Harel Insurance Investments and Financial Services Ltd.

Interim Report as at

September 30, 2018

Contents

Board of Directors Report

Table of Contents

Harel Insurance Investments and Financial Services Ltd.

Board of Directors Report

for the nine months ended September 30, 2018

The Board of Directors Report for the nine months ended September 30, 2018 ("the Reporting Period"), reflects the principal changes in the state of business of Harel Insurance Investments & Financial Services Ltd. ("Harel Investments" or “the Company") during this period, and it was prepared assuming that the reader is also in possession of the Group's full Periodic Report for 2017 which was published on March 26, 2018 ("the Periodic Report")

The Board of Directors' Report also contains forward-looking information, as defined in the Securities Law, 1968. Forward-looking information is uncertain information concerning the future based on information in the company's possession at the time of publishing the report and which includes the company's assessments or intentions at the date of the report. Actual performance may differ substantially from the results estimated or inferred from this information. In certain instances, sections can be found that contain forward-looking information, where words such as: "the Company/the Group estimates", "the Company/the Group believes", "the Company/the Group anticipates", and the like appear, and such forward-looking information may also be worded differently.

1 Description of the Company

1.1 General

Harel Insurance Investments and Financial Services Ltd. is a public company, whose shares have been traded on the Tel Aviv Stock Exchange since 1982. The Company, together with its subsidiaries, ("the Group") operates principally in the following areas:

In the various sectors of insurance, the Company operates through the following subsidiaries: Harel Insurance Company Ltd. (fully controlled) ("Harel Insurance"); Interasco Societe Anonyme General Insurance Company S.A.G.I (in which the Company holds 94%) operating in non-life insurance in Greece; Turk Nippon Sigorta A.S. (fully controlled) (“Turk Nippon”), operating in Turkey; ICIC. - Israel Credit Insurance Company Ltd. (in which the Company holds 50%) ("ICIC") and EMI - Ezer Mortgage Insurance Company Ltd. (fully controlled) ("EMI").

In the long-term savings sector, the Company operates through subsidiaries which are provident fund and pension fund management companies, as follows:

(1) Harel Pension & Provident Ltd. (fully controlled) ("Harel Pension & Provident"), a company that manages pension funds and provident funds.

(2) Tzva Hakeva Savings Fund - Provident Funds Management Company Ltd. (fully controlled) (“Tzva Hakeva").

(3) LeAtid Pension Funds Management Company Ltd. (in which the Company holds 79%), which manages an old pension fund ("LeAtid").

In the financial services and capital market sector - the Company operates through Harel Finance Ltd. ("Harel Finance") (wholly controlled by the Company) and its subsidiaries: Harel Pia Mutual Funds Ltd. ("Harel-Pia"), Harel Finance Investments Management Ltd. (“Harel Finance

Investments”), Harel Financial Products Ltd. ("Harel Financial Products") (which engages in financial products, Harel Sal Ltd. (a company that manages ETNs), Harel Sal Currencies Ltd. (a company that manages deposit certificates), Harel Institutional Trade (a company engaged in trade in a nostro account and in OTC activity), and Alfa Tech (a company that manages investments by means of computerized models).

The Company's separate operations center on the management, control and supervision of the subsidiaries, on-going planning of the Group's operations, and the initiating of activity and investments, both directly and through the Group's companies.

1.2 Company shareholders

At the date of publication of the report, Yair Hamburger, Gideon Hamburger and Nurit Manor (in this section: “the Shareholders”), hold 49.49% of the voting rights in the Company and 49.48% of the Company’s issued share capital.

The Shareholders hold the Company principally through G.Y.N. Financial Consulting & Management Ltd. 2017, a limited partnership fully owned and controlled by the Shareholders, which they hold, as limited partners, through private companies fully owned by them (“G.Y.N. Partnership”) and they also hold the general partner in G.Y.N. Partnership.

1.3 Ongoing integration of the Group’s digital and data strategy

The Group continues to integrate its strategy of “Recalculating the Route” and is investing significant financial and human resources in the development of data and digital infrastructures. The purpose of this move is to ensure that the Company’s operations are consistent with the digital era, to increase profitability and improve customer service, while at the same time preserving and leveraging the agents’ distribution channels.

During the Reporting Period, the Group continued to streamline its technology by transferring significant processes from manual to digital operations. The improved technology provides customers with user-friendly, faster (in some cases immediate) service, offering customers and agents a “self-service” option in areas such as: the purchase of products, filing of claims, and obtaining information online. The Group also continues to invest resources in developments that enable some of the health and motor insurance claims to be settled digitally. In 2018, many of the processes performed in the Group, are performed entirely through digital processes (without human intervention) or are partially digitalized.

Furthermore, to provide its customers with advanced, top-notch service, Harel Insurance launched an additional channel of communications for motor insurance by means of a WhatsApp application which integrates IBM’s Watson artificial intelligence (AI) program and provides fast, simple communications through the use of technology which is readily available in Israel and around the world. This service positions the Group and Harel Insurance at the forefront of technology, as the first company in Israel and among the first in the world that facilitates communications using this technology.

2 Financial position and results of operations, equity and cash flow

2.1 Material changes in the Company's business in the Reporting Period

2.1.1 Maalot rating - On the affirmation of a Maalot rating for the subsidiary Harel Insurance and upgrading of the rating outlook to positive, following the creation of a safety cushion for capital management, see Note 6C to the Financial Statements.

2.1.2 Bond issue - On the issuance of Series 14 and 15 bonds of Harel Insurance, Financing and Issuing Ltd. (Harel Financing & Issuing), see Note 6C to the Financial Statements.

2.1.3 Dividend distribution - On a decision from March 26, 2018, concerning the distribution of a dividend that was paid on April 12, 2018, see Note 8 to the Financial Statements.

2.1.4 Annual General Meeting - On May 2, 2018, an annual general meeting of the Company was held at which the following items were on the agenda: (1) discussion of the Periodic Report for 2017; (2) appointment of external auditors for 2018 and authorizing the Company’s Board of Directors to determine their fee; (3) reappointment of directors serving the Company, who are not external directors, for a further term of office (Yair Hamburger, Gideon Hamburger, Ben Hamburger, Yoav Manor, Doron Cohen and Yosef Ciechanover); (4) appointment of Mr. Eli Dapas as a director in the Company. The general meeting approved all the items on the agenda.

2.1.5 Full early redemption of bonds (Series 2) of Harel Financing & Issuing - on June 13, 2018, Harel Financing & Issuing, a Special Purpose Company (SPC) and subsidiary of Harel Insurance, performed early redemption of the full amount of the Series 2 bonds that it had issued, in accordance with an immediate report published by Harel Financing & Issuing on May 27, 2018.

2.1.6 Permit to hold banking corporations - On obtaining permission for the Company to increase its holdings in banking corporations, see Note 9 to the Financial Statements.

2.1.7 Operation of mutual funds - Further to the information in Section 2.5.9.2 of the Company’s Periodic Report, following an announcement by Leumi Capital Market Services Ltd. of its intention to discontinue its activity in the provision of operating services for mutual funds, including for Harel-Pia, Harel-Pia is examining alternatives for obtaining operating services for the mutual funds from other service providers. Harel-Pia does not expect the change of service provider to affect its normal course of business.

2.1.8 Tender for providing group long-term care insurance for members of Clalit (“the Tender”) - In May 2018, Clalit Health Services published a tender for group LTC insurance for members of the HMO. Harel Insurance submitted a bid for this Tender. In September 2018, Harel Insurance was informed that it had been awarded the Tender.

2.2 Material changes in the Company's business after the Reporting Period

2.2.1 Harel Financing & Issuing - a decision in principle concerning the raising of debt (Tier-2 capital) by way of a public issuance of existing series (expansion of Series 14 & 15), see Note 10 to the Financial Statements.

2.2.2 Establishment of a new division in Harel Insurance - on the establishment of a new division in Harel Insurance, see Note 10 to the Financial Statements.

2.3 Developments in the macroeconomic environment of the Group

The results of the Group's operations are significantly affected by the yields attained in the capital market and by the economic, political and security situation in Israel and worldwide. Following are the key factors in the macroeconomic environment that affect the Group's activity:

2.3.1 General: The global macroeconomic picture remained positive in the third quarter as well, but various indicators point to a slower rate of growth, mainly for global trade, due to the worsening trade war, increased political risk in Europe, volatility in the financial markets in the emerging economies. In contrast, trends remained positive in the USA. The IMF lowered its forecast for global growth due to a lowering of the growth forecast in the Eurozone and in some of the emerging markets.

Economic indicators in the US show that growth continues to be fair in the third quarter as well, supported by fiscal expansion: the labor market, private consumption and industrial production continue to demonstrate robustness, and the Federal Reserve therefore raised the interest rate during the quarter to 2%-2.25%.

In Europe the rate of growth moderated compared with 2017, in view of the declining rate of growth of private consumption. The expansionist monetary policy continued, but the ECB announced that it would halve the rate of bond purchases from the end of the third quarter.

Rising yields in the USA, the stronger dollar and fears of a trade war continue to impede the emerging markets. The slowdown of activity in China is reflected in a slowdown of investments and a weaker industrial sector.

Oil prices continued to rise due to supply side influences and fears of US sanctions against Iran, but the other key commodities indices fell during the quarter.

2.3.2 Developments in the Israeli economy: Initial indicators show that growth in Q3 2018 was stronger than in the second quarter, with growth at an annual rate of 2.3%, compared with 1.2% growth in the previous quarter. Nevertheless, the rate of growth was slower and more moderate than initially estimated. Additionally, the unemployment rate remained low (4.1%) and the average wage in the economy continued to rise.

2.3.3 Stock market: At the end of Q3 2018, the MSCI World Index (gross in dollar terms) rose 5.1%, although the corresponding MSCI Emerging Markets Index was 0.9% down. Israel's TA-125 index rose 9.0% and the TA-35 index rose 8.3%.

In Q3, the average daily turnover of trade in shares and convertibles in Israel was NIS 1.4 billion, 5% higher than in the corresponding period last year.

2.3.4 Bond market: In Q3 2018, the general bond index was 0.7% up, in the same period the government bond index was 0.3% up and the corporate bond index rose by 1.4%.

In Q3, the average daily turnover of trade in bonds was NIS 3.3 billion, down 5% compared with the corresponding period last year.

2.3.5 Mutual funds: In Q3 2018, the mutual funds recorded net redemptions of NIS 1.7 billion, following redemptions of NIS 2.5 billion in the previous quarter. The amounts raised by the mutual funds specializing in foreign activity (NIS 2 billion) and the money-market funds (NIS 1.3 billion) were extremely favorable but performance by the mutual funds specializing in bonds remained negative (redemptions of NIS 3.6 billion).

2.3.6 Index products: According to the Association of ETFs, at the end of Q3 2018 total assets under management in this sector amounted to NIS 94.7 billion, 2.5% down compared with AUM at the end of 2017. The decline from the beginning of the year was greatest for ETNs on Israeli share indices which recorded redemptions of NIS 2.9 billion and the foreign share indices with redemptions of NIS 3.7 billion.

2.3.7 Foreign exchange market: In Q3 2018, the shekel was 2.7% stronger against the Bank of Israel nominal basket of currencies, appreciating 0.6% against the dollar, 0.9% against the Euro, 3.0% against the Pound Sterling (GBP), and 1.4% against the Japanese Yen.

2.3.8 Inflation: According to the last known index, at the end of Q3 2018, the CPI rose by 0.2% (June-August), and inflation for the last 12 months (until August 2018) was 1.2%. In the third quarter, housing and transport and communications were the key contributors to the rising index, and they were offset by the decline in the price of clothing and shoes.

2.3.9 Bank of Israel interest: The Bank of Israel interest rate remained unchanged at 0.1% in Q3 2018 as well, and in practice it has remained at this level since February 2015. Despite the fact that inflation returned to its target in the third quarter, members of the Monetary Committee decided to leave the interest rate unchanged for as long as necessary so as to entrench the inflation environment in the target range.

2.3.10 After the Reporting Period, capital market prices fell. This might lead to a decrease in the Company's assets. At this stage, it is impossible to estimate the repercussions of falling prices in the capital market in this period on results in Q4 2018.

2.4 Legislation and regulation in the Group's operating segments

Description of significant changes in legislation and regulations in connection with the Group's operating segments since the Periodic Report:

2.4.1 General

2.4.1.1 On August 26, 2018, the Commissioner published a circular concerning "Board of Directors of Financial Institutions". The circular prescribes provisions relating to the composition of the board of directors, the number of board members and their expertise, conditions and limitations on the appointment and term of office of the chairman of the board; provisions relating to independent directors, in part when the controlling shareholder or his relative holds a key position in the financial institution, a committee for finding independent directors, and restrictions on the appointment of directors whose relatives hold key positions in the financial institution (excluding those currently in office). A limit was also set on the number of directors who may serve both the financial institution and any other financial institution which is controlled by the same controlling shareholder. The circular becomes applicable on April 24, 2019, excluding specific provisions for which there are different commencement dates.

2.4.1.2 On July 25, 2018, the Consumer Protection Law (Amendment no. 57), 2018, was published, amending the supervisory laws under which insurers or provident funds that provide telephony services, including automatic call-routing systems, must provide a professional, human response to calls relating to a malfunction, queries relating to bills or termination of a contract, within six minutes at most.

2.4.1.3 On July 9, 2018, a circular for financial institutions circular was published concerning - "Amendment to the provisions of the consolidated circular - Management of Investment Assets (Non-marketable Loans) Chapter". The circular changes the percentage limitation for investments that include tailor-made loans, the lending of securities and non-marketable debt assets (structured or derivative) that are not rated or which have a rating of less than BBB, from 3% to 5% of the volume of assets managed by the financial institution.

2.4.1.4 On April 25, 2018, Supervision of Financial Services (Insurance) (Minimum Equity Required for Obtaining an Insurer's License) Regulations, 2018, were published, which repeal the Supervision of Financial Services (Insurance) (Minimum Equity Required of Insurers) Regulations, 1998 ("The Capital Regulations") and reduce the minimum equity required for obtaining an insurance company license.

2.4.1.5 On March 4, 2018, the Commissioner published a circular concerning provisions regarding the solvency capital requirements for insurers. The circular sets out provisions relating to the minimum equity required of an insurance company that controls a management company, provident fund activity or another insurance company.

2.4.1.6 On May 18, 2017, the Prohibition on Money Laundering (Obligations of Identification, Reporting and Record Keeping by Insurers, Insurance Agents and Management Companies, to Prevent Money Laundering and Terror Financing) Order, 2017, was published in the Official Gazette. The order revises the provisions applicable to insurers, insurance agents and management companies with respect to the prohibition on money laundering. On September 3, 2017 and February 1, 2018, the Commissioner published supplementary provisions following publication of the order.

2.4.1.7 On July 15, 2018, a circular was published concerning "Enrollment in Insurance - Amendment". The circular stipulates that in the process of customizing an insurance policy to a candidate for insurance, the marketing entity must review the list of products held by the candidate on the interface of the Treasury's insurance records, except with respect to a marketing process initiated by the insurer and where the insured refuses to give permission for such a review.

2.4.1.8 On March 4, 2018, the Commissioner published a position paper on the definition of recognized capital and required capital in hybrid capital instruments. The Commissioner's position clarifies the meaning of the terms "required capital" and "recognized capital" in the conditions of hybrid capital instruments that were issued in the past, with respect to delaying circumstances that, when satisfied, will defer interest / principal payments in these hybrid capital instruments. Regarding insurance companies that are approved by the Commissioner as having performed an audit of the implementation of the provisions of Insurance Circular 2017-1-9 "Provisions for Implementation of an Economic Solvency Regime by Insurance Companies on the Basis of Solvency II" ("Solvency Circular"), the term "required capital" (in accordance with the definition of the term Minimum Capital Requirement (MCR) in that circular on its upper limit (45% of SCR), calculated without the provisions in the Scheduling Period and without adjustment forequity risk, and the term "equity" (own funds), (including "recognized capital' and similar terms) will be interpreted in accordance with the definition of the term "equity" in that circular, and regarding insurance companies that are not approved by the Commissioner, these terms will be interpreted in accordance with their definition in the circular "Provisions Concerning

Equity for the Solvency of Insurers".

2.4.2 Life assurance and long-term savings

2.4.2.1 On August 7, 2018, a letter entitled "The Procedure for Determining Selected Default Funds" was published. The letter sets out the manner in which pension fund management companies will submit an application to be chosen as a selected default fund, commencing November 1, 2018. Among other things, the letter stipulates that the management fees to be collected by management companies of default funds will be no less than 1% of the deposits and 0.05% of the accrual from new members and pensioners. On October 14, 2018, Altshuler Shaham, Meitav Dash, Psagot, and Halman-Aldubi were announced as the selected funds.

2.4.2.2 On February 7, 2018, draft Supervision of Financial Services (Provident Funds) (Transferring Money between Provident Funds) Regulations, 2018, were published. The draft regulations propose allowing money in a provident fund to be moved, even for members who are receiving old-age pension or survivors pension, exclusively for the purpose of receiving the allowance, and to move money from one investment provident fund to another. The draft regulations also prescribe that the money will be transferred within 5 business days (instead of the present 10 days) of receiving the full application, and that it will not be possible to cancel transfer of the money after submitting an application for transfer.

2.4.2.3 On August 16, 2018, the Supervision of Financial Services (Provident Funds) (Direct Expenses for Performing Transactions) (Amendment and Temporary Provisions) Regulations, 2018, were published in the Official Gazette. Among other things, the regulations extended until the end of 2019 the temporary provision which came to an end at the end of 2017 and stipulates that certain direct expenses will be limited to 0.25% of the total estimated value of the provident fund's assets or provident fund track.

2.4.2.4 On July 8, 2018, the Equal Rights for People with Disabilities Law (Amendment no. 18), 2018 was published. The law stipulates that insurers may not refuse to sell life assurance for the purpose of purchasing a single apartment or for purchasing land for building one's own home to persons with reduced life-expectancy disabilities, under the conditions set out in the law for a policy of this kind, and including that the maximum sum insured which will not be more than half a million shekels (or half of the loan) and the qualifying period will be two and a half years.

2.4.2.5 On May 1, 2018, the Commissioner published a circular concerning the marketing of work disability insurance plans (P.H.I.), which sets out provisions concerning the marketing of work disability insurance and an obligation to clarify particulars, provide information and fill out an explanatory document as well as an obligation to update the acquired coverage incidental to provident funds so that the cumulative cost of all the insurance coverage purchased as part of and incidental to the provident fund during the policy period does not exceed 35% of all the amounts deposited in the retirement benefits component. At the same time, the Commissioner published an amendment to a circular on guidelines for work disability policies which includes additional provisions regarding the marketing of insurance cover to members of pension funds and riders to the insurance cover that insurers may offer.

2.4.2.6 On March 4, 2018, the Commissioner published a circular concerning the withdrawal of money from small provident fund accounts - amendment. The circular sets out provisions for sending notification to members who hold accounts in which the accrued balance of retirement benefits money s only NIS 50 - 1,350, informing them of an option to withdraw the money.

2.4.2.7 On February 4, 2018, the Commissioner published a clarification regarding pension marketing procedures during enrolment in a pension product whereby pension insurance agents must conduct a pension marketing procedure in which they clarify the customer’s needs and provide a written explanation of their recommendation. Financial institutions may pay agents a distribution fee only if the agent performed the transaction as part of a pension marketing procedure. The clarification also relates to exercising the Commissioner’s powers with respect to distribution fees that were paid before the clarification was published. On August 30, 2018, additional clarifications were published according to which the clarification regarding pension marketing will apply to savers who were enrolled in a pension product on or after February 4, 2018.

2.4.3 Health insurance

2.4.3.1 On November 27, 2018, the Commissioner published an amendment to the consolidated circular - Section 6, Part 3 - Long-term care insurance. The amendment prescribes provisions for the settlement of long-term care claims, including limiting the requirements for information from the insured; appointing a personal service representative for the insured; time frames for dealing with claims and obtaining the necessary information for settling the claim; performing an assessment of the insured’s function by a service provider to be chosen randomly; restricting the insurance company’s ability to reject the service provider’s decision and decisions that can be made by a deciding service provider; relying on a functional assessment performed by another entity; and provisions concerning a list of function assessment service providers, the minimum number of such service providers and a prohibition on influencing their judgment. The Company is studying the implications of the amendment.

2.4.3.2 On May 27, 2018, the ministerial committee for legislation approved the proposed Supervision of Financial Services (Insurance) (Amendment - Permit to Market and Sell Travel Insurance) Bill, 2017, which proposed allowing travel agents to engage in the sale and marketing of travel insurance.

2.4.3.3 On March 5, 2018, the Supervision of the Prices of Products and Services (Application of the Law on Privately Financed Surgery and Determination of the Level of Supervision) Order, 2018, was published. The Order stipulates that insurance companies must report to the Commissioner the prices paid to service providers for privately funded surgery, for two years.

2.4.3.4 On February 14, 2018, the Commissioner published an amendment to the Supervision of Financial Services (Insurance) (Group Long-term Care Insurance for HMO Members) Regulations, 2015. The amendment alters the age of eligible insureds who are entitled to enroll in long-term care insurance for HMO members without a review of a pre-existing medical condition, from 60 to 55; and the date until which insureds may enroll in the group long-term care insurance for HMO members without a review of a pre-existing medical condition was extended to the end of July 2018.

2.4.3.5 On July 24, 2018, the Commissioner published Supervision of Financial Services (Insurance) (Group Long-term Care Insurance for HMO Members) (Amendment no. 2) Regulations, 2018. The provisions prescribe instructions relating to continuity of insurance if the agreement period for all those insured through the policy comes to an end and no specific insurer renews the insurance for all insureds. Accordingly, the insureds will automatically be transferred to a mutual group policy in which the insurance company will not bear the insurance risk for the policy, and the period for utilizing the entitlement to group long-term care insurance for HMO members, without underwriting, was extended for persons whose registration was cancelled not as a result of moving to another HMO.

2.4.3.6 On May 1, 2018, the Commissioner published a circular amending the provisions of the Consolidated Circular - Deductible in Insurance for Surgery. The circular stipulates that insurance companies will be permitted to offer insureds insurance for surgery that includes a deductible of NIS 3,000 for performing surgery.

2.4.3.7 On January 1, 2018, the Commissioner published a circular amending the Consolidated Circular - Section 6, Part 3 - Long-term Care Insurance. The amendment stipulates that the agreement period between insurance companies and HMOs with respect to the drawing up of long-term care plans for HMO members can be longer than 8 years or may be prepared under conditions other than those set out in the circular, with the Commissioner's approval. The circular also postpones to January 1, 2019, the date on which the provision enters into force so that during the policy period, insurance companies will bear at least 20% of the insurance risk inherent in the plan.

2.4.4 Non-life insurance

2.4.4.1 On July 1, a law amending the Motor Vehicle Insurance Ordinance (Amendment no. 23), 2018, was published. The amendment stipulates that the anticipated allocation component in the compulsory insurance tariff for motorcycles will be 8.5% of the cost of the pure risk for two years (from July 1, 2018), and from the end of this period it will fixed at 8%..

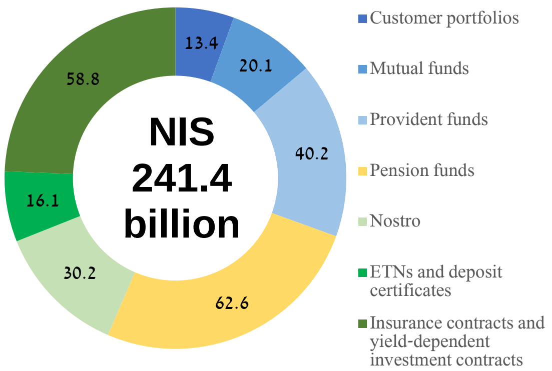
2.4.4.2 On March 22, 2018, the Economic Efficiency (Legislative Amendments to Achieve Budget Targets for 2019) Law, 2018, was published which changes the mechanism for the settlement of accounts between the NII and the insurance companies regarding road accidents. [**No reference to effect in 2017 annual report**]

2.4.5 Financial services and capital market activity

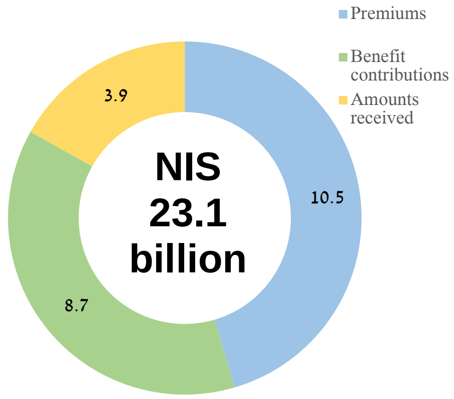
On August 3, 2017, the Joint Investment Trust Law (Amendment No. 28), 2017, was published. According to the amendment, the ETNs will become closed (traded) tracker mutual funds, and the provisions of the Joint Investment Trust Law will apply to these funds, *mutatis mutandis*, together with special arrangements to be prescribed in the regulations or instructions of the Israel Securities Authority with respect to ETFs. On July 12, 2018, various regulations were published as part of the amendment. The Law and the regulations entered into force on October 3, 2018. In view of the amendment, on October 4, 2018, Harel Sal Ltd. merged with Harel Index Funds Ltd. (formerly: Harel Financial Products Ltd.) and the latter became a mutual fund management company. Accordingly, with the entering into force of the amendment, Harel Sal Ltd. and Harel Index Funds Ltd. will cease to include the ETN assets and liabilities in their financial statements. Consequently, from this date, the assets and liabilities of Harel Sal are expected to diminish significantly.

2.5 Condensed data from the consolidated financial statements of Harel Investments

Assets managed by the Group:



Data on earned premiums, gross benefit contributions and amounts received for investment contracts:



The assets managed by the provident funds, pension funds, mutual funds and in customers' portfolios are not included in the Company's consolidated financial statements.

Amounts received in respect of investment contracts are not included under premiums but are recognized directly in liabilities for insurance contracts and investment contracts. In the Reporting Period, the amounts received for investment contracts recognized directly in insurance reserves amounted to NIS 3.9 billion, compared with NIS 2.8 billion in the corresponding period last year.

2.5.1 Comprehensive income (loss) by segment (NIS million):

		For the nine months ended September 30			For the three months ended September 30		For the year ended December 31
	Notes	2018	2017	% change	2018	2017	2017
Life assurance and long-term savings segment							
Life assurance	A	330	319	3	170	15	486
Pension	B	61	47	30	23	22	69
Provident		34	26	31	12	9	39
Total life assurance and long-term savings segment		**425**	**392**	8	**205**	**46**	**594**
Non-life insurance segment							
Compulsory motor	C	(28)	(17)	65	3	(7)	(22)
Motor property	D	77	31	-	28	13	52
Property and other branches		70	76	(8)	25	27	104
Other liabilities branches	E	(35)	1	-	1	1	15
Mortgage insurance		31	38	(18)	14	13	56
Total non-life insurance segment		**115**	**129**	(11)	**71**	**47**	**205**
Health insurance segment	F	97	106	(8)	82	74	110
Insurance companies overseas	G	(8)	12	-	(11)	6	6
Finance		29	26	12	9	9	34
Not attributed to segments of operation	H	97	208	(53)	63	48	285
Total before tax		**755**	**873**	(14)	**419**	**230**	**1,234**
Tax expenses		218	272	(20)	132	66	388
Total after tax		**537**	**601**	(11)	**287**	**164**	**846**

		For the nine months ended September 30			For the three months ended September 30		For the year ended December 31
	Notes	2018	2017	% change	2018	2017	2017
Return on Equity in annual terms		13%	15%		20%	13%	16%

Results in the Reporting Period were affected by yields in the capital market which were lower than in the corresponding period last year. For additional information on special effects on profit, see table in Section 2.5.2.

A. Results in the Reporting Period were affected by a decline in the insurance liabilities due to an increase in the risk-free interest rate curve which is used to test the adequacy of the reserves, in contrast with an increase in the insurance liabilities in the corresponding period last year due to a decline in the risk-free interest rate curve. See section 2.5.2 (A). In contrast, the financial margin and income from variable management fees declined in the Reporting Period. The decrease in the variable management fees was recorded following a decrease in the real yields attained by the Company compared with the corresponding period last year.
   Income from management fees amounted to NIS 360 million in the Reporting Period, as against NIS 403 million in the corresponding period last year. The decline in the management fees is attributable to a decrease of the variable management fees in the Reporting Period, compared with the corresponding period last year. Variable management fees amounted to NIS 73 million in the Reporting Period, as against NIS 159 million in the corresponding period last year.
   Income from management fees amounted to NIS 173 million in the third quarter, compared with NIS 163 million in the corresponding quarter last year. In the third quarter, variable management fees were collected in the amount of NIS 72 million, as against NIS 78 million in the corresponding quarter last year.
B. Results in the Reporting Period were mainly affected by an increase in AUM.
C. Results in the Reporting Period were affected by yields in the capital market that were lower than in the corresponding period last year and by the change in the CPI which was higher than in the corresponding period last year.
D. Results in the Reporting Period were influenced by improved underwriting performance.
E. Results in the Reporting Period were affected by yields in the capital market that were lower than in the corresponding period last year and by the change in the CPI which was higher than in the corresponding period last year.
F. Results in the Reporting Period were affected on the one hand by yields in the capital market that were lower than in the corresponding period last year and by the change in the CPI which was higher than in the corresponding period last year. On the other hand, results for the current quarter were affected by improved underwriting performance in the group long-term care sector due to a decrease in the number of new claims in respect of previous years (claims for the period up to December 31, 2017), as well as by improved underwriting in the group health sector due to a decrease in the number of claims.
G. Results in the Reporting Period were affected by a revision of the premium tariffs in the compulsory motor sector in Turk Nippon. Results for the quarter were mainly influenced by the erosion in the value of the Turkish lira.
H. Results in the Reporting Period were affected by yields on investments that were lower than in the corresponding period last year.

2.5.2 Special effects on comprehensive income in the Reporting Period (NIS million):

		For the nine months ended September 30			For the three months ended September 30		For the year ended on December 31
	Notes	**2018**	**2017**	**Change**	**2018**	**2017**	**2017**
Comprehensive income for the period as published in the report		537	601	(64)	287	164	846
Life assurance and long-term savings segment							
Effect resulting from adequacy of the reserves (LAT)	A	51	(13)	64	(1)	(100)	(50)
Revised morbidity research assumptions		-	-	-	-	-	59
Non-life insurance segment							
Effect of the risk-free interest rate	B	-	(8)	8	-	-	(8)
Health insurance segment							
Revised assumptions in personal lines LTC liabilities	C	-	-	-	-	-	(4)
Revised assumptions in personal lines health liabilities	C	-	-	-	-	-	(98)
Total effects, before tax		51	(21)	72	(1)	(100)	(101)
Effect of tax		17	(7)	24	-	(35)	(35)
Total effects, after tax		34	(14)	48	(1)	(65)	(66)
Total comprehensive income after adjustment for special effects		503	615	(112)	288	229	912

A. The insurance liabilities declined by NIS 51 million in the Reporting Period due to an increase in the risk-free interest curve, compared with an increase of NIS 13 million in the insurance liabilities in the corresponding period last year due to a decline in the risk-free interest curve.

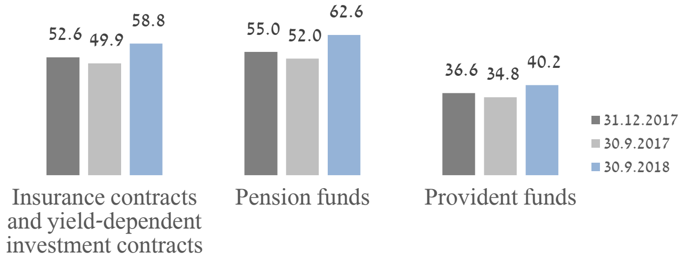
In the third quarter, an increase of NIS 1 million in the insurance liabilities was recorded, compared with an increase of NIS 100 million in the corresponding quarter last year.

B. 2017 was affected by a decline in the long-term risk-free interest rate used to assess the discounting interest for the insurance liabilities in the third party and employers liability sectors in the non-life segment in the amount of NIS 8 million.

C. The insurance liabilities increased by NIS 98 million in 2017 due to revised assumptions for cancellations and expenses in the personal lines health sector. Additionally, the insurance liabilities increased by NIS 4 million due to revised assumptions for morbidity and cancellations in the personal lines LTC sector.

2.6 Other key effects and influences by segment

2.6.1 Assets managed for the Group's members and policyholders in the life assurance and long-term savings segment (NIS billion):



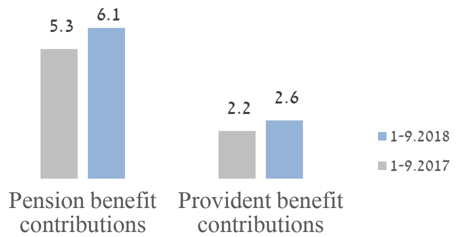
Pension funds - most of the increase in AUM relative to the corresponding period last year is attributable to positive accrual and capital market yields.

Provident funds* - at the date of the report, the Group has 11 provident funds. Some of the provident funds offer several investment tracks for members to choose from. In all, at September 30, 2018, the Group operates 45 tracks in its provident funds. Most of the increase in AUM relative to the corresponding period last year is attributable to positive accrual and capital market yields.

The assets managed by the provident funds and pension funds are not included in the Company's consolidated financial statements

* Provident funds, education funds, central and personal severance pay funds, provident fund for sick pay, and a fund for non-contributory pension

2.6.2 Data on benefit contributions (NIS billion):



Provident - the data presented for the Reporting Period include lump-sum deposits of NIS 983 million, mainly in respect of Amendment no. 190 to the Income Tax Ordinance, compared with NIS 742 million in the corresponding period last year.

Pension - the increase in benefit contributions compared with the corresponding period last year, is mainly attributable to the enrollment of new members and an increase in the deposits made by existing customers.

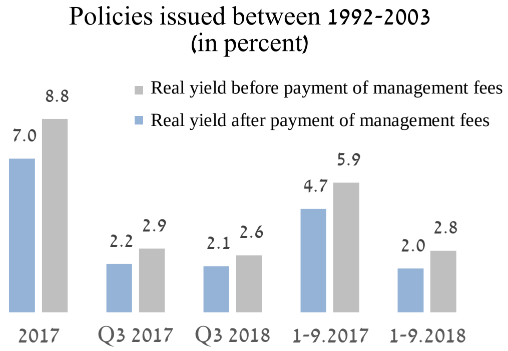
The benefit contributions in the provident funds and pension funds are not included in the Company's consolidated financial statements.

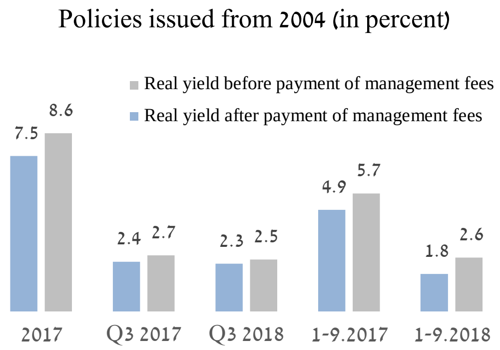
2.6.3 Life assurance

Redemptions in the Reporting Period amounted to NIS 958 million, accounting for 2.6% of the average reserve in life assurance, compared with redemptions of NIS 880 million in the corresponding period last year, which accounted for 2.6% of the average reserve last year, and compared with redemptions of NIS 1,183 million in 2017, which accounted for 2.6% of the average reserve in 2017.

Redemptions in the current quarter amounted to NIS 323 million, accounting for 2.6% of the average life assurance reserve, as against redemptions of NIS 326 million in the corresponding quarter last year, which accounted for 2.9% of the average reserve last year.

Yield-dependent policies:





The estimated amount of investment profit and management fees included in the consolidated income statement, which were credited to or debited from insureds in yield-dependent policies, and which are calculated according to the Commissioner's instructions, on the basis of the quarterly yield and balances of the average insurance reserves, is as follows (NIS million):

	For the nine months ended September 30		For the three months ended September 30		Annual
	2018	**2017**	**2018**	**2017**	**2017**
Profit after management fees	1,374	1,948	1,122	760	2,985
Total management fees	360	403	173	163	569

2.6.4 Pension funds

The new pension fund Harel Pension attained a nominal yield of 4.62% in the Reporting Period.

Total management fees collected from the pension funds managed by the Group amounted to NIS 237 million in the Reporting Period, compared with NIS 221 million in the corresponding period last year.

Total income from management fees collected by the pension funds managed by the Group amounted to NIS 81 million in the third quarter, compared with NIS 76 million in the corresponding period last year.

2.6.5 Provident funds

The provident funds accrued a net, positive amount (excluding investment profit) of NIS 2,783 million in the Reporting Period, compared with a positive accrual of NIS 1,674 million in the corresponding period last year.

Management fee revenues collected from the pension funds managed by the Group amounted to NIS 181 million in the Reporting Period, compared with NIS 164 million in the corresponding period last year. Management fee revenues collected from the pension funds managed by the Group amounted to NIS 61 million in the third quarter, compared with NIS 56 million in the corresponding quarter last year.

The increase in management fees in the period and in the current quarter is mainly attributable to an increase in AUM, net of the effect of the erosion in the management fee rate.

2.6.6 Health insurance

On December 31, 2017, most of the group long-term insurance coverages were discontinued. Insureds for whom the group long-term care insurance was discontinued are eligible to enter into a personal lines long-term care policy with Harel Insurance, without underwriting (under conditions of insurance continuity), within the time period specified in the conditions of the insurance. The right to exercise this continuity of insurance was not expected to significantly affect the Company's financial results in the Reporting Period. The Company believes that in view of the discontinuation of group long-term insurance, the losses, arising from previous periods, will moderate significantly.

Harel Insurance is the insurer in a group LTC policy for members of Clalit Health Services through December 31, 2018. In May 2018, Clalit Health Services published a tender for group LTC insurance for members of the fund which will enter into force on January 1, 2019. On September 5, 2018, Harel Insurance was informed that it had won the aforementioned tender. In addition to the group long-term care policy for members of Clalit Health Services, Harel provides long-term care insurance for several other groups.

2.6.7 Non-life insurance

For information about additional financial data relating to the non-life insurance segment by sector, see Note 4(B) to the Financial Statements.

Change in the quantity of policies in terms of exposure:

	For the nine months ended September 30		For year ended December 31
	2018	2017	2017
Compulsory motor	22%	11%	11%
Motor property	7%	1%	1%
Property and other branches	8%	10%	7%
Liabilities and other branches	5%	2%	3%

Number of policies in terms of exposure - non-life insurance activity typically takes the form of policies with a term of up to a year. In view of the nature of the policies, quantity is a multiple of the number of policies in the policy period during the year. Namely, if underwriting was performed for a policy with a term of less than a year, it is multiplied by the relative part of the period so that a policy for six months is half a unit.

On October 2, 2017, Harel Insurance was informed that it had been awarded the tender published by the Accountant General for 32% of the scope of motor property insurance and compulsory motor insurance of state employees for 2018.

On September 6, 2018, Harel Insurance was informed that it had been awarded the tender published by the Accountant General for 35% of the scope of motor property insurance and compulsory motor insurance of state employees for 2019-2020. The results of the tender are not expected to significantly affect the financial results of Harel Insurance.

2.6.7.1 Compulsory motor

The increase in gross premiums compared with the corresponding period last year is attributable to the increased premium in several group policies (collectives) and to the fact that the renewal date for the state employees' transaction was brought forward and the gross premium for 2017 was included in Q4 2016.

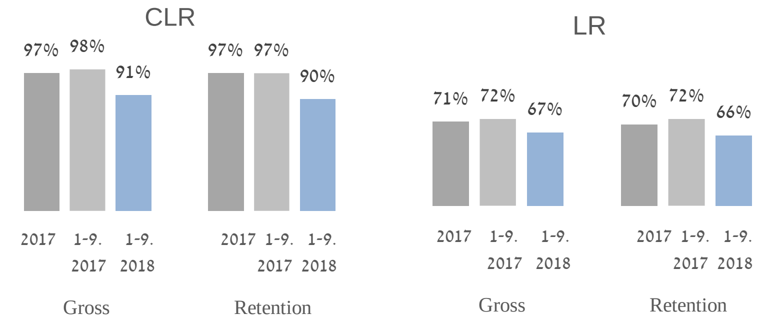
Given that car owners must insure their vehicles in accordance with the Motor Vehicle Insurance Ordinance, the owners of vehicles (usually motorcycles) who were rejected by the insurance companies may purchase insurance through the Pool (Israel pool for car insurance) which operates as an insurance company to all intents and purposes. All the insurance companies which operate in the compulsory motor sector are partners in the Pool, and each company bears a pro rata share of the Pool's losses in the compulsory motor insurance market for the previous year. A letter from the Pool's CEO set the Company's temporary share in the net premiums for 2018 at 10.86% (as against 11.04% which was the Company's share in 2017).

2.6.7.2 Motor property

The increase in gross premiums compared with the corresponding period last year is attributable to the increased premium in several group policies (collectives) and to the fact that the renewal date for the state employees' transaction was brought forward and the gross premium for 2017 was included in Q4 2016.

Results in the Reporting Period compared with last year, were mainly influenced by improved underwriting performance.

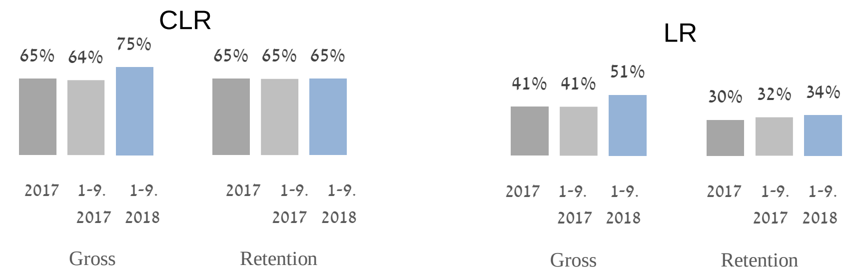
Loss Ratio and Combined Loss Ratio in motor property insurance:



2.6.7.3 Property and other branches

The results in the Reporting Period compared with last year are explained by a negative development in several claims for the property loss sector.

Loss Ratio and Combined Loss Ratio in property and other insurance sectors:



2.6.7.4 Other liabilities branches

Results in the Reporting Period were affected by yields in the capital market that were significantly lower than in the corresponding period last year and by the change in the CPI which was higher than in the corresponding period last year.

2.6.7.5 Credit insurance for mortgages

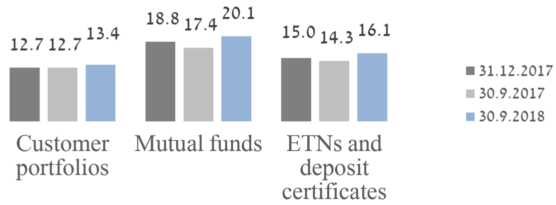
The premiums earned in credit insurance for residential mortgages are not for new sales, but in respect of sales made in the past for which the premiums are recognized as earned premiums based on the period of coverage. EMI has no reinsurance agreements in this branch of insurance.

2.6.8 Insurance companies overseas

The Company is the controlling shareholder (with a 94% stake) of Interasco, an insurance company operating in Greece, and it also fully controls Turk Nippon - an insurance company which operates in Turkey ("insurance companies overseas"). The insurance companies overseas engage in non-life insurance and health insurance. Results in the Reporting Period were affected by a revision of the premium tariffs in the compulsory motor sector in Turk Nippon. Results for the quarter were mainly influenced by the erosion in the value of the Turkish lira.

2.6.9 Capital market and financial services

Assets managed for the Group's members and policyholders (NIS billion):

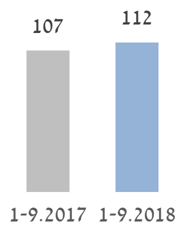


The assets managed in the customer portfolios include financial assets that were issued by the Group and are managed in the portfolios.

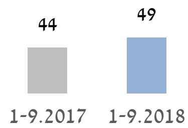
Revenues in the capital market and financial services segment amounted to NIS 161 million in the Reporting Period, compared with NIS 151 million in the corresponding period last year.

* The assets managed by the mutual funds and in customers' portfolios are not included in the Company's consolidated financial statements.

Management fees from mutual funds and managed portfolios (NIS million):



Revenues from ETN and deposit certificate activity and related activity connected with financial products (NIS million):



As part of the restructuring of the companies in Harel Finance Group (in light of Amendment no. 28 to the Joint Investment Trust Law - see Section 2.4.5), and based on approval given on September 26, 2018 by the board of directors of Harel Index Funds Ltd., in November 2018 a merger agreement was signed between Harel Index Funds Ltd. and a related company, Harel Pia Mutual Funds Ltd. The Company believes that the merger of the companies will provide the merged company with operating advantages and it will also strengthen and position the merged company, as the fourth largest manager of mutual fund assets in Israel.

2.7 Liquidity and sources of finance

2.7.1 Cash flows

Net cash flows used in ongoing activity were NIS 45 million in the Reporting Period. Net cash flows used in investment activity amounted to NIS 107 million. Net cash flows provided by financing activity were NIS 137 million. The effect of fluctuating exchange rates on the cash balances was a positive NIS 200 million. The outcome of all the above activity is an increase of NIS 185 million in the cash balances.

2.7.2 Financing of operations

The Company and its subsidiaries generally finance their ongoing operations from their own sources. In view of the capital requirements applicable to the Company's subsidiaries that are insurers, and pursuant to the Capital Regulations, the regulatory capital required of an insurer may comprise Tier-1 capital, hybrid Tier-1 capital, hybrid Tier-2 capital, and hybrid Tier-3 capital. Additionally, pursuant to the circular on implementation of the economic solvency regime for insurance companies based on Solvency II, an insurer's equity may comprise Tier-1 capital, Tier-2 capital and Tier-3 capital.

During the Reporting Period, Harel Insurance raised debt which serves as Tier-2 capital. On the issuance of Series 14 and 15 bonds of Harel Financing & Issuing, see Note 6C to the Financial Statements.

3 Market risks - exposure and management

During the Reporting Period, there were no material changes in the Company's exposure to and management of market risks compared with the Periodic Report.

4 Corporate governance

4.1 Company officers

On January 16, 2018, Mr. Moshe Nissan terminated his term of office as CEO of the subsidiary, Harel Hamishmar Computers Ltd., and deputy CEO of Harel Insurance. Mr. Eyal Efrat was appointed to replace Mr. Nissan commencing on that date.

4.2 Board of Directors

4.2.1 On January 1, 2018, Ms. Miri Lent-Sharir took up her position as an external director in the Company.

4.2.2 On May 2, 2018, Mr. Eli Deffes began to serve as a director in the Company.

5 Disclosure regarding the solvency ratio

In June 2017, the Commissioner published Insurance Circular 2017-1-9 - "Provisions for the Implementation of an Economic Solvency Regime for Insurance Companies Based on Solvency II" ("Solvency Circular"). The circular prescribes provisions for implementation of an economic solvency regime by insurance companies, based on the Solvency II Directive which was adopted by the European Union and implemented as of January 2016 in all EU member states. This circular imposed the obligation to establish an economic solvency regime on the Company. Among other things, the circular states that the accounting solvency regime will not apply to insurance companies that the Commissioner has certified as having performed an audit of implementation of the provisions of the Solvency Circular, commencing on the date of certification and thereafter, subject to cancellation of the old Capital Regulations.

In November 2018, the Company received confirmation from the Commissioner that an external auditor had performed an audit of its implementation of the provisions of the Solvency regime. The external auditor's audit was performed in accordance with International Standard ISAE 3400. As a direct consequence, and in view of the cancellation of the old Capital Regulations, commencing December 2018 the Company will move over exclusively to an economic solvency regime. Accordingly, the Company publishes a report of its economic solvency ratio at December 31, 2017, in accordance with the requirements of Insurance Circular 2017-1-20 from December 2017, which sets out the structure of the disclosure required in the Periodic Report with respect to an economic solvency regime based on Solvency II ("the Disclosure").

As at December 31, 2017, the capital surplus of Harel Insurance, on a consolidated basis and before the transitional provisions (in terms of 100% SCR), is NIS 1.3 billion. At December 31, 2016, the capital surplus of Harel Insurance is NIS 1.6 billion (this surplus was updated to take into account a dividend of NIS 250 million that was distributed in June 2017). The change in the capital surplus between the periods is attributed, in part, to the distribution of dividends in September 2017 and March 2018, and to a decline in the interest rate curve and to changes in the mix and scope of the portfolio.

Notably, the model in its current format is extremely sensitive to changes in market variables. Consequently, the capital position that it reflects could be extremely volatile. Other factors might also significantly affect the reporting results, so that despite the final instructions, companies were informed that the treatment of these instructions has not yet been finally determined and is subject to change in line with the outcome of the discussions between the Commissioner and the insurance companies in Israel. The data presented below were prepared in accordance with the Commissioner's directives as they were known at the time of preparing the Report. Calculations of the existing economic capital and required capital are based on forecasts and assumptions that rely principally on past experience, and they do not necessarily reflect future performance.

The Best Estimate determination was based on forecasts, evaluations and estimates of future events, the materialization of which is uncertain and that are beyond the Company's control, and they should be treated as "forward looking information", according to its definition in Section 32 of the Securities Law, 1968. All or some of these forecasts, assessments and estimates may not materialize or they may materialize in a manner that differs from the assumption in Solvency Report, and consequently actual performance may differ from the forecast.

At December 31, 2017, transitional provisions are in place according to which Harel Insurance must meet 65% of the total capital requirements. The capital required to ensure the solvency of insurance companies will increase gradually by 5% each year, beginning with 60% of the SCR until the full SCR is reached in December 2024 ("the Scheduling Period"). Furthermore, there is relief in respect of the capital requirements for share risk.

Information about the solvency ratio and minimum capital requirement (MCR) at December 31, 2017, based on the instructions in the Solvency circular published on June 1, 2017:

A. Solvency ratio

	December 31 2017	December 31 2016
	NIS million	NIS million
	(Audited)	(Unaudited)
Equity in relation to the solvency capital requirement (SCR)	**10,812**	10,113
Solvency capital requirement (SCR)	**9,494**	8,459
Surplus (*)	**1,318**	1,654
Solvency ratio	**114%**	120%

(*) Changes in equity from the date of the calculation until the first date of publication that were not included in the results:

(a) Tier-2 capital raised in the amount of NIS 250 million. For information about these capital raisings, see Note 6 to the Financial Statements.

(b) Tier-2 capital obsolescence in the amount of NIS 78 million.

Taking into account all the aforementioned changes in equity until November 2018, the first publication date for the solvency ratio in respect of December 31, 2017 data, the capital surplus increased from NIS 172 million to NIS 1,490 million, and the solvency ratio would have been 116%.

Compliance with milestones in the Scheduling Period:

	December 31 2017	December 31 2016
	(Audited)	(Unaudited)
	NIS million	NIS million
Equity for the purpose of solvency capital requirement (SCR) in the Scheduling Period	**10,536**	9,564
Solvency Capital Requirement in the Scheduling Period	**5,771**	4,758
Surplus in the Scheduling Period	**4,765**	4,806

B. Minimum Capital Requirement (MCR)

	December 31 2017	December 31 2016
	(Audited)	(Unaudited)
	NIS million	NIS million
Minimum Capital Requirement (MCR)	**1,877**	1,826
Equity in relation to MCR	**8,026**	7,551

Creation of a safety net

On December 27, 2017, the Board of Directors of Harel Insurance resolved to establish a safety net in accordance with Section 1(A)(2) of a letter addressed to managers of the insurance companies published by the Commissioner of the Capital Market, Insurance and Savings on October 1, 2017. The safety net will gradually expand so that at the end of the adjustment period (2024) it will be NIS 1 billion, growing from NIS 0.65 billion in 2017 to NIS 1 billion in 2024.

The Board of Directors wishes to express its thanks to the Group's employees and agents for its achievements.

Yair Hamburger	Michel Siboni
Chairman of the Board of Directors	CEO

November 28, 2018

HAREL INSURANCE INVESTMENTS AND FINANCIAL SERVICES LTD

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at September 30, 2018

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arbaa Street, P.O. Box 609
Tel-Aviv 61006

Telephone: 03-684 8000
Fax: 03-684 8444
Internet: www.kpmg.co.il

Auditors' review report to the shareholders of
Harel Insurance Investments and Financial Services Ltd.

Introduction

We reviewed the accompanying financial information of Harel Insurance Investments and Financial Services Ltd. and its subsidiaries (hereinafter: "the Group") which include the condensed consolidated interim statement of financial position as at September 30, 2018 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine and three months ended on that date. The Board of Directors and management are responsible for the preparation and presentation of the financial information for these interim periods in accordance with International Accounting Standard IAS 34 "Interim Financial Reporting", and they are also responsible for the preparation of financial information for these interim periods under Chapter D of the Securities (Periodic and Immediate Reports) Regulations, 1970, to the extent that these regulations apply to companies that consolidate insurance companies and subject to the disclosure requirements issued by the Commissioner of the Capital Market, Insurance and Savings, in accordance with Supervision of Financial Services (Insurance) Law, 1981. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of consolidated companies whose assets included in the consolidation constitute 15.38% of all the consolidated assets as at September 30, 2018 and whose revenues included in the consolidation comprise 3.58% and 2.95% of all the consolidated revenues for the nine and three months, respectively, ended on that date. Furthermore, we did not review the condensed financial information for the interim period of equity accounted investees, in which the investment is NIS 116,480 thousand as at September 30, 2018, and the Group's share of their profits is NIS 9,337 thousand and NIS 3,379 thousand for the nine and three months, respectively, ended on that date. The condensed interim financial information for those companies was reviewed by other auditors whose review reports were furnished to us and our conclusions, to the extent that they relate to financial information for those companies, are based on the review reports of the other auditors**.**

Scope of the review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel "Review of financial information for interim periods prepared by the entity's auditor". A review of interim financial information consists of clarifications, mainly with the people responsible for financial and accounting matters, and applying analytical review procedures. A review is considerably more limited in scope than an audit conducted in accordance with generally accepted auditing standards in Israel, and therefore does not enable us to obtain assurance that we could become aware of all the significant matters that might have been identified in an audit. We therefore do not express an audit opinion.

Conclusion

Based on our review, and on the review report of the other auditors, nothing came to our attention that might cause us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34.

In addition to the remark in the previous paragraph, based on our review and on the review reports of the other auditors, nothing came to our attention that might cause us to believe that the accompanying financial information does not comply, in all significant respects, with the provisions of the Pronouncement under Chapter D of the Securities (Periodic and Immediate Reports) Regulations, 1970, to the extent that these regulations apply to a corporation that consolidates insurance companies and subject to the disclosure requirements issued by the Commissioner of the Capital Market, Insurance and Savings pursuant Supervision of Financial Services (Insurance) Law, 1981.

Emphasis
Without qualifying our abovementioned conclusions, we direct attention to Note 7A to the condensed consolidated interim financial statements regarding the Group's exposure to contingent liabilities.

Somekh Chaikin
Certified Public Accountants (Isr)

November 28, 2018

KPMG Somekh Chaikin, a partnership registered under the Israeli Partnership Ordinance, is the Israeli member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

Condensed consolidated interim statements of financial position at

	September 30,		December 31,
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Intangible assets	**1,529**	1,450	1,463
Deferred tax assets	**11**	11	12
Deferred Acquisition Costs	**2,443**	2,325	2,340
Fixed assets	**1,336**	1,308	1,299
Investments in equity accounted investees	**1,449**	1,453	1,479
Investment property for yield-dependent contracts	**1,593**	1,457	1,502
Other investment property	**1,835**	1,718	1,742
Reinsurance assets	**4,443**	4,573	4,545
Current tax assets	**20**	34	24
Trade and other receivables	**995**	1,151	1,088
Premium due	**1,381**	1,328	1,330
Financial investments for yield-dependent contracts	**53,544**	45,824	47,771
Financial investments for holders of ETNs	**-**	6,747	7,133
Assets designated for disposal *	**9,440**	-	-
Other financial investments			
Marketable debt assets	**8,120**	7,080	7,080
Non-marketable debt assets	**13,739**	13,211	13,707
Shares	**1,052**	871	918
Other	**2,521**	2,314	2,399
Total other financial investments	**25,432**	23,476	24,104
Cash and cash equivalents pledged for holders of ETNs	**6,889**	7,824	8,109
Cash and cash equivalents for yield-dependent contracts	**2,975**	2,013	2,758
Other cash and cash equivalents	**1,527**	1,368	1,559
Total assets	**116,842**	104,060	108,258
Total assets for yield-dependent contracts	**58,790**	49,883	52,550

* On the classification of ETN assets as assets designated for disposal, see Note 9

The notes accompanying the condensed consolidated interim financial statements are an integral part thereof.

Condensed consolidated interim statements of financial position at (Contd.)

	September 30,		December 31,
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Equity and liabilities			
Equity			
Share capital and share premium	**340**	345	339
Treasury shares	**(132)**	(138)	(131)
Capital reserves	**522**	474	529
Retained earnings	**5,258**	4,632	4,821
Total equity attributed to shareholders of the Company	**5,988**	5,313	5,558
Non-controlling interests	**6**	6	6
Total equity	**5,994**	5,319	5,564
Liabilities			
Liabilities for non- yield-dependent insurance contracts and investment contracts	**27,773**	26,615	26,939
Liabilities for yield-dependent insurance contracts and investment contracts	**58,197**	49,278	51,997
Deferred tax liabilities	**913**	866	923
Liabilities for employee benefits, net	**258**	249	252
Current tax liabilities	**73**	31	61
Trade and other payables	**2,880**	2,887	3,137
Liabilities for ETNs and covered options	**-**	14,282	14,997
Liabilities designated for disposal *	**16,124**	-	-
Financial liabilities	**4,630**	4,533	4,388
Total liabilities	**110,848**	98,741	102,694
Total equity and liabilities	**116,842**	104,060	108,258

Yair Hamburger	Michel Siboni	Arik Peretz
Chairman of the Board of Directors	CEO	CFO

Date of approval of the financial statements: November 28, 2018

* On the classification of ETN assets as liabilities designated for disposal, see Note 9

The notes accompanying the condensed consolidated interim financial statements are an integral part thereof.

Condensed consolidated interim statements of income

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Premiums earned, gross	**10,449**	9,713	**3,660**	3,313	13,091
Premiums earned by reinsurers	**1,119**	1,050	**383**	368	1,442
Earned premiums in retention	**9,330**	8,663	**3,277**	2,945	11,649
Profit from investments, net, and financing income	**2,914**	3,481	**1,738**	1,146	5,163
Income from management fees	**901**	911	**353**	336	1,257
Income from commissions	**257**	249	**83**	87	339
Other income	**-**	7	**-**	-	7
Total income	**13,402**	13,311	**5,451**	4,514	18,415
Payments and changes in liabilities for insurance contracts and investment contracts gross	**10,456**	10,560	**4,301**	3,670	14,833
Reinsurers' share of payments and change in liabilities for insurance contracts	**737**	645	**219**	158	952
Payments and changes in liabilities for insurance contracts and investment contracts in retention	**9,719**	9,915	**4,082**	3,512	13,881
Commissions, marketing expenses and other purchasing expenses	**1,917**	1,775	**667**	603	2,386
General and administrative expenses	**904**	870	**294**	294	1,155
Other expenses	**18**	32	**8**	11	44
Financing expenses, net	**158**	90	**44**	29	122
Total expenses	**12,716**	12,682	**5,095**	4,449	17,588
Company's share of profits of equity accounted investees	**66**	87	**33**	41	163
Profit before taxes on income	**752**	716	**389**	106	990
Taxes on income	**209**	222	**112**	25	306
Profit for period	**543**	494	**277**	81	684
Attributed to:					
Shareholders of the Company	**543**	494	**277**	81	684
Non-controlling interests	**-***	-*	**-***	-*	-*
Profit for period	**543**	494	**277**	81	684
Basic earnings per share (in NIS)	**2.55**	2.34	**1.30**	0.39	3.21
Diluted earnings per share (in NIS)	**2.55**	2.33	**1.30**	0.39	3.21

* Less than NIS 1 million.

The notes accompanying the condensed consolidated interim financial statements are an integral part thereof.

Condensed consolidated interim statements of comprehensive income

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Profit for period	**543**	494	**277**	81	684
Other items of comprehensive income that after initial recognition as part of comprehensive income were or will be transferred to profit or loss					
Net change in fair value of financial assets classified as available-for-sale	**(8)**	266	**99**	163	332
Net change in fair value of financial assets classified as available-for-sale carried over to income statement	**(86)**	(183)	**(44)**	(66)	(153)
Loss from impairment of available-for-sale financial assets carried over to income statement	**27**	34	**4**	7	41
Foreign currency translation differences for foreign activity	**24**	(47)	**(22)**	24	(62)
Tax benefits (taxes on income) attributable to available-for-sale financial assets	**19**	(35)	**(25)**	(35)	(70)
Tax benefits (taxes on income) for other items of comprehensive income that after initial recognition as part of comprehensive income were or will be transferred to profit or loss	**(13)**	11	**3**	(7)	13
Total other comprehensive income (loss) that after initial recognition as part of comprehensive income was or will be transferred to profit or loss, net of tax	**(37)**	46	**15**	86	101
Other items of comprehensive income that will not be transferred to profit or loss					
Revaluation reserve in respect of fixed asset items	**44**	88	**(6)**	(1)	88
Remeasurement of a defined benefit plan	**2**	(1)	**(1)**	(3)	(2)
Tax benefit (taxes on income) for other items of comprehensive income that will not be transferred to profit or loss	**(15)**	(26)	**2**	1	(25)
Total other comprehensive income (loss) for period that will not be transferred to profit or loss, net of tax	**31**	61	**(5)**	(3)	61
Total other comprehensive income (loss) for period	**(6)**	107	**10**	83	162
Total comprehensive income for period	**537**	601	**287**	164	846
Attributed to:					
Shareholders of the Company	**537**	601	**287**	164	846
Non-controlling interests	**-***	-*	**-***	-*	-*
Total profit for period	**537**	601	**287**	164	846

* Less than NIS 1 million.

The notes accompanying the condensed consolidated interim financial statements are an integral part thereof.

Condensed consolidated interim statements of changes in equity

	Attributed to shareholders of the Company										
	Share capital and premium	Capital reserve for available-for-sale assets	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling interests	Capital reserve for revaluation of fixed assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
For the nine months ended September 30, 2018 (Unaudited)											
Balance as at January 1, 2018	339	480	(129)	1	(131)	(49)	226	4,821	5,558	6	5,564
Total comprehensive income (loss) for period											
Profit for period	-	-	-	-	-	-	-	543	543	-*	543
Total other comprehensive income (loss)	-	(48)	11	-	-	-	30	1	(6)	-*	(6)
Total comprehensive income (loss) for period	-	(48)	11	-	-	-	30	544	537	-*	537
Transactions with shareholders recognized directly in equity											
Dividend distributed	-	-	-	-	-	-	-	(107)	(107)	-	(107)
Purchase of treasury stock	-	-	-	-	(7)	-	-	-	(7)	-	(7)
Reissuing of treasury stock	1	-	-	-	6	-	-	-	7	-	7
Balance as at September 30, 2018	340	432	(118)	1	(132)	(49)	256	5,258	5,988	6	5,994

* Less than NIS 1 million.

The notes accompanying the condensed consolidated interim financial statements are an integral part thereof.

Condensed consolidated interim statements of changes in equity (Contd.)

	Attributed to shareholders of the Company										
	Share capital and premium	Capital reserve for available-for-sale assets	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling interests	Capital reserve for revaluation of fixed assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
For the three months ended September 30, 2018 (Unaudited)											
Balance as at July 1 2018	340	398	(99)	1	(131)	(49)	260	4,982	5,702	6	5,708
Total comprehensive income (loss) for period											
Profit for period	-	-	-	-	-	-	-	277	277	-*	277
Total other comprehensive income (loss)	-	34	(19)	-	-	-	(4)	(1)	10	-*	10
Total comprehensive income (loss) for period	-	34	(19)	-	-	-	(4)	276	287	-*	287
Transactions with shareholders recognized directly in equity											
Purchase of treasury stock	-	-	-	-	(2)	-	-	-	(2)	-	(2)
Reissuing of treasury stock	-	-	-	-	1	-	-	-	1	-	1
Balance as at September 30, 2018	340	432	(118)	1	(132)	(49)	256	5,258	5,988	6	5,994

* Less than NIS 1 million.

The notes accompanying the condensed consolidated interim financial statements are an integral part thereof.

Condensed consolidated interim statements of changes in equity (Contd.)

	Attributed to shareholders of the Company										
	Share capital and premium	Capital reserve for available-for-sale assets	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling interests	Capital reserve for revaluation of fixed assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
For the nine months ended September 30, 2017 (Unaudited)											
Balance as at January 1, 2017	351	330	(80)	4	(158)	(49)	164	4,599	5,161	6	5,167
Total comprehensive income (loss) for the period											
Profit for the period	-	-	-	-	-	-	-	494	494	-*	494
Total other comprehensive income (loss)	-	82	(36)	-	-	-	61	-	107	-*	107
Total comprehensive income (loss) for period	-	82	(36)	-	-	-	61	494	601	-*	601
Transactions with shareholders recognized directly in equity											
Dividend distributed	-	-	-	-	-	-	-	(461)	(461)	-	(461)
Purchase of treasury stock	-	-	-	-	(16)	-	-	-	(16)	-	(16)
Reissuing of treasury stock	(8)	-	-	-	36	-	-	-	28	-	28
Exercising of stock options	2	-	-	(2)	-	-	-	-	-	-	-
Balance as at September 30, 2017	345	412	(116)	2	(138)	(49)	225	4,632	5,313	6	5,319

* Less than NIS 1 million.

The notes accompanying the condensed consolidated interim financial statements are an integral part thereof.

Condensed consolidated interim statements of changes in equity (Contd.)

	Attributed to shareholders of the Company										
	Share capital and premium	Capital reserve for available-for-sale assets	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling interests	Capital reserve for revaluation of fixed assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
For the three months ended September 30, 2017 (Unaudited)											
Balance as at July 1, 2017	349	343	(133)	4	(144)	(49)	226	4,756	5,352	6	5,358
Total comprehensive income (loss) for period											
Profit for period	-	-	-	-	-	-	-	81	81	-*	81
Total other comprehensive income (loss)	-	69	17	-	-	-	(1)	(2)	83	-*	83
Total comprehensive income (loss) for period	-	69	17	-	-	-	(1)	79	164	-*	164
Transactions with shareholders recognized directly in equity											
Dividend distributed	-	-	-	-	-	-	-	(203)	(203)	-	(203)
Purchase of treasury stock	-	-	-	-	(2)	-	-	-	(2)	-	(2)
Reissuing of treasury stock	(6)	-	-	-	8	-	-	-	2	-	2
Exercising of stock options	2	-	-	(2)	-	-	-	-	-	-	-
Balance as at September 30, 2017	345	412	(116)	2	(138)	(49)	225	4,632	5,313	6	5,319

* Less than NIS 1 million.

The notes accompanying the condensed consolidated interim financial statements are an integral part thereof.

Condensed consolidated interim statements of changes in equity (Contd.)

	Attributed to shareholders of the Company										
	Share capital and premium	Capital reserve for available-for-sale assets	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling interests	Capital reserve for revaluation of fixed assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
For the year ended December 31, 2017 (Audited)											
Balance as at January 1, 2017	351	330	(80)	4	(158)	(49)	164	4,599	5,161	6	5,167
Total comprehensive income (loss) for year											
Profit for year	-	-	-	-	-	-	-	684	684	-*	684
Total other comprehensive income (loss)	-	150	(49)	-	-	-	62	(1)	162	-*	162
Total comprehensive income (loss) for year	-	150	(49)	-	-	-	62	683	846	-*	846
Transactions with shareholders recognized directly in equity											
Dividend distributed	-	-	-	-	-	-	-	(461)	(461)	-	(461)
Purchase of treasury stock	-	-	-	-	(18)	-	-	-	(18)	-	(18)
Reissuing of treasury stock	(15)	-	-	-	45	-	-	-	30	-	30
Exercising of options	3	-	-	(3)	-	-	-	-	-	-	-
Balance as at December 31, 2017	339	480	(129)	1	(131)	(49)	226	4,821	5,558	6	5,564

* Less than NIS 1 million.

The notes accompanying the condensed consolidated interim financial statements are an integral part thereof.

Condensed consolidated interim statements of cash flows

		For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31,
		2018	2017	2018	2017	2017
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	Annex	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows from operating activity						
Before taxes on income	A	171	371	1,251	223	1,216
Income tax paid		(216)	(168)	(116)	(20)	(189)
Net cash provided by (used for) current operations		(45)	203	1,135	203	1,027
Cash flows from investing activity						
Investment in investees, net		(46)	(58)	(8)	(27)	(64)
Proceeds from the sale of an investment in an equity accounted investee		132	23	1	-	48
Investment in fixed assets		(62)	(68)	(7)	(12)	(79)
Investment in intangible assets		(171)	(115)	(63)	(32)	(169)
Dividend and interest received from investees		39	14	21	4	29
Proceeds from sale of fixed assets		1	1	-	-	12
Net cash used for investment activity		(107)	(203)	(56)	(67)	(223)
Cash flows from financing activities						
Issuance of liability notes		250	247	-	-	247
Purchase of treasury shares, net		-	12	(1)	1	12
Proceeds from issuance of ETNs and covered warrants, net		94	128	(104)	61	312
Short-term credit from banks, net		(12)	(4)	-	(44)	(3)
Repayment of loans from banks and others		(88)	(64)	-	-	(104)
Dividend paid to the Company's shareholders		(107)	(461)	-	(354)	(461)
Net cash provided by (used for) financing activity		137	(142)	(105)	(336)	3
Effect of exchange rate fluctuations on cash balances and cash equivalents		200	(79)	193	6	(92)
Increase (decrease) in cash and cash equivalents		185	(221)	1,167	(194)	715
Retained cash and cash equivalents at beginning of period	B	4,317	3,602	3,335	3,575	3,602
Retained cash and cash equivalents at end of period	C	4,502	3,381	4,502	3,381	4,317

The notes accompanying the condensed consolidated interim financial statements are an integral part thereof.

Condensed consolidated interim statements of cash flows (Contd.)

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
(Annex A - Cash flows from operating activities before taxes on income (1), (2), (3					
Profit for the period	**543**	494	**277**	81	684
Items that do not involve cash flows:					
Company's share of profit of equity accounted investees	**(66)**	(87)	**(33)**	(41)	(163)
Net profits from financial investments for yield-dependent insurance contracts and investment contracts	**(1,073)**	(1,873)	**(1,187)**	(753)	(2,907)
Losses (profits) net, from other financial investments					
Marketable debt assets	**(115)**	40	**(46)**	(14)	40
Non-marketable debt assets	**(111)**	3	**(8)**	25	6
Shares	**(57)**	(11)	**(50)**	(1)	(30)
Other investments	**99**	(203)	**(63)**	89	(321)
Financing expenses for financial liabilities	**1,295**	854	**597**	850	1,348
Change in fair value of investment property for yield-dependent contracts	**(25)**	(11)	**(8)**	(16)	(46)
Change in fair value of other investment property	**(55)**	(84)	**(14)**	(18)	(101)
Depreciation and amortization					
Fixed assets	**67**	61	**24**	21	81
Intangible assets	**104**	115	**36**	37	138
Change in liabilities for non- yield-dependent insurance contracts and investment contracts	**680**	631	**(11)**	58	972
Change in liabilities for yield-dependent insurance contracts and investment contracts	**6,200**	5,722	**2,613**	2,105	8,442
Change in reinsurance assets	**63**	150	**27**	147	171
Change in DAC	**(116)**	(144)	**3**	(31)	(160)
Income tax expenses	**209**	222	**112**	25	306
Changes in other statement of financial position items:					
Financial investments and investment property for yield-dependent insurance contracts and investment contracts					
Purchase of investment property	**(66)**	(34)	**(22)**	(18)	(44)
Net acquisitions of financial investments	**(4,671)**	(3,630)	**(515)**	(1,320)	(4,541)
Other financial investments and investment property					
Purchase of investment property	**(38)**	(27)	**(12)**	(14)	(34)
Proceeds from the sale of investment property	**-**	3	**-**	3	3
Net sales (acquisitions) of financial investments	**(1,195)**	(791)	**(6)**	(316)	(1,204)
Premiums due	**(88)**	69	**3**	(68)	61
Trade and other receivables	**(59)**	63	**246**	233	85
Financial investments for holders of ETNs, net	**(2,307)**	142	**(1,952)**	(204)	(245)
Cash and cash equivalents pledged for holders of ETNs	**1,220**	(1,315)	**1,341**	(390)	(1,599)
Trade and other payables	**(274)**	16	**(104)**	(252)	276
Liabilities for employee benefits, net	**7**	(4)	**3**	5	(2)
Total adjustments required to present cash flows from operating activity	**(372)**	(123)	**974**	142	532
Total cash flows from operating activity before taxes on income	**171**	371	**1,251**	223	1,216

(1) Cash flows from operating activities include net purchases and sales of financial investments and real estate investment resulting from activities in insurance contracts and investment contracts.

(2) As part of the operating activities, interest received was presented at NIS 1,185 million (for the nine months ended September 30, 2017 an amount of NIS 1,080 million and for 2017 an amount of NIS 1,582 million) and interest was paid in the amount of NIS 61 million (for the nine months ended September 30, 2017 an amount of NIS 63 million and for 2017 an amount of NIS 157 million).

(3) As part of the ongoing activity, a dividend received from other financial investments was presented in the amount of NIS 217 million (for the nine months ended September 30, 2017, an amount of NIS 222 million and for 2017 an amount of NIS 287 million).

The notes accompanying the condensed consolidated interim financial statements are an integral part thereof.

Condensed consolidated interim statements of cash flows (contd.)

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Annex B - Cash and cash equivalents at beginning of period					
Cash and cash equivalents for yield-dependent contracts	**2,758**	1,848	**2,113**	1,891	1,848
Other cash and cash equivalents	**1,559**	1,754	**1,222**	1,684	1,754
Retained cash and cash equivalents at beginning of the period	**4,317**	3,602	**3,335**	3,575	3,602
Annex C - Cash and cash equivalents at end of period					
Cash and cash equivalents for yield-dependent contracts	**2,975**	2,013	**2,975**	2,013	2,758
Other cash and cash equivalents	**1,527**	1,368	**1,527**	1,368	1,559
Retained cash and cash equivalents at end of the period	**4,502**	3,381	**4,502**	3,381	4,317

The notes accompanying the condensed consolidated interim financial statements are an integral part thereof.

Note 1 - General

The reporting entity

Harel Insurance Investments and Financial Services Ltd. ("the Company") is an Israeli resident company, which was incorporated in Israel, and whose shares are traded on the Tel Aviv Stock Exchange. Its official address is 3 Abba Hillel Silver Street, Ramat Gan.

The Company is a holding company whose main holdings are in subsidiaries comprising insurance and finance companies. The condensed consolidated interim financial statements, as at September 30, 2018, include those of the Company and its subsidiaries ("the Group"), the Company's rights in jointly controlled entities and the Group's rights in affiliated companies.

The condensed consolidated interim financial statements mainly reflect assets and liabilities and operations of the subsidiary insurance companies and were therefore prepared in a similar format.

Note 2 - Basis of preparation

A. Statement of compliance with International Financial Reporting Standards

The condensed consolidated interim financial statements were prepared in accordance with IAS 34 - Financial Reporting for Interim Periods and in accordance with the requirements of the Pronouncements issued by the Commissioner of Insurance and in accordance with the Supervision of Financial Services (Insurance) Law, 1981 ("the Supervision Law"), and they do not include all the information required in full annual financial statements. They should be read them together with the financial statements as at and for the year ended December 31, 2017 ("the Annual Financial Statements"). Moreover, these statements were prepared in accordance with the provisions of Chapter D of the Securities (Periodic and Immediate Reports) Regulations, 1970, insofar as these regulations apply to a company that consolidates insurance companies.

The condensed consolidated interim financial statements were approved for publication by the Company's Board of Directors on November28, 2018.

B. Use of estimates and discretion

Preparation of the condensed consolidated interim financial statements in accordance with IFRS and in accordance with the Supervision Law and subsequent regulations requires the Group's management to use its discretion in evaluations, estimates and assumptions, including actuarial assumptions and estimates ("Estimates") which affect application of the accounting policy, the value of assets and liabilities, and amounts of revenues and expenses. It should be clarified that actual results are liable to be different from these estimates. The main estimates included in the financial statements are based on actuarial assessments and external evaluations.

When formulating the accounting estimates used in the preparation of the Group's financial statements, the Company's management is required to make assumptions regarding circumstances and events which involve considerable uncertainty. In applying its discretion in determining the estimates, the Company's management bases itself on past experience, various facts, external factors, and reasonable assumptions, including future expectations, to the extent that they can be assessed, based on the appropriate circumstances for each estimate.

The estimates and their underlying assumptions are reviewed on a current basis. Changes in accounting estimates are recognized during the period in which the estimates were amended and in every future affected period.

The assessments and discretion that management uses to apply the accounting policy in preparing the condensed consolidated interim financial statements are mainly consistent with those used in the preparation of the consolidated financial statements as at December 31, 2017, and except for the information below, there was no change in the actuarial assumptions that significantly affect the reserves. In connection with the revised discounting interest rates used for calculating the insurance liabilities and with the Liability Adequacy Test (LAT), see also Note 9.

Note 2 - Basis of preparation (Contd.)

C. Reclassification

In some of the Notes to these Consolidated Interim Financial Statements, comparison figures have been reclassified within the Note components. These reclassifications did not have any effect on the Group's equity and/or on profit or loss and/or comprehensive income.

D. Functional and presentation currency

The condensed interim consolidated financial statements are presented in New Israel Shekels (NIS), which is the Company's functional currency. Commencing with the financial statements as at March 31, 2018, the Company presents its financial information in NIS million. The financial information is rounded to the nearest million.

Note 3 - Significant accounting principles

Except as noted in paragraph A below, the Group's accounting principles in these condensed consolidated interim financial statements are the policy applied in the annual financial statements.

A. Initial application of IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15")

IFRS 15 presents a new model for recognizing revenue from contracts with customers and provides two approaches for recognizing revenue: at a point in time or over time. The model includes five steps for analyzing transactions so as to determine when to recognize revenue and at what amount. IFRS 15 also provides new and more extensive disclosure requirements than those that were in place previously. The Company began to apply the Standard on January 1, 2018. Application of the Standard has no significant effect on the financial statements.

B. New standards and interpretations not yet adopted

IFRS 16 ("IFRS 16")

IFRS 16 replaces IAS 17 - *Leases* and its related interpretations. IFRS 16 eliminates the existing requirement that lessors must classify a lease as an operating or finance lease. Instead, the standard presents another accounting model for all leases, according to which the lessor must recognize a right-of-use asset and lease liability in its financial statements. Nevertheless, IFRS 16 includes two exceptions to the general model whereby a lessee is entitled to not apply the requirements for recognizing a right-of-use asset and lease liability with respect to short-term leases of up to one year and/or leases where the underlying asset has a low value.

The Standard will be applied to annual reporting periods as of January 1, 2019. The Company believes that implementation of the standard is not expected to significantly affect the financial statements.

C. Seasonality

1. Life assurance, health insurance and financial services

The revenues from life and health insurance premiums are not characterized by seasonality. Nevertheless, due to the fact that the provisions for life assurance enjoy tax benefits, a considerable part of new sales takes place mainly at the end of the year. The revenues from the finance services segment are not characterized by seasonality.

2. Non-life insurance

The turnover of revenues from premiums gross in non-life insurance is characterized by seasonality, stemming mainly from motor insurance of various groups of employees and vehicle fleets of businesses, where the date of renewal is generally in January, and from various policies of businesses where the renewal dates are generally in January or in April. The effect of this seasonality on reported profit is neutralized through the provision for unearned premiums.

The components of other expenses such as claims, and the components of other revenues such as revenues from investments do not have a distinct seasonality and there is therefore no distinct seasonality in profit.

Note 4 - Operating segments

The note on Operating Segments includes several segments that constitute strategic business units of the Group. The strategic business units include different products and services and the allocation of resources and evaluation of performance are managed separately. The basic products in each segment are similar in principal with respect to their significance, the way they are distributed, the mix of customers, nature of the regulatory environment and also long-term demographic and economic features that are derived from exposure with features similar to insurance risks. Likewise, the results of the portfolio of investments held against insurance liabilities may significantly affect profitability.

Segment performance is measured based on the profits of the segments before taxes on income. The results of inter-company transactions are eliminated in the framework of the adjustments for preparation of the condensed consolidated interim financial statements. The Group operates in the following segments:

1. Life assurance and long-term savings

This segment includes the Group's insurance activities in the life assurance branches and the Group's operations in managing pension and provident funds.

2. Health insurance

This segment includes the Group’s insurance activities in illness and hospitalization branches, personal accidents, dental and long-term care. The policies sold in the framework of these insurance branches cover the range of losses incurred by the insured as a result of illness and/or accidents, including long-term care and dental treatment. Health insurance policies are offered to individuals and to groups.

3. Non-life insurance

This segment comprises five sub-segments:

Motor property (Casco): includes the Group's activities in the sale of insurance policies in the motor vehicle insurance branch ("motor property"), which covers loss sustained by a vehicle owner due to an accident, and/or theft and/or liability of the vehicle owner or the driver for property damage caused to a third party in an accident.

Compulsory motor: includes the Group's activities in the insurance sector pursuant to the requirements of the Motorized Vehicle Insurance Ordinance (New Version) - 1970 ("compulsory motor"), which covers corporal damage resulting from the use of a motor vehicle under the Compensation for Road Accident Victims Law, 1975.

Other liabilities branches: includes the Group's activities in the sale of policies covering the insured’s liability to a third party (excluding cover for liabilities in the compulsory motor sector, as described above). This includes, inter alia, the following insurance branches: employers’ liability, third-party liability, professional liability, directors' and officers' liability (D&O), and insurance against liability for defective products.

Property and other branches: this sector includes the Group's insurance activities in all property branches excluding motor property (e.g. liabilities, homeowners, etc.).

Mortgage insurance business: this sector includes the Group's insurance activities in the residential mortgage credit branch (monoline branch). The purpose of this insurance is to provide indemnity for loss caused as a result of non-payment of loans (default) given against a first mortgage on a single real estate property for residential purposes only, and after disposing of the property that serves as collateral for the loans.

4. Insurance companies overseas

The overseas segment consists of the activity of Interasco and Turk Nippon, insurance companies abroad that are wholly owned by the Company.

5. Financial services

The Group's activities in the capital and financial services market take place through Harel Finance. Harel Finance is engaged through companies controlled by it, in the following activities:

- Management of mutual funds.
- Management of securities for private customers, corporations, and institutional customers in the capital markets in Israel and abroad.
- Issue to the public of index products (ETNs and deposit certificates).

Note 4 - Operating segments (contd.)

6. Not attributed to operating segments and other

Activities that are not attributed to operating segments include mainly activities of insurance agencies and of capital activities by the consolidated insurance companies.

Note 4 - Operating segments (Contd.)

A. Information about reportable segments

	For the nine months ended September 30, 2018 (Unaudited)							
	Life Assurance and Long-Term Savings	Health Insurance	Non-life Insurance	Insurance companies overseas	Financial Services	Not Allocated to Operating Segments and other	Adjustments and Offsets	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Premiums earned, gross	4,094	3,472	2,532	354	-	-	(3)	10,449
Premiums earned by reinsurers	109	157	773	83	-	-	(3)	1,119
Premiums earned in retention	3,985	3,315	1,759	271	-	-	-	9,330
Net profit from investments and financial income	2,192	274	195	27	48	183*	(5)	2,914
Income from management fees	778	3	-	-	112	8	-	901
Income from commissions	27	48	144	18	1	169**	(150)	257
Total income	6,982	3,640	2,098	316	161	360	(155)	13,402
Payments and changes in liabilities for insurance and investment contracts, gross	5,506	2,714	1,970	269	-	-	(3)	10,456
Reinsurers' share in payments and changes for insurance contracts liabilities	63	94	522	61	-	-	(3)	737
Payments and changes in liabilities for insurance and investment contracts, in retention	5,443	2,620	1,448	208	-	-	-	9,719
Commission, marketing and other acquisition expenses	713	697	492	82	-	83***	(150)	1,917
General and administrative expenses	425	219	27	10	127	98****	(2)	904
Other expenses	10	-	-	2	5	1***	-	18
Financing expenses, net	9	14	14	-	-	121	-	158
Total expenses	6,600	3,550	1,981	302	132	303	(152)	12,716
Company's share of profits of equity accounted investees	16	8	14	-	-	28	-	66
Profit before income taxes	398	98	131	14	29	85	(3)	752
Other comprehensive income (loss), before income tax	27	(1)	(16)	(22)	-	15	-	3
Total comprehensive income (loss) before income tax	425	97	115	(8)	29	100*****	(3)	755
Liabilities in respect of non-yield dependent insurance and investment contracts	11,984	5,275	10,001	517	-	-	(4)	27,773
Liabilities in respect of yield dependent insurance and investment contracts	53,414	4,783	-	-	-	-	-	58,197

* Total profit from investments is in respect of the assets held against the equity of the Group's financial institutions.

** Income from commissions includes commissions paid to insurance agencies owned by the Group. About NIS 148 million thereof are commissions paid to these agents from the Group's financial institutions.

*** For the activity of the insurance agencies that are fully owned by the Group.

**** Of the total general and administrative expenses, NIS 73 million is for expenses of the activity of the Group's insurance agencies.

***** Total comprehensive income before income tax for the activity of the Group's insurance agencies was approximately NIS 15 million.

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Contd.)

	For the three months ended September 30, 2018 (Unaudited)							
	Life Assurance and Long-Term Savings	Health Insurance	Non-life Insurance	Insurance companies overseas	Financial Services	Not Allocated to Operating Segments and other	Adjustments and Offsets	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Premiums earned, gross	1,479	1,209	861	112	-	-	(1)	3,660
Premiums earned by reinsurers	37	55	268	24	-	-	(1)	383
Premiums earned in retention	1,442	1,154	593	88	-	-	-	3,277
Net profit from investments and financial income	1,451	129	59	10	18	72*	(1)	1,738
Income from management fees	315	1	-	-	36	1	-	353
Income from commissions	9	16	46	5	-	56**	(49)	83
Total income	3,217	1,300	698	103	54	129	(50)	5,451
Payments and changes in liabilities for insurance and investment contracts, gross	2,665	949	605	83	-	-	(1)	4,301
Reinsurers share in payments and changes for insurance contracts liabilities	20	42	142	16	-	-	(1)	219
Payments and changes in liabilities for insurance and investment contracts, in retention	2,645	907	463	67	-	-	-	4,082
Commission, marketing and other acquisition expenses	243	243	176	27	-	27***	(49)	667
General and administrative expenses	139	73	9	4	42	27****	-	294
Other expenses	3	-	-	1	4	-	-	8
Financing expenses (incomes), net	2	4	(4)	-	-	42	-	44
Total expenses	3,032	1,227	644	99	46	96	(49)	5,095
Company's share of profits of equity accounted investees	9	5	10	-	-	9	-	33
Profit before income taxes	194	78	64	4	8	42	(1)	389
Other comprehensive income (loss), before income tax	11	4	7	(15)	1	22	-	30
Total comprehensive income (loss) before income tax	205	82	71	(11)	9	64*****	(1)	419
Liabilities in respect of non-yield dependent insurance and investment contracts	11,984	5,275	10,001	517	-	-	(4)	27,773
Liabilities in respect of yield dependent insurance and investment contracts	53,414	4,783	-	-	-	-	-	58,197

* Total profit from investments is in respect of the assets held against the equity of the Group's financial institutions.

** Income from commissions includes commissions paid to insurance agencies owned by the Group. About NIS 48 million thereof are commissions paid to these agents from the Group's financial institutions.

*** For the activity of the insurance agencies that are fully owned by the Group.

**** Of the total general and administrative expenses, NIS 23 million is for expenses of the activity of the Group's insurance agencies.

***** Total comprehensive income before income tax for the activity of the Group's insurance agencies was approximately NIS 5 million.

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Contd.)

	For the nine months ended September 30, 2017 (Unaudited)							
	Life Assurance and Long-Term Savings	Health Insurance	Non-life Insurance	Insurance companies overseas	Financial Services	Not Allocated to Operating Segments and other	Adjustments and Offsets	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Premiums earned, gross	3,778	3,293	2,327	323	-	-	(8)	9,713
Premiums earned by reinsurers	103	138	744	73	-	-	(8)	1,050
Premiums earned in retention	3,675	3,155	1,583	250	-	-	-	8,663
Net profit from investments and financial income	2,811	292	136	16	43	193*	(10)	3,481
Income from management fees	788	2	-	-	107	14	-	911
Income from commissions	22	61	132	16	1	157**	(140)	249
Other incomes	-	-	-	-	-	7	-	7
Total income	7,296	3,510	1,851	282	151	371	(150)	13,311
Payments and changes in liabilities for insurance and investment contracts, gross	5,961	2,647	1,735	219	-	-	(2)	10,560
Reinsurers' share in payments and changes for insurance contracts liabilities	70	85	456	36	-	-	(2)	645
Payments and changes in liabilities for insurance and investment contracts, in retention	5,891	2,562	1,279	183	-	-	-	9,915
Commission, marketing and other acquisition expenses	644	651	473	72	-	75***	(140)	1,775
General and administrative expenses	407	203	27	11	121	104****	(3)	870
Other expenses	25	-	-	2	4	1***	-	32
Financing expenses (incomes), net	6	8	(27)	-	-	103	-	90
Total expenses	6,973	3,424	1,752	268	125	283	(143)	12,682
Company's share of profits of equity accounted investees	19	11	21	-	-	36	-	87
Profit before income taxes	342	97	120	14	26	124	(7)	716
Other comprehensive income (loss), before income tax	50	9	9	(2)	-	91	-	157
Total comprehensive income before income tax	392	106	129	12	26	215*****	(7)	873
Liabilities in respect of non-yield dependent insurance and investment contracts	11,796	4,759	9,548	516	-	-	(4)	26,615
Liabilities in respect of yield dependent insurance and investment contracts	44,874	4,404	-	-	-	-	-	49,278

* Total profit from investments is in respect of the assets held against the equity of the Group's financial institutions.

** Income from commissions includes commissions paid to insurance agencies owned by the Group. About NIS 139 million thereof are commissions paid to these agents from the Group's financial institutions.

*** For the activity of the insurance agencies that are fully owned by the Group.

**** Of the total general and administrative expenses, NIS 71 million is for expenses of the activity of the Group's insurance agencies.

***** Total comprehensive income before income tax for the activity of the Group's insurance agencies was approximately NIS 22 million.

Note 4 - Operating segments (Contd.)

A. **Information about reportable segments (Contd.)**

	For the three months ended September 30, 2017 (Unaudited)							
	Life Assurance and Long-Term Savings	Health Insurance	Non-life Insurance	Insurance companies overseas	Financial Services	Not Allocated to Operating Segments and other	Adjustments and Offsets	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Premiums earned, gross	1,273	1,127	799	120	-	-	(6)	3,313
Premiums earned by reinsurers	37	47	260	30	-	-	(6)	368
Premiums earned in retention	1,236	1,080	539	90	-	-	-	2,945
Net profit from investments and financial income	1,013	81	3	5	15	31*	(2)	1,146
Income from management fees	295	1	-	-	35	5	-	336
Income from commissions	9	21	45	6	-	55**	(49)	87
Total income	2,553	1,183	587	101	50	91	(51)	4,514
Payments and changes in liabilities for insurance and investment contracts, gross	2,224	862	505	80	-	-	(1)	3,670
Reinsurers' share in payments and changes for insurance contracts liabilities	26	21	99	13	-	-	(1)	158
Payments and changes in liabilities for insurance and investment contracts, in retention	2,198	841	406	67	-	-	-	3,512
Commission, marketing and other acquisition expenses	213	224	162	27	-	25***	(48)	603
General and administrative expenses	138	68	10	3	40	36****	(1)	294
Other expenses	8	-	-	1	1	1***	-	11
Financing expenses, net	-	-	5	-	-	25	(1)	29
Total expenses	2,557	1,133	583	98	41	87	(50)	4,449
Company's share of profits of equity accounted investees	10	5	11	-	-	15	-	41
Profit before income taxes	6	55	15	3	9	19	(1)	106
Other comprehensive income, before income tax	40	19	32	3	-	30	-	124
Total comprehensive income before income tax	46	74	47	6	9	49*****	(1)	230
Liabilities in respect of non-yield dependent insurance and investment contracts	11,796	4,759	9,548	516	-	-	(4)	26,615
Liabilities in respect of yield dependent insurance and investment contracts	44,874	4,404	-	-	-	-	-	49,278

* Total profit from investments is in respect of the assets held against the equity of the Group's financial institutions.

** Income from commissions includes commissions paid to insurance agencies owned by the Group. About NIS 48 million thereof are commissions paid to these agents from the Group's financial institutions.

*** For the activity of the insurance agencies that are fully owned by the Group.

**** Of the total general and administrative expenses, NIS 24 million is for expenses of the activity of the Group's insurance agencies.

***** Total comprehensive income before income tax for the activity of the Group's insurance agencies was approximately NIS 6 million.

Note 4 - Operating segments (Contd.)

A. **Information about reportable segments (Contd.)**

	For the year ended December 31, 2017 (Audited)							
	Life Assurance and Long-Term Savings	Health Insurance	Non-life Insurance	Insurance companies overseas	Financial Services	Not Allocated to Operating Segments and other	Adjustments and Offsets	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Premiums earned, gross	5,078	4,424	3,150	443	-	-	(4)	13,091
Premiums earned by reinsurers	135	199	1,012	100	-	-	(4)	1,442
Premiums earned in retention	4,943	4,225	2,138	343	-	-	-	11,649
Net profit from investments and financial income	4,170	443	230	26	57	251*	(14)	5,163
Income from management fees	1,092	3	-	-	144	18	-	1,257
Income from commissions	30	83	178	23	1	212**	(188)	339
Other incomes	-	-	-	-	-	7	-	7
Total income	10,235	4,754	2,546	392	202	488	(202)	18,415
Payments and changes in liabilities for insurance and investment contracts, gross	8,404	3,688	2,427	317	-	-	(3)	14,833
Reinsurers' share in payments and changes for insurance contracts liabilities	83	142	673	57	-	-	(3)	952
Payments and changes in liabilities for insurance and investment contracts, in retention	8,321	3,546	1,754	260	-	-	-	13,881
Commission, marketing and other acquisition expenses	859	866	646	100	-	103***	(188)	2,386
General and administrative expenses	542	263	36	15	164	139****	(4)	1,155
Other expenses	34	-	-	4	4	2***	-	44
Financing expenses (incomes), net	7	10	(33)	-	-	138	-	122
Total expenses	9,763	4,685	2,403	379	168	382	(192)	17,588
Company's share of profits of equity accounted investees	31	22	50	-	-	60	-	163
Profit before income taxes	503	91	193	13	34	166	(10)	990
Other comprehensive income (loss), before income tax	91	19	12	(7)	-	129	-	244
Total comprehensive income before income tax	594	110	205	6	34	295*****	(10)	1,234
Liabilities in respect of non-yield dependent insurance and investment contracts	11,808	4,978	9,610	546	-	-	(3)	26,939
Liabilities in respect of yield dependent insurance and investment contracts	47,508	4,489	-	-	-	-	-	51,997

* Total profit from investments is in respect of the assets held against the equity of the Group's financial institutions.

** Income from commissions includes commissions paid to insurance agencies owned by the Group. About NIS 187 million thereof are commissions paid to these agents from the Group's financial institutions.

*** For the activity of the insurance agencies that are fully owned by the Group.

**** Of the total general and administrative expenses, approximately NIS 96 million is for expenses of the activity of the Group's insurance agencies.

***** Total comprehensive income before income tax for the activity of the Group's insurance agencies was approximately NIS 25 million.

Note 4 - Operating segments (Contd.)

B. Additional information about the non-life insurance segment

	For the nine months ended September 30, 2018 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	Mortgage insurance	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Gross premiums	560	690	741	647	(5)	2,633
Reinsurance premiums	5	21	561	228	-	815
Premiums in retention	555	669	180	419	(5)	1,818
Change in outstanding unearned premium, in retention	55	69	7	(59)	(13)	59
Premiums earned in retention	500	600	173	478	8	1,759
Profits from investments, net, and financing income	70	16	12	84	13	195
Income from commissions	-	6	117	21	-	144
Total income	570	622	302	583	21	2,098
Payments and changes in liabilities for insurance policies and investment contracts, gross	518	414	363	691	(16)	1,970
Reinsurers' share of payments and change in liabilities for insurance policies	(4)	17	304	205	-	522
Payments and changes in liabilities for insurance policies and investment contracts in retention	522	397	59	486	(16)	1,448
Commissions, marketing expenses and other purchasing expenses	66	139	166	121	-	492
General and administrative expenses	5	8	6	5	3	27
Financing expenses, net	6	1	-	7	-	14
Total expenses (incomes)	599	545	231	619	(13)	1,981
Company's share of profits of equity accounted investees	6	1	-	7	-	14
Profit (loss) before income taxes	(23)	78	71	(29)	34	131
Other comprehensive loss, before income tax	(5)	(1)	(1)	(6)	(3)	(16)
Total comprehensive income (loss) before income tax	(28)	77	70	(35)	31	115
Liabilities for insurance policies, gross, as at September 30, 2018	2,703	666	895	5,391	346	10,001
Liabilities for insurance policies, retention as at September 30, 2018	2,523	637	183	2,910	346	6,599

* Property and other branches primarily include results of property loss insurance and comprehensive homeowners insurance, operations of which account for 77% of total premiums earned from these branches.

** Other liabilities branches include mainly results from third-party insurance and professional liability which account for 74% of total premiums in these branches.

Note 4 - Operating segments (Contd.)

B. Additional information about the non-life insurance segment (Contd.)

	For the three months ended September 30, 2018 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	Mortgage insurance	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Gross premiums	119	173	241	137	(3)	667
Reinsurance premiums	2	5	185	64	-	256
Premiums in retention	117	168	56	73	(3)	411
Change in outstanding unearned premium, in retention	(53)	(36)	(1)	(87)	(5)	(182)
Premiums earned in retention	170	204	57	160	2	593
Profits from investments, net, and financing income	21	5	4	25	4	59
Income from commissions	-	2	36	8	-	46
Total income	191	211	97	193	6	698
Payments and changes in liabilities for insurance policies and investment contracts, gross	166	136	87	222	(6)	605
Reinsurers' share of payments and change in liabilities for insurance policies	1	5	70	66	-	142
Payments and changes in liabilities for insurance policies and investment contracts in retention	165	131	17	156	(6)	463
Commissions, marketing expenses and other purchasing expenses	28	51	54	43	-	176
General and administrative expenses	2	4	2	1	-	9
Financing expenses, net	(1)	(1)	(1)	(1)	-	(4)
Total expenses (income)	194	185	72	199	(6)	644
Company's share of profits of equity accounted investees	4	1	-	5	-	10
Profit (loss) before income taxes	1	27	25	(1)	12	64
Other comprehensive income, before income tax	2	1	-	2	2	7
Total comprehensive income before income tax	3	28	25	1	14	71
Liabilities for insurance policies, gross, as at September 30, 2018	2,703	666	895	5,391	346	10,001
Liabilities for insurance policies, retention as at September 30, 2018	2,523	637	183	2,910	346	6,599

* Property and other branches primarily include results of property loss insurance and comprehensive homeowners insurance, operations of which account for 78% of total premiums earned from these branches.

** Other liabilities branches include mainly results from third-party insurance and professional liability which account for 65% of total premiums in these branches.

Note 4 - Operating segments (Contd.)

B. Additional information about the non-life insurance segment (Contd.)

	For the nine months ended September 30, 2017 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	Mortgage insurance	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Gross premiums	435	556	747	616	(6)	2,348
Reinsurance premiums	3	21	553	201	-	778
Premiums in retention	432	535	194	415	(6)	1,570
Change in outstanding unearned premium, in retention	45	(3)	9	(45)	(19)	(13)
Premiums earned in retention	387	538	185	460	13	1,583
Profits from investments, net, and financing income	47	12	10	56	11	136
Income from commissions	-	5	107	20	-	132
Total income	434	555	302	536	24	1,851
Payments and changes in liabilities for insurance contracts, gross	402	399	294	653	(13)	1,735
Reinsurer's share of payments and changes in liabilities for insurance contracts	(1)	12	233	212	-	456
Payments and changes in liabilities for insurance contracts, in retention	403	387	61	441	(13)	1,279
Commissions, marketing expenses and other purchasing expenses	63	134	161	115	-	473
General and administrative expenses	6	8	6	4	3	27
Financing incomes, net	(11)	(3)	(1)	(12)	-	(27)
Total expenses (income)	461	526	227	548	(10)	1,752
Company's share of profits of equity accounted investees	8	2	1	10	-	21
Profit (loss) before income taxes	(19)	31	76	(2)	34	120
Other comprehensive income, before income tax	2	-	-	3	4	9
Total comprehensive income (loss) before income tax	(17)	31	76	1	38	129
Liabilities for insurance policies, gross, as at September 30, 2017	2,432	609	826	5,294	387	9,548
Liabilities for insurance policies, retention as at September 30, 2017	2,200	578	200	2,622	387	5,987

* Property and other branches primarily include results of property loss insurance and comprehensive homeowners insurance, operations of which account for 79% of total premiums earned from these branches.

** Other liabilities branches include mainly results from third-party insurance and professional liability which account for 75% of total premiums in these branches.

Note 4 - Operating segments (Contd.)

B. Additional information about the non-life insurance segment (Contd.)

	For the three months ended September 30, 2017 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	Mortgage insurance	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Gross premiums	121	171	247	140	(2)	677
Reinsurance premiums	1	7	182	73	-	263
Premiums in retention	120	164	65	67	(2)	414
Change in outstanding unearned premium, in retention	(13)	(19)	-	(87)	(6)	(125)
Premiums earned in retention	133	183	65	154	4	539
Profits (losses) from investments, net, and financing income	-	-	3	(1)	1	3
Income from commissions	-	2	35	8	-	45
Total income	133	185	103	161	5	587
Payments and changes in liabilities for insurance contracts, gross	128	130	75	179	(7)	505
Reinsurer's share of payments and changes in liabilities for insurance contracts	(1)	5	52	43	-	99
Payments and changes in liabilities for insurance contracts, in retention	129	125	23	136	(7)	406
Commissions, marketing expenses and other purchasing expenses	23	47	52	40	-	162
General and administrative expenses	2	3	3	1	1	10
Financing expenses, net	2	1	-	2	-	5
Total expenses (income)	156	176	78	179	(6)	583
Company's share of profits of equity accounted investees	4	1	1	5	-	11
Profit (loss) before income taxes	(19)	10	26	(13)	11	15
Other comprehensive income, before income tax	12	3	1	14	2	32
Total comprehensive income (loss) before income tax	(7)	13	27	1	13	47
Liabilities for insurance policies, gross, as at September 30, 2017	2,432	609	826	5,294	387	9,548
Liabilities for insurance policies, retention as at September 30, 2017	2,200	578	200	2,622	387	5,987

* Property and other branches primarily include results of property loss insurance and comprehensive homeowners insurance, operations of which account for 80% of total premiums earned from these branches.

** Other liabilities branches include mainly results from third-party insurance and professional liability which account for 65% of total premiums in these branches.

Note 4 - Operating segments (Contd.)

B. Additional information about the non-life insurance segment (Contd.)

	For the year ended December 31, 2017 (Audited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	Mortgage insurance	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Gross premiums	545	693	962	901	(8)	3,093
Reinsurance premiums	4	25	722	262	-	1,013
Premiums in retention	541	668	240	639	(8)	2,080
Change in outstanding unearned premium, in retention	13	(57)	(7)	17	(24)	(58)
Premiums earned in retention	528	725	247	622	16	2,138
Profits from investments, net, and financing income	80	19	16	97	18	230
Income from commissions	-	7	143	28	-	178
Total income	608	751	406	747	34	2,546
Payments and changes in liabilities for insurance contracts, gross	571	528	399	948	(19)	2,427
Reinsurer's share of payments and changes in liabilities for insurance contracts	1	20	324	328	-	673
Payments and changes in liabilities for insurance contracts, in retention	570	508	75	620	(19)	1,754
Commissions, marketing expenses and other purchasing expenses	86	188	222	150	-	646
General and administrative expenses	8	12	8	5	3	36
Financing incomes, net	(13)	(3)	(1)	(16)	-	(33)
Total expenses (income)	651	705	304	759	(16)	2,403
Company's share of the profits of equity accounted investees	19	5	2	24	-	50
Profit (loss) before income tax	(24)	51	104	12	50	193
Other comprehensive income before income tax	2	1	-	3	6	12
Total comprehensive income (loss) before income tax	(22)	52	104	15	56	205
Liabilities for insurance policies, gross, as at December 31 2017	2,461	553	783	5,437	376	9,610
Liabilities for insurance policies, retention as at December 31 2017	2,241	524	175	2,774	376	6,090

* Property and other branches primarily include results of property loss insurance and comprehensive homeowners insurance, operations of which account for 80% of total premiums earned from these branches.

** Other liabilities branches include mainly results from third-party insurance and professional liability which account for 78% of total premiums in these branches.

Note 4 - Operating segments (Contd.)

C. Additional information about the life assurance and long-term savings segment

	For the nine months ended September 30, 2018 (Unaudited)				For the nine months ended September 30, 2017 (Unaudited)			
	Provident	Pension	Life assurance	Total	Provident	Pension	Life assurance	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Premiums earned, gross	-	-	4,094	4,094	-	-	3,778	3,778
Premiums earned by reinsurers	-	-	109	109	-	-	103	103
Premiums earned in retention	-	-	3,985	3,985	-	-	3,675	3,675
Profit from investments, net, and financing income	-	2	2,190	2,192	1	1	2,809	2,811
Income from management fees	181	237	360	778	164	221	403	788
Income from commissions	-	-	27	27	-	-	22	22
Total income	181	239	6,562	6,982	165	222	6,909	7,296
Payments and changes in liabilities for insurance policies and investment contracts, gross	2	8	5,496	5,506	2	8	5,951	5,961
Reinsurers' share of payments and change in liabilities for insurance policies	-	-	63	63	-	-	70	70
Payments and changes in liabilities for insurance policies and investment contracts in retention	2	8	5,433	5,443	2	8	5,881	5,891
Commissions, marketing expenses and other purchasing expenses	69	91	553	713	59	96	489	644
General and administrative expenses	70	74	281	425	71	71	265	407
Other expenses	6	4	-	10	8	1	16	25
Financing expenses, net	-	-	9	9	-	-	6	6
Total expenses	147	177	6,276	6,600	140	176	6,657	6,973
Company's share of profits of equity accounted investees	-	-	16	16	-	-	19	19
Profit before income tax	34	62	302	398	25	46	271	342
Other comprehensive income (loss) before income tax	-	(1)	28	27	1	1	48	50
Total comprehensive income before income tax	34	61	330	425	26	47	319	392

Note 4 - Operating segments (Contd.)

C. Additional information about the life assurance and long-term savings segment

	For the three months ended September 30, 2018 (Unaudited)				For the three months ended September 30, 2017 (Unaudited)			
	Provident	Pension	Life assurance	Total	Provident	Pension	Life assurance	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Premiums earned, gross	-	-	1,479	1,479	-	-	1,273	1,273
Premiums earned by reinsurers	-	-	37	37	-	-	37	37
Premiums earned in retention	-	-	1,442	1,442	-	-	1,236	1,236
Profit from investments, net, and financing income	-	1	1,450	1,451	-	-	1,013	1,013
Income from management fees	61	81	173	315	56	76	163	295
Income from commissions	-	-	9	9	-	-	9	9
Total income	61	82	3,074	3,217	56	76	2,421	2,553
Payments and changes in liabilities for insurance policies and investment contracts, gross	1	2	2,662	2,665	-	3	2,221	2,224
Reinsurers' share of payments and change in liabilities for insurance policies	-	-	20	20	-	-	26	26
Payments and changes in liabilities for insurance policies and investment contracts in retention	1	2	2,642	2,645	-	3	2,195	2,198
Commissions, marketing expenses and other purchasing expenses	24	31	188	243	20	29	164	213
General and administrative expenses	23	24	92	139	24	23	91	138
Other expenses	1	2	-	3	3	-	5	8
Financing expenses, net	-	-	2	2	-	-	-	-
Total expenses	49	59	2,924	3,032	47	55	2,455	2,557
Company's share of profits of equity accounted investees	-	-	9	9	-	-	10	10
Profit (loss) before income tax	12	23	159	194	9	21	(24)	6
Other comprehensive income before income tax	-	-	11	11	-	1	39	40
Total comprehensive income before income tax	12	23	170	205	9	22	15	46

Note 4 - Operating segments (Contd.)

C. Additional information about the life assurance and long-term savings segment (Contd.)

	For the year ended December 31, 2017 (Audited)			
	Provident	Pension	Life assurance	Total
	NIS million	NIS million	NIS million	NIS million
Premiums earned, gross	-	-	5,078	5,078
Premiums earned by reinsurers	-	-	135	135
Premiums earned in retention	-	-	4,943	4,943
Profit from investments, net, and financing income	1	1	4,168	4,170
Income from management fees	223	300	569	1,092
Income from commissions	-	-	30	30
Total income	224	301	9,710	10,235
Payments and changes in liabilities for insurance policies and investment contracts, gross	2	10	8,392	8,404
Reinsurers' share of payments and change in liabilities for insurance policies	-	-	83	83
Payments and changes in liabilities for insurance policies and investment contracts in retention	2	10	8,309	8,321
Commissions, marketing expenses and other purchasing expenses	79	126	654	859
General and administrative expenses	94	97	351	542
Other expenses	11	1	22	34
Financing expenses, net	-	-	7	7
Total expenses	186	234	9,343	9,763
Company's share of profits of equity accounted investees	-	-	31	31
Profit before income tax	38	67	398	503
Other comprehensive income before income tax	1	2	88	91
Total comprehensive income before income tax	39	69	486	594

Note 4 - Operating segments (Contd.)

C. Additional information about the life assurance and long-term savings segment (Contd.)

Results by policy category

	Policies which include a savings component (incl. riders) by date of policy issue				Policies with no savings component		
			from 2004		Risk that was sold as a stand-alone policy		
	Until 1990 (1)	Up to 2003	Not yield-dependent	Yield dependent	Personal lines	Group	Total
For the nine months ended September 30, 2018 (Unaudited)	NIS million						
Gross premiums	82	701	-	2,344	835	138	4,100
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(6)
Total							4,094
Amounts received for investment contracts recognized directly in insurance reserves	-	-	117	3,871	-	-	3,988
Financial margin including management fees - in terms of comprehensive income (2)	37	168	39	192	-	-	436
Payments and changes in liabilities for insurance policies gross	367	1,508	(8)	2,789	371	115	5,142
Payments and change in liabilities for investment contracts	-	-	1	353	-	-	354
For the three months ended September 30, 2018 (Unaudited)							
Gross premiums	27	234	-	889	285	46	1,481
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(2)
Total							1,479
Amounts received for investment contracts recognized directly in insurance reserves	-	-	12	1,071	-	-	1,083
Financial margin including management fees - in terms of comprehensive income (2)	27	104	3	69	-	-	203
Payments and changes in liabilities for insurance policies gross	133	818	11	1,262	115	35	2,374
Payments and change in liabilities for investment contracts	-	-	1	287	-	-	288

(1) The products issued through 1990 (including increases in respect of these products) are mainly yield guaranteed and are partially backed by earmarked bonds.

(2) The financial margin does not include the Company's other revenues which are collected as a percentage of the premium and it is calculated before deducting expenses for management of investments. The financial margin in policies with a guaranteed yield is based on actual revenues from investments in the reporting year, net of a factor of the guaranteed yield rate for the year, multiplied by the average reserve for the year. The financial margin for policies that are not yield dependent that were issued from 2004 also includes the effect of the change in the discounting rate used for calculating the insurance liabilities. Regarding this, income from investments also includes the change in the fair value of available-for-sale financial assets which is recognized in the statement of comprehensive income. In yield-dependent policies, the financial margin is the fixed and variable management fees which are calculated based on the yield and the average balance of the insurance reserves.

Note 4 - Operating segments (Contd.)

C. Additional information about the life assurance and long-term savings segment (Contd.)

Results by policy category (Contd.)

	Policies which include a savings component (incl. riders) by date of policy issue				Policies with no savings component		
			from 2004		Risk that was sold as a stand-alone policy		
	Until 1990 (1)	Up to 2003	Not yield-dependent	Yield dependent	Personal lines	Group	Total
For the nine months ended September 30, 2017 (Unaudited)	NIS million						
Gross premiums	88	715	-	2,080	762	139	3,784
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(6)
Total							3,778
Amounts received for investment contracts recognized directly in insurance reserves	-	-	-	2,828	-	-	2,828
Financial margin including management fees - in terms of comprehensive income (2)	128	248	1	156	-	-	533
Payments and changes in liabilities for insurance policies gross	389	1,893	55	2,668	395	126	5,526
Payments and change in liabilities for investment contracts	-	-	-	425	-	-	425
For the three months ended September 30, 2017 (Unaudited)							
Gross premiums	29	239	-	699	261	47	1,275
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(2)
Total							1,273
Amounts received for investment contracts recognized directly in insurance reserves	-	-	-	1,079	-	-	1,079
Financial margin including management fees - in terms of comprehensive income (2)	60	108	(34)	56	-	-	190
Payments and changes in liabilities for insurance policies gross	179	688	56	963	134	44	2,064
Payments and change in liabilities for investment contracts	-	-	-	157	-	-	157

(1) The products issued through 1990 (including increases in respect of these products) are mainly yield guaranteed and are partially backed by earmarked bonds.

(2) The financial margin does not include the Company's other revenues which are collected as a percentage of the premium and it is calculated before deducting expenses for management of the investments. The financial margin in policies with a guaranteed yield is based on actual revenues from investments in the reporting year, net of a factor of the guaranteed yield rate for the year, multiplied by the average reserve for the year. The financial margin for policies that are not yield dependent that were issued from 2004 also includes the effect of the change in the discounting rate used for calculating the insurance liabilities. On this, income from investments also includes the change in the fair value of available-for-sale financial assets which is recognized in the statement of comprehensive income. In yield-dependent policies, the financial margin is the fixed and variable management fees which are calculated based on the yield and the average balance of the insurance reserves.

Note 4 - Operating segments (Contd.)

C. Additional information about the life assurance and long-term savings segment (Contd.)

Results by policy category (Contd.)

For the year ended December 31, 2017 (Audited)	Policies which include a savings component (incl. riders) by date of policy issue				Policies with no savings component - Risk that was sold as a stand-alone policy		
			from 2004				
	Until 1990 (1)	Up to 2003	Not yield-dependent	Yield dependent	Personal lines	Group	Total
	NIS million						
Gross premiums	118	953	-	2,802	1,029	186	5,088
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(10)
Total							5,078
Amounts received for investment contracts recognized directly in insurance reserves	-	-	-	4,162	-	-	4,162
Financial margin including management fees - in terms of comprehensive income (2)	190	356	(8)	213	-	-	751
Payments and changes in liabilities for insurance policies gross	512	2,736	91	3,746	466	188	7,739
Payments and change in liabilities for investment contracts	-	-	1	652	-	-	653

(1) The products issued through 1990 (including increases in respect of these products) are mainly yield guaranteed and are partially backed by earmarked bonds.

(2) The financial margin does not include the Company's other revenues which are collected as a percentage of the premium and it is calculated before deducting expenses for management of the investments. The financial margin in policies with a guaranteed yield is based on actual revenues from investments in the reporting year, net of a factor of the guaranteed yield rate for the year, multiplied by the average reserve for the year. The financial margin for policies that are not yield dependent that were issued from 2004 also includes the effect of the change in the discounting rate used for calculating the insurance liabilities. On this, income from investments also includes the change in the fair value of available-for-sale financial assets which is recognized in the statement of comprehensive income. In yield-dependent policies, the financial margin is the fixed and variable management fees which are calculated based on the yield and the average balance of the insurance reserves.

Note 4 - Operating segments (Contd.)

D. Additional information about the health insurance segment

Results by policy category

	Long-term care (LTC)		Other health*		
	Personal lines	Group	long-term **	short-term **	Total
For the nine months ended September 30, 2018 (Unaudited)			NIS million		
Gross premiums	538	933	1,639	353	3,463
Payments and changes in liabilities for insurance policies, gross	444	982	1,040	248	2,714

	Long-term care (LTC)		Other health*		
	Personal lines	Group	long-term **	short-term **	Total
For the three months ended September 30, 2018 (Unaudited)			NIS million		
Gross premiums	182	327	552	152	1,213
Payments and changes in liabilities for insurance policies, gross	157	377	336	79	949

	Long-term care (LTC)		Other health*		
	Personal lines	Group	long-term **	short-term **	Total
For the nine months ended September 30, 2017 (Unaudited)			NIS million		
Gross premiums	439	948	1,560	351	3,298
Payments and changes in liabilities for insurance policies, gross	382	1,090	959	216	2,647

	Long-term care (LTC)		Other health*		
	Personal lines	Group	long-term **	short-term **	Total
For the three months ended September 30, 2017 (Unaudited)			NIS million		
Gross premiums	145	323	524	137	1,129
Payments and changes in liabilities for insurance policies, gross	84	393	309	76	862

* Of this, personal lines premiums in the amount of NIS 1,308 million and NIS 474 million respectively, for the nine and three month periods ended September 30, 2018, (personal lines premiums in the amount of NIS 1,262 million and NIS 444 million respectively, for the nine and three month periods ended September 30, 2017), and group premiums in the amount of

NIS 684 million and NIS 230 million respectively, for the nine and three month periods ended September 30, 2018, (group premiums in the amount of NIS 648 million and NIS 217 million respectively, for the nine and three month periods ended September 30, 2017)..

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

Note 4 - Operating segments (Contd.)

D. Additional information about the health insurance segment (contd.)

Results by policy category (contd.)

For the year ended December 31, 2017 (Audited)	Long-term care (LTC) Personal lines	Long-term care (LTC) Group	Other health* long-term **	Other health* short-term **	Total
	NIS million				
Gross premiums	590	1,278	2,102	460	4,430
Payments and changes in liabilities for insurance policies, gross	466	1,517	1,415	290	3,688

* Of this, personal lines premiums in the amount of NIS 1,678 million, and group premiums in the amount of NIS 884 million.

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

Note 5 - Taxes on income

A. The tax rates applicable to the income of the Group companies

On December 29, 2016, the Economic Efficiency (Legislative Amendments for Implementation of the Economic Policy for Fiscal Years 2017 and 2018) Law, 2016, was published in the Official Gazette. Among other things, the law prescribes that corporate tax rate will be reduced from 25% to 23% in two stages. The first stage, to 24%, will be effective from January 2017 and the second stage to 23% will be effective from January 2018 and thereafter.

Current taxes for the reported periods are calculated in accordance with the tax rates presented in the table below.

Following are the statutory tax rates applicable to financial institutions, including the Company's subsidiaries which are financial institutions:

Year	Corporate tax rate	Profit tax rate	Tax rate for financial institutions
2017	24%	17%	35%
2018 and thereafter	23%	17%	34.2%

B. Approved pre-rulings

On January 19, 2017, approval was received from the Tax Authority, effective retroactively from September 30, 2016, to merge Harel Provident Funds and Education Funds Ltd. (“the Transferred Company”) into Harel Pension and Provident Ltd. (formerly Harel Pension Funds Management Ltd.), at the same time dissolving the Transferred Company without liquidation and in accordance with the provisions of Section 103 of the Income Tax Ordinance. As part of the Tax Authority's approval, provisions under Section 103 of the Income Tax Ordinance were prescribed in connection with the manner of performing the merger.

Note 6 - Financial instruments

A. Assets for Yield-dependent contracts

1. Information about assets held against insurance contracts and investment contracts, presented at fair value through profit and loss:

	As at September 30,		As at December 31
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Investment property	**1,593**	1,457	1,502
Financial investments			
Marketable debt assets	**19,733**	17,316	18,115
Non-marketable debt assets (*)	**13,394**	11,586	12,300
Shares	**9,500**	7,934	8,227
Other financial investments	**10,917**	8,988	9,129
Total financial investments	**53,544**	45,824	47,771
Cash and cash equivalents	**2,975**	2,013	2,758
Other	**678**	589	519
Total assets for yield-dependent contracts **	**58,790**	49,883	52,550
Other payables	**27**	109	162
Financial liabilities ***	**211**	124	114
Financial liabilities for yield-dependent contracts	**238**	233	276
(*) Of which assets measured at adjusted cost	**608**	693	671
Fair value of debt assets measured at adjusted cost	**651**	748	729

** Including assets in the amount of NIS 4,399 million, NIS 3,983 million, and NIS 4,107 million as at September 30, 2018 and 2017, and at December 31, 2017, respectively, for a liability attributable to a group long-term care portfolio in which most of the investment risks are not imposed on the insurer.

*** Mainly derivatives and futures contracts.

Note 6 - Financial instruments (Contd.)

A. Assets for Yield-dependent contracts (Contd.)

2. Fair value hierarchy of financial assets

The following table presents an analysis of the assets held against insurance contracts and investment contracts that are presented at fair value through profit or loss. The different levels are defined as follows:

Level 1 – fair value measured by use of quoted prices (not adjusted) on an active market for identical instruments.
Level 2 – fair value measured by using observed data, direct and indirect, which are not included in Level 1 above.
Level 3 – fair value measured by using data which are not based on observed market data.

	As at September 30, 2018 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	**16,610**	**3,123**	**-**	**19,733**
Non-marketable debt assets	**-**	**12,293**	**493**	**12,786**
Shares	**7,051**	**9**	**2,440**	**9,500**
Other	**7,192**	**108**	**3,617**	**10,917**
Total	**30,853**	**15,533**	**6,550**	**52,936**

	As at September 30, 2017 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	14,263	3,053	-	17,316
Non-marketable debt assets	-	9,989	904	10,893
Shares	5,901	9	2,024	7,934
Other	5,637	241	3,110	8,988
Total	25,801	13,292	6,038	45,131

	As at December 31, 2017 (Audited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	15,202	2,913	-	18,115
Non-marketable debt assets	-	11,163	466	11,629
Shares	6,182	10	2,035	8,227
Other	5,748	163	3,218	9,129
Total	27,132	14,249	5,719	47,100

Note 6 - Financial instruments (Contd.)

A. Assets for Yield-dependent contracts (Contd.)

3. Financial assets measured at level-3 fair value hierarchy

For the nine and three month periods ended September 30, 2018 (Unaudited)

	Fair-value measurement on report date			
	Financial assets at fair value through profit or loss			
	Non-marketable debt assets	Shares	Other	Total
	NIS million	NIS million	NIS million	NIS million
Balance as at January 1, 2018	466	2,035	3,218	5,719
Total profits (losses) that were recognized:				
In profit and loss (*)	18	210	357	585
Interest and dividend receipts	(24)	(34)	(170)	(228)
Purchases	220	272	641	1,133
Sales	(4)	(43)	(386)	(433)
Redemptions	(170)	-	(43)	(213)
Transfers from Level 3 **	(13)	-	-	(13)
Balance as at September 30, 2018	493	2,440	3,617	6,550
(*) Of which total unrealized profits for the period in respect of financial assets held at September 30, 2018	11	204	356	571

	Fair-value measurement on report date			
	Financial assets at fair value through profit or loss			
	Non-marketable debt assets	Shares	Other	Total
	NIS million	NIS million	NIS million	NIS million
Balance as at July 1, 2018	498	2,336	3,422	6,256
Total profits (losses) that were recognized:				
In profit and loss (*)	4	49	69	122
Interest and dividend receipts	(8)	(22)	(68)	(98)
Purchases	97	87	300	484
Sales	-	(10)	(102)	(112)
Redemptions	(92)	-	(4)	(96)
Transfers from Level 3 **	(6)	-	-	(6)
Balance as at September 30, 2018	493	2,440	3,617	6,550
(*) Of which total unrealized profits for the period in respect of financial assets held at September 30, 2018	3	49	69	121

** For securities whose rating changed

Note 6 - Financial instruments (Contd.)

A. Assets for Yield-dependent contracts (Contd.)

3. Financial assets measured at level-3 fair value hierarchy

For the nine and three month periods ended September 30, 2017 (Unaudited)

	Fair-value measurement on report date			
	Financial assets at fair value through profit or loss			
	Non-marketable debt assets	Shares	Other	Total
	NIS million	NIS million	NIS million	NIS million
Balance as at January 1, 2017	807	1,956	3,047	5,810
Total profits (losses) that were recognized:				
In profit and loss (*)	24	37	94	155
Interest and dividend receipts	(33)	(28)	(114)	(175)
Purchases	261	167	371	799
Sales	(12)	(108)	(279)	(399)
Redemptions	(152)	-	(9)	(161)
Transfers to Level 3 **	11	-	-	11
Transfers from Level 3 **	(2)	-	-	(2)
Balance as at September 30, 2017	904	2,024	3,110	6,038
(*) Of which total unrealized profits for the period in respect of financial assets held at September 30, 2018	19	34	94	147

	Fair-value measurement on report date			
	Financial assets at fair value through profit or loss			
	Non-marketable debt assets	Shares	Other	Total
	NIS million	NIS million	NIS million	NIS million
Balance as at July 1, 2017	866	1,952	3,036	5,854
Total profits (losses) that were recognized:				
In profit and loss (*)	22	90	69	181
Interest and dividend receipts	(22)	(11)	(28)	(61)
Purchases	64	94	138	296
Sales	(3)	(101)	(103)	(207)
Redemptions	(21)	-	(2)	(23)
Transfers from Level 3 **	(2)	-	-	(2)
Balance as at September 30, 2017	904	2,024	3,110	6,038
(*) Of which total unrealized profits for the period in respect of financial assets held at September 30, 2018	20	88	71	179

** Mainly for securities whose rating changed.

Note 6 - Financial instruments (Contd.)

A. Assets for Yield-dependent contracts (Contd.)

3. Financial assets measured at level-3 fair value hierarchy

For the year ended December 31, 2017 (Audited)

	Fair-value measurement on report date			
	Financial assets at fair value through profit or loss			
	Non-marketable debt assets	Shares	Other	Total
	NIS million	NIS million	NIS million	NIS million
Balance as at January 1, 2017	807	1,956	3,047	5,810
Total profits (losses) that were recognized:				
In profit and loss (*)	29	112	133	274
Interest and dividend receipts	(51)	(45)	(156)	(252)
Purchases	343	178	558	1,079
Sales	(12)	(166)	(333)	(511)
Redemptions	(199)	-	(31)	(230)
Transfers to Level 3 **	17	-	-	17
Transfers from Level 3 **	(468)	-	-	(468)
Balance as at December 31, 2017	466	2,035	3,218	5,719
(*) Of which total unrealized profits for the period in respect of financial assets held at December 31, 2017	22	111	133	266

** Mainly for securities whose rating changed.

Note 6 - Financial instruments (Contd.)

B. Other financial investments

1. Non-marketable debt assets and held-to-maturity investments – book value against fair value

	As at September 30,		December 31	As at September 30,		December 31,
	(Unaudited)		(Audited)	(Unaudited)		(Audited)
	Book Value			Fair Value		
	2018	2017	2017	2018	2017	2017
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Loans and receivables:						
Earmarked bonds	**4,989**	4,917	4,893	**6,622**	6,529	6,584
(*) Non-marketable, non-convertible debt assets, excluding bank deposits (*)	**7,636**	7,330	7,832	**8,337**	8,108	8,647
Bank deposits	**1,114**	964	982	**1,187**	1,036	1,030
Total non-marketable debt assets	**13,739**	13,211	13,707	**16,146**	15,673	16,261
Investments held to maturity:						
Marketable non-convertible debt assets	**135**	173	159	**142**	182	168
Total Investments held to maturity	**135**	173	159	**142**	182	168
Total	**13,874**	13,384	13,866	**16,288**	15,855	16,429
Impairments recognized in profit and loss (in aggregate)	**16**	12	20			
(*) Of which debt assets measured at fair value	**213**	156	151			

Note 6 - Financial instruments (Contd.)

B. Other financial investments (Contd.)

2. Fair value hierarchy of financial assets

The following table presents an analysis of financial instruments measured at fair value on a timely basis, using a valuation method based on the fair value hierarchy. See Note 6A.2 for a definition of the different levels.

	As at September 30, 2018 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	6,683	1,302	-	7,985
Non-marketable debt assets	-	213	-	213
Shares	877	-	175	1,052
Other	930	69	1,522	2,521
Total	8,490	1,584	1,697	11,771

	As at September 30, 2017 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	5,592	1,315	-	6,907
Shares	787	-	84	871
Other	858	99	1,357	2,314
Total	7,237	1,414	1,441	10,092

	As at December 31, 2017 (Audited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	5,649	1,272	-	6,921
Non-marketable debt assets	-	151	-	151
Shares	801	-	117	918
Other	895	99	1,405	2,399
Total	7,345	1,522	1,522	10,389

Note 6 - Financial instruments (Contd.)

B. Other financial investments (Contd.)

3. Financial assets measured at level-3 fair value hierarchy

For nine and three-month periods ended September 30, 2018 (Unaudited)

	Fair-value measurement on reporting date		
	Financial assets at fair value through profit or loss and available-for-sale assets		
	Shares	Other	Total
	NIS million	NIS million	NIS million
Balance as at January 1, 2018	117	1,405	1,522
Total profits (losses) that were recognized:			
In profit and loss (*)	(1)	35	34
In other comprehensive income	9	83	92
Interest and dividend receipts	(1)	(53)	(54)
Purchases	51	156	207
Sales	-	(90)	(90)
Redemptions	-	(14)	(14)
Balance as at September 30, 2018	175	1,522	1,697
(*) Of which total unrealized profits (losses) for the period in respect of financial assets held at September 30, 2018	(1)	30	29

	Fair-value measurement on reporting date		
	Financial assets at fair value through profit or loss and available-for-sale assets		
	Shares	Other	Total
	NIS million	NIS million	NIS million
Balance as at July 1, 2018	147	1,498	1,645
Total profits (losses) that were recognized:			
In profit and loss (*)	-	11	11
In other comprehensive income	6	15	21
Interest and dividend receipts	(1)	(18)	(19)
Purchases	23	58	81
Sales	-	(34)	(34)
Redemptions	-	(8)	(8)
Balance as at September 30, 2018	175	1,522	1,697
(*) Of which total unrealized profits for the period in respect of financial assets held at September 30, 2018	-	6	6

Note 6 - Financial instruments (Contd.)

B. Other financial investments (Contd.)

3. Financial assets measured at level-3 fair value hierarchy (contd.)

For nine and three-month periods ended September 30, 2017 (Unaudited)

	Fair-value measurement on reporting date		
	Financial assets at fair value through profit or loss and available-for-sale assets		
	Shares	Other	Total
	NIS million	NIS million	NIS million
Balance as at January 1, 2017	47	1,390	1,437
Total profits (losses) that were recognized:			
In profit and loss (*)	3	16	19
In other comprehensive income	(2)	(22)	(24)
Interest and dividend receipts	(3)	(40)	(43)
Purchases	24	125	149
Sales	-	(107)	(107)
Redemptions	-	(5)	(5)
Transfers to Level 3 **	15	-	15
Balance as at September 30, 2017	84	1,357	1,441
(*) Of which total unrealized profits (losses) for the period in respect of financial assets held at September 30, 2017	3	17	20

	Fair-value measurement on reporting date		
	Financial assets at fair value through profit or loss and available-for-sale assets		
	Shares	Other	Total
	NIS million	NIS million	NIS million
Balance as at July 1 2017	82	1,343	1,425
Total profits (losses) that were recognized:			
In profit and loss (*)	1	11	12
In other comprehensive income	2	15	17
Interest and dividend receipts	(1)	(13)	(14)
Purchases	-	47	47
Sales	-	(45)	(45)
Redemptions	-	(1)	(1)
Balance as at September 30, 2017	84	1,357	1,441
(*) Of which total unrealized profits for the period in respect of financial assets held at September 30, 2017	1	11	12

** For reclassification from investment in investees to non-marketable shares.

Note 6 - Financial instruments (Contd.)

B. Other financial investments (Contd.)

3. Financial assets measured at level-3 fair value hierarchy (contd.)

For the year ended December 31, 2017 (Audited)

	Fair-value measurement on reporting date		
	Financial assets at fair value through profit or loss and available-for-sale assets		
	Shares	Other	Total
	NIS million	NIS million	NIS million
Balance as at January 1, 2017	47	1,390	1,437
Total profits (losses) that were recognized:			
In profit and loss (*)	4	27	31
In other comprehensive income	(3)	15	12
Interest and dividend receipts	(4)	(60)	(64)
Purchases	57	186	243
Sales	-	(144)	(144)
Redemptions	-	(9)	(9)
Transfers to Level 3 **	16	-	16
Balance as at December 31, 2017	117	1,405	1,522
(*) Of which total unrealized profits for the period in respect of financial assets held at December 31, 2017	4	26	30

** For reclassification from an investment in investees to non-marketable shares

Note 6 - Financial instruments (Contd.)

C. Financial liabilities

1. Financial liabilities presented at amortized cost – book value against fair value

	As at September 30,		December 31,	As at September 30,		December 31,
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	Book Value			Fair Value		
	2018	2017	2017	2018	2017	2017
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Loans from banks *	**531**	488**	478	**551**	513**	505
Loans from non-bank corporations	**31**	60	61	**31**	62	61
Loans from related parties	**11**	11	11	**11**	11	11
Bonds*	**3,096**	2,906**	2,878	**3,396**	3,289**	3,296
Total financial liabilities presented at amortized cost	**3,669**	3,465	3,428	**3,989**	3,875	3,873

* Including subordinate liability notes

** On reclassification, see Note 2C.

2. Interest rates used to determine the fair value

	As at September 30,		As at December 31,
	2018	2017	2017
In percent			
Loans	**2.62%**	2.46% *	2.46%
Bonds	**1.36%**	1.50% *	1.22%

* On reclassification, see Note 2C.

Note 6 - Financial instruments (Contd.)

C. Financial liabilities (Contd.)

3. Financial liabilities measured at fair value hierarchy

The following table presents an analysis of financial liabilities presented at fair value. For a definition of the levels, see Note 6A.2.

	As at September 30, 2018 (Unaudited)		
	Level 1	Level 2	Total
	NIS million	NIS million	NIS million
Loans from banks	-	66	66
Derivatives (1)	26	680	706
Short sales (2)	189	-	189
Total financial liabilities	215	746	961

	As at September 30, 2017 (Unaudited)		
	Level 1	Level 2	Total
	NIS million	NIS million	NIS million
Loans from banks	-	58	58
Derivatives (1)	14	848	862
Short sales (2)	148	-	148
Total financial liabilities	162	906	1,068

	As at December 31, 2017 (Audited)		
	Level 1	Level 2	Total
	NIS million	NIS million	NIS million
Loans from banks	-	28	28
Derivatives (1)	37	747	784
Short sales (2)	148	-	148
Total financial liabilities	185	775	960

(1) Derivative financial instruments held against the insurance liabilities as part of the Group's policy for asset and liability management ("ALM"). Of the above, NIS 460 million, NIS 605 million and NIS 557 million as at September 30, 2018 and 2017 and at December 31, 2017, respectively, are included in the non-yield-dependent liabilities, and the balance is included in the Group's yield-dependent liabilities. Most of the amount is attributable to management of exposure by means of derivatives to foreign currency and to the CPI. Against these liabilities, the financial institutions deposited collateral in accordance with the conditions prescribed in the contract. The Group's financial institutions have approved credit facilities for their derivative activity. Pursuant to the foregoing, the Group's financial institutions deposited NIS 597 million as collateral to cover the liabilities arising from this activity.

(2) During the course of 2016, a Company subsidiary entered into agreement with a bank to perform several short-sale transactions of Israel government bonds against bank deposits, whereby the subsidiary will deposit NIS 100 million with the bank until the bonds mature. During 2017, the subsidiary deposited an additional NIS 50 million.

Note 6 - Financial instruments (Contd.)

C. Financial liabilities (Contd.)

4. Additional information

1. Financial covenants

For information relating to the financial covenants in respect of significant loans that the Company took from banks and non-bank companies, see Note 25 to the annual financial statements. As at September 30, 2018, the Company is in compliance with the financial covenants that were determined.

2. Maalot Rating

On January 14, 2018, Maalot announced affirmation of an ‘ilAA+’ rating for the subsidiary Harel Insurance and it raised the rating outlook to positive following the establishment of the capital management safety net. Maalot’s announcement also included affirmation of the 'ilAA' rating for the Series 1 (non-marketable) liability notes of Harel Insurance and the Series 1 liability notes of Harel Share Issues, a wholly owned subsidiary of Harel Insurance. An 'ilAA-' rating was also affirmed for tier-2 and tier-3 capital issued by Harel Financing & Issuing as part of the Series 2-13 bonds. Maalot also set a rating of ‘ilAA-’ for the issuance of two new series of bonds of Harel Financing & Issuing (Series 14-15), in the total amount of up to NIS 300 million. The Series 14-15 bonds were issued by Harel Insurance, Financing & Issuing Ltd.

3. Issuance of bonds (Series 14-15) through Harel Financing & Issuing

On January 24, 2018, Harel Financing & Issuing published a shelf offering report based on a shelf prospectus dated February 27, 2017. According to the shelf offering report, Harel Financing and Issuing offered the public up to NIS 150 million par value bonds (Series 14), registered in name, NIS 1 par value each, and NIS 150 million par value bonds (Series 15), registered in name, NIS 1 par value each. The Series 14 - 15 bonds are not linked to the CPI or to any currency.

In total, NIS 127 million par value Series 14 bonds and NIS 127 million par value Series 15 bonds, were issued, for a total (gross) consideration of NIS 253.3 million;

The effective interest rate, after costs of the issuance, of the additional Series 14 liability notes is 3.182% and of the additional Series 15 liability notes is 3.174%.

For the purpose of this issuance, on January 14, 2018, Maalot published an affirmation of the ilAA- rating for the Series 14-15 bonds.

4. Full, early redemption of bonds (Series 2) of Harel Financing & Issuing

On June 13, 2018, Harel Financing & Issuing, a subsidiary of Harel Insurance, performed redemption of the full amount of the Series 2 bonds that it had issued, in accordance with an immediate report published by Harel Financing & Issuing on May 27, 2018.

5. On making a decision in principle concerning the raising of debt (Tier-2 capital) by means of Harel Financing & Issuing, after the Reporting Period, see Note 10.

D. Information about level 2 and level 3 fair-value measurement

The interest rates used to determine the fair value of non-marketable debt assets

The fair value of non-marketable debt assets measured at fair value by way of profit or loss and of non-marketable debt assets, where information about the fair value is given for disclosure purposes only, is determined by discounting the estimated cash flows they are expected to produce. The discounting rates are based on an allocation of the negotiable market into deciles consistent with the yield to maturity of the debt asset, and determining the position of the non-marketable asset on those deciles, and this in accordance with the risk premium stemming from the prices of transactions/issues on the non-negotiable market. The price quotes and interest rates used for the discounting are determined by Mirvah Hogen, a company that provides price quotes and interest rates for financial institutions for the revaluation of non-marketable debt assets.

Note 7 - Contingent liabilities and commitments

A. Contingent Liabilities

There is a general exposure which cannot be evaluated and/or quantified resulting, inter alia, from the complexity of the services provided by the Group to its insured and its customers. The complexity of these arrangements embody, inter alia, the potential for interpretive and other arguments, due to the information gaps between the Group's companies and other parties to the insurance contacts and the Group's other products, pertaining to the long series of commercial and regulatory conditions. It is impossible to anticipate in advance the types of arguments that might be raised in this field, and the exposure resulting from these and other allegations in connection with the Group's products raised, inter alia, through a mechanism of hearings set forth in the Class Actions Law.

New interpretations of the information in insurance policies and long-term term pension products may, in some instances, affect the Group's future profits in respect of the existing portfolio, in addition to the exposure inherent in requirements to compensate customers for past activity. Likewise, there is an element of exposure due to regulatory changes and instructions issued by the Commissioner, in circulars that are in force and in draft circulars that are still under discussion, as well as in the Commissioner’s Position Papers and Decisions in Principle on various topics, some of which have far-reaching legal and operational ramifications. This exposure is particularly strong in pension savings and long-term insurance, including health insurance. In these sectors, agreements with the policyholders, members and customers are over a period of many years during which there may be policy changes, regulatory changes and changes in the law, including in case law. These rights are managed through complex automated systems, and in view of these changes they must be constantly adjusted. All these create considerable operational and mechanization exposure in these areas of activity.

Among these regulatory changes, in 2011, the Commissioner published a circular concerning data optimization of the rights of members of financial institutions. The circular details the activity framework that a financial institution must carry out to ensure that members' rights are reliably, and fully recorded in the information systems, and that they are available and retrievable. The circular prescribes stages for implementation of the optimization project, which is scheduled for completion on June 30, 2016. At this date, the Company has completed the optimization activity for most of the issues that were included in the work plan. Nevertheless, several issues remain that will continue to be dealt with even after the date scheduled for completion of the project. Furthermore, in accordance with the requirements of the circular, the Company also performs ongoing optimization and preserves the optimization activity conducted as part of the project.

In addition, there is a general exposure due to complaints issued from time to time to the Commissioner of Capital Markets, Insurance and Savings in the Ministry of Finance against institutional bodies in the Group, regarding the rights of insured relating to the insurance policies and/or the law. These complaints are handled on a current basis by the public complaints division within the financial institutions. The decisions of the Capital Market, Insurance and Savings Authority on these complaints, if and to the extent that any decision is made, might be made across the board and apply to large groups of insureds. In this context, the Capital Markets Authority recently issued rulings on the flawed enrolment of insureds in personal accident insurance. Accordingly, Harel Insurance is required to contact the holders of personal accident insurance who were enrolled in the insurance in a specific period by a small number of insurance agencies so as to ensure that they are aware of the insurance, and insofar as they are unaware of it, to allow them to cancel the policy and receive a refund of the premiums that they paid, and also regarding the purchase of insurance coverage from deposits made to a provident fund. Additionally, sometimes, the complaining entities even threaten to take action regarding their complaints in the form of class actions. At this time, it is impossible to estimate whether there is any exposure for such complaints and it is not possible to estimate whether the Capital Market, Insurance and Savings Authority will issue an across-the-board decision on these complaints and/or if class actions will be filed as a result of such processes, and it is impossible to estimate the potential exposure to such complaints. Therefore, no provision for this exposure has been included. Furthermore, as part of the policy applied by the Capital Market, Insurance and Savings Authority to enhance the controls and audits of financial institutions, from time to time the Authority conducts in-depth audits of a variety of activities of the Group's financial institutions.

Note 7 - Contingent liabilities and commitments (Contd.)
A. Contingent Liabilities (Contd.)

As a result of these audits, the Ministry of Finance may impose fines and/or financial penalties and it may also order that changes should be made with respect to various operations, both in the past and in the future. Regarding instructions with respect to past activity, the Capital Market, Insurance and Savings Authority might request the restitution of money or a change in conditions vis-à-vis policyholders and/or fund members which may impose financial liabilities on the Company's subsidiaries and/or increase the exposure of the subsidiaries that are insurers to a broader range of insurance events to be covered on account of these instructions, in policies that were issued.

As part of the audits conducted by the Capital Market, Insurance and Savings Authority, during the Reporting Period several in-depth audits were and are being conducted of the pensions, actuarial practice, health insurance, customer service, life assurance, information systems, claims settlement and money laundering.

Within the context of investments made by the Group companies in debt assets, the investing companies are signed on indemnity notes of unlimited amounts vis-a-vis the trustees of the debt assets. In these indemnity notes, the Group companies (as well as the other investors in those debt assets), undertook towards the trustees to indemnify the trustees for any expense that may be imposed on them during the handling of the debt arrangements, insofar as they handle such arrangements and insofar as the said expense is not paid by the company which owns the assets. The Group companies hold several debt assets that are in an arrangement process. The exposure relating to the indemnity notes that were given in respect of these debt assets is insignificant.

In connection with a merger of the insurance activity of Dikla into Harel Insurance, and based on a request by Clalit Health Services which is Dikla's main customer and where, as part of the agreement with Clalit Dikla provides operating and management services for the Supplementary Health Services Plan and the Long-term Care plan for Clalit's members, Harel Insurance signed an indemnity note in which it undertook to indemnify Clalit Health Services for losses sustained by Clalit if and insofar as any losses are sustained, as a result of a spin-off of operations, under the conditions set out in the indemnity note.

Following is information about the exposure to class actions and motions to recognize claims as class actions filed against the Company and/or companies in the Group.

For motions to certify legal actions as class actions as detailed below, where, in management's opinion based *inter alia* on legal opinions that it received, where it is more likely than not that the defense arguments of the Company (or subsidiary) and certification of the action as a class action will be accepted, or where there is a 50% or more chance that in the final outcome the Company's (or subsidiaries) arguments will be accepted, where it is reasonable that a proposed compromise settlement, that does not include a significant undertaking for monetary payment will be accepted, no provision has been included in the financial statements. Regarding motions to approve a legal action, fully or partly, as class action with respect to a claim, where it is more reasonable than not that the Company's defense arguments are likely to be rejected, the financial statements include provision to cover the exposure estimated by the Company's management and/or the managements of subsidiaries. In the opinion of the Company's management, based, *inter alia*, on legal opinions it received, the financial statements include adequate provision, where such provision is necessary, to cover the estimated exposure by the Company and/or subsidiaries.

For motions to approve actions as class actions under Sections 52 and 53 below, it is not possible at this early stage to estimate the chances that the applications will be approved as a class action and therefore no provision was included in the financial statements for these claims.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

1. In January 2008, an action was filed in the Tel Aviv District Court against the subsidiary Harel Insurance and against four additional insurance companies (hereinafter together: “the Defendants”) together with an application for its certification as a class action. The subject of the action is a claim that the respondents unlawfully collected "sub-annual factor payments" (a fee that insurance companies are allowed to collect when the amount of the annual premium is paid in several installments). The plaintiffs claim damages in the amount of NIS 1,683.54 for each year of insurance. The plaintiffs estimate that the total claim for the entire class that they wish to represent against all defendants is about NSI 2.3 billion, of which about NIS 307 million is against Harel Insurance. On February 1, 2010, the court approved a request for a procedural arrangement between the parties, whereby the plaintiff will strike out from the motion and the action the claim that Harel Insurance collected a sub-annual factor fee exceeding the rate permitted in policies that were issued before 1992 as well. As instructed by the court, the plaintiff submitted an amended claim and request for its certification as a class action. On December 29, 2013 the Commissioner submitted a position that supports the position of the Defendants that there is no impediment to collecting sub-annual policy factors, on the savings component of life insurance combined savings and other term policies, including long-term care, work disability and accidental disability. On July 19, 2016, the Tel Aviv District Court approved the claim as a class action in connection with the collection of a sub-annual factor on the premium component which is known as the policy factor and on the savings component in combined savings and life assurance policies, and in connection with the collection of a sub-annual policy factor in health, disability, critical illness, work disability and long-term care policies. In December 2016, a motion was filed for permission to appeal the decision of Tel Aviv District Court. Following a decision of the Supreme Court from January 2017, the respondents responded to the motion for permission to appeal the decision to certify the action as a class action and it was heard by a panel of judges. In April 2017, the Supreme Court accepted the request for a stay of implementation that was filed by the Defendants and it determined that the hearing would be put on hold until a decision has been made on the motion for permission to appeal and on the appeal. On May 31, 2018, the Supreme Court accepted the motion for permission to appeal, heard it as an appeal and accepted it, reversing the ruling of the District Court and dismissing the motion for certification of the action as a class action. On June 26, 2018, a motion was served to Harel Insurance to hold a further hearing on the judgment, that the plaintiffs filed in the Supreme Court.
2. In April 2008, an action was filed in the Jerusalem District Labor Court against the subsidiary Harel Insurance and against three other insurance companies (hereinafter together: “the Defendants”), together with an application for its certification as a class action. The subject of the action is the allegation that the Defendants generally credit women policyholders, when they reach the age of retirement, for old managers’ insurance policies that were sold until 2000, with a lower monthly benefit than the benefit received by male insureds with the same data, for the reason that women have a higher life expectancy. In contrast, the Defendants collect the same term (pure life) assurance premiums from the women as they collect from the men, despite the fact that the mortality rate for women, during the risk period, is ostensibly lower. The Plaintiffs argue that this conduct discriminates against female policyholders, in contravention of the statutory provisions. On August 17, 2014, the Jerusalem District Labor Court certified the action as a class action. The group that was certified for the class action consists of women who have or had an insurance policy with the four Defendants, and for whom no distinction was made between the tariff for men and women in the calculation of the risk premium. In December 2014, the Defendants filed an application for permission to appeal this ruling in the Jerusalem National Labor Court. Concurrently, the District Labor Court accepted the Defendants’ application for a stay of proceedings until a decision is made on the application for permission to appeal. In April 2015, the National Labor Court decided to grant the Defendants permission to appeal the decision. As part of a hearing on appeal, the court instructed that the material must be submitted to the Commissioner for his opinion. In December 2016, the Commissioner’s position was submitted to the court, supporting the opinion of the insurance companies whereby the action cannot be heard as a class action since there is no unacceptable discrimination involved.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

3. In April 2010, an action and application for its certification as a class action was filed in the Petach Tikva Central Region Distict Court against the subsidiary Harel Insurance and against four additional insurance companies (hereinafter together: “the Defendants”). The subject of the legal action is the allegation that in the event of a discontinuation of insurance in any month, after the insurance premium for that month was collected by the Defendants in advance, the defendants allegedly did not reimburse the insured the proportionate, surplus share of the premiums for that month, or alternatively they allegedly repaid the insurance premium in nominal values only. In the opinion of the applicants, the total damages to all members of the group, cumulatively claimed against all defendants, amount to NIS 225 million for a ten-year period (the plaintiffs did not attribute any specific amount to each of the Defendants separately). The amount of the plaintiffs’ personal claim against Harel Insurance is NIS 80. In December 2011, the court instructed that the plaintiffs' allegations should be struck out in connection with Section 28.A of the Contracts (Insurance) Law and in connection with a policy of policyholders that has partially or temporarily expired. In November 2014, the Commissioner’s opinion was submitted to the court, that the provisions of the policy are binding with respect to the manner of collecting the premium after the death of the insured or in the period following cancellation of the policy, and that the actuarial opinion submitted to the court by the Defendants is insufficient to confirm that the Defendants priced the policy in such a way as provides evidence that they took into account the fact that the premiums would not be returned to the insureds for the period after the death of the insured or after the policy cancellation. On June 23, 2015, the Lod-Central District Court partially certified litigation of the claim as a class action. The court certified the claim against Harel Insurance as a class action, but only with respect to the inclusion of interest and linkage differences at the time of restitution of premiums that were collected in the months after the month in which the insurance contract was cancelled or after the occurrence of the insured event. In September 2016, a compromise settlement was submitted for the court’s approval. Accordingly, it was agreed, inter alia, that Harel Insurance will donate 60% of its total refund in relation to the first cause, as defined in the compromise settlement and as per report of the reviewer to be appointed to review the compromise settlement, and 80% of the total refund amount in respect of the second cause, as defined in the compromise settlement and as per the report of the reviewer to be appointed, as noted. Furthermore, the compromise settlement prescribes provisions with respect to future conduct in cases of the cancellation of policies which are the subject of the claim. Validity of the compromise settlement is contingent on the court’s approval. In March 2017, the Attorney General submitted his position on the compromise settlement to the government. The opinion includes various comments including, among others, that a reviewer should be appointed to review the compromise settlement before it is approved and he asked to submit a supplementary position after the professional opinion of the reviewer has been received and examined. In June 2017, the court appointed a reviewer for the compromise settlement.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

4. In May 2011, an action was filed in the Central Region District Court against the subsidiary Harel Insurance and three other insurance companies (hereinafter together: “the Defendants”), together with a motion for certification as a class action. The subject of the action is an allegation that the Defendants allegedly unlawfully collect a payment called a "policy factor" and/or "other management fees" at a considerable rate of the premium paid without their consent or knowledge and without compliance with a condition that enables such collection in the policy instructions. The Plaintiffs argue that according to instructions issued by the Commissioner of the Capital Market, Insurance and Savings Authority ("the Commissioner"), companies may charge a policy factor under certain conditions; however they also claim that in addition to the Commissioner's authorization, the Defendants must stipulate collection of the policy factor in a contractual agreement with the policyholder. According to the Plaintiffs, the total loss claimed for all members of the group against all the Defendants is NIS 2,325 million, and against Harel Insurance, based on its share of the market, is NIS 386 million. On June 10, 2015, the parties filed an application in the court to approve a compromise settlement. The court appointed a reviewer for the compromise settlement. Under the proposed compromise settlement, the Defendants will reimburse the class members with a total amount of one hundred million shekels for the collection of a policy factor in the past. Harel Insurance’s share of this amount is NIS 14 million. Additionally, each of the Defendants will subtract the future collection for the policy factor from the members of this class at a rate of 25% relative to the amount actually collected. Furthermore, insofar as the compromise settlement is approved, Harel Insurance will be required to pay compensation to the class plaintiff and cover the cost of his lawyer’s fees, by an amount to be decided upon by the court.

   Following submission of the reviewer’s expert opinion, on October 18, 2015, the court clarified its original position regarding the compromise settlement that had been given in a previous hearing, whereby it is clearly inclined not to approve the present conditions of the compromise settlement and it recommended that the parties significantly improve the terms of the compromise settlement. In February 2016, the Attorney General submitted his opinion regarding the compromise settlement, whereby he agrees in principle with the conclusions in the reviewer’s opinion relating to the compromise settlement and he left the appropriate compensation under the circumstances to be determined by the court, based on the information available to it. Nevertheless, the Attorney General stated that in his opinion, there is some difficulty with the compromise settlement, whereby the Defendants will continue to collect the policy factor in future in a manner that prevents the class members from filing a claim on this matter in the future, in view of the fact that, in his opinion, the compromise settlement involves a waiver of grounds for a future claim. However, under the circumstances of the aforesaid application, he wishes to leave the question of further collection of the policy factor in the future to the discretion of the court. Furthermore, the Attorney General expressed his opinion to the effect that any reduction of the collection of the policy factor in the future must be directed in its entirety to increasing the savings component in the policy, and he also commented on several other matters in the compromise settlement including: notice to be given to policyholders who are entitled to receive compensation for the past, the manner of paying the compensation relating to the past, including donating any amounts owed to recipients who are not found and the proposed fee and compensation for the applicants and their attorneys. In its decision from November 21, 2016, the court dismissed the compromise settlement and approved litigation of part of the claim as a class action on the grounds of a breach of the insurance policy on account of collection of the policy factor fee with no legal basis in a manner that compromises the insured’s accrued savings, starting from seven years prior to the date of filing the claim. The relief to be claimed as part of the class action will be to remedy of the breach by way of revising the insured’s accrued savings by the additional amount of savings that would have been accrued if the policy factor had not been collected or by compensating the insured by the aforesaid amount. In addition, from now on, the policy factor will no longer be collected.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

Par. 4 (contd.)

The class in whose name the class action is litigated comprises insureds of the Defendants who have combined life assurance and savings policies that were drawn up between 1992-2003, where the savings accrued by the insureds was compromised on account of the collection of the policy factor. In May 2017, the Defendants filed a motion in the Supreme Court for permission to appeal this decision, in which context the compromise settlement was dismissed and the motion to certify the claim as a class action was partially approved. In June 2017, the Supreme Court acceded to the Defendants' petition and instructed that the proceeding in the District Court be suspended. In September 2018, the Attorney General's response was filed to the motion for permission to appeal, according to which his position is that the Central District Court was correct in its decision not to approve the compromise settlement and to partially approve the motion to certify the action as a class action.

5. In July 2012, an action was filed against the subsidiary Harel Insurance in the Tel Aviv District Court, together with an application for its certification as a class action against the subsidiary Harel Insurance and against the IDF Disabled Veterans Organization (hereinafter together: "the Defendants"). The subject of the class action claim is that in a group life insurance policy issued to members of the IDF Disabled Veterans Organization a certain insurance coverage ostensibly exists which was intended for cases where the insurance event takes place in the year between the age of 75 and 76 in the life of the insured, while Harel Insurance only provides insurance coverage for insurance events occurring up to the age of 75. The plaintiff estimates the amount of the claim for all group members he wishes to represent at NIS 46 million. On June 5, 2014, the Tel Aviv District Court certified hearing of the claim as a class action. The group which was approved is all the beneficiaries of the IDF Disabled Veterans Organization who died between 2006 and 2012, when the insureds were aged between 75 and 76, and who suffered an insured event during that year and did not receive insurance benefits from Harel Insurance. On July 6, 2014, the Defendants filed an application for permission to appeal this decision in the Supreme Court. In November 2014, the Supreme Court ordered a stay of proceedings in the Tel Aviv District Court until another decision is made. As recommended by the court, the Defendants withdrew their application for appeal in December 2015. Consequently, the stay of proceedings in the District Court was suspended. In its decision from March 20, 2016, the Tel Aviv District Court instructed that the group should be enlarged to include the beneficiaries of IDF veterans who died between 2013 and 2016 as well. The court instructed that the Commissioner's position on the dispute which is the subject of the action should be accepted. In September 2018, the Commissioner's position was accepted, whereby given that the dispute relates to the interpretation of the policy documents, the Capital Market Authority does not see fit to express its opinion on the matter.

6. In December 2012, a claim was filed against the subsidiary Harel in the Aviv District Court, together with an application for certification as a class action. The subject of the claim is that Harel ostensibly pays the monthly LTC insurance benefit to customers insured under a group policy of the Israel Teachers Union ("the Policy") according to the CPI known at the beginning of the month, rather than the CPI known at the date of payment. In addition, it is claimed that Harel ostensibly pays the LTC benefit without linking it to the base CPI given in the Policy, but rather to a CPI that was published two months later, and this, ostensibly, in breach of the provisions of the Policy. The plaintiff does not mention the total sum that it claims for all members of the group. The parties are conducting a mediation process.

Note 7 - Contingent liabilities and commitments (Contd.)
A. Contingent Liabilities (Contd.)

7. In May 2013, an action was filed in the Tel Aviv District Court together with an application for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel ostensibly refrains from paying insurance benefits to its policyholders together with linkage differences and interest, from the date of occurrence of the insured event up to the payment date of the insurance benefits. The total loss claimed for all members of the group amounts to sums varying from NIS 168 million to NIS 807 million. The mediation process conducted by the parties was unsuccessful and litigation of the action was returned to the court. On August 30, 2015, the Tel Aviv District Court partially accepted the motion for certification, such that conducting of the claim as a class action was approved with respect to the argument concerning non-payment of interest as required under Section 28(A) of the Insurance Contract Law ("the Law"), and the motion was dismissed insofar as it relates to the argument that Harel Insurance does not link the insurance benefits in accordance with the provisions of Section 28(A) of the Law. The plaintiffs estimate that the overall loss claimed for all members of the group in relation to the Company according to the amended statement of claim amounts to NIS 120 million. In October 2015, an application was filed for permission to appeal the decision to certify the application as a class action. In accordance with the court's recommendation, in August 2016 the Defendants withdrew the application for permission to appeal.
8. In July 2013, an action was filed in the Lod District Court against the subsidiary Harel Insurance, with an application for its certification as a class action. The subject of the action is the allegation that Harel Insurance allegedly refrains from publishing complete information on its website in connection with the sums insured payable as compensation to policyholders when the surgery is paid for by another entity who is not the insurer, and this ostensibly in contravention of the provisions of a circular issued by the Commissioner - "Details of Insurance Benefits in Health Insurance Plans", and with the purpose, ostensibly, of reducing the amounts of compensation paid to policyholders according to the policies. The overall loss claimed for all members of the group amounts to NIS 35 million. In March 2016, a compromise settlement was submitted for the court's approval. In June 2016, an amended compromise agreement was submitted for the court's approval, consistent with the court's comments. In September 2016, the Attorney General's position was submitted to the court whereby he does not oppose the compromise settlement and leaves approval of the decision in the court's hands. As part of his position, the Attorney General made several remarks relating to the wording of the arrangement. In January 2017, the court appointed a reviewer for the compromise settlement. In November 2017, the reviewer's opinion was submitted to the court whereby the compensation mechanism defined in the compromise settlement is fair and reasonable. In August 2018, at the court's request, the reviewer's supplementary opinion was submitted on various matters, according to which the compensation mechanism defined in the compromise settlement is fair and reasonable.
9. In October 2013, an action was filed in the Lod District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action is an allegation that Harel Insurance ostensibly refrains from paying compensation to insureds who performed surgery that was fully or partially paid for by their healthcare providers, at a rate of half the amount that it saved from the full cost of the surgery, due to the participation of the health funds. The total loss claimed for all members of the group amounts to NIS 14 million. In March 2016, a compromise settlement was submitted for the court's approval. In June 2016, an amended compromise agreement was submitted for the court's approval, in accordance with the court's comments. In September 2016, the Attorney General's position was submitted to the court whereby he does not oppose the compromise settlement and he leaves approval of the decision in the court's hands. As part of his position, the Attorney General made several remarks relating to the wording of the arrangement. In January 2017, the court appointed a reviewer for the compromise settlement. In November 2017, the reviewer's opinion was submitted to the court whereby the compensation mechanism defined in the compromise settlement is fair and reasonable. In August 2018, at the court's request, the reviewer's supplementary opinion was submitted on various matters, according to which the compensation mechanism defined in the compromise settlement is fair and reasonable.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

10. In April 2014, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Dikla Insurance Agency Ltd. (in its previous name Dikla Insurance Company Ltd. ("Dikla")). The subject of the action is the allegation that Dikla ostensibly pays insurance benefits to insureds in the group health insurance policy "Mushlam for Pensioners" run for pensioners of Clalit Health Services and their families ("the Policy") based on the index known at the beginning of the month, and not according to the index known on the date of payment, in contravention of the provisions of the law ("primary cause"), and that Dikla has allegedly increased the premiums for insureds in the policy without any foundation and ostensibly in contravention of the provisions of the Policy and the law ("secondary cause"). The total loss claimed for all members of the group amounts to NIS 21.5 million (NIS 19 million for the primary cause and NIS 2.5 million for the secondary cause).
11. In April 2014, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance pays the holders of Hiyunit profit-sharing policies for work disability and long-term care insurance ("the Policy") monthly compensation (which consists of monthly compensation and the outstanding bonus), which is ostensibly calculated in contravention of the Policy provisions, and that Harel Insurance, allegedly, does not pay the policyholders the bonus they have accrued up to the date of payment of the first monthly compensation according to the Policy. The total loss claimed for all members of the Group that the Plaintiff wishes to represent amounts to NIS 381 million.
12. In June 2014, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Dikla Insurance Agency Ltd. (in its previous name Dikla Insurance Company Ltd. ("Dikla")) The subject of the action is the argument that under the provisions of the group long-term care insurance policy for members of Clalit Health Services Supplementary Long-term Care Plus ("the Policy"), Dikla fails to pay insureds who require long-term care insurance benefits for the days in which they were hospitalized in a general or rehabilitation hospital, and that these days are not included in the number of days for calculating the waiting period determined in the policy, and this ostensibly in contravention of the Commissioner' instructions and the provisions of the law. The Plaintiff estimates the total loss claimed for all members of the Group that it wishes to represent at NIS 35 million. The court passed the motion to accept the Commissioner's position regarding the disputes that are the subject of the motion for certification of the action as a class action. In January 2016, the Commissioner's position was submitted which stated that the policy definition of the insured event does not violate the instructions of the Capital Market, Insurance and Savings Authority and that the policy which is the subject of the claim was approved separately by the Capital Market, Insurance and Savings Authority.
13. In July 2014, a motion for certification of a claim as a class action was filed in the Central Region Lod District Court against Harel Pension Fund Management Ltd. and against four other pension fund management companies (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants raise the management fees paid by pension fund members from the cumulative savings (accrued balance) to the maximum rate permitted by law on the date on which the members become pensioners, receive their old-age pension and they are no longer able to move their pension savings. In this way, the Defendants ostensibly apply the contractual right to which they are entitled under the provisions of the pension fund articles, in an unacceptable manner, in bad faith and contrary to the provisions of the law. According to the Plaintiffs, the total loss claimed for all members of the group that the Plaintiffs wish to represent, amounts to NIS 48 million against all the Defendants. The court passed the application to the Commissioner for his opinion on the questions arising from the motion for certification. In September 2017, the Commissioner's position was submitted supporting the Defendants' position whereby the rate of the management fees collected from members during the savings period is not equal to the rate of the management fees collected from post-retirement annuity recipients, given that they relate to two different periods and have different characteristics.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

Par. 13 contd.

The post-retirement management fees are reset at the time of retirement and unrelated to the rate prior to retirement. This is therefore not considered an increase in the management fees but rather setting the rate of the management fees for the period of retirement. The “Management Fees Circular” which relates to the management companies’ obligation to notify their members does not apply to the setting of management fees for pensioners; and the obligation to give notice of a change in the management fees by virtue of the circular does not apply to the management companies with respect to annuity recipients. The parties informed the court of their agreement to enter into a mediation process.

14. In November 2014, a motion for certification of a claim as a class action was filed against the subsidiary Harel Insurance and Standard Insurance Ltd. and against other insurance companies and insurance agencies (together: “the Defendants”) in the Central District Court in Lod. The subject of the action is the allegation that when the holders of Isracard and CAL credit cards call the sales call centers run by the Defendants in order to activate an overseas travel insurance policy that they are entitled to receive free of charge (“the Basic Policy”), the Defendants ostensibly then sell these customers riders or extensions to the Basic Policy, in practice selling them complete, standard policies that provide cover from the first shekel and include coverages that overlap the cover included in the Basic Policy. This, at full cost and without deducting the value of the Basic Policy. The Plaintiffs argue that the Respondents are therefore misleading the insureds, in breach of the disclosure obligations, operating in contravention of the law and practicing unjust enrichment. According to the action, the total loss claimed for all members of the Group that the Plaintiffs wish to represent is estimated at NIS 270 million. In August 2018, the parties filed a motion in the court to certify a compromise settlement in which it was agreed that Harel Insurance will make available to the eligible class members, as they are defined in the compromise settlement, a defined quantity of days of travel insurance free of charge, that can be utilized in accordance with the provisions of the compromise settlement. The validity of the compromise settlement is contingent on the court’s approval.
15. In August 2015, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Dikla Insurance Agency Ltd. (in its previous name Dikla Insurance Company Ltd. (“Dikla”)). The subject of the action is the claim that when settling claims in long-term care, Dikla ostensibly separates the activities of daily living for different parts of the body for the purpose of investigating whether the insured event has occurred, by performing a literal, quantitative review of the insured’s ability to perform each of the ADLs. This in a manner that renders the content of the Commissioner’s meaningless, whereby their assessment is purely quantitative and contrary to the Commissioner’s position on this matter from January 2015. The plaintiffs argue that Dikla is therefore in breach of the provisions of the insurance policy, that it provides a misleading description of the insurance transaction, practices unjust enrichment and is in breach of a statutory obligation. The personal loss claimed by the Plaintiff is estimated at NIS 59,000 while the total loss claimed for all members of the Group that the Plaintiff wishes to represent is estimated at NIS 75.6 million.
16. In September 2015, an action was filed in the Central District Court together with an application for its certification as a class action against the subsidiaries Harel Insurance and Dikla Insurance Agency Ltd. (in its previous name Dikla Insurance Company Ltd. (“Dikla”)) and against three other insurance companies (henceforth together: “the Defendants”). The subject of the action is the allegation that the Defendants allegedly adopted an interpretive approach whereby in order to recognize an insured in the investigation of a claim for long-term care as one who suffers from incontinence, this condition must be the outcome of a urological or gastroenterological illness or ailment only. This, ostensibly, in contravention of the provisions of the insurance policy. The Plaintiffs have not quantified the loss claimed for all members of the group they wish to represent, but they estimate it to be hundreds of millions of shekels. The parties are conducting a mediation process.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

17. In September 2015, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against Harel Pension Funds Management Ltd. and against four other companies ("hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants were ostensibly in breach of their fiduciary duties towards the members of the provident funds they manage by paying commissions to the insurance agents at a rate derived from the management fees they collect from the members, thereby compensating the agents by an amount that increases in line with the increase in the management fees. Their argument is that the Defendants ostensibly practiced unjust enrichment by creating a mechanism aimed at increasing the management fees in favor of the agents and management companies. The Plaintiffs estimate the loss for all members of the group they wish to represent in the amount of NIS 300 million per annum since 2008 and in total by approximately NIS 2 billion.
18. In September 2015, an action was filed against the subsidiary Harel Insurance in the Tel Aviv District Court, together with an application for its certification as a class action. The subject of the action is the argument that Harel Insurance compensates insureds who have had surgery in a public hospital by an amount equal to only 25% of the fee for a surgeon who has an agreement with Harel Insurance, whereas according to the policy conditions it must compensate them by an amount equal to 50% of the agreement surgeon's fee for the relevant operation. The Plaintiff argues that Harel Insurance is therefore in breach of the provisions of the policy, acts negligently, in bad faith and misleads the insureds, and is in breach of the provisions of the Supervision of Financial Services (Insurance) Law, 1981. The Plaintiff estimates the loss for all members of the group it seeks to represent in the amount of NIS 13.1 million.
19. In November 2015, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Dikla Insurance Agency Ltd. (in its previous name Dikla Insurance Company Ltd. ("Dikla"))and against Clalit Health Services ("Clalit") (hereinafter together: "the Defendants"). The subject of the action is the group long-term care insurance policy for members of Clalit Health Services - Supplementary Plus LTC ("the Policy"). The Plaintiff argues that where rights are transferred from one period of entitlement ("the First Entitlement Period") to another entitlement period, in which the insured is eligible for insurance that are less than the benefits in the First Entitlement Period ("the Second Entitlement Period"), and when the transition between the entitlement periods occurs after the first day of a calendar month, insurance benefits are paid according to the reduced amount, for the entire month in which the transfer took place ("Cause of the First Claim"). The Plaintiff argues that he is therefore deprived of insurance benefits, equal to the amount of the difference between the insurance benefits for the First Period and the insurance benefits for the Second Period, multiplied by the proportional part of the month for which he is entitled to insurance benefits in respect of the First Entitlement Period. The Plaintiff further argues that group members who survived the entire cumulative periods of entitlement did not receive any insurance benefits for the proportional missing part of the first calendar month of their entitlement and that they are entitled to receive insurance benefits for that proportional part of the month. ("Cause of the Second Claim"). The Plaintiff argues that in this manner, Dikla practices unjust enrichment, is in breach of the provisions of the Supervision of Financial Services (Insurance) Law, 1981 and the provisions of the insurance policy. The personal loss claimed by the Plaintiff is estimated at NIS 540 while the total loss claimed for all members of the Group that the Plaintiff wishes to represent is estimated at NIS 60 million. In November 2016, the plaintiff filed an application for a partial ruling on the motion for certification. In March 2017, the court dismissed the plaintiff's application for a partial ruling on the motion for certification. At a hearing which took place in July 2017, the court approved the parties agreement to terminate the proceeding in the plan, in which the Company's auditors were appointed as an expert for the court to examine the reasonability of the process of refunding the payment by Dikla. In January 2018, the expert's opinion was submitted to the court. In October 2018, and further to Dikla's announcement that it had taken action to rectify the fault described in the Cause of the First Claim and to the payment of differences to eligible policyholders and that the parties had agreed to the method of terminating the proceeding, the Tel Aviv District Court certified the action as a class action in the Grounds for the First Claim and it dismissed the motion for certification of the action as a class action with respect to the Cause of the Second Claim Additionally, attorneys' fees and compensation of insignificant amounts were awarded to the Plaintiff.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

20. In November 2015, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance and against an additional insurance company (hereinafter together: “the Defendants”). The subject of the action is the allegation that the Defendants allegedly arbitrarily deduct various amounts from the loss amounts claimed by third parties for the insured’s negligence. This, ostensibly, with the general reason of “contributory negligence” by the third party without explanation, as required in the provisions of the law. The Plaintiffs argue that the Defendants are therefore in breach of the statutory provisions, including the Commissioner’s circulars, they are in breach of a statutory obligation, act in bad faith and practice unjust enrichment. The Plaintiffs estimate the loss caused to all members of the group they wish to represent to be more than NIS 3 million for each of the Defendants. In April 2018, the parties filed a motion in the court to certify a compromise settlement, in which it was agreed, among other things, that Harel Insurance will send letters to class members setting out the reasons behind the deduction of the insurance benefits on grounds of the contributory negligence. If cases are found in this framework in which it is possible to reduce or cancel the amounts deducted due to contributory negligence, Harel Insurance will take action to refund the relevant amounts to the class members. The validity of the compromise settlement is contingent on the court’s approval. In July 2018, an amended compromise settlement was submitted for the court’s approval. In October 2018, the Attorney General’s position was submitted to the court whereby he does not oppose the compromise settlement.
21. In February 2016, an action and application for its certification as a class action was filed in the Central Region Lod District Court against Harel Pension Fund Management Ltd. and against four other pension fund management companies (“the Defendants”). The subject of the action is the allegation that the Defendants begin to collect management fees at the maximum rate permitted by law from the recipients of disability and survivors allowances when they begin to receive the allowances so that they are no longer able to move their money to another pension fund, without giving them advance notice. This ostensibly in breach of the applicable voluntary disclosure obligation, in breach of statutory duties and duties of trust, agency and caution, taking unfair advantage through mala fides in a contractual right, practicing unjust enrichment and behavior as a cartel. The Plaintiff has not quantified the total loss claimed for all members of the group that it wishes to represent, although her initial estimate is about a billion shekels against all the Defendants. In January 2018, the court ordered the transfer of the hearing to the Regional Labor Court.
22. In February 2016, an action was filed in the Lod-Central District Court, together with a motion for its certification as a class action, against the subsidiary Harel. The subject of the action is the allegation that the position of Harel Insurance is that comprehensive insurance for vehicles such as taxis does not cover impairment, including impairment caused as a result of an insured event, this ostensibly in contravention of the policy provisions and that Harel Insurance is therefore in breach of the agreement between itself and its policyholders, it practices unjust enrichment and is in breach of the enhanced obligations that apply to it as an insurance company, including that it misleads its customers. The Plaintiff estimates the amount of the loss caused to all members of the group it seeks to represent in the amount of NIS 10 million. In March 2017, the court approved the plaintiff’s application to amend the definition of the group so as to include insureds who had purchased a policy for a heavy-goods or commercial vehicle weighing more than 3.5 tons (including taxis) and not only insureds who had purchased policies for taxis. In March 2018, the parties informed the court of their agreement to enter into a mediation process.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

23. In February 2016, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against Harel Pension Funds Management Ltd. ("Harel Pension"). The subject of the action is the allegation that Harel Pension ostensibly collects money from its members, who make lump-sum deposits in the pension fund, in respect of insurance for disability risks and insurance for death for a period that has already passed on the collection date in the knowledge that the risk for which the money is collected has not and will not materialize. The Plaintiff argues that in this manner, Harel Pension is in breach of the provisions of the Insurance Contact Law, 1981, the provisions of the Supervision of Financial Services (Insurance) Law, 1981, the voluntary disclosure obligation and the Contracts (General Section) Law, 1973, and that according to the Plaintiff, it practices unjust enrichment and exploits the inexperience of its members. The personal loss claimed by the Plaintiff is estimated at NIS 826 while the total loss claimed for all members of the Group that the Plaintiff wishes to represent is estimated at NIS 5.58 million. In March 2017, the court instructed that the hearing should be transferred to the Regional Labor Court.
24. In March 2016, an action was filed in the Tel Aviv District Labor Court against Standard Insurance Ltd. ("Standard"), together with a motion for its certification as a class action ("Application for Approval"). The subject of the action is the argument that Standard allegedly neglected to provide its employees with the rights prescribed in the Extension Order in the import, export and wholesale trade industry ("Extension Order in the Import Industry"), but did so only in accordance with the extension orders and general laws that apply to all workers in the economy, including that it deposited payments for them in a pension in accordance with the general extension order in the economy relating to pensions ("General Extension Order") and not in accordance with the Extension Order in the Import Industry, that it did not pay them vacation differences and payments for the holidays and elective days by virtue of the Extension Order in the Import Industry, and that it did not deposit payments for them in a pension for the holidays, vacation and sick-pay component in accordance with the Extension Order in the Import Industry. This, according to the Plaintiff, in breach of their rights under the wage protection laws. The Plaintiff estimates the total loss claimed for all members of the group that it wishes to represent at approximately NIS 8 million.
25. In March 2016, an action was filed in the Central Region District Court against the Company, together with a motion for its certification as a class action against the subsidiary Harel Insurance ("Harel Insurance"). The subject of the action is the allegation that Harel Insurance allegedly pays money to the beneficiaries of life assurance policyholders by virtue of the life assurance policies, where the money is linked to the CPI from the date on which the Company becomes aware of the insured's death and the money is not linked to the relevant investment index for the investment track chosen by the insured. The Plaintiff argues that Harel Insurance is therefore in breach of the agreement between the Company and its policyholders, practices unjust enrichment, is in breach of a statutory obligation and in breach of the obligation to provide disclosure. The personal loss claimed by the Plaintiff is estimated at NIS 33,729 thousand. The Plaintiff has not quantified the total loss claimed for all members of the group that she wishes to represent, although she estimates it to be tens of millions of shekels. In February 2017, the court passed the motion to accept the Commissioner' position on the questions arising from the motion for certification. In May 2017, the Commissioner submitted his position whereby monies in pension savings that are payable to beneficiaries as a result of death during the work period are not insurance benefits and are not covered by Section 28 of the Insurance Contracts Law, and that from now on Harel Insurance must also link the savings to the investment index in the period after the insured's death and until the money is transferred to the beneficiaries. The Commissioner also noted that in his opinion, in this case, unjust enrichment does not apply. The parties are conducting a mediation process.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

26. In June 2016, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance, against the Commissioner of the Capital Market, Insurance and Savings Authority ("Commissioner of the Capital Market") and against two other insurance companies (hereinafter together: "the Defendants"). The subject of the action is the allegation that the group long-term care policies sold by the Defendants, which include a condition allowing them to be terminated unilaterally, were ostensibly a flawed product that the Defendants knew or should have known were flawed, and that as a result of the cancellation of these policies, the insureds have been left without long-term care insurance. The Plaintiffs therefore argue that the Defendants are ostensibly in breach of statutory provisions, acted in bad faith, misled their insureds, were in breach of the duty of disclosure to consumers and in breach of the duty of caution. The Plaintiffs further argue that the Commissioner of the Capital Market allowed the Defendants to sell these policies and refrained from cancelling them, thus acting negligently and without performing his duties. The Plaintiffs estimate the total loss caused to all members of the group they wish to represent at approximately NIS 7 billion. In October 2017, the court ordered the dismissal, *in limine*, of the motion for certification against the Commissioner of the Capital Market.
27. In August 2016, an action was filed in the Central Region Lod District Court, together with an application for its certification as a class action, against Harel Pension Funds Management Ltd. ("Harel Pension"). The subject of the action is the allegation that in addition to management fees, Harel Pension ostensibly collects payment from its members for a component relating to investment management expenses (a component of direct expenses for performing transactions), which is permissible by law, although in this case Harel neglected to include provision in the contract allowing it do so. The Plaintiff argues that Harel Pension is therefore in breach of the provisions of the pension fund articles and the onerous fiduciary obligations and duty of disclosure that apply to it, it negotiates in bad faith and gives its customers a misleading description. The Plaintiff estimates the total loss claimed for all members of the group that it wishes to represent amounts to approximately NIS 132 million. In April 2017, the court ordered the transfer of the hearing of the motion to the Tel Aviv District Labor Court. In February 2018, the court instructed the Commissioner to submit his position in relation to the proceeding. In June 2018, the position of the Capital Market Authority was submitted supporting the position of Harel Pension.
28. In September 2016, an action was filed in the Central Region District Court together with a motion for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly collects payment from the holders of the Harel savings policy "Harel Varied Personal Investments" for a component relating to investment management expenses which may be collected by law, but without contractual agreement in the policy conditions allowing it to collect this component. According to the Plaintiff, Harel Insurance is therefore fundamentally in breach of the policy provisions, in breach of the fiduciary obligation applicable to it and misleads its policyholders. The Plaintiff estimates the overall loss caused to all members of the group it seeks to represent in the amount of NIS 27.8 million.
29. In September 2016, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action, against the consolidated subsidiary Harel Insurance Company Ltd. and against three other insurance companies (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants ostensibly collect high premiums from the insureds for health insurance policies that include cover that the insureds ostensibly do not need as they have supplementary health insurance from the HMOs to which they belong. The Plaintiffs also argue that the Defendants do not disclose to the insureds that this cover is in fact superfluous and/or they make one type of service conditional on another as they do not allow the insureds to purchase a limited version of the policy which includes only coverage that is not included in the HMO supplementary health insurance, thus creating a situation of double insurance. The Plaintiffs argue that the Defendants are therefore in breach of the duty of utmost good faith which applies to them, are in breach of a statutory obligation, in breach of the provisions of the law, in breach of an agreement, mislead their policyholders and practice unjust enrichment. The Plaintiffs estimate that the total loss claimed for all members of the class that they wish to represent against Harel Insurance amounts to NIS 2.2 billion, and to NIS 4.45 billion against all the Defendants.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

30. In September 2016, an action was filed in the Lod-Central District Court, together with a motion for its certification as a class action, against the consolidated subsidiary Harel Insurance Company Ltd. The subject of the action is the allegation that Harel Insurance ostensibly fails to disclose on its website complete and accurate information about the maximum amounts of indemnification to which health insurance policyholders are entitled for surgery-related expenses which are covered in the health insurance policies that it sells. This, according to the Plaintiff, with the purpose of reducing the amounts of indemnification owed to its insureds. The Plaintiff argues that Harel is therefore in breach of contract, in breach of the Commissioner's instructions, it refrains from providing proper disclosure of the amounts of indemnity to which insureds are entitled and acts fraudulently. The Plaintiff estimates the total loss claimed by all members of the class it wishes to represent to be at least NIS 20 million. In June 2017, the parties submitted an application in the court for certification of a compromise settlement, which settles the manner of calculating the amount of the insurance benefits for members of the class who, after the date of approval of the settlement, will file an insurance claim with the company for indemnification for the costs of surgery that they undergo, as well as a mechanism for supplementing the amounts of compensation for group members who received such indemnity in the past. The validity of the compromise settlement is contingent on the court's approval. In November, the Attorney General's position was submitted to the court whereby he does not oppose the compromise settlement. In his position, the Attorney General made several remarks relating to the agreement, expressed his support of the parties' request to appoint a reviewer for the settlement and he also asked to submit an additional position after receiving the reviewer's opinion. In November 2017, the court appointed a reviewer for the compromise settlement. In August, 2018, the reviewer's opinion was submitted to the court whereby the compensation mechanism defined in the compromise settlement is fair and reasonable.
31. In October 2016, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action against the consolidated subsidiary Harel Insurance Company Ltd. The subject of the action is the allegation that until the annual report for 2015, Harel Insurance ostensibly neglected to disclose to its policyholders, who purchased long-term care insurance with a variable premium, what premium they will be charged from the age of 65, despite the fact that, according to the Plaintiff, the premium on this policy increases by hundreds of percent at the age of 65. The Plaintiff argues that Harel Insurance is therefore in breach of a statutory obligation and in breach of the obligation to provide disclosure, in breach of agreement, acts in bad faith, practices unjust enrichment and acts negligently. The Plaintiff further argues that charging insureds for future premiums based on tariffs that are unknown to them is a discriminatory condition in a standard contract. The Plaintiff has not quantified the total loss claimed for all members of the group that she wishes to represent against Harel Insurance, although she estimates it to be millions of shekels. In July 2017, the court approved the Plaintiff's application to amend the motion for certification so that it also addresses the claim whereby Harel Insurance ostensibly neglected to present to its policyholders before the date of enrolment in the policy, the premium they would pay from the age of 65, despite the fact that it is obligated to do so according to the Commissioner's circular. In August 2017, an amended motion was filed for certification of the action as a class action. The subject of the amended motion is the allegation that Harel Insurance ostensibly neglected to present to its policyholders who have long-term care insurance with a variable premium, in the enrolment form and/or in the general conditions of the policy, the premium they would pay from the age of 65 onwards, before they enrolled in the insurance.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

32. In October 2016, an action was filed in the Jerusalem District Labor Court together with a motion for its certification as a class action against the second-tier subsidiary, Tzva Hakeva (Regular Army) Saving Fund – Provident Funds Management Company Ltd. ("Tzva Hakeva"). The subject of the action is the allegation that Tzva Hakeva ostensibly collects investment management expenses from fund members which is permissible by law, but without contractual agreement in the policy conditions allowing it to collect these expenses. The Plaintiff argues that Tzva Hakeva therefore acts in contravention of the provisions of law and the special fiduciary obligation that applies to it. The Plaintiff estimates the overall loss caused to all members of the class it seeks to represent in the amount of NIS 30.1 million. In January 2018, it was decided to consolidate the hearing with other pending motions for certification of a class action relating to direct expenses in provident funds and education funds. In February 2018, the court ruled that the Commissioner's position should be accepted regarding the proceeding. In May 2018, the Commissioner's position supporting the Defendants was submitted to the court, in which financial institutions may collect direct expenses from members or insureds even if this is not explicitly noted in the financial institution's articles of association, provided that such action is taken in accordance with the provisions of the Supervision of Financial Services (Provident Funds) (Direct Expenses for Performing Transactions) Regulations, 2008 ("the Regulations"). In his position, the Commissioner noted that it is also relevant, with the necessary changes, for insurance companies that manage yield-dependent insurance.
33. In November 2016, an amended application was produced for the Company for certification of an action as a class action against the consolidated subsidiary Harel Insurance, against Clal Insurance Company Ltd. ("Clal Insurance"), and against Amitim's Nativ Pension Fund (South and Center) ("Nativ Pension Association"). The amended application was filed in the Central District Court as part of an application to certify an action as a class action, which was first filed against Clal Insurance and Nativ Pension Association in May 2015. The subject of the action is the allegation that Clal Insurance unilaterally and unlawfully cancelled the group life assurance policy for pensioners who are members of the Nativ Pension Fund (South and Central), on the grounds that the policy is not profitable. According to the Plaintiff, the inclusion of Harel Insurance in the application for certification was necessary in view of the role of Harel Pension Funds Management Ltd. ("Harel Pension") together with the Nativ Pension Association, in collecting the monthly premiums from the association's members and in view of Harel Pension's position that it did not receive permission from the association's members to collect higher amounts from their allowances. The Plaintiff estimates the amount of the loss caused to members of the group it seeks to represent in the amount of approximately NIS 90 million.
34. In December 2016, an action was filed in the Central Region District Court, together with a motion for its certification as a class action, against the second-tier subsidiary Harel Pension and Provident Ltd. The subject of the action is the allegation that Harel Pension and Provident ostensibly increases the management fees collected from its members in the comprehensive pension fund without giving them due notice, and that when their money is deposited in the general pension fund due to cumulative deposits in the comprehensive fund that exceed the limit prescribed by law, it allegedly collects management fees from them at a rate that is higher than the management fees paid in the comprehensive pension fund, without informing them of this. The personal loss claimed by the Plaintiff is estimated at NIS 265 and he mentions that he is unable to estimate the overall loss claimed for all members of the class that he seeks to represent. The hearing on the motion for certification was transferred to the Labor Court.
35. In December 2016, an action was filed against the subsidiary Harel Insurance in the Tel Aviv District Court, together with a motion for its certification as a class action. The subject of the action is the allegation that Harel Insurance ostensibly unlawfully reduces payment of the premiums for insureds in accidental disability policies for insured events relating to disability of the limbs, eyes and ears, based on a table of disability rates that is set out in the policy, which is different from the table of disabilities in the National Insurance Institute Regulations and based on an adjustment formula set out in the policy. The personal loss claimed by the Plaintiff is NIS 12,500 and he estimates the overall loss claimed for all members of the group that he seeks to represent at NIS 100 million.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

36. In January 2017, an action was filed in the Central District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance does not disclose (itself or through the insurance agents acting on its behalf) to its motor insurance policyholders, who are about to move up into another age or driving experience bracket during the policy period, that they are able to update the age of the driver or the number of years of driving experience and receive a premium refund. As a result these policyholders are overpaying their premiums due to the fact that the premium was not revised during the policy period following the change of age or years of driving experience. The Plaintiffs estimate the loss caused to the members of the class they wish to represent to be at least NIS 12.25 million.
37. In January 2017, an action was filed in the Tel Aviv District Labor Court, together with a motion for its certification as a class action, against the subsidiary Dikla Insurance Agency Ltd. ("Dikla"). The subject of the action is the allegation that Dikla ostensibly deposited for its employees, pension payments in accordance with the general extension order in the economy relating to pensions ("the General Extension Order") and not in accordance with the Extension Order in the import, export and retail trade sector ("Extension Order in the Import Industry"), despite its alleged obligation to follow the provisions of the Extension Order in the Import Industry. The Plaintiff estimates the total loss claimed for all members of the class that it wishes to represent amounts to NIS 1.4 million.
38. In February 2017, an action was filed in the Tel Aviv District Court together with an application for its certification as a class action against the second-tier subsidiary Harel Pension and Provident Ltd. and against the subsidiary Harel Insurance (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants collect various payments for setting up and/or handling loans and this, ostensibly, contrary to the statutory provisions, without legal authorization and in contravention of the Commissioner's position. The Plaintiff estimates the loss caused to the class members that it wishes to represent at NIS 5.9 million. The parties are conducting a mediation process.
39. In February 2017, an action was filed in the Tel Aviv District Court ("the Economic Department") together with a motion for its certification as a class action against the second-tier subsidiary Harel Pension and Provident Ltd.("Harel Pension & Provident") and against another management company (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants collect various payments for handling loans from their members who take loans, and this, ostensibly, contrary to the statutory provisions and contrary to the position of the Commissioner of the Capital Market, Insurance and Savings. The Plaintiffs estimate the loss caused to the members of the group they wish to represent at NIS 44.75 million. In its decision from April 2017, the court ruled that the Economic Department does not have the relevant jurisdiction to hear the motions for certification and that the action will be heard as a civil proceeding. The parties are conducting a mediation process.
40. In March 2017, an action was filed in the Jerusalem District Labor Court, together with a motion for its certification as a class action, against the second-tier subsidiary Harel Pension and Provident Ltd. (Harel Pension & Provident). The subject of the action is the allegation that until the end of 2015, Harel Pension ostensibly collected from members of Harel Otzma Taoz Provident Fund, investment management expenses which is permissible by law, but without contractual agreement in the policy conditions that allow it to collect these expenses. The Plaintiff estimates the total loss caused to all members of the class it wishes to represent in the amount of NIS 127.1 million. In January 2018, it was decided to consolidate the hearing with other pending motions for certification of a class action relating to direct expenses in provident funds and education funds. In February 2018, the court ruled that the Commissioner's position should be accepted regarding the proceeding. In May 2018, the Commissioner's position supporting the Defendants was submitted to the court, in which financial institutions may collect direct expenses from members or insureds even if this is not explicitly noted in the financial institution's articles of association, provided that such action is taken in accordance with the provisions of the Supervision of Financial Services (Provident Funds) (Direct Expenses for Performing Transactions) Regulations, 2008 ("the Regulations"). In his position, the Commissioner noted that it is also relevant, with the necessary changes, for insurance companies that manage yield-dependent insurance.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

41. In May 2017, a claim was filed in the Central Region District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance and two other insurance companies (hereinafter together: "the Defendants"). The subject of the action is the allegation that in the insurance policies marketed by the Defendants as part of a tender for motor insurance for State employees, issued by the Ministry of Finance Accountant General, the Defendants ostensibly ignore the insureds' insurance history for the purpose of calculating the compulsory motor premiums, and that the insurance premiums paid by members of the class therefore include a higher risk that is irrelevant to the class members. The insurance premiums set for these insureds are therefore higher than the amount they should have paid in light of their insurance history. The Plaintiffs estimate the loss caused to all members of the class they wish to represent at NIS 155 million.
42. In September 2017, an action was filed against the subsidiary Harel Insurance in the Tel Aviv District Court, together with a motion for its certification as a class action. The subject of the action is the allegation that Harel Insurance pays its insureds monthly benefits on a date that is later than the date specified in the policy, without the addition of interest due to the overdue payment. The Plaintiff does not quantify the total loss caused to all members of the group it seeks to represent but it estimates the loss at more than NIS 2.5 million.
43. In September 2017, an action was filed in the Jerusalem District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance and against 12 other insurance companies ("the Defendants"). The subject of the action is the allegation that in cases where the Defendants pay amounts ruled against them by judicial authorities after the date set for their settlement, the Defendants allegedly do not add linkage differences, interest and linked interest as required, under the provisions of Section 5(b) to the Adjudication of Interest and Linkage Law, 1961 ("the Law"). The Plaintiffs have not quantified the loss claimed for all members of the group they wish to represent, however they estimate it to be tens of millions of shekels.
44. In September 2017, an action was filed in the Central District Court together with a motion for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that, ostensibly, contrary to the provisions of the insurance policies, Harel Insurance indemnifies its health insurance insureds for intraocular lenses that were implanted in cataract surgery only up to the amount of an ordinary lens even when the implanted lens is a premium lens. The Plaintiff estimates the total loss claimed by all members of the group it wishes to represent to be NIS 466 million.
45. In October 2017, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly collects premiums from its insureds for a qualifying period, even though the insured does not receive coverage during this period. The Plaintiff estimates the overall loss caused to all members of the group it seeks to represent in the amount of NIS 42 million.
46. In October 2017, an action was filed in the Central District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance is ostensibly in breach of the provisions of the "Private Center for Fast Medical Diagnosis" service note and that it fails to comply with the dates specified in the service note in cases where its insureds need to undergo tests that are not performed by the service provider. This, ostensibly, even though the service note does mention any exclusion with respect to these tests. The Plaintiff does not quantify the overall loss caused to all members of the class it seeks to represent.
47. In December 2017, an action was filed in the Jerusalem District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance, against two other insurance companies, against Clalit Health Services ("Clalit") and against Maccabi Healthcare Services ("Maccabi") ("the Defendants"). The subject of the action is the allegation that the Defendants ostensibly refuse to provide long-term care insurance for people on the autism spectrum or they set out unreasonable conditions for accepting them to the insurance, without their decisions being based on any statistical actuarial or medical data that is relevant to the insured risk and without providing a reason for their decision, as required by law. The Plaintiffs have not quantified the loss claimed for all members of the group they wish to represent, however they estimate it to be tens to hundreds of millions of shekels.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

48. In December 2017, an action was filed against the subsidiary Harel Insurance in the Tel Aviv District Court, together with a motion for its certification as a class action. The subject of the action is the allegation that Harel Insurance does not comply with the statutory provisions with respect to locating beneficiaries and heirs of deceased insureds in life assurance and that it does not pay the heirs or beneficiaries of insureds with long-term care insurance which includes lump-sum compensation when an insured with a long-term care condition dies, the full amounts to which they are entitled according to the policies. The Plaintiff does not quantify the overall loss caused to all members of the class it seeks to represent but it estimates it to be at least NIS 25 million.

Actions filed in the Reporting Period

49. In January 2018, an action was filed in the Central District Court against the subsidiary Harel Insurance and against five other insurance companies ("the Defendants"), together with a motion for its certification as a class action. The subject of the action is the allegation that the Defendants ostensibly unlawfully refrain unlawfully from paying insurance benefits to insureds, to third parties and beneficiaries for the VAT component that applies to the cost of damages in those instances where the damage was not actually repaired. The Plaintiff estimates the overall loss argued for all members of the class that she wishes to represent against Harel Insurance in the amount of NIS 19,381,031 for each year and the period for which it wishes to claim is from June 4, 2001, and alternatively from 7 years before the previous claim was filed and/or 7 years before the date of filing this motion. The grounds of the action and motion for certification are the same as those for which a previous action and motion for its certification were filed against the Defendants. On January 3, 2018 the Supreme Court dismissed an appeal on a ruling of the Central-Lod District Court dated February 20, 2017, in which the motion was struck out.
50. In March 2018, an action was filed in the Tel Aviv District Labor Court, together with a motion for its certification as a class action, against the second-tier subsidiary Harel Pension and Provident Ltd. ("Harel Pension & Provident") and against five other management companies ("the Defendants"). The subject of the action is the allegation that the Defendants do not make it clear to members who join the pension funds that they manage, who have no survivors, that they do not need insurance cover for death and there is therefore no reason for them to enroll in the insurance track that includes insurance cover for death; furthermore, they do not clearly inform these new members that two years after the enrolment date they will automatically be transferred to a track that includes cover for death and that if their family status does not change, they must inform the fund that they have no interest in this insurance. The Plaintiffs mention that they are unable to estimate the total loss claimed for all members of the class they wish to represent.
51. In April 2018, an action was filed in the Central District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly pays insureds who have policies for surgery that do not provide compensation at a rate of half the expenses saved if the surgery is performed by the HMOs, but they receive an undertaking for payment of this compensation for amounts that are actually less than half of the expenses subsequently saved by the company, and it is therefore ostensibly in breach of its undertaking towards them. The Plaintiff estimates the total loss claimed by all members of the class it wishes to represent to be more than NIS 7 million.
52. In June 2018, a claim was filed in the Jerusalem District Court together with a motion for its certification as a class action against the subsidiary Harel Insurance and against another insurance company ("the Defendants'). The subject of the action is the allegation that the Defendants refuse to recognize surgery performed for which there is a medical need as an insured event under the conditions of their health insurance policies, on the grounds that it is preventive surgery. The Plaintiff has not estimated the total loss claimed by all members of the class that it wishes to represent.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

Actions filed in the Reporting Period (Contd.)

53. In September 2018, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action against the subsidiary Harel Insurance, against another insurance company ("the Defendants") and against two insurance agencies ("the Defendant Agencies"). The subject of the action is the allegation that the Defendant Agencies ostensibly market insurance policies, inter alia, for the Defendants during meetings with candidates for insurance through representatives who are not authorized agents. This ostensibly in contravention of the law. The Plaintiffs estimate the total loss claimed for all members of the class they wish to represent at about NIS 80 million.

Summary table:

The following table summarizes the amounts claimed as part of the contingent applications for the approval of class actions, actions that were approved as a class action, and other significant claims against the Company and/or subsidiaries, as specified by the claimants in the suits they filed. It should be clarified that the amount claimed does not necessarily constitute the amount of exposure estimated by the Company, given that these are the claimants' estimates and they will be investigated during the litigation process.

Type	Number of claims	Amount claimed NIS million
Actions certified a class action:		
Amount pertaining to the Company and/ or subsidiaries is specified	5	894
Claim relates to several companies and no specific amount was attributed to the Company and/ or subsidiaries	1	225
Claim amount is not specified	1	
Pending requests for certification of actions as class actions:		
Amount pertaining to the Company and/ or subsidiaries is specified	26	4,087
Claim relates to several companies and no specific amount was attributed to the Company and/ or subsidiaries	8	10,613
Claim amount is not specified	12	
Other significant claims	1	16

The total provision for claims filed against the Company as noted above amounts to NIS 121 million (at December 31, 2017, an amount of NIS 110 million).

Note 7 - Contingent liabilities and commitments (Contd.)

B. Other contingent liabilities

1. In June 2004, a claim was filed in the Tel Aviv District Court together with an application to certify it as a derivative claim against the subsidiary Yedidim Holdings Management (1994) Ltd. (hereinafter: "Yedidim"), the former Chairman and CEO of Yedidim, and against an additional subsidiary, Harel Pension Funds Management Services (1987) Ltd., which on the date of filing the claim was the controlling shareholder in Yedidim (hereinafter: "the Defendants"), by the minority shareholders Leatid Pension Fund Management Ltd., which at the time of filing the claim was a subsidiary of Yedidim (hereinafter: "LeAtid") for an amount of NIS 15,605 thousand. The subject of the claim is compensation for Atidit Pension Fund Ltd. (hereinafter: "Atidit"), a pension fund managed by LeAtid, for the use of Atidit's various resources, such as: the use of the operating infrastructure and goodwill, the use of Adidit's property, for taking a continuing pension fund and loss of profits. In addition, the plaintiffs claim royalties of NIS 3,177 thousand as part of their personal claim. On July 29, 2010, after investigations had been conducted and written summaries had been submitted as part of the motion to approve the derivative claim, the Court accepted and granted the Plaintiffs the option of suing the Defendants in LeAtid's name in respect of rights which they claim LeAtid is entitled to. On August 24, 2015, the court dismissed the Plaintiffs' arguments in the matter of the derivative claim and it ruled that they are precluded from making any claim regarding rights stemming from the establishment of the new pension fund and that LeAtid is not entitled to compensation for the use of Atidit's resources for the purpose of setting up the new fund. The court accepted the Plaintiffs' personal claim for royalties. On October 28, 2015, the Plaintiffs appealed the ruling on the derivative claim in the Supreme Court, in which they asked for the ruling to be cancelled and the derivative claim to be accepted, and alternatively to return the case to the District Court for a hearing on the subject of the loss. In September-December 2015, LeAtid transferred to the Plaintiffs the amounts that in its opinion reflect the full amount that it owes the Plaintiffs under the provisions of the judgment. However the Plaintiffs argued that the amount transferred is not the final amount to which they are entitled according to the judgment. Accordingly, the court appointed an expert to rule on the financial issues that are in dispute. The main point of the dispute between the parties concerns the interest to be added to the principal. At a meeting held with the appointed expert, additional disagreements emerged between the parties. Accordingly, a petition was filed in the court on behalf of the Plaintiffs in which they asked that the expert also address the issue of commissions on account of which there is a dispute. Following a hearing on the subject, the parties reached agreement whereby the expert will also review the issue of the commissions, and with respect to the interest, the court was asked to rule on the dispute between the parties. On August 22, 2016, the court handed down its decision accepting the position of the Defendants whereby the interest according to which the expert will perform the review and will calculate the royalties is the interest in respect of arrears in transferring money from the banking system. In relation to the personal claim, on January 3, 2017, the court-appointed expert submitted a partial opinion on the subject of royalties and on the subject of directors' fees. Following the expert's decision on these matters, an amount of NIS 322,356 was paid to the Plaintiffs. The expert has not yet completed his opinion on the subject of the commissions where the parties have agreed that he will also address this matter. On May 25, 2017, a hearing took place in the District Court on the outline of the expert's review relating to the commissions, at the end of which the parties agreed on an outline for completion of his position. On February 14, 2018, the expert submitted his final expert opinion to the court in which he dismissed the Defendants arguments on the subject of the commissions. On March 12, 2018, the Plaintiffs appealed the opinion of the court-appointed expert which addresses payment of the commissions to which the Plaintiffs are entitled. On May 1, 2018, the Defendants filed a response to the appeal. The gap between the positions of the parties on that date was NIS 171,000 (including interest). The appeal was heard on July 12, 2018, after which the parties reached agreements whereby the Company will pay the plaintiffs NIS 110,000 and the plaintiffs will waive their claims within the context of the appeal. On October 21, 2018, the Company filed an appeal in the Supreme Court on the section pertaining to the personal claim. The appeal centered on two components - dismissal of the arguments regarding lowering of the interest rates, and dismissal of the arguments regarding the offset.

Note 7 - Contingent liabilities and commitments (Contd.)

C. Claims that were settled during the Reporting Period

1. In May 2015, a claim was filed in the Central Region (Lod) District Court against the subsidiary Harel Insurance and three other insurance companies (hereinafter together: “the Defendants”), together with an application for its certification as a class action. The subject of the action was the allegation that the Defendants ostensibly refrained from paying insurance benefits for the VAT component that applies to the cost of a repair in those instances where the damage was not actually repaired. This, ostensibly, in contravention of the provisions of the law and by unjust enrichment. In a ruling handed down on February 20, 2017, the Lod-Central District Court instructed that the action against Harel Insurance and the four other insurance companies should be struck out. In March 2017, the Plaintiffs filed an appeal in the Supreme Court against the ruling of the District Court. At a hearing which took place on January 3, 2018, the Supreme Court dismissed the appeal after the petitioners accepted the Supreme Court’s offer and withdrew the appeal.
2. In April 2016, an action was filed in the Jerusalem District Court against the subsidiary Harel Insurance, together with a motion for its certification as a class action. The subject of the action was the allegation that Harel Insurance rejects claims to pay insurance benefits for disability due to illness and/or an accident on the grounds that these claims have a three-year limitation period from the date of the insured event, and this ostensibly in contravention of the Contracts (Insurance) Law, 1981 (Amendment no. 6), whereby the prescription period for the payment of insurance benefits for a claim the cause of which is disability due to an illness or accident is counted from the date on which the insured’s right to file a claim for compensation under the terms of the insurance contract is established. In September 2017, the parties filed a motion in court to approve a compromise settlement in which context it was agreed, among other things, that Harel Insurance will take action to pay insurance benefits to those insureds whose disability claim had been rejected due to the fact that 3 years have passed from the occurrence of the insured event although 3 years have not yet passed from the date on which their right to claim the insurance benefits was established under the provisions of the insurance contact; furthermore, amended letters will be sent to insureds for whom the text of the prescription clause included in the letters sent to them mentioned the date of occurrence of the insured event and not the date on which the insured’s right to claim insurance benefits was established, under the conditions of the insurance contract. In January 2018, the Jerusalem District Court validated the compromise as a court ruling.
3. In November 2016, an action was filed in the Central Region District Court together with a motion for its certification as a class action against the subsidiary Harel Insurance. The subject of the action was the allegation that Harel Insurance ostensibly collects from insureds, who were categorized as smokers when they purchased life (term) assurance and stopped smoking more than two years ago, a premium surcharge and that it does not inform them of their right to a significant reduction of the premiums for having stopped smoking more than two years earlier. In February 2018, the court approved the petitioners’ motion from January 2018 to abandon the motion for certification, in which context Harel Insurance agreed, *ex gratia*, to disclose to the relevant insureds the possibility that insureds who stopped smoking two years ago or more may advise Harel Insurance to this effect with the purpose of examining the option to adjust the insurance tariff for the relevant coverages.
4. In June 2016, an action was filed in the Central Region Lod District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance and another insurance company (hereinafter together: “the Defendants”). The subject of the action was the allegation that the Defendants charge travel insurance policyholders a premium for whole days, despite the fact that on part of those days the Plaintiffs argue that there is no insurance risk in view of the fact that the insured is in Israel. The Plaintiffs argue that these provisions are discriminatory conditions in a standard contract and that such conduct is a breach of the provisions of the Contracts (Insurance) Law on the part of the Defendants and constitutes unjust enrichment. In February 2018, the court approved the Plaintiffs’ motion from February 2018 to abandon the motion for certification, and ordered the dismissal of their personal claim and to strike out the motion for certification.

Note 7 - Contingent liabilities and commitments (Contd.)

C. Claims that were settled during the Reporting Period (Contd.)

5. In January 2016, an action was filed in the Tel Aviv District Court against the subsidiary Harel Insurance, together with a motion for its certification as a class action. The subject of the action was the allegation that Harel Insurance requires its insureds who have dental insurance to perform X-rays the purpose of which is to check that the dentist actually performed the treatment which is the subject of the insured’s claim. This, ostensibly in contravention of the instructions of the Ministry of Health and an infringement of the individual’s autonomy. The Plaintiff estimates that the amount of the loss caused to all members of the class that she wishes to represent is NIS 200 million. In February 2018, a joint motion was filed in the court for the Plaintiff to abandon the motion for certification, in which context Harel Insurance agreed to pay the Plaintiff and her attorney, subject to the court’s approval, compensation and attorney’s fees of insignificant amounts. In March 2018, the court approved the motion for the Plaintiff to abandon the motion for certification, and it ordered the dismissal of the Plaintiff’s personal claim and that the motion for certification should be struck out.

6. In June 2011, an action was filed in the Central District Court together with a motion for its certification as a class action against the subsidiary Harel Insurance and nine other insurance companies (hereinafter together: “the Defendants”). The subject of the action was the allegation that when, due to attachments imposed on insurance benefits at the request of a third party, payment of the insurance benefits is withheld from policyholders, the insurance companies allegedly pay the policyholders the insurance benefits in nominal values without any revaluation, or in certain instances only with linkage differences, without the profits arising from them, as a result of this delay. On February 8, 2012, the claimants announced that they were abandoning the allegation that the attachments were imposed unlawfully. On February 12, 2012, the court certified the action as a class action. In October 2016, a compromise agreement on the action was submitted for the court’s approval. Among other things, the compromise settlement stipulates that Harel Insurance will pay financial compensation in the amount of NIS 2.6 million to members of the group for the past. This amount will be paid to relevant members of the group who apply to Harel Insurance as a result of advertising to the insured public as per the provisions of the compromise settlement. Any amount of the total compensation that is retained and is not paid to the group members will be donated to charity as per the provisions of the compromise settlement. Furthermore, the compromise settlement regulates future mechanisms for revaluing insurance benefits the transfer of which was withheld due to foreclosure. The validity of the compromise settlement is contingent on the court’s approval. In April 2017, the Attorney General’s position was submitted to the court whereby the compromise settlement in its present format cannot be approved and various modifications must be made in it. In September 2017, the court appointed a reviewer to examine the possibility of giving individual refunds. In December 2017, the reviewer’s opinion was submitted to the court supporting the position of the Defendants whereby the Defendants’ information systems make it impossible to make individual automated refunds to those entitled. In January 2018, the reviewer’s opinion was submitted to the Attorney General’s for his opinion. In February 2018, the Attorney General’s position was submitted to the court whereby he leaves the decision relating to the reviewer’s recommendations to the discretion of the court. In March 2018, the Central Region District Court validated the compromise settlement as a court ruling.

Note 7 - Contingent liabilities and commitments (Contd.)

C. Claims that were settled during the Reporting Period (contd.)

7. In November 2015, an action was filed in the Central District Court together with a motion for its certification as a class action against the subsidiary Harel Insurance and against Madanes Insurance Agency Ltd. (“Madanes”) (hereinafter together: “the Defendants”). The subject of the action was the allegation that the Defendants entered into a long-term exclusivity agreement in connection with medical malpractice policies whereby Harel Insurance undertook to provide insurance exclusively for insureds referred by Madanes and to direct to Madanes any other insurance agent that might contact it for drawing up the insurance through it, and Madanes undertook to draw up medical malpractice insurance for its customers exclusively through Harel Insurance. The Plaintiffs argue that the Defendants therefore entered into a restrictive arrangement (cartel), were in breach of a statutory obligation, abused their monopolistic position in a manner that might limit or harm competition, they were in breach of the Antitrust Law, practiced unjust enrichment, were negligent and in breach of the fiduciary obligations, disclosure obligations and duty of caution that apply to insurance agents. In December 2016, the court appointed a reviewer on behalf of the court to examine whether the defendants’ operating profit in professional liability insurance for the medical and para-medical professionals in the relevant years (2009-2015) is exceptional.
   In July 2017, the reviewer’s opinion was submitted to the court whereby the reviewer believes that the joint profit rate of Harel and Madanes in 2009 - 2015 cannot be considered exceptional when compared with the profitability of other insurance companies in Israel in the professional liability sector or in comparison with the profitability of insurance companies in the USA and Australia that operate in the medical malpractice sector. In November 2017, an agreed motion was filed in the court for the Plaintiffs to abandon the application for certification, this following the conclusions in the opinion of the court-appointed expert. As part of the motion for abandonment, the Defendants agreed, *ex gratia*, and for the benefit of members of the insured group, to provide a sum of NIS 2,150,000 in favor of establishing a special fund the purpose of which is to provide indemnity, *ex gratia*, to members of the group in whose name the action had been filed, who were insured by Harel Insurance through Madanes between 2010-2015 and who, due to the provisions in the insurance policy, are not eligible for insurance cover for that insured event. The court instructed that the motion for abandonment should be submitted to the Attorney General for his position on the matter. In March 2018, the Attorney General’s position was submitted to the court according to which he does not oppose the motion for abandonment. In April 2018, the Central Region District Court validated the motion for abandonment as a court ruling. The court also instructed that the motion for certification should be struck out and it dismissed the Plaintiffs’ personal claims.
8. In October 2016, an action was filed in the Central District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance (“Harel Insurance”), against another insurance company and against SHR Group Ltd. (“Shachar Plumbing”) (hereinafter together: “the Defendants”). The subject of the action was the allegation that when an insured event occurs, such as damage due to a leak, the insurance companies ostensibly unlawfully collect a deductible from their insureds at a rate higher than the maximum rate specified in their insurance policies. The Plaintiffs argue that the Defendants are therefore in breach of the policy provisions, practice unjust enrichment, act negligently and mislead their insureds. In October 2017, the parties informed the court that the Plaintiffs had agreed to dismiss the motion for certification of the action as a class action, given that it had been exhausted. In April 2018, the Central District Court approved the Plaintiff’s abandonment of the motion for certification, and it instructed that the motion for certification should be struck out and it dismissed of the Plaintiffs’ personal claim.
9. In November 2016, an action was filed in the Central District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance and against four other insurance companies (hereinafter together: “the Defendants”). The subject of the action is the allegation that in life insurance policies associated with mortgages, in which the loan track is one in which the loan principal is returned at the end of the term, the Defendants ostensibly do not pay the insureds, when the insured event occurs, the full outstanding amount of the mortgage, but only part of it. The Plaintiffs argue that the Defendants are therefore in breach of the applicable disclosure obligation, mislead their insureds, are in breach of the Insurance (Contracts) Law, in breach of a statutory obligation, act negligently, are in breach of the policy provisions and act in bad faith.

Note 7 - Contingent liabilities and commitments (Contd.)

C. Claims that were settled during the Reporting Period (contd.)

Par. 9 contd.

In October 2017, an agreed motion was submitted for abandonment of motion for certification against Harel Insurance and against another insurance company was filed in the court. Accordingly, Harel Insurance agreed to add a question in its proposal form about whether the mortgage is a loan in which the principal is repaid as a lump sum at the end of the loan period, or a mortgage in which the principal is repaid in installments. Furthermore, when an insurance event occurs, Harel will continue to pay existing insureds insurance benefits of an amount that is the higher of the outstanding amount of the loan as set out in the policy schedule or the updated outstanding amount of the loan in the lender's books as defined in the policy. In May 2018, the Central District Court approved the Plaintiffs' abandonment of the motion for certification, and it instructed that the motion for certification should be struck out and it dismissed of the Plaintiffs' personal claim.

10. In April 2017, an action was filed in the Central District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action was the allegation that when insureds change their cars, Harel Insurance ostensibly credits premiums from its motor property policyholders that are lower than the amounts to which they are supposedly entitled under the provisions of the standard, statutory insurance policy. In May 2018, the court approved the Plaintiff's motion to abandon the motion for certification, and it instructed that the motion for certification, the class action and the Plaintiff's personal claim should be struck out.
11. In May 2017, an action was filed in the Jerusalem District Court against the subsidiary Harel Insurance together with a motion for its certification as a class action. The subject of the action was the allegation that Harel Insurance ostensibly rejects claims that are filed against it in group dental insurance policies for periodic diagnosis examinations on the grounds that they are not included in the insurance conditions, despite the fact that in practice these examinations are apparently included in the policy. In November 2017, the parties filed an agreed motion in the court to dismiss the motion for certification due to having exhausted the proceedings, in which the court was asked to dismiss the motion to certify the action as a class action. This followed agreement by Harel Insurance to pay insurance benefits to the group of insureds whose claim had been dismissed in the circumstances mentioned in the motion for certification and clarification of its procedures so as to prevent such cases recurring in the future. Harel Insurance also agreed to pay the Plaintiff and his attorney, subject to the court's approval, compensation and lawyers' fees of insignificant amounts. Instead of this motion, in February 2018 the parties filed a motion in the court to certify the compromise settlement in which it was agreed, among other things, that Harel Insurance will pay insurance benefits to the group of insureds whose claim had been dismissed in the circumstances mentioned in the motion for certification and it was also stipulated that Harel Insurance will clarify its procedures so as to prevent a recurrence of such cases in the future. In July 2018, the Jerusalem District Court validated as a court ruling the amended compromise settlement which was submitted for the court's approval in July 2018. In this context it was agreed, *inter alia*, that Harel Insurance will pay insurance benefits to the group of insureds whose claim was dismissed in the circumstances mentioned in the motion for certification.
12. In June 2016, an action was filed in the Jerusalem District Court together with a motion for its certification against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly collects premiums on life assurance policies that include a "sub-annual" supplement even though this supplement was not explicitly mentioned in the policy. The Plaintiff argues that Harel Insurance is therefore in breach of the policy provisions, the instructions of the Commissioner, the provisions of the Regulation of Non-banking Loans Law and the duty of disclosure and fairness. The Plaintiff also argued that such conduct is a breach of good faith by Harel Insurance, misleads its insureds and compromises their autonomy. In January 2018, the parties filed a motion in the court to certify a compromise settlement, in which it was agreed, among other things, that Harel Insurance will send letters to class members informing them of the collection of the "sub-annual" supplement and granting them an option to change the format of future premium payments to an annual payment in which the sub-annual supplement is not charged. In July 2018, the Jerusalem District Court validated as a court ruling the amended compromise settlement which was submitted for the court's approval in July 2018. In this context it was agreed, *inter alia*, that Harel Insurance will send the class members a letter informing them of the collection of the "sub-annual" supplement and of an option available to them to change the format for payment of future premiums in accordance with the conditions detailed in the letter.

Note 7 - Contingent liabilities and commitments (Contd.)

Claims settled after the Reporting Period

13. In June 2015, a claim was filed in the Central Region District Court against the subsidiary Harel Insurance and another insurance company (hereinafter together: “the Defendants”), together with a motion for its certification as a class action. The subject of the action was the allegation that the Defendants ostensibly collect insurance premiums that include a “risk supplement” stemming from the nature of the insureds’ work, also in periods when the insureds are not working. This, ostensibly, in contravention of the provisions of the law, gaining unjust enrichment, in breach of a legislated obligation, in breach of contract, improper disclosure and deception. In its judgment handed down in May 2018 (“the Judgment”), the Central District Court instructed that the motion for certification of the claim as a class action be dismissed. In July 2018, Harel Insurance was served with an appeal on the judgment which the Plaintiff filed in the Supreme Court. In November, and following the appellant’s notice that he does not wish to insist upon the appeal, the Supreme Court struck out the appeal.

14. In June 2016, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action was the allegation that Harel Insurance is in breach of its obligation to pay statutory linkage differences in respect of the insurance benefits that it pays in the health insurance segment, for the period between the date on which the insured event occurs and the date of payment of the insurance benefits. The Plaintiff argues that Harel Insurance is therefore in breach of the statutory provisions, in breach of contract, acts negligently and practices unjust enrichment. In March 2017, the parties filed a motion in the court to approve a compromise settlement in which context it was agreed, in accordance with a report prepared by a reviewer to be appointed to examine the compromise settlement, *inter alia*, that Harel Insurance will contribute 70% of the total linkage differences for the first period as they are defined in the compromise settlement, and 100% of the linkage differences for the second period, as they are defined in the compromise settlement. In June 2017, the opinion of the Attorney General was submitted to the court in connection with the compromise settlement in which the Attorney General made several comments in relation to the wording of the arrangement. In July 2017, the court instructed that a reviewer should be appointed to examine the compromise settlement. In January 2018, the reviewer’s opinion was submitted to the court whereby the agreement can be determined appropriate, fair and reasonable, given the affairs of the class members. The court instructed the Attorney General to submit his final opinion with respect to the compromise settlement. In April 2018, the Attorney General’s position was submitted to the court stating that he opposes the compromise settlement with respect to the reviewer’s proposal that Harel should refund amounts individually to class members who incurred a loss of more than NIS 50. In August 2018, an amended compromise settlement was filed for the court’s approval. In November 2018, the court validated the amended compromise settlement as a judgment, in which context it was agreed, *inter alia*, that Harel Insurance will refund 70% of the total linkage differences for the first period, as it is defined in the compromise settlement, and 100% of the linkage differences for the second period, as it is defined in the compromise settlement, in accordance with the reviewer’s report.

15. In April 2014, an action was filed in the Central Lod District Court against the subsidiary Harel Insurance, together with a motion for its certification as a class action. The subject of the action was the allegation that Harel Insurance does not provide insureds in a health insurance policy for disclosure of critical illness (“the Policy”) with insurance cover in the event that the specific illness from which a claimant suffers is diagnosed, despite the fact that according to the Plaintiff, the proper interpretation of the policy should, ostensibly lead to the conclusion that insurance cover should be provided in such a case (even though the illness itself is excluded under the policy conditions). In August 2017, the District Court dismissed the motion for certification of the action as a class action. In December 2017, Harel Insurance was served with an appeal on the judgment which the Plaintiff filed in the Supreme Court in October 2017. In a hearing that took place in November 2018, the appeal was struck out after the appellant accepted the court’s recommendation to withdraw the appeal.

Note 7 - Contingent liabilities and commitments (Contd.)

Claims settled after the Reporting Period

16. In April 2017, an action was filed in the Jerusalem District Labor Court together with a motion for its certification as a class action against the subsidiary Harel Insurance and against Harel Pension and Provident Ltd. (hereinafter together: "the Defendants"). The subject of the claim is the allegation that the Defendants collect premiums for life assurance policies from their deceased members and insureds after their death, this in contravention of the Contracts (Insurance) Law. In August 2018, an agreed motion was filed in the court for the plaintiffs to abandon the motion for certification against the Defendants according to which the Defendants agreed to refund insignificant amounts that were collected due to a malfunction in respect of members and insureds who have passed away. In November 2018, the court approved the Plaintiffs' abandonment of the motion for certification and it ordered the dismissal of the Plaintiff's personal claim against the Defendants. Furthermore, the Plaintiff and her attorneys were awarded compensation and lawyers' fees of insignificant amounts.

D. Transactions with related parties

1. Investment in Fuse 9 fund

   In February 2018, Harel Insurance undertook to invest USD 14 million in the Fuse 9 real estate fund, which was established with the purpose of locating investment opportunities in developing neighborhoods in southern Florida. The fund will focus on the purchase of real-estate assets with the potential for significant betterment in specific developing areas that are supported by local authority subsidies to encourage private investment. The fund is managed by an entity owned equally by Dr. Shimon Elkabetz, Eyal Peretz and Ofer Tamir ("the Managing Entity"). Dr. Shimon Elkabetz previously served as Co-CEO of Harel Investments and is currently a senior executive in Harel Group. Notably, individual members of the Hamburger family, who are the controlling shareholders of Harel Group, have negligible holdings in the Fuse 9 real-estate fund and in other products managed by the Managing Entity. The fund will operate within the framework of the pre-defined and agreed investment strategy and investment limitations, including restrictions on geographic exposure, leverage and restrictions on types of assets. It is planned that the raising of the funds will be completed in 2018. Harel has not invested members' monies in the fund.

Note 8 - Capital requirements and management

1. Following is information about the required and existing capital of the subsidiaries which are insurance companies according to Supervision of Insurance Business (Minimum Capital Required of an Insurer) Regulations, 1998 ("the Capital Regulations") and the Commissioner's directives:

	As at September 30, 2018		December 31, 2017	
	Harel Insurance	EMI	Harel Insurance	EMI
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
	NIS million	NIS million	NIS million	NIS million
Amount required according to regulations and Commissioner's directives (A)	**6,182**	**62**	5,927	69
The present amount calculated in accordance with the Capital Regulations:				
Tier-1 capital				
Basic Tier-1 capital	**4,679**	**438**	4,319	432
Hybrid tier-1 capital	**351**	**-**	351	-
Total tier-1 capital	**5,030**	**438**	4,670	432
Tier-2 capital				
Subordinated tier-2 capital (B)	**61**	**-**	90	-
Hybrid tier-2 capital (C, D)	**2,072**	**-**	2,081	-
Total tier-2 capital	**250**	**-**	-	-
Hybrid tier-3 capital	**747**	**-**	741	-
	3,130	**-**	2,912	-
Total existing capital calculated in accordance with the Capital Regulations	**8,160**	**438**	7,582	432
Surplus at report date	**1,978**	**376**	1,655	363
Events after the date of the financial statements				
Obsolescence of tier-2 capital	**-**	**-**	(30)	-
Capital raised after date of the report	**-**	**-**	250	-
Dividend distribution	**-**	**-**	(100)	-
Amount retained taking into account events after the balance sheet date	**1,978**	**376**	1,775	363
Reduced capital requirements for cost of purchase of provident funds which constitutes a restricted surplus	**88**	**-**	90	-
Surplus taking into account events after the date of the financial statements after deducting restricted surpluses	**1,890**	**376**	1,685	363

	As at September 30, 2018		December 31, 2017	
	Harel Insurance	EMI	Harel Insurance	EMI
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
	NIS million	NIS million	NIS million	NIS million
A. The required amount includes, inter alia, capital requirements for:				
Activity in non-life insurance	**895**	**62**	816	69
Activity in long-term care insurance [LTC]	**122**	**-**	126	-
Capital requirements for yield-guaranteed plans	**41**	**-**	41	-
Investment assets and other assets (E)	**1,549**	**-**	1,533	-
Catastrophe risks in non-life insurance	**191**	**-**	95	-
Operating risks	**325**	**-**	316	-
Deferred acquisition costs in life assurance and insurance against illness and hospitalization	**1,863**	**-**	1,792	-
Investment in consolidated management companies and insurers and in Broadgate	**847**	**-**	823	-
Relief in capital requirements for cost of acquiring provident funds	**(188)**	**-**	(190)	-
Extraordinary risks in life assurance (F)	**479**	**-**	449	-
Unrecognized assets as defined in the Capital Regulations (G)	**58**	**-**	126	-
Total amount required under the amended Capital Regulations	**6,182**	**62**	5,927	69

Note 8 - Capital requirements and management (Contd.)

1. (Contd.)

B. Including subordinated liability notes that were issued up to December 31, 2006 and constitute subordinated tier-2 capital.
C. On the issuance of bonds, the consideration of which serves as hybrid capital for the Company, see Note 6.
D. On the full early redemption of bonds (Series 2) of Harel Financing & Issuing, see Note 6.
E. On the Commissioner's approval to use an internal credit rating model, see Note 37 G 3 to the annual financial statements.
F. A capital requirement at a rate of 0.17% of the amount at risk in the self-retention, but no less than the requirement on the date of the transfer. The capital requirement for Harel Insurance is for an amount of no less than NIS 190 million.
G. Including an unrecognized asset of a negligible amount for a passive deviation from the investment regulations.

2. In accordance with a permit to control and hold the means of control in insurers and management companies, the Company undertook, at all times, to supplement the equity of the insurance companies that are included among the financial institutions it controls, including ICIC, to the amount prescribed in the Supervision of Financial Services (Insurance) (Minimum Equity Required of Insurers) Regulation, 1998, or any other regulation or law that may replace them, and also to supplement at all times the equity of the provident fund and pension fund management companies it controls, to the amount prescribed in the Income Tax (Rules for the Approval and Management of Provident Funds) Regulations, 1965, or any other regulation or law that may replace them. This undertaking is irrevocable and will remain in force as long as the Company controls the financial institutions, directly or indirectly.
3. On the regulation of ETN activity under the Joint Investment Trust Law, see Note 9.
4. Subsidiaries that manage mutual funds and investment portfolios are obligated to hold minimum equity in accordance with the directives of the Israel Securities Authority. The companies work continuously to comply with this requirement. At September 30, 2018, the subsidiaries are in compliance with these requirements.
5. On March 26, 2018, the Board of Directors of Harel Insurance approved the distribution of a cash dividend in the amount of NIS 100 million. The Board of Directors' decision was made after taking into account the financial results of Harel Insurance at December 31, 2017, presenting the distributable surplus of Harel Insurance at December 31, 2017, and examining the capital surplus and capital requirements of Harel Insurance in accordance with its capital management policy and taking into account the expected adoption of Solvency II. The dividend was paid on March 28, 2018.
6. Information about progress in the deployment for implementing Solvency II:

   On June 1, 2017, The Commissioner published a circular "Provisions for the Implementation of an Economic Solvency Regime for Insurance Companies on the Basis of Solvency II". In the period commencing June 30, 2017 and ending December 31, 2024, the provisions concerning the required capital for solvency will be applied gradually, so that the capital required for solvency at December 31, 2017 will not be less than 65% of the SCR and the capital required for solvency to be calculated on data at December 31, 2024, will not be less than the SCR.

   On December 3, 2017, the Commissioner published a circular on the disclosure format required in the periodic reports and websites of insurance companies relating to the economic solvency regime based on Solvency II. A report on the economic solvency ratio for data at December 31, 2017 will be published on the website when the periodic report is published at September 30, 2018.

   The Company performed the calculations as at December 31, 2017 in accordance with the Solvency Circular. For the economic solvency ratio for December 31, 2017 data, the Company received the Commissioner's initial approval as part of the audit process and accordingly it hereby publishes the Company's economic solvency ratio as at December 31, 2017. A solvency disclosure report is attached at the end of the Financial Statements.

Note 8 - Capital requirements and management (Contd.)

Par. 6 (contd.)

On December 27, 2017, the Board of Directors of Harel Insurance resolved to establish a safety net in accordance with Section 1(A)(2) of a letter addressed to managers of the insurance companies published by the Commissioner of the Capital Market, Insurance and Savings on October 1, 2017. The safety net will increase gradually so that at the end of the adjustment period (2024) it will be NIS 1 billion, growing from NIS 0.65 billion in 2017 to NIS 1 billion in 2024 and thereafter.

Note 9 - Material events in the Reporting Period

1. Liability Adequacy Test

   In the Reporting Period, the insurance liabilities declined by NIS 51 million due to an increase in the risk-free interest curve, compared with an increase of NIS 13 million in the insurance liabilities in the corresponding period last year due to a decline in the risk-free interest curve. In the third quarter, an increase of NIS 1 million in the insurance liabilities was recorded, compared with an increase of NIS 100 million in the corresponding period last year.

   2017 was affected by a decline in the long-term risk-free interest rate used to assess the discounting interest for the insurance liabilities in the third party and employers liability sectors in the non-life segment, in the amount of NIS 8 million.

   The effect on the financial results is set out below:

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
(NIS million)	Unaudited	Unaudited	Unaudited	Unaudited	Audited
Increase (decrease) resulting from the due diligence of the reserves	(51)	13	1	100	50
Total life assurance	(51)	13	1	100	50
Non-life insurance	-	8	-	-	8
Total effect of the interest before tax	**(51)**	**21**	**1**	**100**	**58**

2. Award of the Accountant General's tender

   On September 6, 2018, Harel Insurance was informed that it had been awarded the tender published by the Accountant General for 35% of the scope of motor property insurance and compulsory motor insurance of state employees for 2019-2020. The results of the tender are not expected to significantly affect the financial results of Harel Insurance.

3. Group Long-term care [LTC] policy for members of Clalit Health Services

   Harel Insurance is the insurer in a group LTC policy for members of Clalit Health Services. In May 2018, Clalit Health Services published a tender for group LTC insurance for members of the HMO which will enter into force on January 1, 2019. On September 5, 2018, Harel Insurance was informed that it had won the aforementioned tender.

4. Permit to increase holdings in banking corporations

   In June 2018, the Company was granted permission to increase its holdings in banking corporations from a rate of up to 5% to a rate of up to 7.5%. This holding permit was received in accordance with the policy of the Banking Supervision Department with respect to granting holding permits in banking corporations to entities that manage customers' funds.

5. Supervision of Financial Services (Provident Funds) (Direct Expenses for Performing Transactions) (Amendment), 2018

   On August 16, 2018, the Supervision of Financial Services (Provident Funds) (Direct Expenses for Performing Transactions) (Amendment) Regulations, 2018, were published in *Reshumot* (Official Gazette). Among other things, the temporary provision which came to an end at the end of 2017 was extended until the end of 2019. The temporary provision stipulates that certain direct expenses will be limited to 0.25% of the total revalued amount of the provident fund's assets or provident fund track.

Note 9 - Material events in the Reporting Period (contd.)

6. Bonus for 2017 for senior officers

   In April 2018, after receiving the approval of the Compensation Committee, the Company’s Board of Directors, approved bonuses for the Company officers and functionaries who are included in the compensation plan. The bonuses were calculated on the basis of actual data and based on estimates relating mainly to comparison figures for the results of the operations of other insurance companies included in the comparison group.

7. Dividend distribution by Harel Investments

   On March 26, 2018, the Company's Board of Directors approved the distribution of a cash dividend in the amount of NIS 107 million (NIS 0.5 per share). The Board of Directors made its decision after taking into account the Company's financial performance for 2017. The Board of Directors was presented with information on the distributable profits, capital surpluses of the Company's subsidiaries and the Group's cash requirements, in various scenarios. The Board of Directors reviewed the Company's compliance with the profit test and solvency test prescribed in Section 203(a) of the Companies Law. Following this review, the Board of Directors confirmed that the Company was in compliance with the distribution test. The dividend was paid on April 12, 2018.

8. Replacement of senior officers serving the subsidiaries

   On January 16, 2018, Mr. Eyal Efrat, who has been head of the automation and business information department in the Long-term Savings Division of Harel Insurance since 2008, was appointed CEO of the subsidiary Harel Hamishmar Computers, replacing Mr. Moshe Nissan.

9. Regulation of ETN activity under the Joint Investment Trust Law, 1994

   On August 3, 2017, the Joint Investment Trust Law (Amendment No. 28), 2017, was published. According to the amendment, the ETNs will become closed (traded) tracker mutual funds, and the provisions of the Joint Investment Trust Law will apply to these funds, *mutatis mutandis*, together with special arrangements to be prescribed in the regulations or instructions of the Israel Securities Authority with respect to ETFs. On July 12, 2018, various regulations were published as part of the amendment. The Law and the regulations entered into force on October 3, 2018. Accordingly, commencing with the annual report for 2018, Harel Sal will cease to include the ETN assets and liabilities in its financial statements. Consequently, from this date, the assets and liabilities of Harel Sal are expected to diminish significantly. The Company therefore classified the assets and liabilities of the ETNs as assets and liabilities designated for disposal.

10. On the affirmation of a Maalot rating for the subsidiary Harel Insurance and upgrading of the rating outlook to positive, following the creation of a safety cushion for capital management, and on the determination of a Maalot rating for the issuance of two series of bonds, in the total amount of up to NIS 300 million in the Reporting Period, see Note 6.

11. On the issuance of Series 14-15 bonds by means of Harel Financing & Issuing in the Reporting Period, see Note 6.

12. On the full early redemption of bonds (Series 2) of Harel Financing & Issuing, see Note 6

Note 10 – Material Events after the Reporting Period

1. Establishment of a New Business Division in Harel Insurance

   On October 8, 2018, the Board of Directors of Harel Insurance approved the establishment of a new business division in Harel Insurance - Dikla Division, Long-term Care, Life and Personal Accident Claims ("the New Division"), commencing November 1, 2018.

   The new division was established in view of the cancellation of the collective long-term care insurance under regulations published by the Capital Market Authority, and following the publication of the results of the tender to select companies for the country's largest HMOs - Clalit and Maccabi, to provide and administer the long-term care insurance for their members.

   The new division is headed by Mr. Roi Shaked, who was also appointed Deputy CEO of Harel Insurance. The New Division concentrates the activity of Dikla Insurance Agency ("Dikla"), which continues to operate and provides services to Clalit and Harel Insurance in connection with the long-term care insurance for members of Clalit Health Services. The New Division will also be responsible for additional activity, including that of the LTC, Life and Work Disability Claims Department.

2. On November 28, a decision in principle was made concerning the raising of debt (Tier-2 capital) by means of Harel Financing & Issuing, by way of a public issuance of existing series (expansion of Series 14 & 15).

3. After the Reporting Period, prices on the capital market fell. This might lead to a decrease in the Company's assets. At this stage, it is impossible to estimate the repercussions of falling prices in the capital market in this period on results in Q4 2018.

HAREL INSURANCE INVESTMENTS AND FINANCIAL SERVICES LTD

ANNEXES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Annex A - Information about assets for other financial investments in the Group's insurance companies

A. Information about other financial investments

	As at September 30, 2018 (Unaudited)				
	Presented at fair value through profit or loss	Available for sale	Held to maturity	Loans and Receivables	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Marketable debt assets (a1)	**230**	**7,698**	**135**	**-**	**8,063**
Non-marketable debt assets (*)	**-**	**-**	**-**	**13,358**	**13,358**
Shares (a2)	**-**	**981**	**-**	**-**	**981**
Other (a3)	**151**	**1,794**	**-**	**-**	**1,945**
Total other financial investments	**381**	**10,473**	**135**	**13,358**	**24,347**

	As at September 30, 2017 (Unaudited)				
	Presented at fair value through profit or loss	Available for sale	Held to maturity	Loans and Receivables	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Marketable debt assets (a1)	278	6,608	173	-	7,059
Non-marketable debt assets (*)	-	-	-	13,055	13,055
Shares (a2)	-	868	-	-	868
Other (a3)	182	1,690	-	-	1,872
Total other financial investments	460	9,166	173	13,055	22,854

	As at December 31 2017 (Audited)				
	Presented at fair value through profit or loss	Available for sale	Held to maturity	Loans and Receivables	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Marketable debt assets (a1)	246	6,640	159	-	7,045
Non-marketable debt assets (*)	-	-	-	13,527	13,527
Shares (a2)	-	916	-	-	916
Other (a3)	191	1,714	-	-	1,905
Total other financial investments	437	9,270	159	13,527	23,393

(*) For information about non-marketable debt assets at the level of the consolidated financial statements of Harel Investments, see Note 6B – Financial Instruments.

Annex A - Information about assets for other financial investments in the Group's insurance companies (Contd.)

A1. Marketable debt assets

	Book value			Amortized cost		
	As at September 30,		As at December 31,	As at September 30,		As at December 31,
	2018	2017	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Government bonds	**3,204**	2,543	2,607	**3,175**	2,485	2,532
<u>Other debt assets:</u>						
Other non-convertible debt assets	**4,859**	4,516	4,438	**4,768**	4,323	4,226
Total marketable debt assets	**8,063**	7,059	7,045	**7,943**	6,808	6,758
Impairments recognized in profit and loss (in aggregate)	**1**	1	-			

A2. Shares

	Book value			Amortized cost		
	As at September 30,		As at December 31,	As at September 30,		As at December 31,
	2018	2017	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Marketable shares	**806**	784	799	**666**	671	659
Non-marketable shares	**175**	84	117	**163**	80	114
Total shares	**981**	868	916	**829**	751	773
Impairments recognized in profit and loss (in aggregate)	**69**	91	83			

Annex A - Information about assets for other financial investments in the Group's insurance companies (Contd.)

A3. Other financial investments

	Book value			Amortized cost		
	As at September 30,		As at December 31	As at September 30,		As at December 31
	2018	2017	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Marketable financial investments	**358**	416	401	**281**	350	336
Non-marketable financial investments	**1,587**	1,456	1,504	**1,167**	1,123	1,132
Total other financial investments	**1,945**	1,872	1,905	**1,448**	1,473	1,468
Impairments recognized in profit and loss (in aggregate)	**139**	129	134			
Derivative financial instruments presented in financial liabilities	**442**	601	553			

Other financial investments include mainly investments in ETNs, notes participating in trust funds, investment funds, financial derivatives, forward contracts, options and structured products.

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HAREL INSURANCE INVESTMENTS AND FINANCIAL SERVICES LTD.

SEPARATE FINANCIAL INFORMATION FROM THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at September 30, 2018

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arbaa Street, P.O. Box 609
Tel-Aviv 61006

Telephone: 03-684 8000
Fax: 03-684 8444
Internet: www.kpmg.co.il

To:

The shareholders of Harel Insurance Investments and Financial Services Ltd.

Subject: Special auditors' report on separate interim financial information in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) - 1970

Introduction

We reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970, of Harel Insurance Investments and Financial Services Ltd. (hereinafter: "the Company") as at September 30, 2018, for the nine and three months ended on that date. The separate interim financial information is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial information for these interim periods, based on our review.

We did not review the separate interim financial information from the financial statements of investee companies, in which the investments amount to NIS 784,365 thousand as at September 30, 2018, and where the Company's profit from these investee companies amounts to NIS 34,682 thousand and NIS 9,940 thousand for the nine and three months, respectively, ended on that date. The financial statements of those companies were reviewed by other auditors whose review reports were furnished to us, and our conclusion, to the extent that it relates to the financial statements of those companies, is based on the review reports of the other auditors.

Scope of the review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel "Review of financial information for interim periods performed by the entity's auditor". A review of separate interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially more limited in scope than an audit conducted in accordance with generally accepted auditing standards, and it therefore does not enable us to obtain assurance that we would become aware of all the significant matters that might be identified in an audit. We therefore do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that leads us to believe that the accompanying separate interim financial information was not prepared, in all material respects, in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Somekh Chaikin
Certified Public Accountants

November 28, 2018

Separate financial information from the condensed consolidated interim statements of financial position at

	September 30,		December 31,
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Deferred tax assets	**-**	1	-
Fixed assets	**1**	2	2
Investments in equity accounted investees	**5,583**	5,007	5,232
Loans to investee companies	**350**	351	351
Investment property	**22**	21	21
Other receivables	**12**	10	10
Other financial investments	**439**	313	363
Cash and cash equivalents	**36**	131	63
Total assets	**6,443**	5,836	6,042
Capital			
Share capital and premium on shares	**340**	345	339
Treasury stock	**(132)**	(138)	(131)
Capital reserves	**522**	474	529
Retained earnings	**5,258**	4,632	4,821
Total capital	**5,988**	5,313	5,558
Liabilities			
Liabilities for employee benefits, net	**17**	17	17
Other payables	**32**	44	14
Current tax liabilities	**5**	8	9
Financial liabilities	**401**	454	444
Total liabilities	**455**	523	484
Total liabilities and capital	**6,443**	5,836	6,042

Yair Hamburger	Michel Siboni	Arik Peretz
Chairman of the Board of Directors	CEO	CFO

Date of approval of the financial statements: November 28, 2018

The additional information accompanying the separate financial statements is an integral part thereof.

Separate financial information from the condensed consolidated interim statements of income

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Profits from investments, net, and financing revenues	**12**	11	**4**	2	15
Revenues from management fees	**84**	77	**27**	26	103
Total revenues	**96**	88	**31**	28	118
General and administrative expenses	**13**	13	**4**	4	18
Financing expenses	**11**	14	**3**	5	18
Total expenses	**24**	27	**7**	9	36
Company's shares in profits of investee companies	**488**	448	**259**	67	622
Profit before taxes on income	**560**	509	**283**	86	704
Taxes on income	**17**	15	**6**	5	20
Profit for period ended attributed to the Company's shareholders	**543**	494	**277**	81	684

The additional information accompanying the separate financial statements is an integral part thereof.

Separate financial information from the condensed consolidated interim statements of comprehensive income

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Profit for the period	**543**	494	**277**	81	684
Other items of comprehensive income which after initial recognition under comprehensive income were or will be transferred to profit or loss					
Net change in fair value of financial assets classified as available for sale	**1**	-	**1**	-	1
Foreign currency translation differences for foreign activity	**(21)**	(4)	**(14)**	2	(7)
Group's share in the comprehensive income of investee companies	**13**	110	**23**	81	167
Total other comprehensive income (loss) for the period which after initial recognition under comprehensive income was or will be transferred to profit or loss, net of tax	**(7)**	106	**10**	83	161
Other items of comprehensive income which will not be carried over to profit or loss					
Remeasurement of a defined benefit plan	**1**	1	**-**	-	2
Taxes on income for other items of comprehensive income which will not be carried over to profit or loss	**-**	-	**-**	-	(1)
Other comprehensive income for the period which will not be carried over to profit or loss, net of tax	**1**	1	**-**	-	1
Other comprehensive income (loss) for the period, net of tax	**(6)**	107	**10**	83	162
Total income for the period attributed to the company's shareholders	**537**	601	**287**	164	846

The additional information accompanying the separate financial statements is an integral part thereof.

Separate financial information from the condensed consolidated interim statements of changes in equity

	Share capital and premium	Capital reserve for assets available for sale	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling shareholders	Capital reserve for revaluation of fixed assets	Retained earnings	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
For the nine months ended September 30, 2018 (Unaudited)									
Balance as at January 1, 2018	339	480	(129)	1	(131)	(49)	226	4,821	5,558
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	-	-	543	543
Other comprehensive income (loss)	-	(48)	11	-	-	-	30	1	(6)
Total comprehensive income (loss) for the period	-	(48)	11	-	-	-	30	544	537
Transactions with owners recognized directly in equity									
Dividend distributed	-	-	-	-	-	-	-	(107)	(107)
Purchase of Treasury shares	-	-	-	-	(7)	-	-	-	(7)
Re-issuance of Treasury shares	1	-	-	-	6	-	-	-	7
Balance as at September 30, 2018	340	432	(118)	1	(132)	(49)	256	5,258	5,988

The additional information accompanying the separate financial statements is an integral part thereof.

Separate financial information from the condensed consolidated interim statements of changes in equity (contd.)

	Share capital and premium	Capital reserve for assets available for sale	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling shareholders	Capital reserve for revaluation of fixed assets	Retained earnings	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
For the three months ended September 30, 2018 (Unaudited)									
Balance as at July 1, 2018	340	398	(99)	1	(131)	(49)	260	4,982	5,702
Total comprehensive income (loss)									
Profit for the period	-	-	-	-	-	-	-	277	277
Other comprehensive income (loss)	-	34	(19)	-	-	-	(4)	(1)	10
Total comprehensive income (loss) for the period	-	34	(19)	-	-	-	(4)	276	287
Transactions with owners recognized directly in equity									
Purchase of Treasury shares	-	-	-	-	(2)	-	-	-	(2)
Re-issuance of Treasury shares	-	-	-	-	1	-	-	-	1
Balance as at September 30, 2018	340	432	(118)	1	(132)	(49)	256	5,258	5,988

The additional information accompanying the separate financial statements is an integral part thereof.

Separate financial information from the condensed consolidated interim statements of changes in equity (contd.)

	Share capital and premium	Capital reserve for assets available for sale	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling shareholders	Capital reserve for revaluation of fixed assets	Retained earnings	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
For the nine months ended September 30, 2017 (Unaudited)									
Balance as at January 1, 2017	351	330	(80)	4	(158)	(49)	164	4,599	5,161
Total comprehensive income (loss)									
Profit for the period	-	-	-	-	-	-	-	494	494
Other comprehensive income (loss)	-	82	(36)	-	-	-	61	-	107
Total comprehensive income (loss) for the period	-	82	(36)	-	-	-	61	494	601
Transactions with owners recognized directly in equity									
Dividend distributed	-	-	-	-	-	-	-	(461)	(461)
Purchase of Treasury shares	-	-	-	-	(16)	-	-	-	(16)
Re-issuance of Treasury shares	(8)	-	-	-	36	-	-	-	28
Exercising of stock options	2	-	-	(2)	-	-	-	-	-
Balance as at September 30, 2017	345	412	(116)	2	(138)	(49)	225	4,632	5,313

The additional information accompanying the separate financial statements is an integral part thereof.

Separate financial information from the condensed consolidated interim statements of changes in equity (contd.)

	Share capital and premium	Capital reserve for assets available for sale	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling shareholders	Capital reserve for revaluation of fixed assets	Retained earnings	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
For the three months ended September 30, 2017 (Unaudited)									
Balance as at July 1, 2017	349	343	(133)	4	(144)	(49)	226	4,756	5,352
Total comprehensive income (loss)									
Profit for the period	-	-	-	-	-	-	-	81	81
Other comprehensive income (loss)	-	69	17	-	-	-	(1)	(2)	83
Total comprehensive income (loss) for the period	-	69	17	-	-	-	(1)	79	164
Transactions with owners recognized directly in equity									
Dividend distributed	-	-	-	-	-	-	-	(203)	(203)
Purchase of Treasury shares	-	-	-	-	(2)	-	-	-	(2)
Re-issuance of Treasury shares	(6)	-	-	-	8	-	-	-	2
Exercising of stock options	2	-	-	(2)	-	-	-	-	-
Balance as at September 30, 2017	345	412	(116)	2	(138)	(49)	225	4,632	5,313

The additional information accompanying the separate financial statements is an integral part thereof.

Separate financial information from the condensed consolidated interim statements of changes in equity (contd.)

	Share capital and premium	Capital reserve for assets available for sale	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling shareholders	Capital reserve for revaluation of fixed assets	Retained earnings	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
For the year ended December 31, 2017 (Audited)									
Balance as at January 1, 2017	351	330	(80)	4	(158)	(49)	164	4,599	5,161
Total comprehensive income (loss)									
Profit for the period	-	-	-	-	-	-	-	684	684
Other comprehensive income (loss)	-	150	(49)	-	-	-	62	(1)	162
Total comprehensive income (loss) for the period	-	150	(49)	-	-	-	62	683	846
Transactions with owners recognized directly in equity									
Dividend distributed	-	-	-	-	-	-	-	(461)	(461)
Purchase of Treasury shares	-	-	-	-	(18)	-	-	-	(18)
Re-issuance of Treasury shares	(15)	-	-	-	45	-	-	-	30
Exercising of stock options	3	-	-	(3)	-	-	-	-	-
Balance as at December 31, 2017	339	480	(129)	1	(131)	(49)	226	4,821	5,558

The additional information accompanying the separate financial statements is an integral part thereof.

Separate financial information from the condensed consolidated interim statement of cash flows

	Annex	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the year ended December 31 2017
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
		NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows from operating activity						
Before taxes on income	A	**85**	90	**43**	50	77
Income tax paid		**(18)**	(13)	**(5)**	(5)	(12)
Net cash provided by current operations		**67**	77	**38**	45	65
Cash flows from investing activity						
Investment in fixed assets		**(1)**	(1)	**(1)**	-	(1)
Proceeds from sale of fixed assets		**1**	-	**-**	-	-
Dividend and interest received from investees		**115**	511	**-**	499	512
Financial investments, net		**(79)**	(58)	**(65)**	(132)	(108)
Repayment of loans and capital notes provided to investees		**16**	13	**12**	-	15
Net cash provided by (used for) investment activity		**53**	465	**(54)**	367	418
Cash flows from financing activities						
Dividend paid		**(107)**	(461)	**-**	(354)	(461)
Repayment of loans from banks and others		**(40)**	(40)	**-**	-	(49)
Net cash used for financing activity		**(147)**	(501)	**-**	(354)	(510)
Net increase (decrease) in cash and cash equivalents		**(27)**	41	**(16)**	58	(27)
Cash and cash equivalents at beginning of the period		**63**	90	**51**	73	90
Cash and cash equivalents at end of the period		**36**	131	**35**	131	63

The additional information accompanying the separate financial statements is an integral part thereof.

Separate financial information from the condensed consolidated interim statement of cash flows (contd.)

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Annex A - Cash flows from operating activities before taxes on income					
Profit for the period attributed to the Company's shareholders	**543**	494	**277**	81	684
Items not involving cash flows					
Company's share of equity accounted investees	**(488)**	(448)	**(259)**	(67)	(622)
Net losses from financial investments	**1**	2	**-**	3	1
Change in fair value of investment property	**(1)**	(1)	**-**	-	-
Financing income, net	**(8)**	(1)	**(4)**	(1)	(1)
Taxes on income	**17**	15	**6**	5	20
Depreciation and amortization	-	-	**1**	-	-
Changes in other balance sheet items					
Other receivables	**(2)**	6	**5**	1	7
Other payables	**23**	22	**17**	27	(12)
Liabilities for employee benefits, net	**-**	1	**-**	1	-
Total adjustments required to present cash flows from operating activities	**(458)**	(404)	**(234)**	(31)	(607)
Total cash flows from operating activities, before taxes on income	**85**	90	**43**	50	77

The additional information accompanying the separate financial statements is an integral part thereof.

Note 1 - Method of preparing the separate financial information from the Company's consolidated financial statements

A. General

Following is a summary of separate financial information from the condensed consolidated interim financial statements of the Group as at September 30, 2018 ("Consolidated Statements") which are published as part of the Periodic Reports, attributed to the actual company ("Condensed separate interim financial information"), which are presented in accordance with the provisions of Regulation 38D ("the Regulation") and the tenth schedule to the Securities (Periodic and Immediate Reports) Regulations, 1970 ("Schedule no. 10"), concerning the condensed separate, interim financial information of the Company. This condensed, separate interim financial information should be read together with the separate financial information as at December 31, 2017, and with the consolidated financial statements.

B. Definitions

The Company	-	Harel Insurance Investments and Financial Services Ltd.
Consolidated/subsidiary companies	-	Companies, including joint ventures, whose reports are fully consolidated, directly or indirectly, with those of the Company.
Investee companies	-	Subsidiaries, including partnerships, in which the Company's investment is included, directly or indirectly, in the financial statements based on the equity method (equity accounted investees).
Date of report	-	Date of the Statement of Financial Position

C. Method of preparing the financial information

The separate financial information was prepared in accordance with the accounting principles detailed in Note 1 to the separate annual financial statements of the Company.

Note 2 - Affiliations, agreements, and material transactions with investee companies

1. In accordance with a permit to control and hold the means of control in insurers and management companies, the Company undertook, at all times, to supplement the equity of the insurance companies that are included among the financial institutions it controls, including ICIC, to the amount prescribed in the Supervision of Financial Services (Insurance) (Minimum Equity Required of Insurers) Regulation, 1998, or any other regulation or law that may replace them, and also to supplement at all times the equity of the provident fund and pension fund management companies it controls, to the amount prescribed in the Income Tax (Rules for the Approval and Management of Provident Funds) Regulations, 1965, or any other regulation or law that may replace them. This undertaking is irrevocable and will remain in force as long as the Company controls the financial institutions, directly or indirectly.
2. During the Reporting Period, , Yedidim Agency, a wholly owned subsidiary of the Company, repaid a capital note in the amount of NIS 6 million. This repayment was made from Yedidim Agency’s independent sources.
3. On August 30, 2018, Harel-Pia, a subsidiary of Harel Finance, a company wholly owned by the Company, made partial repayment of a capital note in the amount of NIS 10 million. This repayment was made from Harel-Pia’s independent sources.

Note 3 - Significant events during the reporting period

1. <u>Dividend distribution</u>

   On March 26, 2018, the Company's Board of Directors approved the distribution of a cash dividend in the amount of NIS 107 million (NIS 0.5 per share). The Board of Directors made its decision after taking into account the Company's financial performance for 2017. The Board of Directors was presented with information on the distributable profits, capital surpluses of the Company's subsidiaries and the Group's cash requirements, in various scenarios. The Board of Directors reviewed the Company's compliance with the profit test and solvency test prescribed in Section 203(a) of the Companies Law. Following this review, the Board of Directors confirmed that the Company was in compliance with the distribution test. The dividend was paid on April 12, 2018.
2. On a changeover of senior officers, see Note 9 to the consolidated financial statements.
3. On a bonus in respect of 2017 paid to senior officers, see Note 9 to the consolidated financial statements.

Solvency and Financial Condition Report of Harel Insurance Company Ltd.

Contents

A. Background and Scope of Disclosure

In accordance with Insurance Circular 2017-1-20 published by the Commissioner of the Capital Market, Insurance and Savings ("the Commissioner") on December 3, 2017 ("the Disclosure Circular"), insurance companies must publish, twice a year, as part of the periodic report and on their websites, a report about their economic solvency ratio in respect of data at June 30 and December 31. The solvency report for data at June 30 is required commencing with the report in respect of June 30, 2019.

For the economic solvency ratio for data at December 31, 2017, the Company received the Commissioner's approval as part of the initial audit process and accordingly it hereby publishes the Company's economic solvency ratio as at December 31, 2017. Regarding the data which appear in Tables 1-6: the data at December 31, 2017 are audited in accordance with ISAE 3400 and at December 31, 2016 they are neither audited nor reviewed. Furthermore, the solvency calculations were performed on the consolidated data of Harel Insurance and EMI.

This report was prepared in accordance with the rules and principles prescribed by the Commissioner in Insurance Circular 2017-1-9 - "Provisions for the Implementation of an Economic Solvency Regime by Insurance Companies on the Basis of Solvency II" dated June 1, 2017, ("the Solvency Circular"). The Circular sets out provisions for implementation of an economic solvency regime by insurance companies, on the basis of the Solvency II Directive, which was adopted by the European Union and implemented as of January 2016 by all EU member states.

The chapters from the Directive adopted in the Circular include a comprehensive review of the risks to which insurance companies are exposed and the standards for their management and measurement. Israeli regulations adopted two pillars: Pillar 1 - quantitative, addresses a risk-based solvency ratio, and Pillar 3 relating to the advancement of market discipline, disclosure and reporting.

Clarification concerning forward-looking information in this report

It is stipulated that the model in its current format is very sensitive to changes in market and other variables. The capital position reflected by the model could therefore be very volatile. Other factors might also significantly affect the reporting results, where despite the final instructions, companies were informed that a final determination has not yet been made for the treatment of these instructions and they are subject to change, depending on the outcome of the discussions between the Commissioner and the insurance companies in Israel. The report presented below was prepared in accordance with the Commissioner's instructions as they were known at the time of preparing the Report.

Calculations of the economic own funds and required capital are based on forecasts and assumptions that rely principally on past experience, as emerges from actuarial studies that are conducted from time to time. In view of the reforms in the capital market, insurance and savings, and changes in the economic, demographic and behavioral environment, historical data do not necessarily reflect future results.

B. Comments and clarifications regarding the Best Estimate forecast

1. General

As noted above, the solvency ratio was calculated in accordance with the rules and principles prescribed by the Commissioner in the Solvency Circular. The assumptions underlying the calculation are Best Estimate Assumptions, namely - assumptions that are the result of projecting existing experience onto the future, in the environment in which the insurance companies operate, without conservatism factors. Naturally, given that these are long-term future estimates, actual results might differ from those estimated at the time of the calculation.

The Best Estimate determination was based on forecasts, assessments and estimates of future events, the materialization of which is uncertain and that are beyond the Company's control, and they should be treated as "forward looking information", as defined in Section 32 of the Securities Law, 1968. It is possible that all or some of these forecasts, assessments and estimates may not materialize or they may materialize differently from the manner assumed in calculating the Solvency Report. Actual performance may therefore differ from the forecast.

Deviations from the parameters and assumptions made in forecasting the Best Estimate might significantly affect the outcome. These parameters include:

1. Economic factors (e.g. discounting interest, yields);
2. Demographic factors (e.g. changes in mortality and morbidity);
3. Legislation and statutory arrangements on relevant issues;
4. Contingent liabilities;
5. Taxation;
6. Changes in the business environment.

It is expected that actual results each year will differ from those forecast in the Best Estimate model, if only due to normal random fluctuations.

2. Future effects of reforms, legislation and regulations and exposure to contingent liabilities

(a) Over the last few years, there have been numerous reforms in the long-term savings and health insurance sectors which have affected and continue to affect the assessment and calculation of the Best Estimate. The anticipated impact of the legislative reforms is uncertain, partially in view of the fact that some of the reforms are still in progress or their implementation has not yet commenced, while the actual implementation of some of the reforms might differ from the way they were predicted, depending on various uncertain factors, including competitive conditions, preferences of the insureds and fund members, the behavior of competitors and distributors. Calculation of the solvency ratio does not include all the future possible repercussions of these reforms and regulatory instructions, as well as other developments that are not reflected in the data at the practical level, and regarding which the Company, at the date of this report, is as yet unable to estimate their impact on its business performance and on the solvency ratio.

(b) According to the Solvency Circular, the value of the contingent liabilities in the economic balance sheet is determined according to their value in the accounting balance sheet, based on the rules set out in IAS 37. This measurement does not reflect their economic value. It is impossible to estimate the implications of the uncertainty stemming from the exposure to contingent liabilities, as described in Note 38A to the 2017 annual financial statements, including its impact on future profitability and on the solvency ratio.

C. Definitions

Best Estimate – The probability-weighted average (expected value) of the cash flows required to settle the insurance liabilities over their duration, discounted at an adjustment risk-free interest rate.

Similar to Life Techniques Health Insurance – (SLT) – Health insurance that is managed similarly to life insurance (long-term)

Non-SLT Health Insurance (NSLT) – Health insurance that is managed similarly to non-life insurance (short-term)

Basic Solvency Capital Requirement (BSCR) – The capital required of an insurance company before the supplement for operational risk and adjustment for deferred taxes.

Solvency Capital Requirement (SCR) – The capital required of an insurance company to maintain solvency.

Recognized Own Funds – Tier-1 and Tier-2 capital of an insurance company, after deductions and subtractions in accordance with the provisions of Section B of the Appendix to the Solvency Circular.

Basic Tier-1 capital – Accounting own funds plus the change in the excess of assets over liabilities arising from the differences between the method of assessing the assets and liabilities in the shift to an economic balance sheet and net of unrecognized assets and dividends that were declared after the reporting date and before publication of the report.

Ancillary Tier-1 capital – Perpetual capital note, non-accruing preference shares, hybrid tier-1 capital instrument, ancillary tier-1 capital instrument.

Tier-2 capital – Subordinate Tier-2 capital instruments, hybrid Tier-2 capital and hybrid Tier-3 capital - where there value is estimated in accordance with the provisions of Section A of the Appendix to the Solvency Circular.

Diversification effect among the risk components – Correlation between different risks in the model, if the risks are well distributed among the operating segments in the portfolio, then the diversification effect will be greater and the overall risk is reduced. The effect of the diversification effect is calculated using a statistical formula.

Solvency ratio – The ratio of recognized own funds to the capital required to maintain the insurance company's solvency.

Adjustment for equity risk – Reduced capital requirement for certain types of investment that will increase gradually until 2023 when the capital requirement for these investments reaches its full percentage.

Economic balance sheet – The Company's balance sheet where the value of the assets and liabilities is adjusted in accordance with the provisions of Section A of the Appendix to the Solvency Circular.

Risk margin (RM) – An amount over and above the Best Estimate that reflects the overall cost of the capital that another insurance company or reinsurer would be expected to demand for assuming the Company's insurance liabilities.

Minimum Capital Requirement (MCR) –	The minimum capital required of an insurance company.
Expected Profits Included in Future Premiums (EPIFP) –	The difference between the Best Estimate calculation in the economic balance sheet and the theoretical Best Estimate calculation based on: excluding the savings components in the policy, cancellation assumption for each insurance coverage costed with a variable premium, settlement assumption for each insurance coverage costed in the fixed premium. There is no impact on policies with a single premium and non-life policies.
Transitional period –	Within the framework of the transitional provisions for implementation of an economic solvency regime, the solvency capital requirements (SCR) for insurance companies will increase gradually between 2016 and 2024 from 60% in 2016 until full compliance with SCR (100%) in 2024.
Audited Report –	The external auditor's audit is prepared in accordance with ISAE 3400 - International Standard on Assurance Engagement - Review of Future Financial Information.

Table 1 - Solvency ratio and MCR

	December 31, 2017	December 31, 2016
	(Audited)	(Not audited or reviewed)
	NIS million	NIS million
A. Solvency ratio		
Without considering provisions for the transitional period and adjustment for equity risk:		
Own funds for the purpose of Solvency Capital Requirement (SCR) - See Table 4	10,812	10,113
SCR - See Table 5	9,494	8,459
Surplus	**1,318**	**1,654**
Solvency ratio at the report date	**114%**	**120%**
Compliance with milestones taking into account provisions for the transitional period and adjustment for equity risk:		
Own funds for the purpose of SCR - See Table 4	10,536	9,564
SCR - See Table 5	5,771	4,758
Surplus	**4,765**	**4,806**
Disclosure about material events that took place in the period between the date of the calculation and the report publication date and affected the Company's solvency ratio:		
Capital raised	250	250
Settlements and redemptions	(78)	(55)
Total	**172**	**195**
Surplus at the reporting date (without taking into account provisions for the transitional period and adjustment for equity risk)	1,490	1,849
Solvency ratio at the reporting date (without taking into account provisions for the transitional period and adjustment for equity risk)	**116%**	**122%**
B. Minimum Capital Requirement (MCR)		
MCR - see Table 6.A	**1,877**	**1,826**
Own funds for the purpose of MCR - see Table 6.B	**8,026**	**7,551**

Table 2 - Economic balance sheet

	Notes	December 31, 2017		December 31, 2016	
		Balance sheet according to accounting standards	Economic balance sheet	Balance sheet according to accounting standards	Economic balance sheet
		(Audited)		(Not audited or reviewed)	
		NIS million		NIS million	
Assets:					
Intangible assets	(1)	415	-	353	-
Deferred Acquisition Costs	(1)	2,072	-	1,932	-
Fixed assets		1,281	1,281	1,197	1,197
Management companies	(2)	818	427	798	407
Other investees	(2)	1,389	1,365	1,332	1,304
Investment property for unit-linked contracts		1,502	1,502	1,412	1,412
Investment property - other		1,695	1,695	1,568	1,568
Reinsurance assets		4,405	3,096	4,631	3,549
Trade and other receivables		1,055	1,055	1,277	1,277
Financial investments for unit-linked contracts		47,771	47,771	40,181	40,181
Other financial investments:					
Marketable debt assets		6,912	6,912	7,020	7,031
Non-marketable debt assets, excluding designated bonds	(3)	8,634	9,531	7,004	7,681
Designated government bonds	(4)	4,893	7,232	4,784	7,014
Shares		916	916	804	804
Other		1,895	1,895	2,003	2,003
Total other financial investments		**23,250**	**26,486**	**21,615**	**24,533**
Cash and cash equivalents for unit-linked contracts		2,758	2,758	1,848	1,848
Other cash and cash equivalents		1,124	1,124	1,376	1,376
Other assets		1,250	1,250	1,287	1,287
Total assets		**90,785**	**89,810**	**80,807**	**79,939**
Total assets for unit-linked contracts		52,550	52,550	44,058	44,058
Capital					
Basic Tier-1 capital		4,319	7,420	4,072	7,121
Total equity		**4,319**	**7,420**	**4,072**	**7,121**
Liabilities:					
Liabilities for insurance contracts and non-unit-linked investment contracts	(5)	26,421	20,793	25,660	20,316

Liabilities for insurance contracts and unit-linked investment contracts	(5)	52,008	43,565	43,566	36,082
Risk margin (RM)	(6)	-	7,983	-	6,882
Deferred tax liabilities, net	(7)	763	2,590	628	2,428
Trade and other payables	(8)	2,992	2,879	2,713	2,652
Financial liabilities	(9)	4,022	4,320	3,941	4,231
Other liabilities		260	260	227	227
Total liabilities		**86,466**	**82,390**	**76,735**	**72,818**
Total capital and liabilities		**90,785**	**89,810**	**80,807**	**79,939**

Notes:

(1) According to the principles set out in the Solvency Circular - Part 1, Chapter 2, Section A, the intangible assets and deferred acquisition costs (DAC) were estimated with a value of zero in the economic balance sheet.

(2) According to the principles set out in the Solvency Circular - Part 1, Chapter 2, Section B, the calculation was made based on the provisions of the Circular regarding adjusted equity value. The adjusted equity value method includes Harel's relative share of the excess of assets over liabilities of an investee according to their value in the equity according to accounting standards, net of intangible assets. Regarding the provident fund and pension fund management companies, and based on the provisions, 35% of the outstanding amounts of the original difference relating to the acquisition of these companies was added to the value.

(3) According to the principles set out in the Solvency Circular - Part 1, Chapter 1(A), the fair value of non-marketable assets is calculated using the discounted cash flow model where the discounting interest rates are determined by a company that provides price and interest rate quotes for financial institutions.

(4) According to the principles set out in the Solvency Circular - Part 1, Chapter 2, Section E, insurance companies adjust the value of designated government bonds to the economic balance sheet.

(5) According to the principles set out in the Solvency Circular - Part 1, Chapter 4, liabilities for insurance contracts and investment contracts are calculated on a Best Estimate basis (see Definitions). On the value of the contingent liabilities included in this section, see Section B2(b) above.

(6) According to the principles set out in the Solvency Circular - Part 1, Chapter 4, Section D, subsection 5(1), an amount in addition to the Best Estimate, which is calculated by a cost of capital of multiplier of 6% of the discounted amount of the estimated required capital and based on the projected development over the duration of the risks factors attributed to them.

(7) According to the principles set out in the Solvency Circular - Part 1, Chapter 2, Section C, the calculation is based on the difference between the value attributed to the assets and liabilities in the economic balance sheet and the value attributed to them for tax purposes according to the instructions for the recognition, measurement and presentation in International Accounting Standard 12 (IAS 12).

(8) According to the principles set out in the Solvency Circular - Part 1, Chapter 1(A), some of the retained amounts in this section were calculated in accordance with the general principles applicable to the economic balance sheet.

(9) According to the principles set out in the Solvency Circular - subject to the instruction in Part 1, Chapter 3, on the revaluation of the financial liabilities to fair value, changes that occurred in the Company's credit risk were not taken into account but only changes in the risk-free interest rate. In other words, the discounting interest rate is a risk-free interest rate plus the credit spread on the date of issuance.

Table 3 - Liabilities for insurance contracts and investment contracts

	December 31, 2017			December 31, 2016		
	Best Estimate (BE) for liabilities			Best Estimate (BE) for liabilities		
	Gross	Reinsurance	Net (Retention)	Gross	Reinsurance	Net (Retention)
	(Audited)			(Not audited or reviewed)		
	NIS million			NIS million		
Liabilities for insurance contracts and non-unit-linked investment contracts:						
Life insurance contracts and long-term health insurance (SLT)	12,149	(84)	12,233	11,744	(52)	11,796
Non-life insurance contracts and short term health insurance (NSLT)	8,644	3,192	5,452	8,572	3,541	5,031
Total liabilities for insurance contracts and non-unit-linked investment contracts	**20,793**	**3,108**	**17,685**	**20,316**	**3,489**	**16,827**
Liabilities for insurance contracts and unit-linked investment contracts - life insurance contracts and long-term health insurance contracts (SLT)	43,565	(12)	43,577	36,082	60	36,022
Total liabilities for insurance contracts and investment contracts	**64,358**	**3,096**	**61,262**	**56,398**	**3,549**	**52,849**

Table 4 - Own funds for the purpose of SCR

	December 31, 2017				
	Without taking into account the provisions in the transitional period and adjustment for equity risk:				**Taking into account the provisions in the transitional period and adjustment for equity risk:**
	Basic Tier-1 capital	**Ancillary Tier-1 capital**	**Tier-2 capital**	**Total**	
	(Audited)				
	NIS million				
Own funds	7,420	392	3,162	**10,974**	10,974
Deductions from Tier-1 capital (A)	(162)	-	-	**(162)**	(162)
Deviation from quantitative limitations (B)	-	-	-	-	(276)
Own funds for the purpose of SCR (C)	**7,258**	**392**	**3,162**	**10,812**	**10,536**
Of which - Expected Profits Included in Future Premiums (EPIFP) after tax	**8,332**			**8,332**	

	December 31, 2016				
	Without taking into account the provisions in the transitional period and adjustment for equity risk:				**Taking into account the provisions in the transitional period and adjustment for equity risk:**
	Basic Tier-1 capital	**Ancillary Tier-1 capital**	**Tier-2 capital**	**Total**	
	(Not audited or reviewed)				
	NIS million				
Own funds	7,121	377	2,927	**10,425**	10,425
Deductions from Tier-1 capital (A)	(312)	-	-	**(312)**	(312)
Deviation from quantitative limitations (B)	-	-	-	-	(549)
Own funds for the purpose of SCR (C)	**6,809**	**377**	**2,927**	**10,113**	**9,564**
Of which - Expected Profits Included in Future Premiums (EPIFP) after tax	**7,433**			**7,433**	

(a) Deductions from Tier-1 capital - in accordance with the definition of “Basic Tier-1 capital” in the Appendix to the Solvency Circular, these deductions include the amount of the assets held to cover liabilities for non-unit-linked insurance contracts contrary to the Investment Rules, the amount of repurchase of ordinary shares and dividend declared after the reporting date and before the report is first published.

(b) Deviation from quantitative limitations - in accordance with the provisions in Chapter 2, Part B of the Solvency Circular - “Provisions Concerning the Own Funds of Insurance Companies”.

(c) Composition of own funds for the purpose of SCR, without taking into account provisions in the transitional period and adjustment for equity risk

	December 31, 2017	December 31, 2016
	(Audited)	(Not audited or reviewed)
	NIS million	NIS million
Tier-1 capital:		
Basic Tier-1 capital	7,258	6,809
Hybrid Tier-1 capital instruments	392	377
Total Tier-1 capital	**7,650**	**7,186**
Tier-2 capital:		
Hybrid Tier-2 capital instruments	2,251	1,974
Hybrid Tier-3 capital instruments	818	833
Subordinate Tier-2 capital instruments	93	120
Total Tier-2 capital	**3,162**	**2,927**
Total own funds for the purpose of (SCR)	**10,812**	**10,113**

Table 5 - Solvency capital requirement (SCR)

	December 31, 2017	**December 31, 2016**
	(Audited)	**(Not audited or reviewed)**
	NIS million	**NIS million**
Basic Solvency Capital Requirement (BSCR)		
Capital required for market risk component	4,561	4,297
Capital required for counterparty risk component	217	276
Capital required for life insurance underwriting risk component	4,046	3,445
Capital required for health insurance underwriting risk component (SLT + NSLT)	6,947	6,157
Capital required for non-life insurance underwriting risk component	1,667	1,480
Total	**17,438**	**15,655**
Effect of the distribution among the risk components	(5,896)	(5,299)
Total BSCR	**11,542**	**10,356**
Capital required for operational risk	390	386
Adjustment for loss-absorbing capacity of deferred taxes	(2,589)	(2,428)
Capital required on account of management companies:		
Harel Pension and Provident Ltd.	131	125
Tzva Hakeva Saving Fund - Provident Funds Management Company Ltd.	10	10
Leatid Pension Funds Management Company Ltd.	10	10
Total capital required on account of management companies	**151**	**145**
Total SCR	**9,494**	**8,459**
Total SCR taking into account adjustment for equity risk	**8,879**	**7,930**
Total SCR taking into account provisions for the transitional period (65% in 2017 and 60% in 2016) of total SCR and adjustment for equity risk	**5,771**	**4,758**

Table 6 - Minimum Capital Requirement (MCR)

(a) MCR	December 31, 2017	December 31, 2016
	(Audited)	(Not audited or reviewed)
	NIS million	NIS million
Capital requirement according to MCR formula	1,877	1,826
Lower boundary (25% of SCR in the transitional period)	1,443	1,190
Upper boundary (45% of SCR in the transitional period)	2,597	2,141
Minimum Capital Requirement (MCR)	**1,877**	**1,826**

(b) Own funds for the purpose of MCR:

	December 31, 2017			December 31, 2016		
	Tier-1 capital	Tier-2 capital	Total	Tier-1 capital	Tier-2 capital	Total
	(Audited)			(Not audited or reviewed)		
	NIS million			NIS million		
Own funds for the purpose of SCR according to Table 4 (C)	7,650	3,162	**10,812**	7,186	2,927	**10,113**
Deviation from quantitative limitations due to MCR	-	(2,786)	**(2,786)**	-	(2,562)	**(2,562)**
Own funds for the purpose of MCR	7,650	376	**8,026**	7,186	365	**7,551**

November 28, 2018			
Date	Yair Hamburger	Michel Siboni	Adva Inbar
	Chairman of the Board of Directors	CEO	CRO

Somekh Chaikin
Millennium Tower KMPG
17, HaArba'ah Street, POB 609
Tel Aviv 6100601
03-6848000

To:
The Board of Directors of Harel Insurance Company Ltd.

Re: Review of the implementation of certain instructions issued by the Commissioner of the Capital Market, Insurance and Savings with respect to economic solvency on the basis of Solvency II by Harel Insurance Company Ltd. ("the Company") as at December 31, 2017

We have reviewed the capital required to maintain solvency ("Solvency Capital Requirement" / "SCR") and the economic capital of Harel Insurance Company Ltd. as at December 31, 2017 ("the Information") which is hereby attached. The Board of Directors and management are responsible for preparing and presenting the Information that was prepared in accordance with the instructions of the Commissioner of the Capital Market, Insurance and Savings ("the Commissioner") with respect to the economic solvency of insurance companies on the basis of Solvency II ("the Instructions"), as they are included in Commissioner's circulars 2017-1-9 and 2017-1-20. The calculations, forecasts and assumptions that formed the basis for preparation of the Information are the responsibility of the Board of Directors and management.

Our review was conducted in accordance with ISAE 3400 - International Standard on Assurance Engagement - Review of Future Financial Information.

Based on the review of the findings that support the calculations, forecasts and assumptions, as mentioned below, used by Company's Board of Directors and management in preparing the Information, nothing was brought to our attention that might cause us to consider that the forecasts and assumptions, in their entirety, do not provide a reasonable basis for the information in accordance with the Instructions. Furthermore, in our opinion, the Information, including the manner of determining the assumptions and forecasts, was prepared, in all material respects, in accordance with the Instructions, and was presented in all material respects, in accordance with the Instructions.

It is emphasized that the forecasts and assumptions are based, in principle, on past experience, as it emerges from actuarial studies conducted from time to time. In view of the reforms in the capital market, insurance and savings, and changes in the economic environment, past data do not necessarily reflect future results. In some cases, the Information is based on assumptions about future events and management activity that do not necessarily materialize or that may materialize differently from the assumptions that formed the basis for the Information. Moreover, actual results might differ significantly from the Information, given that the combination of scenarios of events could materialize in a significantly different manner from the assumptions in the Information.

We draw attention to Section B.2 - notes and clarifications concerning the solvency ratio, regarding the uncertainty that stems from regulatory changes and exposure to contingent liabilities the effect of which on the solvency ratio cannot be estimated.

Somekh Chaikin

Certified Public Accountants

November 28, 2018

Harel Insurance Investments and Financial Services Ltd.

Report concerning the effectiveness of internal control over financial reporting and disclosure

Quarterly report concerning the effectiveness of the internal control over financial reporting and disclosure as per Regulation 38C(a)

Management, under the oversight of the Board of Directors of Harel Insurance Investments and Financial Services Ltd. ("the Company"), is responsible for defining and maintaining due internal control over the Company's financial reporting and disclosure.

In this instance, management consists of:

A. Mr. Michel Siboni - CEO of the Company, CEO of Harel Insurance Company Ltd., and Chairman of the Boards of Directors of the Group's subsidiaries that are financial institutions.

B. Mr. Arik Peretz - the Company's VP Finance, Deputy CEO and Head of the Finance and Resources Division of Harel Insurance Company Ltd., director in EMI Ezer Mortgage Insurance Ltd.

C. Ms. Nataly Mishan-Zakai - General Counsel to the Company and the Group's companies, deputy CEO of Harel Insurance Company Ltd.

D. Mr. Sami Babecov - VP of the Company and manager of the Group's investments, deputy CEO and manager of the investment division of Harel Insurance Company Ltd.

E. Ms. Osnat Manor Zisman - Internal Auditor of the Company and companies in the Group.

F. Mr. Tal Kedem - CEO of Harel Finance Holdings Ltd.

Internal control over financial reporting and disclosure includes the Company's existing controls and procedures that were planned by the general manager and the most senior financial officer or are monitored by them or by the person who actually performs these duties, under the oversight of the Company's board of directors. The purpose of these controls and procedures is to provide a reasonable measure of assurance as to the reliability of financial reporting and the preparation of the financial statements pursuant to the provisions of the law, and to ensure that the information that the Company is required to disclose in its published reports in accordance with the provisions of the law, is collected, processed, summarized and reported on the dates and in the format prescribed by law.

Among other things, the internal control consists of controls and procedures designed to ensure that the information that the Company is required to disclose, as noted, is accumulated and submitted to the Company's management, including to the CEO and most senior financial officer, or to the person who actually performs these duties, so as to ensure that decisions are made at the appropriate time, with respect to the disclosure requirement.

Due to its inherent limitations, internal control over financial reporting and disclosure is not intended to provide absolute assurance that a misstatement or omission of information in the report can be prevented or detected.

With respect to the assessment of the internal control over financial reporting, Harel Insurance Company Ltd. and the Company’s subsidiaries are financial institutions governed by the instructions of the Commissioner of the Capital Market, Insurance and Savings in the Ministry of Finance.

In relation to the internal control in the aforementioned subsidiaries, the Company applies the following instructions:

- Financial Institutions Circular 2010-9-7 from November 2010 - "Internal control over financial reporting – attestations, statements, and disclosures";
- Financial Institutions Circular 2010-9-6 from November 2010 – "Management's responsibility for the internal control over financial reporting - Amendment" (amendment to Financial Institutions Circular 2009-9-10);
- Financial Institutions Circular 2009-9-10, from June 2009 – "Management's responsibility for the internal control over financial reporting".

In the quarterly report concerning the effectiveness of the internal control over financial reporting and disclosure that was included in the quarterly report for the period ended June 30, 2018 (hereinafter – the last quarterly report on internal control), the internal control was found to be effective;

Prior to the date of the report, no event or matter was brought to the attention of the Board of Directors and Management that might cause the assessment of the effectiveness of the internal control, as it appears in the last quarterly report concerning internal control, to change;

At the date of the report, based on the information in the last quarterly report concerning the effectiveness of the internal control, and based on information that was brought to the attention of Management and the Board of Directors, as noted above, the internal control is effective.

Certification

I, Michel Siboni, hereby certify that:

1. I have reviewed the quarterly report of Harel Insurance Investments and Financial Services Ltd. (hereinafter - the Company) for Q3 2018 ("the Reports");
2. Based on my knowledge, the Reports contains no misstatement of a material fact nor do they omit any statement of a material fact necessary to ensure that the presentations that they contain, in light of the circumstances under which such presentations were included, shall not be misleading with respect to the period covered in the Reports;
3. Based on my knowledge, the financial statements and other financial information contained in the Reports reasonably reflect, in all material respects, the financial position, results of operations, and cash flows of the Company at the dates and periods covered in the Reports;
4. Based on my most recent assessment of the internal control over financial reporting and disclosure, I disclosed to the auditors, to the Board of Directors and the Audit Committee and Financial Reports Committee of the Company:
   A. Any significant deficiencies and material weaknesses in the determination or application of the internal control over financial reporting and disclosure that might reasonably compromise the Insurance Company's ability to record, process, summarize and report financial information in a manner that may cast doubt on the reliability of the financial reporting and preparation of the financial reports pursuant to the provisions of the law; and –
   B. Any fraud, whether material or immaterial, that involves the General Manager (CEO) or any person directly accountable to him or other employees who hold a significant role in the internal control over financial reporting and disclosure;
5. I, myself or together with others in the Company:
   A. Defined controls and procedures, or ensured that such controls and procedures are determined and in place under my oversight, for the purpose of ensuring that material information relating to the Company, including its subsidiaries as they are defined in the Securities (Annual Financial Reports) Regulations, 2010, is brought to my attention by others in the Company and the subsidiaries, particularly during the preparation of the Report; and -
   B. Defined controls and procedures, or ensured that such controls and procedures are determined and in place under my oversight, for the purpose of providing a reasonable measure of certainty as to the reliability of the financial reporting and to ensure that the financial reports are prepared in accordance with the provisions of the law, including in accordance with generally accepted accounting standards;
   C. No event or matter which took place during the period between the date of the last report (quarterly or periodic, as applicable) and the date of this report was brought to my attention, that might alter the conclusion of the Board of Directors and Management in relation to the effectiveness of the Company's internal control over financial reporting and disclosure.

The foregoing shall not derogate from my responsibility or from the responsibility of any other person, under any law.

November 28, 2018

Michel Siboni

CEO

Certification

I, Arik Peretz, hereby certify that:

1. I have reviewed the interim financial statements and other financial information contained in the interim financial statements of Harel Insurance Investments and Financial Services Ltd. ("the Company") for Q3 2018 ("the Reports" or "the Interim Reports");
2. Based on my knowledge, the interim financial statements and other financial information contained in the Interim Reports contain no misstatement of a material fact nor do they omit any statement of a material fact necessary to ensure that the statements they contain, in light of the circumstances under which such statements were included, shall not be misleading with respect to the period covered in the Reports;
3. Based on my knowledge, the Interim Reports and other financial information contained in the Interim Reports reasonably reflect, in all material respects, the financial position, results of operations, and cash flows of the Company at the dates and for the periods covered in the Reports;
4. Based on my most recent assessment of the internal control over financial reporting and disclosure, I disclosed to the auditors, to the Board of Directors and the Audit Committee and Financial Reports Committee of the Company:

   A. Any significant deficiencies and material weaknesses in the determination or application of the internal control over financial reporting and disclosure to the extent that it relates to the interim financial statements and to any other information contained in the Interim Reports, that might reasonably compromise the Company's ability to record, process, summarize or report financial information in a manner that may cast doubt on the reliability of the financial reporting and preparation of the financial reports pursuant to the provisions of the law; and –

   B. Any fraud, whether material or immaterial, that involves the General Manager (CEO) or any person directly accountable to him or other employees who hold a significant role in the internal control over financial reporting and disclosure;
5. I, myself or together with others in the Company:

   A. Defined controls and procedures, or ensured that such controls and procedures are determined and in place under my oversight, for the purpose of ensuring that material information relating to the Company, including its subsidiaries as they are defined in the Securities (Annual Financial Reports) Regulations, 2010, is brought to my attention by others in the Company and the subsidiaries, particularly during the preparation of the Report; and -

   B. Defined controls and procedures, or ensured that such controls and procedures are determined and in place under my oversight, for the purpose of providing a reasonable measure of certainty as to the reliability of the financial reporting and to ensure that the financial reports are prepared in accordance with the provisions of the law, including in accordance with generally accepted accounting standards;

   C. No event or matter that took place during the period between the date of the last report (quarterly or periodic, as applicable) and the date of this report, in relation to the interim financial statements and to any other financial information contained in the Interim Financial Reports, was brought to my attention, that might, in my opinion, alter the conclusion of the Board of Directors and Management in relation to the effectiveness of the Corporation's internal control over financial reporting and disclosure.

The foregoing shall not derogate from my responsibility or from the responsibility of any other person, under any law.

November 28, 2018

Arik Peretz

CFO