

November 30, 2020

Harel Insurance and Finance Group concludes Q3 2020 with comprehensive profit of NIS 402 million

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**Harel Group closes the first nine months of 2020 with comprehensive profit of NIS 407 million**

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Sales of motor and homeowners insurance increased significantly compared with the corresponding periods last year. This success is attributable, in part, to the ability to provide customers with attractive value propositions using remote sales technologies developed by Harel on behalf of its agents.

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**Total earned premiums, gross, and benefit contributions in Q3 2020 amounted to NIS 6.8 billion, as against NIS 7.2 billion in the corresponding period last year. Gross earned premiums and benefit contributions decreased by just 2.1% to NIS 20 billion in the first nine months of 2020, as against NIS 20.4 billion in the corresponding period last year.**

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Harel Group held AUM of NIS 278 billion at September 30, 2020, and at the date of publication of the reports AUM is NIS 288 billion

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**Harel Insurance Investments and Financial Services Ltd. has published its financial statements for Q3 2020:**

**Comprehensive profit after tax in Q3 2020 was NIS 402 million**, compared with a comprehensive loss after tax of NIS 118 million in the corresponding quarter last year.

**Comprehensive profit after tax in the first nine months of 2020 was NIS 407 million**, as against NIS 640 million in the corresponding period last year.

**Return on Equity (in annual terms) in the first nine months of 2020 was 8% and in Q3 2020 was 23%**, as against RoE (in annual terms) of 13% in the corresponding period last year and a negative yield of 7% in the corresponding quarter last year, and 15% for 2019 as a whole.

**The Group's AUM increased by 3% to NIS 278 billion at September 30, 2020**, compared with NIS 270 billion at the corresponding date last year. Between the end of the quarter and the date of publication of the reports, AUM increased to NIS 288 billion.

**Total earned premiums, gross, and benefit contributions in Q3 2020 amounted to NIS 6.8 billion**, as against NIS 7.2 billion in the corresponding period last year. Gross earned premiums and benefit contributions decreased by just 2.1% to NIS 20 billion in the first nine months of 2020, compared with NIS 20.4 billion in the corresponding period last year.

**Equity attributed to the Company's shareholders was NIS 7.3 billion at September 30, 2020.**

**Michel Siboni, CEO of Harel Insurance and Finance Group, issued the following statement:** "The outbreak of COVID-19 caused the markets to tumble and affected a large number of workers who were placed on unpaid leave or made redundant. This was reflected in a recorded loss of NIS 555 million in the Q1 results. Harel's considerable investment in innovative technology and digital processes has enabled it to offer its insureds excellent value propositions through its agents. As a result, we managed to present strong recovery in the second and third quarters, even returning to the full scope of activity and premium turnover of almost the same volume as we presented in the corresponding period last year, while at the same time presenting significant growth in the sale of new policies in most of the company's operating segments, relative to the corresponding period last year. In Q2 the Group's comprehensive profit was NIS 560 million, in Q3 it was NIS 402 million, and it closed the first nine months of 2020 with comprehensive profit of NIS 407 million. These figures are an indication of Harel Group's strength which is attributable to its diverse business operations and technological superiority. This strength is also reflected in the highest capital surplus in the industry, according to the Solvency rules, amounting to NIS 6.3 billion.

## Long-term savings

**Comprehensive profit before tax in long-term savings activity** (life assurance, pensions, provident and education funds) **increased by 33% to NIS 194 million in Q3 2020**, compared with NIS 146 million in the corresponding quarter last year.

**Comprehensive profit before tax in long-term savings activity** (life assurance, pensions, provident and education funds) **in the first nine months of 2020** was NIS 322 million, as against NIS 343 million in the corresponding period last year.

**Total earned premiums, gross, and benefit contributions in long-term savings activity in Q3 2020** amounted to NIS 4.6 billion, as against NIS 4.9 billion in the corresponding quarter last year.

**Total earned premiums, gross, and benefit contributions in long-term savings activity in the first nine months of 2020** amounted to NIS 13.4 billion, as against NIS 13.8 billion in the corresponding period last year.

In the wake of the COVID-19 crisis, there was a slight decrease in sales of new policies in the long-term savings sectors, compared with the volume of sales typical of these sectors in corresponding periods in previous years.

## Life assurance

**Comprehensive profit before tax in life assurance in Q3 2020 was NIS 160 million, compared with NIS 109 million in the corresponding quarter last year.**

**Comprehensive profit before tax in life assurance in the first nine months of 2020 was NIS 233 million, as against NIS 239 million in the corresponding period last year.**

Results in the Reporting Period and in Q3 were affected by capital market yields in the Nostro portfolio, which were lower than in the corresponding period and corresponding quarter last year. Additionally, results in the Reporting Period were affected by the non-collection of variable management fees due to negative yields on the assets held to cover yield-dependent liabilities, as against the collection of variable management fees amounting to NIS 150 million in the corresponding period last year.

At September 30, 2020, the estimate for management fees that will not be collected due to the negative yield until a cumulative positive yield is attained amounted to NIS 36 million. After the reporting date and up to immediately prior to the date of publication of the financial statements, share prices on the capital markets continued to rise and completely offset the investment losses accumulated for the insureds. As a result, there are no longer any outstanding variable management fees which will not be collected, based on the aforementioned mechanism.

**Total earned premiums, gross, in life assurance amounted to NIS1.5 billion in Q3 2020, as against NIS 1.8 billion in the corresponding quarter last year.**

**Gross earned premiums in life assurance amounted to NIS 4.4 billion in the first nine months of 2020, as against NIS 4.8 billion in the corresponding period last year.**

In the wake of the COVID-19 Crisis, sales of new policies in the life assurance segment decreased slightly, although this was **followed by a rapid recovery and significant increase in the volume of sales compared with corresponding periods.**

## Pension funds

**Harel Group continued to grow in the long-term savings sector and today it is the second-largest player in the pension funds market. This growth is part of Harel's strategy for expansion which has led to Harel holding more than NIS 80 billion in AUM. Harel is now the second-largest player in the market and it continues to apply this strategy of increasing its share of the pension market.**

**Comprehensive profit before tax from pension fund management was NIS 20 million in Q3 2020, as against NIS 22 million in the corresponding quarter last year.**

**Comprehensive profit before tax from pension fund management was NIS 50 million in the first nine months of 2020, as against NIS 59 million in the corresponding period last year. The decrease in profit is mainly the result of yields in the capital market which were lower than in the corresponding period last year.**

**Benefit contributions collected by the Group's pension funds increased by 4% to NIS 2.4 billion in Q3 2020, compared with NIS 2.3 billion in the corresponding quarter last year.**

**Benefit contributions collected by the Group's pension funds increased by 3% to NIS 6.8 billion in the first nine months of 2020**, compared with NIS 6.6 billion in the corresponding period last year.

**AUM in the Group's pension funds increased by 12% to NIS 80.2 billion at September 30, 2020**, compared with NIS 71.3 billion in the corresponding period last year.

**Sales in the pension sector almost returned to their pre-crisis level, despite the strong competition resulting from the default-option funds and the state of the economy as a result of which a large number of workers were placed on unpaid leave.**

## Provident funds and education funds

**Comprehensive profit before tax from provident funds and education funds was NIS 14 million in Q3 2020**, as against NIS 15 million in the corresponding quarter last year.

**Comprehensive profit before tax from provident funds and education funds was NIS 39 million in the first nine months of 2020**, as against NIS 45 million in the corresponding period last year. The decrease in profit is mainly attributable to yields in the capital market which were lower than in the corresponding period last year and erosion of the management fee rate.

**Benefit contributions collected by the provident funds and education funds amounted to NIS 743 million in Q3 2020**, as against NIS 809 billion in the corresponding quarter last year.

**Benefit contributions collected by the provident funds and education funds amounted to NIS 2.2 billion in the first nine months of 2020**, as against NIS 2.4 billion in the corresponding period last year.

**AUM held by the provident funds and education funds was NIS 42.7 billion at September 30, 2020**, as against NIS 43.8 billion in the corresponding period last year.

## Health insurance

**Comprehensive profit before tax in the health insurance segment was NIS 130 million in Q3 2020**, compared with a comprehensive loss before tax of NIS 480 million in the corresponding quarter last year.

Results in Q3 were affected by changes in the risk-free interest rate curve, by changes in the difference between the fair value and book value of the non-marketable assets. The overall effect of the foregoing is an increase of the insurance liabilities in the amount of NIS 60 million before tax.

**Comprehensive profit before tax in the health insurance segment in the first nine months of 2020 was NIS 38 million**, as against a comprehensive loss before tax of NIS 326 million in the corresponding period last year.

Results in the Reporting Period were affected by changes in the risk-free interest rate curve, changes in the difference between the fair value and book value of the non-marketable assets, 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) which entered into force in Q2. The overall effect of the foregoing is an increase of the insurance liabilities in the amount of NIS 127 million before tax.

**Gross earned premiums in the health insurance segment** amounted to NIS 1.2 billion in **Q3 2020**, similar to the corresponding quarter last year.

**Gross earned premiums in the health insurance segment** amounted to NIS 3.7 billion in the **first nine months of 2020**, similar to the corresponding period last year.

In the wake of the COVID-19 Crisis, sales of new policies in the health insurance segment decreased slightly, although **this was followed by a rapid recovery and significant increase in the volume of sales compared with sales in corresponding periods.**

## Non-life insurance

**Comprehensive profit before tax in non-life insurance was** NIS 177 million in **Q3 2020**, compared with NIS 30 million in the corresponding quarter last year.

Results in Q3 were affected by changes in the risk-free interest rate curve, changes in the difference between the fair value and book value of the non-marketable assets, and also by the Supreme Court ruling concerning the discounting interest rate to apply to the National Insurance Institute on subrogation claims. The overall effect of these changes and application of the provisions of the circular was to reduce the insurance liabilities by NIS 119 million.

**Comprehensive profit before tax in non-life insurance was** NIS 251 million in the **first nine months of 2020**, as against NIS 512 million in the corresponding period last year.

Results in the Reporting Period were affected by changes in the risk-free interest rate curve, changes in the difference between the fair value and book value of the non-marketable assets, and also by the Supreme Court ruling concerning the discounting interest rate to apply to the National Insurance Institute on subrogation claims. The overall effect of the foregoing is a reduction of the insurance liabilities by NIS 177 million before tax.

**Gross earned premiums in non-life insurance** amounted to NIS 0.8 billion in **Q3 2020**, similar to the corresponding quarter last year.

**Gross earned premiums in non-life insurance** amounted to NIS 2.5 billion in the **first nine months of 2020**, similar to the corresponding period last year.

**Sales in the motor insurance, homeowners and business premises sectors were not affected during this period, and their sales even increased significantly.** The most significant increase was recorded in the sale of the motor insurance product Harel Switch, which includes a variable payment component based on vehicle usage.

## Harel Finance

**Comprehensive profit before tax in the capital market and financial services segment increased by 133%** to NIS 14 million in **Q3 2020**, compared with NIS 6 million in the corresponding quarter last year.

**Comprehensive profit before tax in the capital market and financial services segment increased by 65%** to NIS 33 million in the **first nine months of 2020**, compared with NIS 20 million in the corresponding period last year.



**Revenues in the capital market and financial services segment increased by 2%** to NIS 54 million in **Q3 2020**, compared with NIS 53 million in the corresponding quarter last year.

**Revenues in the capital market and financial services segment increased by 12%** to NIS 168 million in the **first nine months of 2020**, compared with NIS 150 million in the corresponding period last year.

**AUM in the capital market and financial services segment held by Harel Finance Investment House** amounted to NIS 52.1 billion at **September 30, 2020**, as against NIS 56.3 billion at September 30, 2019, and NIS 59 billion at December 31, 2019. The decrease in the 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 53.8 billion.

## Equity

**Equity attributed to the Company's shareholders** was NIS 7.3 billion at September 30, 2020.

Based on the transitional provisions, the **capital surplus of Harel Insurance at December 31, 2019**, is NIS 6.3 billion - the highest amount among the insurance companies. In accordance with the directives, the economic solvency ratio at December 31, 2019, was published on October 28, 2020.

**The capital surplus of Harel Insurance as at December 31, 2019**, on a consolidated basis and before the transitional provisions (in terms of 100% SCR), is NIS 1.4 billion.

Notably, the model in its current format is extremely sensitive to changes in market and other variables, such as changes in the interest rate, changes in investment profits, revised actuarial assumptions and changes relating to the activity of Harel Insurance.

On November 30, 2020, the Board of Directors of Harel Insurance approved an update to the capital management plan and at this stage, threshold conditions were determined for a dividend distribution, which include a minimum economic solvency ratio of 135%, taking the transitional provisions into account, and a minimum solvency ratio of 105% without taking the transitional provisions into account.