities in the life assurance segment were reduced.

**Comprehensive profit before tax in long-term savings activity** (life assurance, pensions, provident and education funds) **in the first half of 2020 was** NIS 128 million, as against NIS 197 million in the corresponding period last year. The decreased profit for the period, compared with the corresponding period last year, 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 period 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 92 million in the corresponding period last year.

**Total earned premiums, gross, and benefit contributions in long-term savings activity in the first half of 2020** amounted to NIS 8.8 billion, as against NIS 8.9 billion in the corresponding period last year.

## Life assurance

**Comprehensive profit before tax in life assurance was** NIS 191 million **in Q2 2020**, compared with a comprehensive loss before tax of NIS 38 million in the corresponding quarter last year. Results in the current quarter were mainly affected by a revised study regarding the age of retirement and exercising of annuity integrated with the age-dependent model as a result of which the insurance liabilities in the life assurance segment were reduced by NIS 217 million before tax. This was partially offset by an update of the interest rate applied in calculating the supplementary reserve for annuity, as a result of which the insurance liabilities in the life assurance segment increased by NIS 122 million before tax.

**Comprehensive profit before tax in life assurance in the first half of 2020 was** NIS 73 million, as against NIS 130 million in the corresponding period last year. The decreased profit 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 period last year, and to the non-collection of variable management fees in the period 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 92 million in the corresponding period last year. At June 30, 2020, the estimate for the non-collection of management fees due to the negative yield until a cumulative positive yield is attained was NIS 136 million. **Notably, in the period after the reporting date and up to immediately prior to the date of publication of the financial statements, there were further price increases on the capital market which completely offset the non-collection of management fees noted above.**

**Total earned premiums, gross, in life assurance** amounted to NIS 1.3 billion in **Q2 2020**, as against NIS 1.5 billion in the corresponding quarter last year.

**Gross earned premiums in life assurance** amounted to NIS 3 billion in the **first half of 2020**, similar to the corresponding period last year.

## Pension funds

**Comprehensive profit before tax from pension fund management increased by 12% to NIS 19 million** in Q2 2020, compared with NIS 17 million in the corresponding quarter last year.

**Comprehensive profit before tax from pension fund management in the first half of 2020** was NIS 30 million, as against NIS 37 million in the corresponding period last year. The reduced 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** amounted to NIS 2.1 billion in **Q2 2020**, similar to the corresponding quarter last year.

**Benefit contributions collected by the Group's pension funds increased by 5% to NIS 4.4 billion** in the **first half of 2020**, compared with NIS 4.2 billion in the corresponding period last year.

**AUM in the Group's pension funds increased by 10% to NIS 75.9 billion at June 30, 2020**, compared with NIS 69.0 billion at the corresponding date last year.

## Provident funds and education funds

**Comprehensive profit before tax from provident funds and education funds increased by 13% to NIS 17 million** in Q2 2020, compared with NIS 15 million in the corresponding period last year.

**Comprehensive profit before tax from provident funds and education funds in the first half of 2020** was NIS 25 million, as against NIS 30 million in the corresponding period last year. The reduced 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 0.7 billion in **Q2 2020**, as against NIS 0.8 billion in the corresponding quarter last year.

**Benefit contributions collected by the provident funds and education funds** amounted to NIS 1.4 billion in the **first half of 2020**, as against NIS 1.7 billion in the corresponding period last year.

**AUM held by the Group's provident funds and education funds** was NIS 42.2 billion at **June 30, 2020**, as against NIS 43.6 billion at the corresponding date last year

## Health insurance

**Comprehensive profit before tax in the health insurance segment** was NIS 260 million in **Q2 2020**, compared with NIS 47 million in the corresponding quarter last year. Results in Q2 2020 were affected by higher investment profits compared with those in the corresponding quarter last year. Additionally, results in the quarter were affected by changes in the risk-free interest rate curve, by the application of the circular on revised liquidity premium rates added to the risk-free interest rate curve and application of the provisions of the circular on the method of allocating assets not at their fair value when assessing the adequacy of the reserve (LAT), the overall effect of which reduced the insurance liabilities by NIS 39 million before tax.

**Comprehensive loss before tax in the health insurance segment in the first half of 2020** was NIS 92 million, as against comprehensive profit before tax of NIS 154 million in the corresponding period last year. Results in the period were affected mainly by investment losses in contrast with investment profits in the corresponding period last year. Additionally, results in the period were affected by changes in the risk-free interest curve and application of the circulars, where their overall effect increased the insurance liabilities by NIS 142 million before tax.

**Gross earned premiums in the health insurance segment** amounted to NIS 1.2 billion in Q2 2020, similar to the corresponding quarter last year.

**Gross earned premiums in the health insurance segment** increased by 4% to NIS 2.5 billion in the **first half of 2020**, compared with NIS 2.4 billion in the corresponding period last year.

## Non-life insurance

**Comprehensive profit before tax in non-life insurance** was NIS 153 million in **Q2 2020**, as against NIS 400 million in the corresponding quarter last year.

**Comprehensive profit before tax in non-life insurance in the first half of 2020** was NIS 74 million, as against NIS 482 million in the corresponding period last year.

Results in the period and in Q2 2020 were affected mainly by investment losses in the capital market due to the outbreak of the COVID-19 pandemic, changes in the risk-free interest rate curve, and by the application of the circular on the revised liquidity premium rate added to the risk-free interest rate curve. Results in the corresponding half year and quarter last year were affected by the Supreme Court decision concerning the discounting interest rate for compensation on account of personal injury in torts which reduced the insurance liabilities by NIS 260 million before tax.

**Gross earned premiums in non-life insurance** amounted to NIS 0.8 billion in **Q2 2020**, similar to the corresponding quarter last year.

**Gross earned premiums in non-life insurance** amounted to NIS 1.7 billion in the **first half of 2020**, similar to the corresponding period last year.

## Harel Finance

**Comprehensive profit before tax in the capital market and financial services segment** was NIS 3 million in **Q2 2020**, as against NIS 9 million in the corresponding quarter last year.

**Comprehensive profit before tax in the capital market and financial services segment increased by 36%** to NIS 19 million in the **first half of 2020**, compared with NIS 14 million in the corresponding period last year.

**Revenues in the capital market and financial services segment** amounted to NIS 48 million in **Q2 2020**, as against NIS 49 million in the corresponding quarter last year.

**Revenues in the capital market and financial services segment increased by 18%** to NIS 114 million in the **first half of 2020**, compared with NIS 97 million in the corresponding period last year.

**AUM in the capital market and financial services segment** managed by Harel Finance Investment House was NIS 51.4 billion at **June 30, 2020**, as against NIS 52.7 billion at June 30, 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 during the period.

At the date of publication of the financial statements, Harel Finance has AUM of approximately NIS 53 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** was NIS 6.91 billion at June 30, 2020.

**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.

Notably, the model in its current format is extremely sensitive to changes in market and other variables so 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. In accordance with the instructions, the economic solvency ratio at December 31, 2019, will be published by September 30, 2020.

Additionally, there are draft changes for the Solvency provisions which also include a new method of calculating the deduction from the liabilities for the transitional period. Subject to approval by the Knesset Finance Committee, these draft changes will be applied from the date of calculation of economic solvency as at December 31, 2019. Application of the amendment to the Solvency Circular and particularly application of the deduction in the transitional period could have a positive effect on the Company's solvency ratio, however there is uncertainty surrounding the final wording of the changes, if they are accepted, and also regarding the Commissioner's considerations in granting the approval.