Harel Insurance Investments and Financial Services Ltd.

Interim Report as at

March 31, 2020

Contents

Board of Directors Report

Harel Insurance Investments and Financial Services Ltd.

Board of Directors Report

for the three months ended March 31, 2020

The Board of Directors Report for the three months ended March 31, 2020 ("the Reporting Period"), reflects the principal changes in the state of the 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 2019 which was published on March 31, 2020 ("the Periodic Report").[1]

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:

A. 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%) ("Interasco" - which operates 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").

B. In the long-term savings sector, the Company operates through the following subsidiaries that are provident fund and pension fund management companies: Harel Pension and Provident Ltd. (fully controlled) ("Harel Pension & Provident"), which manages pension and provident funds;[2] Tzva Hakeva Savings Fund - Provident Funds Management

[1] In accordance with the notice published by the Israel Securities Authority on April 1, 2020, concerning an extension of the date of publication of the quarterly report for the first quarter of 2020 ("the Quarterly Report"), the Company decided to apply the extension and publish the Quarterly Report on June 10, 2020.

[2] For additional information about the restructuring of Harel Pension & Provident, see Note 10 to the Financial Statements.

Company Ltd. (under full control) ("Tzva Hakeva Saving Fund - Provident Funds Management Company Ltd. (fully controlled) ("Tzva Hakeva"); LeAtid Pension Funds Management Company Ltd. (in which the Company holed 79%), which manages an old pension fund ("LeAtid").

C. In the financial services and capital market segment - the Company operates through the subsidiary Harel Finance Ltd. ("Harel Finance") (wholly controlled by the Company) and its key subsidiaries: Harel Mutual Funds Ltd. ("Harel Mutual Funds") - a mutual fund management company; Harel Finance Investment Management Ltd. ("Harel Finance Investments") - which is a licensed portfolio manager and manages investment portfolios; Harel Index Trade Ltd. - a company involved in market making for the ETFs managed by Harel Mutual Funds; Alfa Tech Investment Management Ltd., a licensed portfolio manager which manages investments for funds issued by Harel Mutual Funds using computerized models; Harel Finance Alternative R.E. Ltd., a company that serves as a general partner in the partnership Harel Finance Alternative R.E., a limited partnership registered in the USA; Harel Exchange Traded Deposit Ltd., a company that issued bonds backed by deposits.

D. In the provision of credit to small and medium businesses - in November 2019, the Company began, through a subsidiary Hamazpen Shutaphim Laderech Ltd., to operate in providing credit to small and medium businesses.

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

1.2 The Company's shareholders

Yair Hamburger, Gideon Hamburger and Nurit Manor are the principal shareholders in the Company (in this section: "the Shareholders"), holding 46.49% of the voting rights and the issued share capital of the Company.

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.

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

2.1 Material changes in the Group's business and events in the Reporting Period

2.1.1 Effect of the COVID-19 pandemic crisis on the Group's activity

Following the outbreak of the COVID-19 pandemic in Q1 2020, many countries around the world, Israel included, introduced a range of measures to reduce exposure to the virus, including restrictions on movement and large gatherings of people, limiting manpower in the work place, ordering the isolation of people who may have been infected and the closure of leisure and entertainment venues.

In view of the concern for the health and wellbeing of our employees, since the onset of the crisis the Group's management has taken measures to reduce the risk for the Group's employees. The Group made a number of decisions to limit work in the Company's offices, in accordance with the instructions and recommendations published by the Ministry of Health at that time, while adapting and deploying work methods to working from home, and taking stringent care to continue to provide normal, ongoing service to the Group's customers and agents.

In accordance with the regulations that require the Group to be prepared for business continuity scenarios, and thanks to the Group's strong awareness of the importance of serving its customers, and its investment in technology and digital processes over the last three years, the Group has in place solutions for providing normal, continuous service for its customers even in times of emergency and it was prepared for ongoing business activity in an adjusted format throughout the crisis period.

In May 2020, as some of the restrictions on movement, large gatherings and manpower in the work place were lifted, most of the Company's employees returned to regular activity in the Company's offices, taking care to uphold the social distancing rules aimed at preventing COVID-19 contagion.

The outbreak of the virus and the protective measures detailed above caused significant economic damage resulting in negative trends in both the global and Israeli economy. The Company believes that the COVID-19 crisis is an evolving event and there is no certainty regarding its date of termination and extent of its impact on the Group's assets and performance. The Company's estimates in relation to the effects of the COVID-19 crisis on the Group's activity, and this information, to the extent that it is included in this report, also contain forward-looking information, as defined in the Securities Law, 1968. All or part of these estimates could materialize or materialize differently and even significantly differently, in part to the extent that changes take place in the directives of the competent entities in Israel and worldwide who are charged with dealing with the outbreak of the virus.

<u>Key effects of the COVID-19 pandemic on the Group</u>:

A. **Investments and yields in the capital market**

In the wake of the COVID-19 crisis, in the first quarter of 2020 share prices plummeted in the capital markets worldwide and in Israel, foreign exchange rates fluctuated wildly and yields on corporate bonds rose due to the increase in the level of risk and uncertainty.

In the wake of these falling prices, in Q1 2020 the Company recognized pre-tax investment losses in the Nostro of NIS 820 million (these losses include impairment of NIS 80 million before tax in respect of non-marketable assets as detailed in Section E below). Notably, in the period after the reporting date and up to immediately prior to the date of publication of the financial statements, prices rose on the capital markets, which completely offset the Nostro investment losses.

Additionally, the value of the Group's AUM decreased by NIS 25 billion compared with the end of 2019. Notably, in the period after the reporting date and up to immediately prior to the date of publication of the financial reports, prices on the capital markets rose which significantly offset the decrease in the value of the assets managed by the Group from NIS 25 billion, as noted above, to NIS 8 billion.

Furthermore, pursuant to the mechanism prescribed in the legislative arrangement for the collection of management fees, insurance companies will not collect variable management fees in respect of yield-dependent policies sold between 1991 and 2003, until investment profits are attained in respect of the assets held to cover yield-dependent liabilities, which are sufficient to cover the accrued investment losses. According to the mechanism described above, due to real negative yields on profit sharing policies that were sold between 1991 and 2003, Harel Insurance did not collect variable management fees from the beginning of 2020, but only collected fixed management fees. Harel Insurance will not be able to collect variable management fees until a real positive yield is attained to cover the investment losses accumulated for the policyholders. At March 31, 2020, the estimate for the non-collection of management fees due to the negative yield until a cumulative positive yield is attained was NIS 290 million before tax. Notably, in the period after the reporting date and up to immediately prior to the date of publication of the financial statements, following price increases in the capital market, the estimate for management fees that will not be collected was reduced from NIS 290 million, as noted above, to NIS 78 million before tax.

It is emphasized that the foregoing regarding developments after the date of the report is based on the information in the Company's possession close to the date of publication of the financial statements, and that these data are partial and do not include other components of investment income (losses) and the effect of the Group's other activity on its equity and assets.

B. **Repercussions for the Group's business**

As a result of the COVID-19 crisis, in Q1 2020, redemptions of savings products, provident funds and education funds, insurance contracts and investment contracts increased. Notably, in the period after the reporting date and immediately prior to the date of publication of the financial statements, the volume of redemptions moderated and they returned to their normal pre-crisis levels.

Additionally, in Q1 2020, requests to make changes in investment tracks for amounts managed in provident funds and education funds and also in the pension funds increased significantly, with a noticeable shift towards low-risk channels. In the period after the reporting date and up to immediately prior to the date of publication of the financial statements, this trend was reversed with a change back to general / share-based channels.

In the mutual funds sector, in Q1 2020 tthe volume of redemptions increased substantially. Notably, in the period after the reporting date and immediately prior to the date of publication of the financial statements, the volume of mutual fund redemptions moderated and new amounts were raised.

In light of the strong volatility and lack of liquidity in the domestic capital market, in March 2020 and after the reporting date, requests were received to perform forced conversion of bonds that were issued by a second-tier subsidiary of Harel Finance. For additional information, see Note 9.3 to the Financial Statements.

Regarding the reinsurers with which the Group has agreements, to the best of the Company's knowledge there has been no change for the worse in their position.

C. **Effect on the Group's sales**

In the wake of the COVID-19 crisis, the sale of new policies in the long-term savings sectors declined significantly compared with the volume of sales characteristic of these sectors in corresponding periods in previous years.

Additionally, in this period, the sale of new policies in the health and life sectors decreased somewhat, although it subsequently recovered rapidly returning to the volumes of sales typical of corresponding periods, in part as a result of the integration of technology instruments enabling remote sales.

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

Due to the almost total cessation of overseas travel, at the date of publication of the report, the Company is not selling travel insurance policies. Notably, the discontinuation of the sale of these policies does not materially affect the Company’s results. At this stage, the Company is unable to estimate the scope of the impact of the COVID-19 crisis on future sales.

D. **Adjustments in wages and manpower in the Group**

During the period in which restrictions were imposed on movement and large gatherings, most of the Company’s employees worked via remote access to the Company’s systems, although due to the situation and its impact on the Group’s operations, in March 2020 the Company placed 900 employees on unpaid leave and other staff members were placed on vacation at the expense of their accumulated vacation days until after the Passover holiday. The Company provided all employees who were placed on unpaid leave with a one-time bonus of NIS 5,000 in order to tide them over the Passover holiday period.

Subsequently, on April 23, 2020, the Company decided to take a series of measures on matters relating to wages and manpower in the Group, as follows: 700 of the 900 employees who were placed on unpaid leave in March 2020, returned to work at the beginning of May 2020. The employment of 200 Company employees, accounting for 4% of the Group’s 5,000 employees, was terminated.

To enable the Company’s employees who had been placed on unpaid leave to return to work, the Company decided on the following measures: (1) wage cuts for a year - 20% cut in the salary of the controlling shareholders, 10% cut in the CEO’s salary, 7% cut in the wages of the Company’s senior executives, 7% cut in the salary paid to the directors of the Company and Harel Insurance, and this further to a request by the directors to participate in the plan and contribute their share, and following the approval of the Compensation Committee and Board of Directors; (2) cancellation of wage supplements - in 2021 and 2022 there will be no wage supplements for any of the Company’s managers and employees; (3) deduction of annual vacation days - in the coming year (until May 2021), four days vacation will be deducted from the annual vacation of all employees whose salary is higher the average wage in the economy. Two-days vacation will be deducted in the coming year from all employees whose salary is below the average wage in the economy; (4) the Company’s service providers - adjustments and cutbacks will be made in the Company’s expenses to its service providers; (5) a loan fund for employees - the Company established a fund for providing loans to the Company’s employees who are in financial difficulty and whose employment in the Company was terminated.

The purpose of these company-wide measures that were decided upon, which include a loss for the executives and controlling shareholders and in the Company's opinion is reasonable and proportional, is to increase, wherever possible, the number of employees who returned to work from unpaid leave. The Company views its employees as a key asset and it believes that at this time it is under particular obligation to attempt to preserve the livelihood of as many of its employees as possible.

Additionally, the Company is in the process of reviewing and reducing costs regarding all aspects of its agreements with service providers (who are not insurance related) and with additional service providers.

E. **Other effects on the Group's results**

In accordance with the accounting standards and a letter from the Capital Market, Insurance and Savings Authority dated April 19, 2020, and in accordance with the Company's procedures concerning calculation of the value of non-marketable assets, the Group assessed the value of non-marketable assets for which there were clear indications of material impairment, while applying reasonable professional discretion. The assessment of impairment included, *inter alia*, reviewing the Group's real-estate assets in Israel, including relying on professional opinions received from external appraisers concerning the discounting rate and the work assumptions on which the valuations were based. Additionally, an assessment of other financial investments was performed, including investment funds and real-estate abroad, based on the most up-to-date information available to the Company, including comments received from the asset and fund managers regarding indications of impairment. Following this assessment, the Company recorded an impairment of NIS 80 million before tax for non-marketable assets in the Nostro and NIS 160 million before tax for profit-sharing policies in the Reporting Period.

Additionally, the Group examined the need to update its assessment of the impairment of intangible assets, including goodwill. A revision of the assessment of the impairment before a year has passed since the previous assessment is necessary for those activities in which there are indications of impairment due to the repercussions of the COVID-19 crisis. After examining these indications and reviewing the recoverable amounts, as necessary, it was found that the recoverable amount of the pension, provident and education activity, mutual funds and mortgage insurance activity is higher than their book value and impairment is therefore unnecessary. Regarding the portfolio management activity, based on a valuation prepared by an external appraiser as at March 31, 2020, the Company wrote down the value of this activity by NIS 5 million before tax.

Regarding the fixed asset balances and Deferred Acquisition Costs (DAC), the assessment performed by the Group showed that there are no indications of impairment, as noted above.

F. **Cyber risks**

As noted above, the COVID-19 crisis led to a significant increase in the number of employees working from home resulting in a cultural change that brought with it information security challenges. Working from home was carried out using a secure system which required the operation of control mechanisms on a large scale. While the Company was deploying for these changes, the number of cyber attacks increased so that a complex situation regarding manpower availability had to be dealt with in real time. As part of the

Company's overall deployment, important steps were taken to protect the Company both with respect to infrastructure and the numerous cyber threats during this period. Throughout the period, the Company received constant updates from intelligence sources as well as from the cyber authority on phishing attacks, performing comprehensive checks of the organization's cyber immunity, all taking into account the changing threats and at the same time taking proactive action in the Company's defense infrastructures. The Company reinforced the number of staff in the cyber system to provide a rapid response to requests from employees, service providers and customers. Additionally, the control and investigation system was reinforced in order to pinpoint suspicious attempts to connect remotely to the Company's network and attempts to leak information. At the same time, the Company continued to increase awareness among the Company's employees and agents of the cyber threats relevant to the COVID-19 crisis period.

G. **Legal claims**

In view of the restrictions on activity in the economy that were imposed in the wake of the COVID-19 crisis, after the Reporting Period four actions were filed together with motions to certify them as class actions against Harel Insurance and against other insurance companies ("the Defendants") relating to motor insurance (compulsory, comprehensive and third party), and homeowners and business insurance on the grounds that the insureds in these sectors should be entitled to a refund of premiums that they ostensibly overpaid due to an alleged reduction of the risk level to which the Defendants in these policies were exposed due to the contraction of economic activity. For additional information see Note 7A to the Financial Statements. The Company believes that contrary to the arguments in these claims, the statutory and policy provisions do not require a refund of premiums as demanded in these claims.

H. **Liquidity and sources of finance**

See Section 2.7.2 below.

2.1.2 Retrospective application of a Commissioner's circular on LAT.

On March 29, 2020, Insurance Circular 2020-1-5 was published concerning an amendment to the provisions of the consolidated circular on the measurement of liability - Liability Adequacy Test (LAT) ("the Circular"). The Circular changed the grouping of insurance products so that the LAT can be calculated for the entire life assurance segment together. According to the circular, calculations for the long-term care sector will continue to be prepared separately. The provisions of the circular entered into force in Q1 2020 by way of retrospective application. It is emphasized that all the effects of the Circular were expressed in the life assurance sector and the Circular had no effect on the Group's other activities and sectors. The effect of the retrospective application on results for the corresponding quarter last year and the results for 2019 as a whole is an increase in comprehensive income in the life assurance sector of NIS 55 million before tax (NIS 36 million after tax), and NIS 329 million before tax (NIS 218 million after tax), respectively. The effect of the retrospective application on retained earnings as at January 1, 2020, is an increase of NIS 464 million after tax. For additional information see Note 2C to the Financial Statements.

2.1.3 Restructuring - merger of Standard into Harel Insurance

On approval of the merger in which all the Company's holdings in Standard will be transferred to Harel Insurance against an allocation of shares of Harel Insurance to the Company, see Note 10 to the Financial Statements.

2.1.4 Publication of a shelf prospectus of Harel Financing & Issuing

On the publication of a shelf prospectus of Harel Financing & Issuing in February 2020, see Note 9 to the Financial Statements.

2.2 Material changes in the Group's business and events after the Reporting Period

2.2.1 Restructuring - Harel Pension & Provident

On completion of the restructuring in which the rights of Harel Insurance in the customer portfolios and the goodwill of the provident activity were transferred to Harel Pension & Provident, which was immediately followed by the transfer of all the holdings of Harel Insurance in Harel Pension & Provident to the Company, see Note 10 to the Financial Statements.

2.2.2 Effect of the spread of the COVID-19 pandemic on the Company’s activity

On the effect of the spread of the COVID-19 pandemic on the Company’s activity, see Section 2.1.1 above.

2.2.3 Establishment of Israel Infrastructure Fund 4 ("IIF 4")

On the establishment of IIF 4 fund and investments by the subsidiaries in this fund, see Note 10 to the Financial Statements.

2.2.4 Agreement between Harel Insurance and Hachshara Insurance Company Ltd.

On Harel Insurance entering into an agreement with Hachshara Insurance Company Ltd., see Note 10 to the Financial Statements.

2.2.5 Full early redemption of bonds (Series 4) of Harel Financing & Issuing

On a full early redemption of Series 4 bonds that were issued by Harel Financing & Issuing, see Note 6C to the Financial Statements.

2.2.6 Annual and Special General Meeting

On May 31, 2020, an annual general meeting of the Company took place, with the following items on the agenda: (1) discussion of the Periodic Report for 2019; (2) appointment of external auditors for 2020 and appointing 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, Josef Ciechanover and Eli Defes); (4) approval of the terms of office of Ben Hamburger who serves as Deputy Chairman of the Board of Directors; (5) appointment of Naim Najar as an external director in the Company. The general meeting approved all the items that were on the agenda.

2.2.7 Decline of the interest rate curve

In the period after the reporting date and up to close to the date of publication of the financial statements, the interest rate curve declined which could lead to a further increase in the insurance liabilities. In contrast, a further decline of the interest rate curve might have a positive impact on the value of the financial assets in a manner that could reduce this aforesaid impact. Additionally, application of the draft circular which was published on May 18, 2020, concerning a revision of the provisions of the Consolidated Circular - allocation of assets not at their fair value when calculating the adequacy of the reserves (LAT), and application of a circular published on June 7, 2020 concerning an amendment of the provisions of the Consolidated Circular on the measurement of liabilities - liquidity premium (see also Sections 2.4.1.1.1 and 2.4.1.2.1 below) and other circulars, if and when they are published, might reduce the aforementioned effect. It should be noted that the information described above is not an estimate of the Company's projected financial results. This information is only partial and it does not include other components of profit or loss from investments and other effects.

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 outbreak of the COVID-19 pandemic in Q1 2020 and its worldwide spread caused far-reaching measures to be taken by most governments around the world that limited economic activity and caused an immediate slowdown. It is still too difficult to estimate the intensity of the economic damage but global output is expected to shrink in 2020 by an exceptional rate and global trade is also expect to drop sharply, but the range of the forecasts is extremely broad. The International Monetary Fund predicts that global output will contract by 3% and the GDP of the developed countries by 6.1% and that this will be the worst year since the 1930s.

China's GDP shrank by 6.8% in the first quarter, compared with the corresponding quarter last year, the first such decline since the 1970s.

The spread of the crisis led to a sharp policy response by central banks and governments. Most of the central banks cut interest rates sharply and introduced a range of stimulus measures as well as injecting liquidity into the markets. Governments announced broad-ranging plans to expand public expenditure, compensate those affected by the crisis and provide credit for the business sector. The slowdown of economic activity led to a sharp drop in commodity prices, with the price of oil plummeting by tens of percent, even as the key oil producing nations failed to reach agreement over a cut in production.

2.3.2 Developments in the Israeli economy

The COVID-19 crisis brought growth to a sudden standstill and in March 2020 the economy shrank, with a million workers claiming unemployment benefits in March. According to the Central Bureau of Statistics, unemployment in the first quarter dropped to 3.5%, but it is important to note that according to the definitions, the vast majority of employees who were placed on unpaid leave during March are considered to be employees who are temporarily absent from their jobs.

According to the Bank of Israel forecast, GDP is expected to contract by 5.3% in 2020, assuming that no further restrictions are set in place and that most restrictions will be lifted gradually by the end of June 2020.

According to initial estimates, GDP contracted at an annual rate of 7.1% in Q1 2020, the sharpest quarterly decline since the 1980s.

2.3.3 Stock market

In Q1 2020, stock markets in the main economies fell at an extraordinary rate (mainly in March 2020), with prices falling by 30%. These rates were partially offset by the stimulus measures introduced by the central banks and governments. Yields in the government and corporate bond markets were extremely volatile and the risk margins rose sharply.

In the first quarter, the MSCI World Index fell by 21% and the corresponding index for emerging markets fell by 24%. In Israel, the TA-125 index and TA-35 index fell by 21%.

The average daily turnover of trade in shares in the first quarter (mainly in March) was NIS 2.2 billion, an increase of 91% compared with the corresponding quarter last year.

2.3.4 Bond market

In Q1 2020, the general bond index was 4.5% down, the government bond index was down 1.9% and corporate bond index was 8.2% down. Falling bond indices were more significant until the Bank of Israel announced, in March 2020, that it would begin to purchase government bonds on the secondary market.

The average daily turnover of trade in bonds increased significantly in the first quarter (mainly in March) to NIS 5 billion, a 42% increase compared with the corresponding quarter last year.

2.3.5 Mutual funds

In Q1 2020, significant net redemptions of NIS 39.3 billion were recorded in the mutual funds sector. There were net redemptions of NIS 26.3 billion in the mutual funds specializing in bonds, as well as redemptions of NIS 5.3 billion in the money-market funds.

2.3.6 ETFs

In Q1 2020, net redemptions of NIS 7.4 billion were recorded in the ETFs, mainly in the ETFs specializing in foreign shares (NIS 6.8 billion).

2.3.7 Foreign exchange market

In Q1 2020 the shekel strengthened by 0.8% against the Bank of Israel’s basket of currencies; it depreciated 3.2% against the US dollar, 0.6% against the Euro and appreciated 3.5% against the Pound Sterling.

In March 2020, the shekel depreciated sharply, reaching a new low on March 18 (12% depreciation against the dollar from the beginning of the year) due to pressure for dollar liquidity. The Bank of Israel’s announcement that it would inject dollars into the banking system through swap tenders, helped rapidly offset part of the shekel depreciation.

2.3.8 Inflation

According to the last known index, the CPI declined by 0.5% in Q1 2020 (December 2019 - February 2020) and inflation in the last 12 months until February was just 0.1%, below the inflation target. In Q1 2020, housing was the main contributor to rising prices, while clothing, shoes, transportation and communications were the main contributors to lower prices.

2.3.9 Bank of Israel interest

The Bank of Israel interest rate remained unchanged at 0.25% in Q1 2020. In March 2020, the Bank of Israel introduced expansionist monetary measures in light of the COVID-19 pandemic: it announced that it would launch a government-bond purchasing program in the secondary market totaling NIS 50 billion with the purpose of easing credit conditions in the economy, give financial institutions access to Repo transactions, and expand the volume of activity in shekel/dollar swaps vis-a-vis the domestic banking system by up to USD 15 billion, in order to ease the strong dollar liquidity pressures.

2.3.10 Events after the date of the report

The Bank of Israel lowered the interest rate to 0.1%. Additionally, the Bank of Israel will provide loans to banks at attractive rates for 3 years, provided that the money is used for credit for small businesses, and in the framework of the Repo transactions that the Bank introduced with the financial institutions, it will also be possible to use corporate bonds as collateral.

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 Circulars

2.4.1.1.1 On June 7, 2020, the Commissioner published a circular concerning an amendment to the provisions of the Consolidated Circular on the Measurement of Liability - Liquidity Premium according to which a liquidity premium at various rates can be added to the risk-free interest rate applied in calculating the adequacy of the reserves (LAT). The circular sets an individual rate for the liquidity premium to be used in calculating the LAT for personal lines long-term care policies and for compulsory motor and liabilities insurance.

2.4.1.1.2 In March and April 2020, the Commissioner published several circulars and draft circulars aimed at providing regulatory relief for this period of the outbreak of the COVID-19 pandemic, including adjusting implementation of the regulatory provisions so as to streamline their application by the companies and insured as necessary when dealing with the restrictions on movement and activity in this period. This includes, among other things, the publication of a draft that proposes continuing to deduct insurance cover even after the period of the deposits has ended, unless the member instructs otherwise, and as applicable even without reference to a wage reduction, as well as circulars that determine an option to deduct an external management fee for an investment in ETFs held for trading; an option to place non-life insurance policies on hold, at the insured's request, or to renew the insurance cover as noted before obtaining the insured's agreement; relief for members to provide confirmation of life; relief relating to various provisions concerning the work of the board of directors; an option to increase the percentage of loans to insureds from the insured's surrender value; expansion of the range of deviation from the investment policy from which a deviation will be considered a change in the investment policy; flexibility regarding the format and scope of the economic analysis required prior to making purchases of bonds on the secondary market and postponing the date on which projected current analyses are to be updated; flexibility in determining alternative policy with respect to the purchase of bonds on the secondary market; deferment of the dates of implementation of various circulars that require, *inter alia*, automation deployment; deferment of the various dates for submitting information and reports to the Commissioner, including extending the time period for reporting about a deviation from the investment rates, as well as deferment of the date of publication and reporting of periodic reports for the first quarter of 2020 by pension funds, management companies and insurance companies.

2.4.1.1.3 On April 2, 2020, the Commissioner published a circular concerning an amendment to the Consolidated Circular - Chapter 4, Section 2, Part 5 "Management of Investment Assets". The circular prescribes the conditions in which an institutional investor who gains the controlling interest in a lending corporation or holds more than 20 percent of the means of control in a lending corporation, as a result of obtaining the means of control in a lending corporation through a debt arrangement, to continue to control or hold the lending corporation at this rate; the circular also prescribes a temporary order whereby institutional investors are entitled to deduct external management fees, under the conditions set out in the circular, on an investment in ETFs held for trading, that are purchased between the date of publication of the circular and June 30, 2020, until no later than December 31, 2020.

2.4.1.1.4 On March 29, 2020, the Commissioner published a circular concerning an amendment to the provisions of the Consolidated Circular on the measurement of liabilities - Liability Adequacy Test (LAT), which updates the way in which the different insurance products will be allocated for the purpose of calculating the LAT, while making localized adjustments to the way in which the calculation is prepared in Israel, and it determines that the test will be calculated by grouping together all life assurance products although calculations for the long-term sector will continue to be made separately. On the effect of the circular, see Section 2.1.2 above.

2.4.1.1.5 On March 8, 2020, the Commissioner published a circular amending the provisions of the Consolidated Circular on Measurement and Liabilities - Interest Rate Assumption. The circular determines that for the purpose of calculating the assumed interest rate and yield, based on the risk-free interest rate curve at the date of the report, as required, from the financial statements at December 31, 2019, insurance companies will use a curve based on interest rate curves which are based on the yield to redemption of marketable Israel government bonds which are published by the company that is awarded the price quote tender, and this up to the 25th year, and from that year on the interest rate curves will be determined by extrapolation based on the Smith-Wilson method up to the last Ultimate Forward Rate (UFR) to be set for 60 years. From this point on, the forward rate will be fixed. See Note 3C1(I)) to the 2019 financial statements.

2.4.1.1.6 On January 13, 2020, a circular was published concerning an amendment to the provisions of the Consolidated Circular regarding transactions between related parties, which updates the provisions of Chapter 4, Part 2, Section 5 - Management of Investment Assets, and, subject to certain conditions, allows transactions to be performed for the purchase and sale of a non-marketable asset between the institutional investors included in that group of investors, and provided that the transaction is for the benefit of all the institutional investors included in that group.

2.4.1.2 Draft circulars

2.4.1.2.1 On May 18, 2020, the Commissioner published a draft circular updating the provisions of the Consolidated Circular - Allocation of assets that are not at fair value when reviewing the LAT. The purpose of the update is to provide clarifications on the method of implementing the provisions pertaining to insurance companies' right to account for the difference between the amortized cost and the fair value of assets, other than earmarked bonds, that are not recorded in the statement of financial position at fair value, when preparing the LAT (Unrealized Gains & Losses - “UGL”).

2.4.1.2.2 On April 23, 2020, the Commissioner published a second draft circular concerning an amendment to the Consolidated Circular on provisions for implementation of the solvency ratio of insurance companies based on Solvency II, further to a letter published on February 16, 2020 - see Section 2.4.1.3.7. The draft circular proposes prescribing transitional provisions similar to the format set out in the European Directive, and, subject to obtaining the Commissioner’s approval, to allow the reserves in respect of long-term insurance products that were sold in the past to be gradually increased until 2032, where the Commissioner may limit his approval for this arrangement according to a formula that he sets out. The draft circular also proposes updating the provisions of the circular on the basis of the changes made in Europe since the entering into force of the directive and related provisions that are relevant to the Israeli market.

2.4.1.3 Instructions and clarifications

2.4.1.3.1 On June 7, 2020, the Commissioner published a roadmap for the adoption of IFRS 17 - *Insurance Contracts* (“the Standard” or “IFRS 17”). The roadmap determines that the initial date of application of the Israeli standard will apply for quarterly and annual periods commencing January 1, 2023. The roadmap also determines the key preparatory measures and time tables the purpose of which is to ensure deployment by Israel’s insurance companies for the proper application of IFRS 17, including with respect to adapting and operating their information systems, project management and documentation, the formulation of accounting policy, performing quantitative tests and the required methods of disclosure to the public. For additional information, see Note 3T3 to the 2019 financial statements.

2.4.1.3.2 On April 23, 2020, the Commissioner published a document concerning a "Red Flag Outline" - Provision of Credit to Solvent Companies due to the Repercussions of the COVID-19 pandemic: proposed guidelines for an outline for the modification and temporary postponement of payment schedules for loans and bonds, which were provided by financial institutions under these circumstances. The purpose of the document is to highlight the importance of dialog between financial institutions and solvent borrowers who have encountered temporary difficulties, to present a "green track" for adjusting the debt accordingly and to set out guidelines for the formulation of an outline for the modification and temporary postponement of payment schedules for loans and bonds, whether private or listed for trade, that were provided by the saving public's portfolios and Nostro portfolios managed by the financial institutions under the supervision of the Capital Market Authority, all in addition to the debts of financial institutions that formulate such an outline.

2.4.1.3.3 On April 16, 2020, the Commissioner published a letter to insurance company executives concerning "Principles for the calculation of a deduction for the transitional period in the solvency ratio regime based on Solvency II - draft". The draft letter sets out principles for calculating the deduction in the transitional period to be considered by the Commissioner when reviewing an insurance company's request to approve inclusion of the deduction in the transitional period when calculating the insurance reserves, as the second insurance circular proposes allowing the insurance companies ("the Request") - see Section 2.4.1.2.3, as well as related instructions for the conduct of insurance companies whose Request was approved by the Commissioner.

2.4.1.3.4 On April 6, 2020, the Commissioner published a position paper concerning a policy for providing a permit for holding the means of control in a financial institution to entities that manage customers' funds. The position proposes amending the policy for granting a permit to hold the means of control in a financial institution in which none of the holders of the means of control are obligated to hold a control permit under the provisions of the Supervision Laws for institutions that manage customers' funds (CM- 2019-8386), so that it will apply to the holding of a financial institution irrespective of whether or not it is a financial institution in which none of the holders of the means of control are obligated to hold a control permit or it is a financial institution with a controlling shareholder, so that the policy will apply to the holding of a financial institution irrespective of whether it is a financial institution with or without a controlling shareholder, in part so that the determination that the recipient of a holding permit will not hold more than 7.5% of the means of control in a financial institution will also apply to the recipient of a permit for holding a financial institution with a controlling shareholder,, directly and indirectly, and subject to obtaining the holding permit from the Commissioner of the Capital market Authority.

2.4.1.3.5 On April 2, 2020, the Commissioner published an instruction concerning a temporary provision: Notice of the Commissioner of the Capital market, Insurance and Savings on approval for investments in special cases, which determines that financial institutions that invest in marketable bonds that are not State of Israel bonds or marketable commercial papers of the issuer, up to 25 percent of the total par value of the bonds in that series or of marketable commercial papers in that series, will be eligible to invest an additional 24 percent of the total par value of the bonds, provided that the investment is made from the funds of the institutional investor, all up to September 30, 2020 or the date of expiry of the Emergency Regulations (New limitation on the number of employees in a work place to reduce the spread of the new COVID-19 virus), 2020, or any other legislation that may replace it, whichever is earlier.

2.4.1.3.6 On March 17, 2020, the Commissioner published a letter to financial institution directors concerning the COVID-19 crisis - Announcement by the Commissioner of the Capital Market of a shift by the financial institutions to working in a limited format. According to the letter, from March 18, 2020, financial institutions must operate in accordance with the provisions of Financial Institutions Circular 2013-9-11 “Business Continuity in Financial Institutions”, with several emphases, including the allocation of appropriate resources so as to continue to provide services for customers in essential processes; reinforcing the ability to provide digital and telephone services; the possibility of limiting reception hours to essential services that cannot be performed on digital and telephone channels; taking measures to mitigate the risk of contagion for customers and employees, and expanding remote work by critical employees, while managing the risks entailed in this.

2.4.1.3.7 On February 16, 2020, the Commissioner published a letter for insurance company executives on a Draft outline for implementation of the Solvency II Directives in the European format according to which the Capital Market, Insurance and Savings Authority intends to work towards adapting the solvency regime in Israel to the Solvency II Directive and updates. The letter sets out the key operations that the authority proposes should be performed for this purpose, including formulating a framework for implementing the provisions concerning the gradual increase of the insurance reserves as well as proposed provisions concerning reports on an economic solvency regime required in the near future.

2.4.2 Life assurance and long-term savings

2.4.2.1 Provisions of law

On November 28, 2019, draft Supervision of Financial Services (Provident Funds) (Direct Expenses for Performing Transactions) (Temporary Provision) Regulations, 2019, were published, which propose extending until the end of 2021 the Supervision of Financial Services (Provident Funds) (Direct Expenses for Performing Transactions) (Amendment) Regulations, 2018, in which the temporary provision which defines additional categories of direct expenses for performing transactions in provident fund assets and limiting certain expenses to 0.25% of the total revalued amount of the institutional investor’s assets, was extended to the end of 2019 (“the Temporary Provision”).

On January 2, 2020, the Capital Market, Insurance and Savings Authority published a letter of clarification that under the provisions of Section 38 of the Basic Law: the Knesset, the temporary provision will remain in force until three months have passed from the date of convening the 23rd Knesset.

2.4.2.2 Draft circular

On February 25, 2020, the Commissioner published a draft circular concerning the settlement of work disability claims which proposes prescribing provisions for regulating the settlement of work disability claims by insurance companies. Among other things, the draft circular proposes prescribing a limitation on the documents that insureds are required to provide; appointing a personal service representative for the insured; reducing the time frame for handing a claim; provisions relating to providing a professional opinion by the Company's doctor; defining two external appeal instances for insureds who wish to appeal the company's decision, and provisions concerning a list of service providers for medical consultations.

2.4.3 Health insurance

2.4.3.1 Circular

On June 7, 2020, the Commissioner published a circular concerning an amendment to the provisions of the Consolidated Circular - Section 6, Part 3, Chapters 2, 3 and 4 - Personal Accident Insurance, which prescribes provisions aimed at regulating the personal accident sector. The circular determines that, other than in exceptional cases, the marketing of insurance cover for accidents will be sold as a stand-alone personal accident policy only, which will include a basic layer of all the coverages (death, permanent disability, fractures and burns, hospitalization days and sick days); a standard definition of an "accident"; a policy period of no more than two years; transitional provisions concerning the manner of enrolling in the policy, including a requirement for additional specific approval after the sales call ends; the policy will be marketed directly and exclusively by insurance companies or licensees, and not incidental to the sale of any other insurance or transaction, except for marketing it as a rider to a life assurance policy, and that for the purpose of settling a disability claim in the policy, an expert opinion from the NII determining disability will be the effective opinion unless an examination by a specialist on behalf of the Company contradicts the findings in the expert opinion.

2.4.3.2 Draft circular

On February 24, 2020, the Commissioner published draft Supervision of Financial Services (Insurance) (Group Long-term care Insurance for HMO Members (Amendment) Regulations, 2020 which proposes amending the provisions of the Supervision of Financial Services (Insurance) (Group Long-term care Insurance for HMO Members) Regulations, 2015 and also determining, *inter alia*, the possibility of marketing additional layers, second or third layers ("expanded layer") in group long-term care policies for HMO members who purchase additional benefits based on the insured's age at the time of enrollment in the expanded layer and will extend the period of entitlement to insurance benefits for 96 months or life, as applicable.

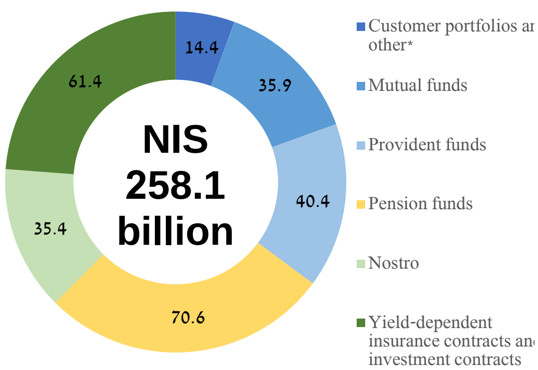
2.4.4 Financial services and capital market activity

In view of the COVID-19 pandemic and its impact on the markets, the Securities Authority published relief for the entities supervised by the ISA. Relief was provided for fund managers regarding deviation from the statutory provisions or from the fund's investment policy, on the restriction on the banks to for dispersal of funds, credit leverage restriction, the value of time limited deposits, exposure to bonds that have no investment rating, deferment of reporting dates, reporting on the revaluation of bonds, etc. Relief was provided for portfolio managers regarding the quarterly reports to be sent to customers, the quarterly report to be submitted to the ISA, opening a bank account not on the bank's premises, clarifying the customer's requirements and instructions, documenting consultation calls, and performing specialization.

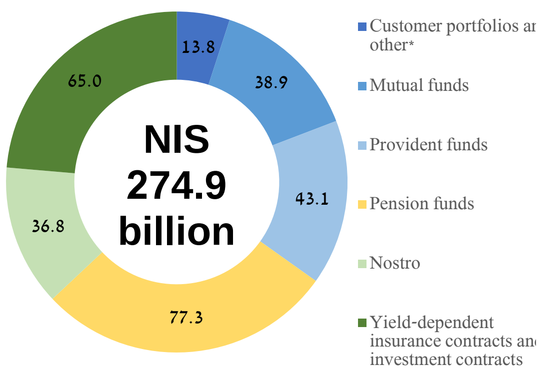
2.5 Condensed data from the consolidated financial statements of Harel Investments

Assets managed by the Group:

As at March 31, 2020:



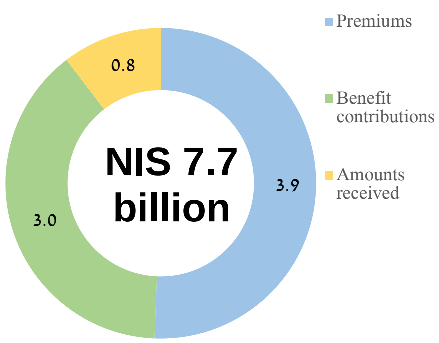
As at June 8, 2020:



*Customer and other portfolios - "other" includes structured bonds and private equity funds in the amount of NIS 1.8 billion (NIS 1 billion as at June 8, 2020).

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.

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



Amounts received in respect of investment contracts are not included within 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 investment contract reserves amounted to NIS 804 million, compared with NIS 795 million in the corresponding period last year.

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

	Notes	For the three months ended March 31		% change	For the year ended December 31
		2020	2019		2019
Life assurance and long-term savings					
Life assurance	A	(118)	168*	-	419*
Pension	B	11	20	(45)	74
Provident	B	8	15	(47)	60
Total life assurance and long-term savings segment		**(99)**	**203**	**-**	**553**
Non-life insurance					
Compulsory motor	C	(30)	15	-	190
Motor property	D	18	52	(65)	159
Property and other branches	D	14	25	(44)	113
Other liabilities branches	C	(77)	(29)	-	28
Mortgage insurance		(4)	19	-	68
Total non-life insurance segment		**(79)**	**82**	**-**	**558**
Health insurance	E	(352)	107	-	(262)
Insurance companies overseas		(8)	6	-	19
Financial services	F	16	5	-	29
Not attributed to segments of operation		(332)	149	-	468
Total before tax		**(854)**	**552**	**-**	**1,365**
Tax expenses (benefit)		(299)	176	-	387
Other comprehensive income (loss) after tax		**(555)**	**376**	**-**	**978**
Return on Equity in annual terms		(33%)	*24%		*15%

* See Section 2.1.2 above concerning the retrospective application of an insurance circular.

Results in the Reporting Period were affected by investment losses in the capital market resulting from the outbreak of the COVID-19 pandemic, compared with investment profits in the corresponding period last year, by changes in the risk-free interest rate curve and a decrease in the difference between the fair value and book value of non-marketable assets.

For additional information in connection with special effects on profit (loss), see the table in Section 2.5.2.

A. Life assurance - results in the Reporting Period were mainly affected by investment losses as described above, and by the non-collection of variable management fees due to negative yields on the assets held to cover yield-dependent liabilities, as against variable management fees of NIS 71 million that were collected in the corresponding period last year. For additional information, see the table in Section 2.5.2.

B. Income from fixed management fees alone amounted to NIS 109 million in the Reporting Period, as against income of NIS 171 million from fixed and variable management fees in the corresponding period last year. Pursuant to the mechanism for collecting management fees as set forth in the legislative arrangement, variable management fees will not be collected in respect of yield-dependent policies which were sold between 1991 and 2003, until investment profits are attained in respect of assets held against yield-dependent liabilities, which will cover the accrued investment losses. At March 31, 2020, the estimate for the non-collection of management fees due to the negative yield until a cumulative positive yield is attained was NIS 290 million. Notably, in the period after the reporting date and up to immediately prior to the date of publication of the financial statements, following the rising prices in the capital market, the estimate for the non-collection of management fees was reduced to NIS 78 million.

C. Pension and provident - results in the Reporting Period were mainly affected by investment losses as described above, and by the erosion in the management fees rate.

D. Compulsory motor and motor liabilities branches - results in the Reporting Period were mainly affected by investment losses as described above, and by a decrease in the insurance liabilities resulting from an increase in the risk-free interest rate curve. For additional information, see the table in Section 2.5.2.

E. Motor property (CASCO) and other property sectors - results in the Reporting Period were mainly affected by investment losses as described above, and by winter losses in January - February 2020.

F. Health segment - results in the Reporting Period were mainly affected by investment losses as described above and by an increase of the insurance liabilities due to changes in the risk-free interest rate curve and a decrease in the difference between the fair value and book value of non-marketable assets. For additional information, see the table in Section 2.5.2.

G. Financial services segment - results in the Reporting Period were affected by significant profit in market-making activity in the mutual funds. This effect was partially offset by recording an impairment write-down which was recognized in the period in respect of portfolio management activity. For additional information, see the table in Section 2.5.2.

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

		For the three months ended March 31			For the year ended December 31
	Notes	2020	2019	Change	2019
Comprehensive income (loss) for the period as published in the financial statement		(555)	376*	(931)	978*
Life assurance and long-term savings					
Effects of the interest rate	A	92	(4)*	96	(120)*
Application of a circular on revised mortality tables	B	-	-	-	(91)
Revised cancellation assumptions	C	-	-	-	(27)
Health insurance					
LAT and the effects of interest	D	(181)	(13)	(168)	(926)
Revised assumptions in personal lines health liabilities	E	-	-	-	112
Application of a circular on revised mortality tables	B	-	-	-	70
Non-life insurance					
Effects of the interest rate	F	63	(99)	162	(183)
Effect of the Supreme Court ruling regarding the discounting rate	G	-	-	-	260
Financial services segment					
Impairment of goodwill for portfolio management activity	H	(5)	-	(5)	-
Total effects, before tax		(31)	(116)	85	(905)
Effect of tax		(11)	(40)	29	(309)
Total effects, after tax		(20)	(76)	56	(596)
Total comprehensive income (loss) after adjustment for special effects		(535)	452	(987)	1,574

* See Section 2.1.2 above concerning the retrospective application of an insurance circular.

A. Results in the Reporting Period were affected by a revision of the discounting interest rate used in calculating annuity reserves in payment; as a result the insurance liabilities decreased by NIS 92 million before tax. In the corresponding period last year, an increase of NIS 4 million was recorded in the insurance liabilities, due to a revision of the discounting interest rate used to calculate the reserve for work disability claims in payment. In 2019, an increase of NIS 120 million was recorded in the insurance liabilities, mainly due to a revision of the discounting interest rate used to calculate the reserve for annuities in payment.

B. The results for 2019 were influenced by the implementation of an insurance circular on "Amendment of the Provisions of the Consolidated Circular on the Measurement of Liability - Update of the demographic assumptions in life assurance and updated model for mortality improvements for insurance companies and pension funds" ("the Circular"). Following implementation of the Circular, in 2019 an increase of NIS 91 million was recorded in the life assurance and long-term savings segment, and the insurance liabilities in the health insurance segment decreased by NIS 70 million.

C. The results for 2019 were affected by a revised study in connection with the rate of cancellations for insureds who are expected to exercise their entitlement to an annuity (take-up rate). Due to this revision, an increase of NIS 27 million before tax was recorded in the insurance liabilities.

D. In the Reporting Period, an increase of NIS 181 million was recorded in the insurance liabilities in the personal lines long-term care sector due to changes in the risk-free interest rate curve and a decrease in the difference between the fair value and book value of non-marketable assets. In the corresponding period last year and in 2019, an increase of NIS 13 million and NIS 926 million, respectively, was recorded in the insurance liabilities in the long-term care sector due to a decline in the risk-free interest rate curve.

E. In 2019, Harel Insurance completed several studies in connection with the cost of claims in the personal lines health sector on coverages for medications, ambulatory care and surgery. Due to these revisions, a decrease of NIS 112 million was recorded in the insurance liabilities.

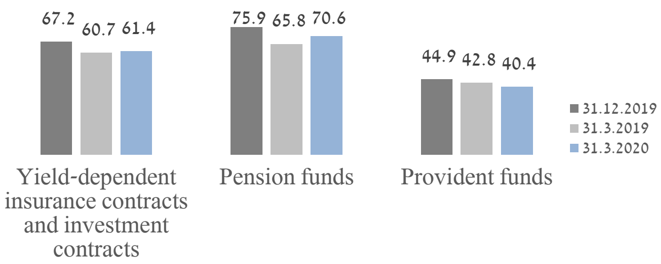
F. The results of the report were affected by an increase of the risk-free interest rate curve, as a result of which the insurance liabilities increased by NIS 63 million before tax (of which NIS 34 million was in the compulsory motor sector and NIS 29 million was in the liabilities and other sectors). Results in the corresponding period last year and in 2019 were affected by a decline in the risk-free interest rate curve as a result of which the insurance liabilities increased by NIS 99 million (of which NIS 33 million was in the compulsory motor sector and NIS 66 million was in the liabilities and other sector) and NIS 183 million (of which NIS 56 million was in the compulsory motor sector and NIS 127 million was in the other liabilities sector), respectively.

G. Results for 2019 were affected by the Supreme Court decision concerning the discounting interest rate for compensation on account of personal injury in torts. As a result of the court's decision, a decrease of the insurance liabilities of NIS 260 million was recorded (of which NIS 158 million was in the compulsory motor sector and NIS 102 million was in the liabilities and others sector).

H. In the wake of the COVID-19 crisis and the large volume of redemptions in portfolio management activity, Harel Finance and the Company assessed the recoverable amount of this activity. Based on a valuation prepared by an external appraiser as at March 31, 2020 to examine the recoverable amount of the portfolio management activity, the Company reduced the value of this activity by NIS 5 million before tax.

2.6 Other key information and effects 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):



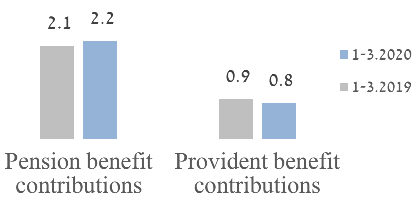
Pension funds – the decrease in AUM in the current period is mainly attributable to capital market yields.

Provident funds* - most of the decrease in AUM in the current period is attributable to 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 145 million, mainly in respect of Amendment no. 190 to the Income Tax Ordinance, compared with NIS 260 million in the corresponding period last year.

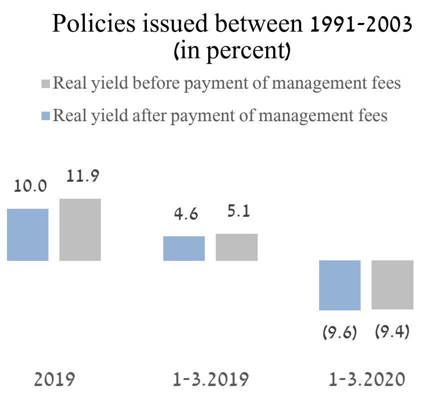
Pension - the increase in benefit contributions compared with the corresponding period last year is mainly attributable to the enrollment of new members and an increase in the deposits for existing customers.

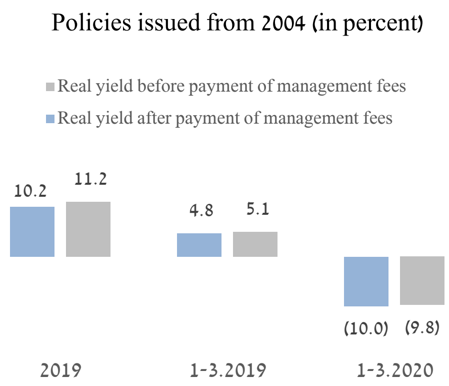
The benefit contributions in the provident funds and pension funds are not included in the Company's consolidated financial statements.

2.6.3 Life assurance

In the Reporting Period, redemptions as a percentage of the average reserve amounted to 3.7%, compared with 2.8% in the corresponding period last year and 3% in 2019.

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 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 three months ended March 31		For the year ended December 31
	2020	**2019**	**2019**
Profit (loss) after management fees	(5,944)	2,208	5,292
Total management fees	109	171	693

2.6.4 Pension funds

The nominal yield attained by the new pension fund Harel Pension in the Reporting Period was a negative yield of 9.39%.

Total management fees collected from the pension funds managed by the Group amounted to NIS 82 million in the Reporting Period, compared with NIS 80 million in the corresponding period last year.

2.6.5 Provident funds

The net accrual (excluding investment profit) in the provident funds in the Reporting Period was a negative NIS 616 million, as against positive accrual of NIS 432 million in the corresponding period last year.

Income from management fees collected from the pension funds managed by the Group amounted to NIS 62 million in the Reporting Period, as against NIS 63 million in the corresponding period last year.

2.6.6 Health insurance

Harel Insurance is the insurer in the group LTC policy for members of Clalit Health Services. In addition to the group LTC policy for members of Clalit Health Services, Harel provides long-term care insurance for several other groups.

In 2019 Harel Insurance announced that due to the conditions of the existing LTC policies, which in practice incorporate in their tariffs a guaranteed yield and which the Company is unable to commit to for long periods under present market conditions, and due to the fact that the reinsurers who were active in this sector have announced a discontinuation of their activity in this sector, it was decided to discontinue the sale of new personal lines LTC policies. Harel Insurance will work to obtain approval from the Commissioner of the Capital Market to market new policies that are compatible with the current market situation.

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 three months ended March 31		For the year ended December 31
	2020	2019	2019
Compulsory motor	2%	(14%)	(14%)
Motor property (CASCO)	9%	0%	3%
Property and other branches	(2%)	5%	3%
Other liabilities branches	(3%)	3%	2%

Number of policies in terms of exposure - non-life insurance activity typically involves policies for a period of up to a year. In view of the nature of the policies, quantity is a multiple of the number of policies within the policy period during the year. In other words, if underwriting is carried out for a policy with a period 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. The number of policies in the Reporting Period was partly affected by the fact that two groups (car fleets) did not renew their compulsory motor policies with the Company.

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, compared with 32% of the scope of motor property insurance and compulsory motor insurance for state employees in 2018. The results of the tender are not expected to significantly affect the Company's performance.

2.6.7.1 Compulsory motor

For additional information about the results for compulsory motor insurance, see Sections 2.5.1 and 2.5.2 above.

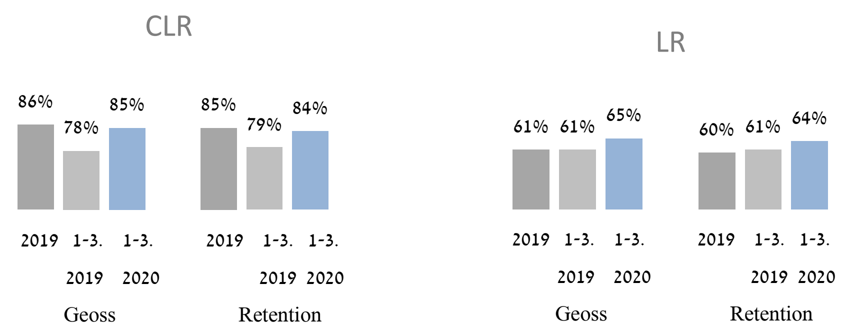
Given that car owners must insure their vehicles in accordance with the Motor Vehicle Insurance Ordinance, the owners of vehicles (usually motorcycles) who were rejected by the insurance companies may purchase insurance through the Pool (Israel pool for vehicle insurance), which operates as an insurance 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 share of the Pool's losses pro rata to its share of the compulsory motor insurance market for the previous year. A letter from the Pool's CEO set the Company's temporary share of Harel Insurance in the net premiums for 2020 at 12.15% (compared with 12.19% which was the Company's final share for 2019).

Results in the Reporting Period were affected by yields in the capital market which were negative, compared with positive yields in the corresponding period last year. In contrast, results in the Reporting Period were affected by a NIS 34 million decrease of the insurance liabilities due to an increase in the interest rate curve.

2.6.7.2 Motor property

Results in the Reporting Period were affected by winter losses in January - February 2020, offset by a reduction in the number of claims, attributable to the lockdown imposed on the economy as a result of the COVID-19 pandemic.

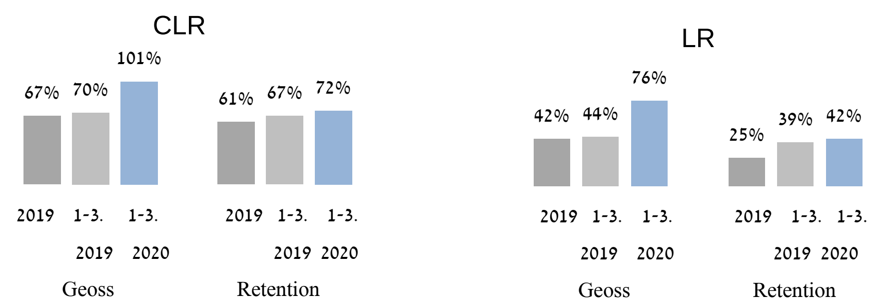
Loss ratio (LR) and combined loss ratio (CLR) in motor property insurance:



2.6.7.3 Property and other branches

Results in the Reporting Period compared with the corresponding period last year can be explained by the negative development of claims due to winter losses, most of which are covered by reinsurance treaties.

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



2.6.7.4 Other liabilities branches

For information about the results for liabilities and other insurance, see Sections 2.5.1 and 2.5.2 above.

2.6.7.5 Credit insurance for mortgages

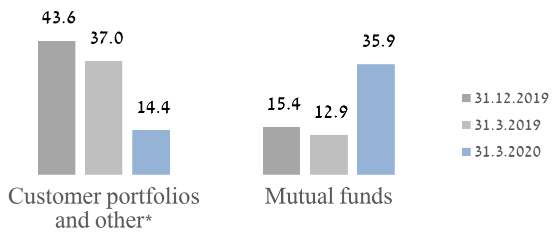
The premiums earned in credit insurance for residential mortgages are not for new sales, but in respect of sales made in the past and for which the premiums are recognized as earned premiums based on the period of coverage. In this sector, EMI has no reinsurance agreements.

2.6.8 Insurance companies overseas

The Company is the controlling shareholder (with a 94% stake) in 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 operate in the non-life insurance and health insurance sectors.

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.

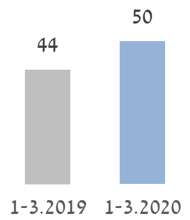
Revenues in the capital market and financial services segment amounted to NIS 66 million in the Reporting Period, compared with NIS 48 million in the corresponding period last year.

*Customer portfolios and other - "other" includes structured bonds and private equity funds in the amount of NIS 1.8 billion (NIS 1 billion as at June 8, 2020).

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

Mutual fund assets include mutual funds, ETFs and certificates of deposit (CDs)

Management fees in the financial services segment (NIS million):



2.7 Liquidity and sources of finance

2.7.1 Cash flows

Net cash flows provided by operating activities amounted to NIS 285 million in the Reporting Period. Net cash flows used in investment activity amounted to NIS 78 million. Net cash flows used in financing activity were NIS 8 million. The effect of fluctuating exchange rates on the cash balances was a positive NIS 11 million. The outcome of all the above activity is an increase of NIS 210 million in the cash balances.

2.7.2 Liquidity and financing of operations

The Company and its subsidiaries generally finance their ongoing operations from their own sources.

While assessing the liquidity risk, it was found that the COVID-19 crisis did not significantly affect the Company's liquidity, financial robustness and the sources of financing available to it.

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

Changes in the Board of Directors

On March 31, 2020, Mr. Udi Nissan completed three years of service as an external director in the Company.

Pursuant to the provisions of the circular "Board of Directors of a Financial Institution", an external director of a company may not serve as an independent director of a subsidiary that is a financial institution. On April 1, 2020, Mr. Udi Nissan began a second term of office as an independent director of Harel Insurance and he was therefore forced to step down as an external director in the Company.

On May 31, 2020, an Annual General Meeting of the Company took place at which the appointment of Mr. Naim Najar was approved as an external director in the Company. On June 1, 2020, Mr. Naim Najar took up his position as an external director in the Company.

5 Disclosure concerning the economic 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 on the Basis of 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 by all EU member states. This circular imposed on the Harel Insurance the obligation to maintain an economic solvency regime.

In November 2018, Harel Insurance received the Commissioner's approval for the audit that was conducted by the external auditors in accordance with the Commissioner's said instructions. The external auditor's audit was performed in accordance with ISAE 3400. As a direct consequence, and in view of the repeal of the old Capital Regulations, from December 2018 the new capital requirements concerning an economic solvency regime are the only capital requirements that obligate the Company under the Supervision of Financial Services (Insurance) Law, 1981.

The capital surplus of Harel Insurance as at June 30, 2019, on a consolidated basis and before the transitional provisions (in terms of 100% SCR) is NIS 780 million. The solvency report and submittal of the Solvency reporting files to the Commissioner as at December 31, 2019, will be published, in accordance with the directives, by August 31, 2020.

Notably, the model in its current format is extremely sensitive to changes in market and other variables, such as changes in the interest rate, changes in investment profits, revised actuarial assumptions and changes relating to the Company's activity. According to the Company's initial estimate of these changes, up to and after the date of the annual calculation, there is no significant impact on the Company's solvency ratio, but at this stage, the Company is unable to estimate the full effect, given that it has yet to complete the calculation for the solvency report as at December 31, 2019.

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, 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", according to its definition in Section 32A of the Securities Law, 1968. It is possible that all or some of these forecasts, assessments and estimates will not materialize or they may materialize differently from the manner assumed in calculating the Solvency Report. Actual performance may therefore differ from the forecast.

At June 30, 2019, transitional provisions are in place according to which Harel Insurance must meet 70% of the total capital requirements. The capital required to ensure the solvency of insurance companies will increase gradually by 5% each year, until the full SCR is reached in December 2024 (“the Transitional Period”). Furthermore, there is relief in respect of the capital requirements for equity risk.

Information about the solvency ratio and minimum capital requirement (MCR) at June 30, 2019, based on the directives in the Solvency circular published on June 1, 2017:

A. Solvency ratio

	June 30, 2019	December 31, 2018
	NIS million	NIS million
	(Unaudited)	(Audited)
Own funds in relation to the solvency capital requirement (SCR)	**12,244**	11,852
Solvency capital requirement (SCR)	**11,464**	9,940
Surplus (*)	**780**	1,912
Solvency ratio	**107%**	119%

(*) The results do not include a change in equity from the cutoff date to the date of initial publication (December 2019) resulting from Tier-2 capital raised in the amount of NIS 800 million (of this amount, the Company has issued capital of NIS 454 million over and above the limit for recognized Tier-2 capital). For information about these capital raisings, see Note 25(K) to the annual financial statements.

Taking into account the aforementioned capital changes (from the cutoff date until the initial date of publication - December 2019), the capital surplus at June 30, 2019, would have increased by NIS 346 million to NIS 1,126 million, and the solvency ratio at June 30, 2019, would have been 110%.

Compliance with milestones in the Transitional Period:

	June 30, 2019	December 31, 2018
	NIS million	NIS million
	(Unaudited)	(Audited)
Equity (own funds) for the purpose of solvency capital requirement (SCR) in the Scheduling Period	**11,765**	11,551
Solvency Capital Requirement in the Transitional Period	**7,522**	6,663
Surplus in the Transitional Period	**4,243**	4,888

B. Minimum Capital Requirement (MCR)

	June 30, 2019	December 31, 2018
	NIS million	NIS million
	(Unaudited)	(Audited)
Minimum Capital Requirement (MCR)	**2,264**	2,173
Equity for the purpose of MCR	**8,457**	8,654

The data presented above were prepared in accordance with the Commissioner's directives as they were known at the time of preparing the Report. It is emphasized that other factors might also significantly affect the reporting results, and notwithstanding the final instructions, companies were informed that the treatment of these instructions has not yet been finally determined and is subject to change depending on the outcome of the discussions between the Commissioner and the insurance companies in Israel.

On February 16, 2020, a letter was published for insurance company executives concerning a "Draft outline for implementation of the Solvency II Directives in the European Format" ("the Draft"). The Draft states that the Capital Market, Insurance and Savings Authority intends to work towards adapting the solvency regime in Israel to the Solvency II directives and updates. The Draft sets out the key milestones that the authority intends to carry out for this purpose as well as provisions concerning reports on an economic solvency regime required in the near future. For information about the Draft clauses, see Note 8 to the Financial Statements.

On April 23, 2020, the Commissioner published a second draft amendment to the Consolidated Circular on the implementation of an economic solvency regime for insurance companies based on Solvency II" ("the Additional Draft"). According to the Additional Draft, the transitional provisions will be adapted to the format set out in the European Directive, with an option to gradually increase the reserves in respect of long-term insurance products that were sold in the past, until 2032. The Additional Draft also includes updates to the provisions of the Circular based on changes that were made in Europe and are relevant to the Israeli market. Additionally, on April 16, the Commissioner published a draft setting out the principles for calculating the deduction during the transitional period according to the transitional instructions adjusted to the European Directive. The aforementioned drafts are still being discussed with the Commissioner and the final format of the changes is, as yet, unknown.

Creation of a safety net

The Board of Directors of Harel Insurance approved a policy for the creation and updating of a safety net in accordance with Section 1(A)(2) of a letter addressed to the insurance company executives published by the Commissioner of the Capital Market, Insurance and Savings on October 1, 2017.

The safety net is an increasing safety net, to be formulated gradually over time and at the end of the adjustment period (2024) it will be NIS 1.15 billion. The purpose of the safety net is to allow Harel Insurance to cope with crises without significantly affecting its operations and its compliance with the applicable capital requirements.

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

June 10, 2020

HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at March 31, 2020

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arbaa Street, P.O. Box 609
Tel-Aviv 61006
03 684 8000

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

Foreword

We have 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 March 30, 2020 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three months ended on that date. The Board of Directors and management are responsible for the preparation and presentation of the interim financial information in accordance with International Accounting Standard IAS 34 "Interim Financial Reporting", and they are also responsible for the preparation of interim financial information 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 about this 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 3.7% of all the consolidated assets as at March 31, 2020 and whose revenues included in the consolidation comprise (10.6%) of all the consolidated revenues (expenses) for the three months ended on that date. Furthermore, we did not review the condensed interim financial information of equity accounted investees, in which the investment is NIS 121 million as at March 31, 2020, and the Group's share of their losses is NIS 3 million for the three months 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 2410 of the Institute of Certified Public Accountants in Israel "Review of Interim Financial Information Performed by the Entity's Auditor". A review of interim financial information consists of clarifications, mainly with persons responsible for financial and accounting matters, and applying analytical review procedures. A review is considerably more limited in scope than an audit performed in accordance with generally accepted auditing standards in Israel, and it therefore does not enable us to be certain that we were 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 material 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 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.

Without qualifying our abovementioned conclusions, we direct attention to Note 7A in the above-mentioned financial information regarding the Group's exposure to contingent liabilities.

Somekh Chaikin
Certified Public Accountants
June 10, 2020

Condensed consolidated interim statements of financial position at

	31 March		December 31
	2020	2019	2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Intangible assets	**1,728**	1,608	1,685
Deferred tax assets	**16**	11	12
Deferred Acquisition Costs	**2,551**	2,515	2,495
Fixed assets	**1,401**	1,381	1,399
Investments in equity accounted investees	**1,438**	1,456	1,437
Investment property for yield-dependent contracts	**1,766**	1,644	1,769
Other investment property	**2,094**	1,872	2,058
Reinsurance assets	**4,275**	4,421	4,281
Current tax assets	**6**	19	13*
Trade and other receivables	**1,411**	991	1,337
Premium due	**1,540**	1,533	1,428
Financial investments for yield-dependent contracts	**55,259**	55,895	61,562
Other financial investments			
Marketable debt assets	**10,667**	8,901	11,309
Non-marketable debt assets	**15,320**	13,680	14,842
Shares	**1,462**	1,111	1,277
Other	**2,567**	2,702	2,860
Total other financial investments	**30,016**	26,394	30,288
Cash and cash equivalents for yield-dependent contracts	**3,343**	2,444	2,897
Other cash and cash equivalents	**1,820**	1,349	2,056
Total assets	**108,664**	103,533	114,717
Total assets for yield-dependent contracts	**61,428**	60,679	67,202

* Retrospective application of a new insurance circular - see Note 2C

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

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

	31 March		December 31
	2020	2019	2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Equity and liabilities			
Equity			
Share capital and share premium	**359**	359	359
Treasury stock	**(123)**	(123)	(123)
Capital reserves	**538**	589	957
Surpluses	**5,573**	5,711*	5,709*
Total equity attributed to shareholders of the Company	**6,347**	6,536	6,902
Non-controlling interests	**18**	6	18
Total equity	**6,365**	6,542	6,920
Liabilities			
Liabilities for non-yield-dependent insurance contracts and investment contracts	**28,984**	27,884*	28,619*
Liabilities for yield-dependent insurance contracts and investment contracts	**60,570**	60,144	66,539
Deferred tax liabilities	**886**	953	1,182*
Liabilities for employee benefits, net	**268**	262	282
Current tax liabilities	**51**	213*	45*
Trade and other payables	**3,347**	3,095	3,693
Financial liabilities	**8,193**	4,440	7,437
Total liabilities	**102,299**	96,991	107,797
Total equity and liabilities	**108,664**	103,533	114,717

* Retrospective application of a new insurance circular - see Note 2C

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

Date of approval of the financial statements: June 10, 2020

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

Condensed Consolidated Interim Statements of Comprehensive Income

	For the three months ended March 31		For the year ended
	2020	2019	2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Premiums earned, gross	3,947	3,696	15,104
Premiums earned by reinsurers	413	428	1,745
Earned premiums in retention	3,534	3,268	13,359
Profit (Loss) from investments, net, and financing income	(6,412)	2,931	7,921
Income from management fees	304	360	1,487
Income from commissions	85	94	358
Total income (expenses)	(2,489)	6,653	23,125
Payments and changes in liabilities for insurance contracts and investment contracts, gross	(3,010)	5,741**	19,834**
Reinsurers' share of payments and change in liabilities for insurance contracts	314	381	1,229
Payments and changes in liabilities for insurance contracts and investment contracts in retention	(3,324)	5,360	18,605
Commissions, marketing expenses and other purchasing expenses	686	664	2,729
General and administrative expenses	306	301	1,211
Other expenses	9	4	16
Financing expenses, net	54	22	163
Total expenses (income)	(2,269)	6,351	22,724
Company's share of profits of equity accounted investees	4	8	160
Profit (loss) before taxes on income	(216)	310	561
Income tax (tax benefit)	(81)	89**	104**
Profit (Loss) for period	(135)	221	457
Attributed to:			
Shareholders of the Company	(135)	221	457
Non-controlling interests	-*	-*	-*
Profit (loss) for the period	(135)	221	457
Basic and diluted earnings (loss) per share (NIS)	(0.63)	1.03**	2.13**

* Less than NIS 1 million

** Retrospective application of a new insurance circular - see Note 2C

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

Condensed Consolidated Interim Statements of Comprehensive Income

	For the three months ended March 31		For the year ended
	2020	2019	2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profit (loss) for the period	**(135)**	221**	457**
Other items of comprehensive income (loss) that after initial recognition as part of comprehensive income were or will be transferred to profit or loss			
Net change in the fair value of financial assets classified as available-for-sale	**(714)**	305	950
Net change in fair value of financial assets classified as available-for-sale carried over to income statement	**(41)**	(27)	(127)
Loss from impairment of available-for-sale financial assets transferred to income statement	**88**	3	31
Foreign currency translation differences for foreign activities	**20**	(37)	(69)
Tax benefit (income tax) attributable to available-for-sale financial assets	**226**	(97)	(291)
Tax benefit (income tax) for other items of comprehensive income that after initial recognition as part of comprehensive income were or will be transferred to profit or loss	**(6)**	9	13
Total other comprehensive income (loss) for the period that after initial recognition as part of comprehensive income was or will be transferred to profit or loss, net of tax	**(427)**	156	507
Other items of comprehensive income (loss) that will not be transferred to profit or loss			
Revaluation reserve for fixed asset items	**10**	3	26
Re-measurement of a defined benefit plan	**(1)**	(5)	(7)
Tax benefit (income tax) for other items of comprehensive income that will not be transferred to profit or loss	**(2)**	1	(5)
Other comprehensive income (loss) for the period that will not be transferred to profit or loss, net of tax	**7**	(1)	14
Total other comprehensive income (loss)	**(420)**	155	521
Total comprehensive income (loss) for period	**(555)**	376	978
Attributed to:			
Shareholders of the Company	**(555)**	376	978
Non-controlling interests	**-***	-*	-*
Total comprehensive income (loss) for period	**(555)**	376	978

* Less than NIS 1 million

** Retrospective application of a new insurance circular - see Note 2C

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 stock	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 March 31, 2020 (Unaudited)											
Balance as at January 1, 2020	359	875	(145)	1	(123)	(49)	275	5,709**	6,902	18	6,920
Comprehensive income (loss) for period											
Loss for the period	-	-	-	-	-	-	-	(135)	(135)	-*	(135)
Other comprehensive income (loss)	-	(441)	14	-	-	-	8	(1)	(420)	-*	(420)
Total comprehensive income (loss) for period	-	(441)	14	-	-	-	8	(136)	(555)	-	(555)
Balance as at March 31, 2020	359	434	(131)	1	(123)	(49)	283	5,573	6,347	18	6,365

* Less than NIS 1 million

** Retrospective application of a new insurance circular - see Note 2C

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 stock	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 March 31, 2019 (Unaudited)											
Balance as at January 1, 2019	359	312	(89)	1	(123)	(49)	256	5,493**	6,160	6	6,166
Comprehensive income (loss) for period											
Profit for the period	-	-	-	-	-	-	-	221**	221	-*	221
Other comprehensive income (loss)	-	184	(28)	-	-	-	2	(3)	155	-*	155
Total comprehensive income (loss) for period	-	184	(28)	-	-	-	2	218	376	-*	376
Balance as at March 31, 2019	359	496	(117)	1	(123)	(49)	258	5,711	6,536	6	6,542

* Less than NIS 1 million

** Retrospective application of a new insurance circular - see Note 2C

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 stock	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, 2019 (Audited)											
Balance as at January 1, 2019	359	312	(89)	1	(123)	(49)	256	5,493**	6,160	6	6,166
Comprehensive income (loss) for year											
Profit for the year	-	-	-	-	-	-	-	457**	457	-*	457
Other comprehensive income (loss)	-	563	(56)	-	-	-	19	(5)	521	-*	521
Total comprehensive income (loss) for the year	-	563	(56)	-	-	-	19	452	978	-*	978
Transactions with shareholders recognized directly in equity											
Dividend distributed	-	-	-	-	-	-	-	(236)	(236)	-	(236)
Non-controlling interests in respect of a consolidated subsidiary that was established	-	-	-	-	-	-	-	-	-	12	12
Balance as at December 31, 2019	359	875	(145)	1	(123)	(49)	275	5,709	6,902	18	6,920

* Less than NIS 1 million

** Retrospective application of a new insurance circular - see Note 2C

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

Harel Insurance Investments & Financial Services Ltd.

Condensed consolidated interim statements of cash flows

	Annex	For the three months ended March 31		For the year ended
		2020	2019	2019
		(Unaudited)	(Unaudited)	(Audited)
		NIS million	NIS million	NIS million
Cash flows from operating activity				
Before taxes on income	A	275	(443) [1]*	(175) [1]
Income tax received (paid)		10	(68)	(186)
Net cash from (used for) operating activities		285	(511)	(361)
Cash flows from investing activity				
Investment in investees		(5)	(9)	(118)
Proceeds from the sale of an investment in an equity accounted investee		25	60	132
Investment in fixed assets		(22)	(19)	(51)
Investment in intangible assets		(79)	(66)	(252)
Dividend and interest from investees		3	9	193
Proceeds from sale of fixed assets and intangible assets		-	-	1
Net cash used for investment activity		(78)	(25)	(95)
Cash flows from financing activity				
Proceeds of issuance of liability notes, net		-	-	1,384
Payment for purchase of ETNs and covered warrants, net		-	(33)	(33)
Short-term credit from banks, net		1	(120)	(121)
Repayment of loans from banks and others		-	(152)	(224)*
Loans received from banks and others		-	-	190*
Repayment of lease liabilities		(9)	-	(31)
Dividend paid to the Company's shareholders		-	(107)*	(343)
Net cash from (used for) financing activity		(8)	(412)	822
Effect of exchange rate fluctuations on cash balances and cash equivalents		11	37*	(117)
Net increase (decrease) in cash and cash equivalents		210	(911)	249
Retained cash and cash equivalents at beginning of the period	B	4,953	4,704	4,704
Retained cash and cash equivalents at end of the period	C	5,163	3,793	4,953

* Reclassified

[1] Retrospective application of a new insurance circular – see Note 2C

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

	For the three months ended March 31		For the year ended
	2020	2019	2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Annex A - Cash flows from operating activities before taxes on income (1), (2), (3)			
Profit (loss) for the period	**(135)**	221 [1]	457 [1]
Items that do not involve cash flows:			
Company's share of profits of equity accounted investees	**(4)**	(8)	(160)
Net losses (profits) from financial investments for yield-dependent insurance contracts and investment contracts	**6,504**	(2,441)	(5,285)
Losses (profits) net, from other financial investments			
Marketable debt assets	**38**	42	1
Non-marketable debt assets	**35**	31	11
Shares	**75**	(25)	(48)
Other investments	**253**	(283)	(542)
Financing expenses (income) for financial liabilities, net	**359**	(468)	905
Change in fair value of investment property for yield-dependent contracts	**6**	(4)	(113)
Change in fair value of other investment property	**(35)**	(19)	(172)
Depreciation and amortization			
Fixed assets	**23**	28	118
Intangible assets	**36****	36	145
Change in liabilities for non-yield-dependent insurance contracts and investment contracts	**403**	685 [1]*	1,482 [1]
Change in liabilities for yield-dependent insurance contracts and investment contracts	**(5,969)**	3,402	9,797
Change in reinsurance assets	**(3)**	(116)	9
Change in DAC	**(59)**	(44)	(29)
Income tax expenses (income)	**(81)**	89 [1]	104 [1]
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	**(3)**	(12)	(28)
Net acquisitions of financial investments	**(22)**	(1,506)	(4,269)
Other financial investments and investment property			
Purchase of investment property	**(1)**	(6)	(39)
Net acquisitions of financial investments	**(696)**	(253)	(3,102)
Premiums due	**(120)**	(110)	(18)
Trade and other receivables	**56**	419	86
Cash and cash equivalents pledged for holders of ETNs	**-**	35	35
Trade and other payables	**(370)**	(139)*	471
Liabilities for employee benefits, net	**(15)**	3*	9
Total adjustments required to present cash flows from operating activities	**410**	(664)	(632)
Total cash flows from (used for) operating activity before taxes on income	**275**	(443)	(175)
Material non-cash activity			
Initial application of IFRS 16	**-**	63	63

* Reclassified

** Including impairment of NIS 5 million of goodwill and branding in respect of portfolio management activity.

[1] Retrospective application of a new insurance circular - see Note 2C.

(1) Cash flows from operating activities include the purchase and sale, net, of financial investments and investment property, attributable to activity for insurance contracts and investment contracts.

(2) As part of the operating activities, interest received in the amount of NIS 216 million was presented (for the three months ended March 31, 2019, an amount of NIS 324 million, and for 2019 as a whole, NIS 835 million) and interest paid in the amount of NIS 1 million (for the three months ended March 31, 2019, an amount of NIS 2 million and for 2019 as a whole, NIS 160 million).

(3) As part of the operating activities, a dividend received from other financial investments was presented in the amount of NIS 59 million (for the six months ended March 31, 2019 an amount of NIS 39 million and for 2019 as a whole, NIS 295 million).

	For the three months ended March 31		For the year ended
	2020	2019	2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Annex B - Cash and cash equivalents at beginning of period			
Cash and cash equivalents for yield-dependent contracts	**2,897**	3,083	3,083
Other cash and cash equivalents	**2,056**	1,621	1,621
Retained cash and cash equivalents at beginning of the period	**4,953**	4,704	4,704
Annex C - Cash and cash equivalents at end of period			
Cash and cash equivalents for yield-dependent contracts	**3,343**	2,444	2,897
Other cash and cash equivalents	**1,820**	1,349	2,056
Retained cash and cash equivalents at end of the period	**5,163**	3,793	4,953

Note 1 - General

A. 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. The Company's 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 March 31, 2020, include those of the Company and its consolidated 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 the assets, liabilities and operations of the consolidated insurance companies and were therefore prepared in a format similar to the format used for preparing interim financial statements of insurance companies.

B. Outbreak of the COVID-19 pandemic

Following the outbreak of the COVID-19 pandemic in the first quarter of 2020 (“the COVID-19 Crisis”), many countries around the world, Israel included, introduced a range of measures to reduce exposure to the virus, including restrictions on movement and large gatherings of people, limiting manpower in the work place, establishing guidelines for the isolation of people who may have been infected and the closure of leisure and entertainment venues.

The outbreak of the virus and the protective measures detailed above caused significant economic damage resulting in negative trends in both the global and Israeli economy. The Company believes that the COVID-10 Crisis is an evolving event and there is no certainty regarding its date of termination and extent of its impact on the Group’s assets and performance.

In the wake of the COVID-19 crisis, in the first quarter of 2020 prices plummeted in the capital markets worldwide and in Israel, foreign exchange rates fluctuated wildly and yields on corporate bonds rose due to the increase in the level of risk and uncertainty.

As a result of these falling prices, in Q1 2020 the Company recognized pre-tax investment losses in the Nostro of NIS 820 million (these losses include impairment of NIS 80 million before tax in respect of non-marketable assets as detailed below). Notably, in the period after the date of the report date and up to immediately prior to the date of publication of the financial statements, prices rose on the capital markets, completely offsetting the Nostro investment losses.

Additionally, the value of the Group’s AUM declined by NIS 25 billion compared with the end of 2019. Notably, in the period after the date of the report and up to immediately prior to the date of publication of the financial reports, prices on the capital markets rose which significantly offset the decrease in the value of the AUM held by the Group from NIS 25 billion as noted above, to NIS 8 billion.

Furthermore, pursuant to the mechanism for collecting management fees prescribed in the legislative arrangement, insurance companies cannot collect variable management fees in respect of yield-dependent policies sold between 1991 and 2003, until investment profits are attained in respect of the assets held to cover yield-dependent liabilities, which are sufficient to cover the accrued investment losses. According to the mechanism described above, due to real negative yields on profit sharing policies that were sold between 1991 and 2003, Harel Insurance did not collect variable management fees from the beginning of 2020, but only recorded fixed management fees. Harel Insurance will not be able to collect variable management fees until a real positive yield is attained to cover the investment losses accumulated to the policyholders’ debit. At March 31, 2020, the estimate for the non-collection of management fees on account of the negative yield until a cumulative positive yield is attained was NIS 290 million before tax. Notably, in the period after the date of the report, and up to immediately prior to the date of publication of the financial statements, following price increases in the capital market, the estimate for management fees that will not be collected was reduced from NIS 290 million, as noted above, to NIS 78 million before tax.

It is emphasized that that the foregoing regarding developments after the date of the report is based on the information in the Company’s possession close to the date of publication of the financial statements, and that these data are partial and do not include other components of investment income (losses) and the effect of the Group’s other activity on its equity and assets.

Note 1 – General (contd.)

B. Outbreak of the COVID-19 pandemic (contd.)

In the wake of the COVID-19 Crisis, in Q1 2020, there was an increase of redemptions of savings products, provident funds and education funds, insurance contracts and investment contracts. Notably, in the period after the date of the report and up to immediately prior to the date of publication of the financial statements, the volume of redemptions moderated and they returned to their normal pre-crisis levels.

Additionally, in Q1 2020, the demand to make changes in investment tracks for amounts managed in provident funds and education funds and also in the pension funds increased significantly, with the trend being a shift to low-risk channels. In the period after the date of the report and up to immediately prior to the date of publication of the financial statements, the trend reverted to general / share-based channels.

In the mutual funds sector, there was a marked increase in redemptions. Notably, in the period after the date of the report and immediately prior to the date of publication of the financial statements, the volume of mutual fund redemptions moderated and new amounts were raised.

In light of the strong volatility and lack of liquidity in the domestic capital market, in March 2020 and after the date of the report, requests were received to perform forced conversion of bonds that were issued by a second-tier subsidiary of Harel Finance. For additional information, see Note 9(3) to the Financial Statements.

In accordance with the Accounting Standards and a letter from the Capital Market, Insurance and Savings Authority dated April 19, 2020, and in accordance with the Company's procedures concerning calculation of the value of non-marketable assets, the Group assessed the value of non-marketable assets in which there were clear indications of material impairment, while applying reasonable professional discretion. The assessment of impairment included, *inter alia*, reviewing the Group's real-estate assets in Israel, including relying on professional opinions received from external appraisers concerning the discounting rate and the work assumptions on which the valuations were based. Additionally, an assessment of other financial investments was performed, including investment funds and real-estate abroad, based on the most up-to-date information available to the Company, including comments received from the asset and fund managers regarding indications of impairment. Following this assessment, in the Reporting Period Harel Insurance recorded an impairment of NIS 80 million before tax for non-marketable assets in the Nostro and NIS 160 million before tax for profit-sharing policies. Notably, this impairment of profit-sharing policies did not affect the results of operations in the financial statements.

Additionally, the Group examined the need to update its assessment of the impairment of intangible assets, including goodwill. A revision of the assessment of the impairment before a year has passed since the previous assessment is necessary for those activities in which there are indications of impairment due to the repercussions of the COVID-19 Crisis. After examining these indications and reviewing the recoverable amounts, as necessary, it was found that the recoverable amount of the pension, provident and education, mutual fund and mortgage insurance activity is higher than their book value and the impairment is unnecessary. Regarding the portfolio management activity, based on a valuation prepared by an external appraiser as at March 31, 2020, the Company reduced the value of this activity by NIS 5 million before tax (NIS 3 million after tax). The recoverable amount of the portfolio management activity was determined on the basis of estimated future cash flows from management fees net of management costs. The real discounting rate after tax used for discounting the cash flows, adjusted to the Company's specific risk, is 11% (9.7% in 2019). The cash flow forecasts were estimated by applying an annual long-term growth rate of 2% (2% in 2019)

Regarding the fixed asset balances and Deferred Acquisition Costs (DAC), the assessment performed by the Group showed that there are no indications of impairment, as noted above.

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 the Capital Market, Insurance and Savings ("the Commissioner") 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, 2019 ("the Annual Financial Statements"). Moreover, condensed consolidated interim financial 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 June 10, 2020.

B. Use of estimates and discretion

Preparation of the condensed consolidated interim financial statements in accordance with IAS 34 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 annual financial statements and excluding the information below, there was no change in the assumptions that significantly affects the reserves. In connection with the revised discounting interest rates applied in calculating the insurance liabilities, see Note 9(1) to the Financial Statements.

C. Retrospective application of a new insurance circular

On March 29, 2020, Insurance Circular 2020-1-5 was published concerning an amendment to the provisions of the consolidated circular on the measurement of liability - Liability Adequacy Test (LAT) (“the Circular”). The circular changes the grouping of insurance products so that the LAT can be calculated for the entire life assurance segment together. According to the circular, calculations for the long-term care sector will continue to be prepared separately. The provisions of the circular entered into force in Q1 2020 by way of retrospective application. Following are the effects of the Circular on the comparison figures in the Group’s consolidated, interim financial statements. It is emphasized that all the effects of the Circular were expressed in the life assurance sector and the Circular had no effect on the Group's other activities and sectors.

Note 2 - Basis of preparation (Contd.)

C. Retrospective application of a new insurance circular (Contd.)

1. Effect of the Circular on the financial position:

	As at March 31, 2019		
	As reported in the past (Unaudited)	The change	As reported in these financial statements
	NIS million	NIS million	NIS million
Liabilities			
Liabilities for non-yield-dependent insurance contracts and investment contracts	28,330	(446)	27,884
Current tax liabilities	49	164	213
Equity			
Surpluses	5,429	282	5,711

	As at December 31, 2019		
	As reported in the past (Unaudited)	The change	As reported in these financial statements
	NIS million	NIS million	NIS million
Liabilities			
Liabilities for non-yield-dependent insurance contracts and investment contracts	29,339	(720)	28,619
Deferred tax liabilities	1,133	49	1,182
Current tax liabilities	11	34	45
Assets			
Current tax assets	186	(173)	13
Equity			
Surpluses	5,245	464	5,709

2. Effect of the Circular on Equity:

	As at January 1, 2019		
	As reported in the past (Unaudited)	The change	As reported in these financial statements
	NIS million	NIS million	NIS million
Retained earnings	5,247	246	5,493

Note 2 - Basis of preparation (Contd.)

C. Retrospective application of a new insurance circular (Contd.)

3. Effect of the Circular on the Statement of Income and Other Comprehensive Income:

	For the three months ended March 31, 2019		
	As reported in the past (Unaudited)	The change	As reported in these financial statements
	NIS million	NIS million	NIS million
Payments and changes in liabilities for insurance contracts and investment contracts, gross	5,796	(55)	5,741
Taxes on income	70	19	89
Basic and diluted earnings per shares (NIS)	0.86	0.17	1.03

	For the year ended December 31, 2019		
	As reported in the past (Unaudited)	The change	As reported in these financial statements
	NIS million	NIS million	NIS million
Payments and changes in liabilities for insurance contracts and investment contracts, gross	20,163	(329)	19,834
Taxes on income (tax benefit)	(7)	111	104
Basic and diluted earnings per share (NIS)	1.11	1.02	2.13

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. The financial information is presented in NIS million and rounded to the nearest million.

E. Reclassification

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

Note 3 - Significant accounting policies

The Group's accounting policies in these condensed consolidated interim financial statements are the policies applied in the annual financial statements, except as noted in Note 2C.

A. New standards not yet adopted

Amendment to IAS 37 - Provisions, Contingent Liabilities and Contingent Assets - Costs of Fulfilling a Contract (“the Amendment”)

Under the Amendment, in assessing whether a contract is onerous, the costs of fulfilling the contract to be considered are those costs attributed directly to the contract, e.g.: incremental costs, as well as an allocation of other costs relating directly to fulfillment of the contract. The Amendment will be applied retrospectively from January 1, 2022, for contracts regarding which the obligation has not yet terminated. Early adoption is possible. At the time of application of the Amendment, comparison figures will not be restated but the opening balance of the surpluses on the initial date of application will be adjusted by the amount of the cumulative effect of the Amendment.

The Group has not yet begun to examine the effects of the Amendment on the financial statements.

B. 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 deposits 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 the illness and hospitalization branches, personal accident, long-term care, foreign workers, travel insurance and dental insurance. 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 treatments. 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.

Note 4 - Operating segments (Contd.)

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.

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 three months ended March 31, 2020 (Unaudited)							
	Life Assurance and Long-Term Savings	Health Insurance	Non-life insurance	Insurance companies overseas	Financial Services	Not attributed 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	1,714	1,247	853	134	-	-	(1)	3,947
Premiums earned by reinsurers	41	76	271	26	-	-	(1)	413
Premiums earned in retention	1,673	1,171	582	108	-	-	-	3,534
Net profits (losses) from investments and financing income	(5,825)	(471)	(40)	12	16	(104)*	-	(6,412)
Income from management fees	253	-	-	-	50	1	-	304
Income from commissions	13	4	55	5	-	55**	(47)	85
Total income (expenses)	(3,886)	704	597	125	66	(48)	(47)	(2,489)
Payments and changes in liabilities for insurance contracts and investment contracts, gross	(4,378)	714	547	108	-	-	(1)	(3,010)
Reinsurers' share in payments and changes in liabilities for insurance contracts	18	82	194	21	-	-	(1)	314
Payments and changes in liabilities for insurance contracts and investment contracts, in retention	(4,396)	632	353	87	-	-	-	(3,324)
Commission, marketing and other acquisition costs	276	250	151	28	-	28***	(47)	686
General and administrative expenses	151	69	7	6	42	31****	-	306
Other expenses	2	-	-	1	6	-	-	9
Financing expenses, net	-	3	14	-	2	35	-	54
Total expenses (income)	(3,967)	954	525	122	50	94	(47)	(2,269)
Company's share of profits (losses) of equity accounted investees	(4)	(2)	(2)	-	-	12	-	4
Profit (loss) before income taxes	77	(252)	70	3	16	(130)	-	(216)
Other comprehensive income (loss), before income tax	(176)	(100)	(149)	(11)	-	(202)	-	(638)
Total comprehensive income (loss) before income tax	(99)	(352)	(79)	(8)	16	(332)*****	-	(854)
Liabilities in respect of non-yield dependent insurance contracts and investment contracts	11,821	6,439	10,058	671	-	-	(5)	28,984
Liabilities in respect of yield dependent insurance contracts and investment contracts	55,572	4,998	-	-	-	-	-	60,570

* Total profit (loss) 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 51 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 22 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 NIS 7 million.

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Contd.)

	For the three months ended March 31, 2019 (Unaudited)							
	Life Assurance and Long-Term Savings	Health Insurance	Non-life insurance	Insurance companies overseas	Financial Services	Not attributed 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	1,548	1,195	825	129	-	-	(1)	3,696
Premiums earned by reinsurers	39	96	266	28	-	-	(1)	428
Premiums earned in retention	1,509	1,099	559	101	-	-	-	3,268
Net profit from investments and financing income	2,524	202	25	18	4	159*	(1)	2,931
Income from management fees	314	1	-	-	44	1	-	360
Income from commissions	11	16	55	6	-	55**	(49)	94
Total income	4,358	1,318	639	125	48	215	(50)	6,653
Payments and changes in liabilities for insurance contracts and investment contracts, gross	3,866 (1)	1,041	722	113	-	-	(1)	5,741
Reinsurers' share in payments and changes in liabilities for insurance contracts	46	106	194	36	-	-	(1)	381
Payments and changes in liabilities for insurance contracts and investment contracts, in retention	3,820	935	528	77	-	-	-	5,360
Commission, marketing and other acquisition costs	266	250	139	31	-	27***	(49)	664
General and administrative expenses	141	74	7	4	42	34****	(1)	301
Other expenses	2	-	-	1	1	-	-	4
Financing expenses (income), net	1	1	(10)	-	-	30	-	22
Total expenses	4,230	1,260	664	113	43	91	(50)	6,351
Company's share of profits of equity accounted investees	-	1	3	-	-	4	-	8
Profit (loss) before income taxes	128	59	(22)	12	5	128	-	310
Other comprehensive income (loss), before income tax	75	48	104	(6)	-	21	-	242
Total comprehensive income before income tax	203	107	82	6	5	149*****	-	552
Liabilities in respect of non-yield dependent insurance contracts and investment contracts	11,694 (1)	5,215	10,366	613	-	-	(4)	27,884
Liabilities in respect of yield dependent insurance contracts and investment contracts	55,153	4,991	-	-	-	-	-	60,144

(1) Retrospective application of a new insurance circular – see Note 2C.
* Total profit from investments is in respect of the assets held to covert the equity of the Group's financial institutions.
** Income from commissions includes commissions paid to insurance agencies owned by the Group. About NIS 49 million thereof are commissions paid to these agencies by 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 25 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 3 million.

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Contd.)

	For the year ended December 31, 2019 (Audited)							
	Life Assurance and Long-Term Savings	Health Insurance	Non-life insurance	Insurance companies overseas	Financial Services	Not attributed 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	6,255	4,922	3,405	526	-	-	(4)	15,104
Premiums earned by reinsurers	160	392	1,091	106	-	-	(4)	1,745
Premiums earned in retention	6,095	4,530	2,314	420	-	-	-	13,359
Net profit from investments and financing income	6,651	624	235	65	13	336*	(3)	7,921
Income from management fees	1,281	4	-	-	194	8	-	1,487
Income from commissions	37	68	205	22	-	210**	(184)	358
Total income	14,064	5,226	2,754	507	207	554	(187)	23,125
Payments and changes in liabilities for insurance contracts and investment contracts, gross	12,281 [1]	4,779	2,367	411	-	-	(4)	19,834
Reinsurers' share in payments and changes in liabilities for insurance contracts	112	404	638	79	-	-	(4)	1,229
Payments and changes in liabilities for insurance contracts and investment contracts, in retention	12,169	4,375	1,729	332	-	-	-	18,605
Commission, marketing and other acquisition expenses	1,038	962	698	114	-	101***	(184)	2,729
General and administrative expenses	561	275	35	26	172	145****	(3)	1,211
Other expenses	8	-	-	3	4	1***	-	16
Financing expenses (income), net	6	16	(27)	-	2	166	-	163
Total expenses	13,782	5,628	2,435	475	178	413	(187)	22,724
Company's share of profits of equity accounted investees	17	24	74	-	-	45	-	160
Profit (loss) before income taxes	299	(378)	393	32	29	186	-	561
Other comprehensive income (loss), before income tax	254	116	165	(13)	-	282	-	804
Total comprehensive income (loss) before income tax	553	(262)	558	19	29	468*****	-	1,365
Liabilities in respect of non-yield dependent insurance contracts and investment contracts	11,979 [1]	6,175	9,810	660	-	-	(5)	28,619
Liabilities in respect of yield dependent insurance contracts and investment contracts	61,137	5,402	-	-	-	-	-	66,539

(1) Retrospective application of a new insurance circular – see Note 2C.
* Total profit from investments is in respect of the assets held to covert the equity of the Group's financial institutions.
** Income from commissions includes commissions paid to insurance agencies owned by the Group. About NIS 182 million thereof are commissions paid to these agencies by 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 93 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 14 million.

Note 4 - Operating segments (Contd.)

B. Additional information about the non-life insurance segment

	For the three months ended March 31, 2020 (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	289	342	291	371	(1)	1,292
Reinsurance premiums	2	5	221	111	-	339
Premiums in retention	287	337	70	260	(1)	953
Change in outstanding unearned premium, in retention	131	131	15	97	(3)	371
Premiums earned in retention	156	206	55	163	2	582
Profits (losses) from investments, net, and financing income	(16)	(3)	2	(19)	(4)	(40)
Income from commissions	-	1	45	9	-	55
Total income (expenses)	140	204	102	153	(2)	597
Payments and changes in liabilities for insurance contracts, gross	86	138	181	151	(9)	547
Reinsurers' share of payments and change in liabilities for insurance contracts	(4)	4	158	36	-	194
Payments and changes in liabilities for insurance contracts in retention	90	134	23	115	(9)	353
Commissions, marketing expenses and other acquisition costs	18	39	59	35	-	151
General and administrative expenses	1	2	3	1	-	7
Financing expenses, net	5	1	-	8	-	14
Total expenses (income)	114	176	85	159	(9)	525
Company's share of losses of equity accounted investees	(1)	-	-	(1)	-	(2)
Profit (loss) before income taxes	25	28	17	(7)	7	70
Other comprehensive income before income tax	(55)	(10)	(3)	(70)	(11)	(149)
Total comprehensive income (loss) before income tax	(30)	18	14	(77)	(4)	(79)
Liabilities for insurance contracts, gross, as at March 31, 2020	2,724	649	1,002	5,407	276	10,058
Liabilities for insurance contracts, retention, as at March 31, 2020	2,621	635	178	3,363	276	7,073

* Property and other branches consist mainly of results from the property loss insurance and comprehensive homeowners branches, where the activity from these branches accounts for 77% of all premiums in these lines of business.

** Other liabilities branches consist mainly of third-party insurance and professional liability branches where the activity from these branches accounts for 80% of all premiums in these lines of business.

Note 4 - Operating segments (Contd.)

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

	For the three months ended March 31, 2019 (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	320	331	291	340	(1)	1,281
Reinsurance premiums	2	4	216	97	-	319
Premiums in retention	318	327	75	243	(1)	962
Change in outstanding unearned premium, in retention	169	139	18	81	(4)	403
Premiums earned in retention	149	188	57	162	3	559
Profits from investments, net, and financing income	8	2	3	8	4	25
Income from commissions	-	1	45	9	-	55
Total income	157	191	105	179	7	639
Payments and changes in liabilities for insurance contracts, gross	175	117	106	331	(7)	722
Reinsurers' share of payments and change in liabilities for insurance contracts	1	2	84	107	-	194
Payments and changes in liabilities for insurance contracts in retention	174	115	22	224	(7)	528
Commissions, marketing expenses and other acquisition costs	11	32	60	36	-	139
General and administrative expenses	1	2	1	2	1	7
Financing income, net	(4)	(1)	-	(5)	-	(10)
Total expenses (income)	182	148	83	257	(6)	664
Company's share of losses of equity accounted investees	1	-	-	2	-	3
Profit (loss) before income taxes	(24)	43	22	(76)	13	(22)
Other comprehensive income, before income tax	39	9	3	47	6	104
Total comprehensive income (loss) before income tax	15	52	25	(29)	19	82
Liabilities for insurance contracts, gross, as at March 31, 2019	2,866	691	941	5,544	324	10,366
Liabilities for insurance contracts, retention, as at March 31, 2019	2,712	671	195	3,227	324	7,129

* Property and other branches consist mainly of results from property loss insurance and comprehensive homeowners insurance, where the activity from these branches accounts for 75% of total premiums earned from these branches.

** Other liabilities branches include mainly results from third-party insurance and professional liability which account for 80% 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, 2019 (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	647	854	983	968	(4)	3,448
Reinsurance premiums	7	13	755	316	-	1,091
Premiums in retention	640	841	228	652	(4)	2,357
Change in outstanding unearned premium, in retention	26	36	(1)	(5)	(13)	43
Premiums earned in retention	614	805	229	657	9	2,314
Profits from investments, net, and financing income	83	18	15	101	18	235
Income from commissions	-	5	160	40	-	205
Total income	697	828	404	798	27	2,754
Payments and changes in liabilities for insurance contracts, gross	492	498	413	997	(33)	2,367
Reinsurers' share of payments and change in liabilities for insurance contracts	(9)	15	357	275	-	638
Payments and changes in liabilities for insurance contracts in retention	501	483	56	722	(33)	1,729
Commissions, marketing expenses and other acquisition costs	101	198	234	165	-	698
General and administrative expenses	8	9	8	7	3	35
Financing income, net	(11)	(2)	(1)	(13)	-	(27)
Total expenses (income)	599	688	297	881	(30)	2,435
Company's share of the profits of equity accounted investees	30	6	2	36	-	74
Profit (loss) before taxes on income	128	146	109	(47)	57	393
Other comprehensive loss before income tax	62	13	4	75	11	165
Total comprehensive income before taxes on income	190	159	113	28	68	558
Liabilities for insurance contracts, gross, as at December 31, 2019	2,662	539	884	5,437	288	9,810
Liabilities for insurance contracts, retention, as at December 31, 2019	2,545	526	158	3,306	288	6,823

* Property and other branches consist mainly of results of property loss insurance and comprehensive homeowners insurance, where the activity from these branches accounts 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 77% 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 three months ended March 31, 2020 (Unaudited)				For the three months ended March 31, 2019 (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	-	-	1,714	1,714	-	-	1,548	1,548
Premiums earned by reinsurers	-	-	41	41	-	-	39	39
Earned premiums in retention	-	-	1,673	1,673	-	-	1,509	1,509
Profit (loss) from investments, net, and financing income	-	-	(5,825)	(5,825)	-	-	2,524	2,524
Income from management fees	62	82	109	253	63	80	171	314
Income from commissions	-	-	13	13	-	-	11	11
Total income (expenses)	62	82	(4,030)	(3,886)	63	80	4,215	4,358
Payments and changes in liabilities for insurance contracts and investment contracts, gross	1	3	(4,382)	(4,378)	1	3	3,862*	3,866
Reinsurers' share of payments and change in liabilities for insurance contracts	-	-	18	18	-	-	46	46
Payments and changes in liabilities for insurance contracts and investment contracts in retention	1	3	(4,400)	(4,396)	1	3	3,816	3,820
Commissions, marketing expenses and other acquisition costs	25	31	220	276	24	30	212	266
General and administrative expenses	24	33	94	151	22	30	89	141
Other expenses	2	-	-	2	2	-	-	2
Financing expenses, net	-	-	-	-	-	-	1	1
Total expenses (income)	52	67	(4,086)	(3,967)	49	63	4,118	4,230
Company's share of profits (losses) of equity accounted investees	-	-	(4)	(4)	-	-	-	-
Profit before taxes on income	10	15	52	77	14	17	97	128
Other comprehensive income (loss(before taxes on income	(2)	(4)	(170)	(176)	1	3	71	75
Total comprehensive income (loss) before taxes on income	8	11	(118)	(99)	15	20	168	203

* Retrospective application of a new insurance circular – see Note 2C

Note 4 - Operating segments (Contd.)

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

	For the year ended December 31, 2019 (Audited)			
	Provident	Pension	Life assurance	Total
	NIS million	NIS million	NIS million	NIS million
Premiums earned, gross	-	-	6,255	6,255
Premiums earned by reinsurers	-	-	160	160
Earned premiums in retention	-	-	6,095	6,095
Profit from investments, net, and financing income	-	2	6,649	6,651
Income from management fees	257	331	693	1,281
Income from commissions	-	-	37	37
Total income	257	333	13,474	14,064
Payments and changes in liabilities for insurance contracts and investment contracts, gross	2	13	12,266*	12,281
Reinsurers' share of payments and change in liabilities for insurance contracts	-	-	112	112
Payments and changes in liabilities for insurance contracts and investment contracts in retention	2	13	12,154	12,169
Commissions, marketing expenses and other acquisition costs	99	128	811	1,038
General and administrative expenses	91	122	348	561
Other expenses	7	1	-	8
Financing expenses, net	-	-	6	6
Total expenses	199	264	13,319	13,782
Company's share of profits of equity accounted investees	-	-	17	17
Profit before taxes on income	58	69	172	299
Other comprehensive income before taxes on income	2	5	247	254
Total comprehensive income before taxes on income	60	74	419	553

* Retrospective application of a new insurance circular – see Note 2C

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 three months ended March 31, 2020 (Unaudited)				NIS million			
Gross premiums	23	227	-	1,130	295	41	1,716
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees	-	-	-	-	-	-	(2)
Total	-	-	-	-	-	-	1,714
Amounts received for investment contracts recognized directly in insurance reserves	-	-	-	804	-	-	804
Financial margin including management fees - in terms of comprehensive income (2)	(114)	32	1	77	-	-	(4)
Payments and changes in liabilities for insurance contracts, gross	76	(2,053)	(137)	(966)	114	22	(2,944)
Payments and change in liabilities for investment contracts	-	-	(1)	(1,437)	-	-	(1,438)
Total comprehensive income (loss) from life assurance business	(144)	(22)	77	6	(40)	5	(118)

(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.)

	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 three months ended March 31, 2019 (Unaudited)				NIS million			
Gross premiums	25	231	-	964	286	44	1,550
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(2)
Total							1,548
Amounts received for investment contracts recognized directly in insurance reserves	-	-	11	784	-	-	795
Financial margin including management fees - in terms of comprehensive income (2)	73	101	(16)	70	-	-	228
Payments and changes in liabilities for insurance contracts, gross	88*	1,246	66	1,651	187	52	3,290
Payments and change in liabilities for investment contracts	-	-	(3)	575	-	-	572
Total comprehensive income (loss) from life assurance business	76*	84	(15)	46	(15)	(8)	168

* Retrospective application of a new insurance circular – see Note 2C

(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.)

	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 year ended December 31, 2019 (Audited)				NIS million			
Gross premiums	99	921	-	3,925	1,161	158	6,264
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(9)
Total							6,255
Amounts received for investment contracts recognized directly in insurance reserves	-	-	18	3,311	-	-	3,329
Financial margin including management fees - in terms of comprehensive income (2)	258	388	(96)	305	-	-	855
Payments and changes in liabilities for insurance contracts, gross	536*	3,554	257	5,741	629	147	10,864
Payments and change in liabilities for investment contracts	-	-	-	1,402	-	-	1,402
Total comprehensive income (loss) from life assurance business	209*	192	(112)	64	59	7	419

* Retrospective application of a new insurance circular – see Note 2C

(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*		
For the three months ended March 31, 2020 (Unaudited)	Personal lines	Group	long-term **	short-term **	Total
	NIS million				
Gross premiums	191	359	602	82	1,234
Payments and changes in liabilities for insurance contracts, gross	294	(36)	375	81	714
Total comprehensive loss from health insurance business	(268)	(28)	(48)	(8)	(352)

	Long-term care (LTC)		Other health*		
For the three months ended March 31, 2019 (Unaudited)	Personal lines	Group	long-term **	short-term **	Total
	NIS million				
Gross premiums	187	335	569	99	1,190
Payments and changes in liabilities for insurance contracts, gross	150	497	325	69	1,041
Total comprehensive income (loss) from health insurance business	66	(18)	62	(3)	107

* Of this, personal lines premiums in the amount of NIS 425 million are for the three-month period ended March 31, 2020 (personal lines premiums of NIS 433 million for the three months ended March 31, 2019) and group premiums in the amount of NIS 259 million, for the three-month period ended March 31, 2020 (group premiums of NIS 235 million for the three months ended March 31, 2019).

** The most significant cover include under other long-term health is medical expenses and under short-term is travel insurance.

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, 2019 (Audited)	Long-term care (LTC)		Other health*		
	Personal lines	Group	long-term **	short-term **	Total
	NIS million				
Gross premiums	755	1,377	2,327	472	4,931
Payments and changes in liabilities for insurance contracts, gross	1,429	1,754	1,289	307	4,779
Total comprehensive income (loss) from health insurance business	(573)	(35)	332	14	(262)

* Of this, personal lines premiums in the amount of NIS 1,829 million and group premiums in the amount of NIS 970 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

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%, from January 2017 and the second stage to 23% from January 2018 and thereafter.

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

The statutory tax rates applicable to financial institutions, including the Company's subsidiaries which are financial institutions, commencing 2018 and thereafter, are as follows: corporate tax at a rate of 23%, profit tax at a rate of 17% - namely, tax at a rated weight of 34.19%.

In Q1 2020, Harel Insurance recognized current tax income of NIS 23 million in respect of receivable wage tax.

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 March 31		As at December 31
	2020	2019	2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Investment property	**1,766**	1,644	1,769
Financial investments			
Marketable debt assets	**19,917**	20,388	22,614
Non-marketable debt assets (*)	**14,163**	14,008	14,876
Shares	**10,026**	9,298	11,298
Other financial investments	**11,153**	12,201	12,774
Total financial investments	**55,259**	55,895	61,562
Cash and cash equivalents	**3,343**	2,444	2,897
Other	**1,060**	696	974
Total assets for yield-dependent contracts **	**61,428**	60,679	67,202
Payables	**111**	58	485
Financial liabilities ***	**451**	122	149
Financial liabilities for yield-dependent contracts	**562**	180	634
(*) Of which, assets measured at adjusted cost	**495**	577	518
Fair value of debt assets measured at adjusted cost	**516**	622	581

** Including net assets (assets net of financial liabilities) in the amount of NIS 4,174 million, NIS 4,419 million, and NIS 4,602 million as at March 31, 2020 and 2019, and December 31, 2019 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 March 31, 2020 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	17,140	2,777	-	19,917
Non-marketable debt assets	-	12,557	1,111	13,668
Shares	7,507	6	2,513	10,026
Other	6,768	109	4,276	11,153
Total	31,415	15,449	7,900	54,764

	As at March 31, 2019 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	17,064	3,324	-	20,388
Non-marketable debt assets	-	12,969	462	13,431
Shares	6,868	6	2,424	9,298
Other	8,222	187	3,792	12,201
Total	32,154	16,486	6,678	55,318

	As at December 31, 2019 (Audited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	19,436	3,178	-	22,614
Non-marketable debt assets	-	13,344	1,014	14,358
Shares	8,783	7	2,508	11,298
Other	8,454	262	4,058	12,774
Total	36,673	16,791	7,580	61,044

Note 6 - Financial instruments (Contd.)

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

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

For three-month period ended March 31, 2020 (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, 2020	1,014	2,508	4,058	7,580
Total profits (losses) that were recognized:				
In profit and loss (*)	1	76	73	150
Interest and dividend receipts	(15)	(12)	(66)	(93)
Purchases	163	94	304	561
Sales	-	(153)	(79)	(232)
Redemptions	(51)	-	(14)	(65)
Transfers from Level 3 *	(1)	-	-	(1)
Balance as at March 31, 2020	1,111	2,513	4,276	7,900
Of which total unrealized profits (losses) for the period in respect of financial assets held correct to March 31, 2020 (*)	(8)	76	72	140

For three-month period ended March 31, 2019 (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, 2019	506	2,531	3,790	6,827
Total profits (losses) that were recognized:				
In profit and loss (*)	5	(45)	(78)	(118)
Interest and dividend receipts	(9)	(7)	(59)	(75)
Purchases	69	37	203	309
Sales	-	(92)	(56)	(148)
Redemptions	(71)	-	(8)	(79)
Transfers from Level 3 *	(38)	-	-	(38)
Balance as at March 31, 2019	462	2,424	3,792	6,678
Of which total unrealized profits (losses) for the period in respect of financial assets held correct to March 31, 2019 (*)	5	(45)	(80)	(120)

* 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 (Contd.)

For the year ended December 31, 2019 (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, 2019	506	2,531	3,790	6,827
Total profits (losses) that were recognized:				
In profit and loss (*)	21	18	(23)	16
Interest and dividend receipts	(31)	(212)	(214)	(457)
Purchases	833	455	991	2,279
Sales	-	(284)	(421)	(705)
Redemptions	(206)	-	(65)	(271)
Transfers from Level 3 *	(109)	-	-	(109)
Balance as at December 31, 2019	1,014	2,508	4,058	7,580
Of which total unrealized profits (losses) for the period in respect of financial assets held correct to December 31, 2019 (*)	19	38	(20)	37

* 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 March 31		December 31	As at March 31		December 31
	(Unaudited)		(Audited)	(Unaudited)		(Audited)
	Book Value			Fair Value		
	2020	2019	2019	2020	2019	2019
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Loans and receivables:						
Earmarked bonds	**5,257**	4,989	5,214	**7,047**	6,645	7,344
Non-marketable, non-convertible debt assets, excluding bank deposits	**7,548**	7,547	7,361	**8,119**	8,262	8,375
Bank deposits (*)	**2,515**	1,144	2,267	**2,622**	1,210	2,330
Total non-marketable debt assets	**15,320**	13,680	14,842	**17,788**	16,117	18,049
Investments held to maturity:						
Marketable non-convertible debt assets	**67**	98	80	**68**	104	83
Total investments held to maturity	**67**	98	80	**68**	104	83
Total	**15,387**	13,778	14,922	**17,856**	16,221	18,132
Impairments recognized in profit and loss (in aggregate)	**47**	18	21			
Of which debt assets measured at fair value (*)	**2,018**	266	1,689			

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 March 31, 2020 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	9,450	1,150	-	10,600
Non-marketable debt assets	-	2,018	-	2,018
Shares	1,005	-	457	1,462
Other	1,000	55	1,512	2,567
Total	11,455	3,223	1,969	16,647

	As at March 31, 2019 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	7,588	1,215	-	8,803
Non-marketable debt assets	-	266	-	266
Shares	831	-	280	1,111
Other	1,078	110	1,514	2,702
Total	9,497	1,591	1,794	12,882

	As at December 31, 2019 (Audited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	10,042	1,187	-	11,229
Non-marketable debt assets	-	1,689	-	1,689
Shares	902	-	375	1,277
Other	1,135	112	1,613	2,860
Total	12,079	2,988	1,988	17,055

Note 6 - Financial instruments (Contd.)

B. Other financial investments (Contd.)

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

For three-months ended March 31, 2020 (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, 2020	375	1,613	1,988
Total profits (losses) that were recognized:			
In profit and loss (*)	(16)	8	(8)
In other comprehensive income	33	(5)	28
Interest and dividend receipts	-	(22)	(22)
Purchases	65	71	136
Sales	-	(138)	(138)
Redemptions	-	(15)	(15)
Balance as at March 31, 2020	457	1,512	1,969
Of which total unrealized profit (loss) for the period in respect of financial assets held at March 31, 2020 (*)	(16)	5	(11)

For the three-months ended March 31, 2019 (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, 2019	266	1,547	1,813
Total profits (losses) that were recognized:			
In profit and loss (*)	-	19	19
In other comprehensive income	(7)	(53)	(60)
Interest and dividend receipts	-	(23)	(23)
Purchases	22	48	70
Sales	(1)	(21)	(22)
Redemptions	-	(3)	(3)
Balance as at March 31, 2019	280	1,514	1,794
Of which total unrealized profit (loss) for the period in respect of financial assets held at March 31, 2019 (*)	-	19	19

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, 2019 (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, 2019	266	1,547	1,813
Total profits (losses) that were recognized:			
In profit and loss (*)	(4)	75	71
In other comprehensive income	40	(27)	13
Interest and dividend receipts	(2)	(69)	(71)
Purchases	77	264	341
Sales	(2)	(147)	(149)
Redemptions	-	(30)	(30)
Balance as at December 31, 2019	375	1,613	1,988
Of which, total unrealized profit (loss) for the period in respect of financial assets held at December 31, 2019 (*)	(5)	76	71

C. Financial liabilities

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

	As at March 31		December 31	As at March 31		December 31
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	Book Value			Fair Value		
	2020	2019	2019	2020	2019	2019
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Loans from banks *	**530**	359	530	**541**	383	557
Loans from related parties	**12**	11	12	**12**	11	12
Short-term credit from banks and others	**1**	1	-	**1**	1	-
Bonds *	**6,317**	3,387	6,091	**6,552**	3,748	6,670
Total financial liabilities presented at amortized cost	**6,860**	3,758	6,633	**7,106**	4,143	7,239
Subordinated liability notes issued for compliance with the capital requirements	**4,731**	3,387	4,739			

* Including subordinated liability notes

Note 6 - Financial instruments (Contd.)

C. Financial liabilities (Contd.)

2. Interest rates used to determine the fair value

	As at March 31		As at December 31
	2020	2019	2019
In percent			
Loans	**2.93%**	2.12%	1.87%
Bonds	**2.52%**	1.35%	0.95%

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 March 31, 2020 (Unaudited)		
	Level 1	Level 2	Total
	NIS million	NIS million	NIS million
Derivatives (1)	162	781	943
Short sales (2)	390	-	390
Total financial liabilities	552	781	1,333

	As at March 31, 2019 (Unaudited)		
	Level 1	Level 2	Total
	NIS million	NIS million	NIS million
Derivatives (1)	10	463	473
Short sales (2)	209	-	209
Total financial liabilities	219	463	682

	As at December 31, 2019 (Audited)		
	Level 1	Level 2	Total
	NIS million	NIS million	NIS million
Derivatives (1)	49	464	513
Short sales (2)	291	-	291
Total financial liabilities	340	464	804

(1) Derivative financial instruments held to cover the insurance liabilities as part of the Group’s policy for asset and liability management (“ALM”). Of the above, NIS 493 million, NIS 351 million and NIS 364 million as at March 31, 2020 and 2019, and December 31, 2019, 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 the CPI. To cover these liabilities, the financial institutions deposited collaterals in accordance with the conditions prescribed in the contract. The Group’s financial institutions have approved credit facilities for their derivative activity. Accordingly, the Group’s financial institutions deposited NIS 777 million, NIS 538 million, and NIS 755 million as at March 31, 2020 and 2019 and December 31, 2019, respectively, as collateral to cover their liabilities attributable to this activity (these collaterals are presented under receivables).

(2) From the beginning 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 amounts of money against the short sale with the bank until the bonds' maturity date. During the Reporting Period, the subsidiary deposited an additional NIS 100 million. The balance of the backing deposits, as at March 31, 2020, are NIS 385 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 March 31, 2020, the Company is in compliance with the financial covenants that were determined.

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

   On May 11, 2020, the board of directors of Harel Financing & Issuing, a second-tier subsidiary of the Company, resolved to make full, early redemption at the initiative of Harel Financing & Issuing of the Series 4 bonds that it issued, which took place on May 31, 2020.

3. On bonds that were issued by a second-tier subsidiary of Harel Finance, see Note 9.

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. Among other things, the complexity of these arrangements incorporates the potential for interpretive and other arguments, in part due to information gaps between the Group's companies and other parties to the insurance contacts and the Group's other products, pertaining to a long series of commercial and regulatory conditions, including arguments regarding the way in which the moneys of insureds and members are invested. It is impossible to anticipate in advance the types of arguments that might be raised in this area, and the exposure resulting from these and other allegations in connection with the Group's products which are raised as part of the various legal proceedings, *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. The Group’s financial institutions have an enforcement plan according to which they review compliance with the regulatory provisions and take action to correct any deficiencies found.

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.

Additionally, there is a general exposure due to complaints submitted from time to time to the Capital Markets, Insurance and Savings Authority against the Group’s financial institutions, regarding the rights of insureds relating to the insurance policies and/or the law. These complaints are handled on a current basis by the public complaints division within the Company. 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 given across the board and apply to large groups of insureds. 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. 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

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 health insurance, non-life insurance, customer service, claims settlement and actuarial practice.

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 approve legal actions as class actions as detailed below, which are, 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 applications 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.

Regarding motions to approve an action as a class action under Sections 48, 49, 50, 51, 52, 53, 54, 55, 56, 57 and 58 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, an application 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 stayed until a decision has been made on the application 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. In its decision from July 2, 2019, the Supreme Court instructed that another hearing on the judgment should take place before a panel of seven judges. In November 2019, the Attorney General announced that he would appear at the proceeding in person and in February 2020 he submitted his position supporting the judgment and the trend it reflects for strengthening the weight that should be given to the regulator’s professional position in the interpretation of his instructions and that in his view, there is no room to intervene in the decision made in the judgment which is the subject of the proceeding with respect to adopting the interpretive position of the Capital Market Authority.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

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 the life expectancy is higher. 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 cover period, is ostensibly lower. The plaintiffs argued that this conduct discriminates against insureds who are women, in contravention of the statutory provisions. On August 17, 2014, the Jerusalem District Labor Court certified litigation of 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 respondents permission to appeal the decision. Within the context of the hearing on the appeal, the court instructed that the material be submitted to the Commissioner of Insurance for his position.
   In December 2016, the Commissioner’s position was submitted to the court supporting the position of the insurance companies that the action should not be heard as a class action given that it does not involve unacceptable discrimination. On December 3, 2019, the National Labor Court accepted the Defendants' appeal and nullified the decision of the Tel Aviv District Labor Court from August 17, 2014 to approve conducting the claim as a class action. On December 30, 2019, the court instructed dismissal of the plaintiffs’ personal claims. In May 2020, in a motion to certify a class action in the Supreme Court sitting as the High Court of Justice (HCJ), the plaintiffs filed a petition to grant a provisional order, in which HCJ was asked to instruct the respondents, including the Defendants, the National Labor Court, the Jerusalem District Labor Court and the Capital Market, Insurance and Savings Authority, to explain why HCJ does not order nullification of the judgment and reinstate the District Labor Court’s decision which approved litigation of the action as a class action.
3. In April 2010, an action and application for its certification as a class action was filed in the Petach Tikva Central Region District 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-Center 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

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. In December 2019, the reviewer’s opinion was submitted to the court in relation to Harel Insurance according to which the compromise settlement is appropriate, fair and reasonable, when taking into account the affairs of the class members.

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 an application 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, 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 undertook to 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 undertook to reduce the future collection for the policy factor from these class members at a rate of 25% relative to the amount actually collected. The Defendants also agreed to bear the compensation to the class plaintiff and cover the cost of his lawyer’s fees, by an amount to be decided upon by the court. 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 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. 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 insured were compromised due to 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 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. In February 2019, the motion for permission to appeal was struck out, after the Defendants accepted the Supreme Court’s recommendation to withdraw the motion for permission to appeal, while maintaining all their arguments and rights. The parties are conducting a mediation process.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

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. In December 2018, the parties filed a motion in the court to approve a compromise settlement in which it was agreed that insureds in the policy would receive index differences for long-term care benefits that were calculated not in accordance with the base index defined in the policy, and that index differences will be paid in respect of long-term care benefits that were calculated not in accordance with the known index on the date of payment in policies that stipulated that the payment will be linked to the known index on the date of payment. Furthermore, provisions were prescribed concerning the way in which payments to the class members will be made in the future. The validity of the compromise settlement is contingent on the court’s approval. In July 2019, the Attorney General submitted his position on the compromise settlement. The opinion includes various comments including, among others, that a reviewer should be appointed to review the compromise settlement before it is approved and comments relating to the way in which the refund will be made to the class members, and he also requested submittal of an additional opinion after the professional opinion of the reviewer has been received and examined.

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-Center 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. In March 2019, a revised compromise settlement was submitted for the court's approval. In August 2019, the Attorney General's position was submitted to the court in which he repeated some of the comments he had made in his position from September 2016 and he also included additional comments regarding the way in which the refund to the class members should be made. In March 2020, a revised compromise settlement was submitted for the court's approval.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

9. In October 2013, an action was filed in the Lod-Center 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. In March 2019, a revised compromise settlement was submitted for the court's approval. In August 2019, the Attorney General's position was submitted to the court, in which he repeated some of the comments he had made in his position from September 2016 and he also included additional comments regarding the way in which the refund to the class members should be made. In March 2020, a revised compromise settlement was submitted for the court's approval.
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. In March 2019, the Tel Aviv District Court certified litigation of the claim as a class action ("the Decision"). The class in whose name the class action is to be litigated is all insureds in profit-sharing life-assurance policies managed by Harel Insurance, in which the insurance benefits are paid based on an Rm formula. On July 17, 2019, Harel Insurance filed an application in the Supreme Court for permission to appeal the decision. On July 22, 2019, Harel Insurance was served with an appeal in the Supreme Court which was filed by the plaintiff in the motion for certification, on that part of the decision in which the District Court ruled not to certify litigation of the claim as a class action on the grounds of deception and that the definition of the class in the class action did not also include past insureds, including beneficiaries and heirs of insureds in the insurance policies in respect of which the claim had been certified as a class action. In October 2019, the Supreme Court ordered a stay of the proceedings before the District Court until further notice.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

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. In December 2018, the court dismissed the motion to certify the claim as a class action on the grounds that non-payment of the insurance benefits in respect of the hospitalization period is contrary to the Commissioner's instructions, but it approved the conducting of the action as a class action on the grounds of a breach of an insurance circular on the subject of fair disclosure to insureds when they are enrolled in a health insurance policy. The class in whose name the class action is to be conducted is all Dikla policyholders who purchased long-term care insurance after October 1, 2001, who were entitled to claim insurance benefits in the period between May 29, 2011 and May 29, 2014, and where the proper disclosure form attached to the purchased policy does not mention or refer to the section that states that the date of occurrence of the insured event is the date on which the insured first becomes eligible, or the date on which the insured was discharged from a general or rehabilitation hospital, whichever is later. In May 2019, Dikla filed a motion in the Supreme Court for permission to appeal the decision. In June 2019, the plaintiff in the motion for certification filed an appeal in the Supreme Court against the District Court's ruling not to certify litigation of the claim as a class action according to which non-payment of the insurance benefits for the hospitalization period contravenes the Commissioner's instructions and also that, as argued by the plaintiff, the court did not rule on the additional argument of breach of contract.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

13. In July 2014, a motion for certification of a claim as a class action was filed in the Lod-Center District Court against the subsidiary Harel Pension and Provident Ltd. (under its previous name: Harel Pension Fund Management Ltd.) ("Harel Pension & Provident") and against four other pension fund management companies (hereinafter together: "the Defendants").[1] 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. 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 mediation process conducted by the parties was unsuccessful and the hearing on the action was returned to the court.
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 Lod-Center District Court. 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. In November 2019, the Attorney General submitted his position regarding the compromise settlement, whereby the compromise settlement should not be approved in its present format and that it must be amended in conformity with his comments. In April 2020, the court gave its decision on the motion to approve the compromise settlement whereby, at this time, in view of the current uncertainty and travel ban between most countries in the world, it is impossible to say that this would be a fair ruling on the dispute, at this stage, from the perspective of the class members. This, without negating the arrangement itself as being worthy, fair and reasonable from the perspective of the class members.

[1] On a restructuring of the holding of Harel Pension & Provident, see Note 10(1) below.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

15. In August 2015, an action was filed in the Tel Aviv District Court, together with a motion 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 Lod-Center District Court together with a motion 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 mediation proves conducted by the parties was unsuccessful and the hearing on the action was returned for litigation in the court. In April 2020, the Central District Court approved litigation of the claim as a class action against Harel Insurance, Dikla and against two other insurance companies, on the grounds of breach of the long-term care insurance contract that led to non-payment or underpayment of the long-term care benefits, due to non-recognition of the insureds as being eligible to points for incontinence ("control of bowel and bladder functions"). The group in whose name the class action is being conducted is anyone who had long-term care insurance that was sold by one of the Defendants against whom conducting the action as a class action was approved, and who suffered from the loss of ability to independently control bowel or bladder functions as a result of a combination of impaired control of these functions that has not developed to organic loss of control with deteriorated functional condition, and nevertheless did not receive from the Defendants against whom conducting the claim as a class action was approved (as applicable) points for incontinence in the framework of the assessment of his claim to receive long-term care benefits, in a manner that led to an infringement of his rights to insurance compensation in the period between September 8, 2012 and the date of approval of the action as a class action.
17. In September 2015, 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 Pension and Provident Ltd. (under its previous name: Harel Pension Funds Management Ltd.) ("Harel Pension & Provident") and against four other companies ("hereinafter together: "the Defendants").[1] 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.

[1] On a restructuring of the holding of Harel Pension & Provident, see Note 10(1) below.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

18. In February 2016, an action and application for its certification as a class action was filed in the Lod-Center District Court against the subsidiary Harel Pension and Provident Ltd. (under its previous name: Harel Pension Funds Management Ltd.) ("Harel Pension & Provident") and against four other management companies ("hereinafter together: "the Defendants").[1] 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.
19. In February 2016, an action was filed in the Lod-Center 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. The parties are conducting a mediation process. In May2020, a motion was filed in the Lod-Center District Court to certify a compromise settlement in the application and action. As part of the compromise settlement, it was agree, inter alia, that Harel Insurance will pay the insureds who are eligible for payment, according to their definition in the compromise settlement, compensation calculated according to the mechanism set out in the compromise settlement. Validity of the compromise settlement is contingent upon the court's approval.
20. In March 2016, an action was filed in the Lod-Center 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. In November 2019, the parties filed a motion in the court to certify a compromise settlement in which it was agreed, *inter alia*, that Harel Insurance will pay compensation to the class members who were defined in the compromise settlement at a rate prescribed in the compromise settlement for alleged loss with respect to the difference

[1] On a restructuring of the holding of Harel Pension & Provident, see Note 10(1) below.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

Par. 20 (Contd.)

between the total amount of savings had they been linked to the investment index to which the money was linked prior to the death of the insured, net of management fees, and the amount that was actually paid, and that from the date specified in the compromise settlement, Harel Insurance will manage the savings in the policies of the class members defined in the compromise settlement even after the insured’s death, in the investment track in which they were managed before his death. Validity of the compromise settlement is contingent on the court’s approval.

21. In August 2016, an action was filed in the Lod-Center District Court, together with a motion for its certification as a class action, against the subsidiary Harel Pension and Provident Ltd. (under its previous name: Harel Pension Funds Management Ltd.) ("Harel Pension & Provident").[1] The subject of the action is the allegation that in addition to management fees, Harel Pension & Provident 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 & Provident.
22. In September 2016, an action was filed in the Lod-Center 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 Migvan 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. In May 2019, the Tel Aviv District Court approved litigation of the claim as a class action on the grounds of a breach of the insurance policy due to the unlawful collection of investment management expenses. The class in whose name the class action is to be litigated is all holders of the Migvan Personal Investment policy of Harel Insurance at the present time and in the seven years preceding the date of filing the motion. In September 2019, Harel Insurance filed a motion for permission to appeal the decision in the Supreme Court. In November 2019, the Supreme Court ruled that a response must be submitted to the motion for permission to appeal and it instructed the Attorney General to submit his position on the motion in writing.

[1] On a restructuring of the holding of Harel Pension & Provident, see Note 10(1) below.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

23. 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.
24. 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. In March 2019, the court ordered the transfer of the application for obtaining the Commissioner’s position with respect to the dispute which is the object of the motion for certification. In November 2019, the Commissioner’s position was received according to which the provisions of Circular 2001/9 “Fair Disclosure for Insureds Enrolling in Health Insurance Policies” (“the Circular”) issued by the Authority as well as the statutory provisions, obligate insurers to inform candidates for insurance at the time of purchasing the insurance of the way in which premiums may change, but the text of the Circular does not address the question of how this obligation must be fulfilled prior to enrollment and whether the obligation must be fulfilled in writing.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

25. 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.

26. In December 2016, an action was filed in the Lod-Center District Court, together with an application for its certification as a class action, against the subsidiary Harel Pension and Provident Ltd. ("Harel Pension & Provident").[1] 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. A mediation process conducted by the parties was unsuccessful and litigation of the action was returned to the court. In April 2019, the Tel Aviv District Labor Court partially approved litigation of the action as a class action on the question of the amount of management fees that were collected from members for whom money was deposited in the general pension fund, as a result of cumulative deposits in the comprehensive pension fund that exceeded the limit prescribed by law, and it dismissed the plaintiffs' other arguments. The class in whose name the class action is to be conducted is any member of Harel Pension and Provident, for whom a general pension fund was opened in the period from December 12, 2009 through April 30, 2019, after the limit for statutory deposits in the comprehensive pension fund had been exceeded, and who was automatically liable, even without receiving notice of such, for the maximum possible management fees by law for his deposits in the general fund, even if under the discount arrangement that was in force for his affairs, he would have been eligible for a discount on the management fees in the comprehensive fund. The parties are conducting a mediation process. In January 2020, the parties filed a motion in the court to certify a compromise settlement in which it was agreed, inter alia, that Harel Pension & Provident will pay the class members, as they were defined in the certification decision, an amount derived from the difference between the management fees actually collected from them and the fees that would have been collected from them had the relevant management fees been applied in the general fund, and the yield in respect thereof, in accordance with the mechanism set out in the compromise settlement. Validity of the compromise settlement is contingent on the court's approval.

[1] On a restructuring of the holding of Harel Pension & Provident, see Note 10(1) below.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

27. In December 2016, 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 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. In May 2020, the Tel Aviv District Court certified litigation of the claim as a class action based on the argument that the mechanism for calculating the insurance compensation and the formula for the calculation are not mentioned in the policy and are not known to the insureds on the date of signing the policy. The group in whose name the class action is to be conducted is any person who purchased the standard policy of Harel Insurance for accidental disability in the three years preceding the filing of the motion for certification and up to the present time, and received reduced insurance benefits or did not receive any payment, in 12 cases of disability, both absolute and not absolute.
28. In January 2017, an action was filed in the Lod-Center 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 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.
29. In February 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 Pension and Provident Ltd. and against the consolidated subsidiary Harel Insurance (hereinafter together: “the Defendants”).[1] 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 statutory 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. In January 2020, the parties filed a motion to certify a compromise settlement in the Tel Aviv District Court, in which it was agreed, inter alia, that the Defendants will transfer an amount equal to 75% of the handling fees they had collected, as they are defined in the compromise settlement, in the relevant period, plus linkage and interest differences, to the relevant provident funds which had provided the loans in respect of which handling fees had been collected, or to the relevant track, as defined in the compromise settlement with respect to a loan from policyholders’ money. Validity of the compromise settlement is contingent on the court’s approval.

[1] On a restructuring of the holding of Harel Pension & Provident, see Note 10(1) below.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

30. 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 subsidiary Harel Pension and Provident Ltd.("Harel Pension & Provident") and against another management company (hereinafter together: "the Defendants").[1] 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. 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. In January 2020, the parties filed a motion to certify a compromise settlement in the Tel Aviv District Court, in which it was agreed, inter alia, that the Defendants will transfer an amount equal to 75% of the handling fees they had collected, as they are defined in the compromise settlement, in the relevant period, plus linkage and interest differences, to the relevant provident funds which had provided the loans in respect of which handling fees had been collected, or to the relevant track, as defined in the compromise settlement with respect to a loan from policyholders' money. Validity of the compromise settlement is contingent on the court's approval.
31. 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 subsidiary Harel Pension and Provident Ltd. (Harel Pension & Provident).[1] 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 including any 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.
32. 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. In February 2019, the court ordered the transfer of the hearing to the Regional Labor Court. In May 2020, an agreed motion for abandonment of the motion for certification against Harel Insurance by the plaintiff was filed in the Tel Aviv District Court in which the court was asked to approve the plaintiff's abandonment of the motion for certification and the action and to instruct that the motion for certification be struck out and also to dismiss the plaintiff's personal claim. As part of the motion for abandonment, Harel Insurance agreed to bring forward the date of payment of the monthly annuity for members of the class, as they are defined in the compromise settlement, and to pay a benefit to the plaintiff and lawyers' fees to his attorney, of insignificant amounts, subject to the court's approval. The motion for abandonment is subject to the court's approval.

[1] On a restructuring of the holding of Harel Pension & Provident, see Note 10(1) below.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

33. 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 consolidated subsidiary Harel Insurance and against 12 other insurance companies (hereinafter together: “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. The parties are conducting a mediation process.
34. 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. In May 2020, the plaintiff filed a motion in the Tel Aviv District Court to approve his abandonment of the motion for certification against Harel Insurance. The motion for abandonment is subject to the court’s approval.
35. 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 consolidated subsidiary Harel Insurance, against two other insurance companies, against Clalit Health Services (“Clalit”) and against Maccabi Healthcare Services (“Maccabi”) (hereinafter together: “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 or hundreds of millions of shekels. In June 2019, the court ordered the application to be submitted for obtaining the position of the Attorney General on questions arising from the motion for certification. In January 2020, the Attorney General announced that his position was the same as the position he had submitted in a parallel case and which supports the arguments of Harel Insurance.
36. In January 2018, an action was filed in the Lod-Center District Court against the consolidated subsidiary Harel Insurance and against five 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 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 million 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 Lod-Center District Court dated February 20, 2017, in which the motion was struck out.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

37. 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 (hereinafter together: "the Defendants").[1] 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.
38. In April 2018, an action was filed in the Lod-Center 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 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.
39. 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 (hereinafter together: "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 he wishes to represent.
40. In December 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 two other insurance companies (hereinafter together "the Defendant Insurance Companies") and against four banks (hereinafter together "the Defendant Banks"). The subject of the action is the allegation that the Defendant Insurance Companies ostensibly issue structural insurance policies to the owners of buildings that are pledged for the purpose of a mortgage guarantee, despite the fact that when the policies are issued a policy guaranteeing the same building with respect to the same period already exists, whether through the same insurance company or through another insurance company. This, ostensibly, in breach of the explicit statutory provisions while misleading the insureds. The plaintiffs estimate the total loss claimed for all members of the class they wish to represent to be a nominal amount of NIS 280 million.
41. In February 2019, an action was filed in the Lod-Center 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 asked insureds in a group policy for the employees of Israel Electric, who received insurance benefits from which tax was not withheld at source, to return the amounts it had paid for these tax payments. The plaintiff does not quantify the total loss caused to all members of the class it seeks to represent but it estimates the loss at more than NIS 3 million.

[1] On a restructuring of the holding of Harel Pension & Provident, see Note 10(1) below.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

42. In June 2019, an action was filed in the Tel Aviv Labor 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 ostensibly collects payment from insureds in life assurance policies that include insurance in the event of death and a savings component (managers insurance), for a component relating to "investment management expenses", the collection of which is permissible by law, but without contractual agreement in the policy conditions allowing it to collect this component. The plaintiff estimates the overall loss caused to all members of the class it seeks to represent in the amount of NIS 365.3 million.
43. In June 2019, an action was filed in the Tel Aviv-Jaffa District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance and against three other insurance companies (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants ostensibly refrain from paying interest on insurance benefits to their insureds, from 30 days after the claim is filed. This action and motion address the same grounds as those in a previous action and motion for certification as a class action ("the First Claim") which was partially certified as a class action on August 30, 2015 ("the Certification Decision") by the Tel Aviv District Court and is currently being heard in its own right (see Section (A) (7) above), but they refer to a different period from the one for which the First Claim was certified and it was filed by the plaintiffs for reasons of caution and in parallel with their request to broaden the group represented in the First Claim also to the period from the issuing of the Certification Decision until the judgment is actually given. The plaintiffs estimate the total loss claimed for all members of the class they wish to represent against Harel Insurance at about NIS 90 million, and against all the Defendants in the amount of NIS 264.4 million.
44. In July 2019, an action was filed in the Jerusalem District Labor Court, together with an application for its certification as a class action, against the subsidiary Harel Pension and Provident Ltd. ("Harel Pension & Provident").[1] The subject of the action is the allegation that in addition to management fees, Harel Pension & Provident ostensibly collects payment from the members of Harel Education Fund for a component relating to investment management expenses, which is permissible by law, but is not supported in the agreement in the education fund articles. The plaintiff estimates the overall loss caused to all members of the class it seeks to represent in the amount of NIS 56.8 million.
45. In August 2019, an action was filed against the Company in the Tel Aviv District Court, together with an application for its certification as a class action. The subject of the action is the allegation that the Company does not, ostensibly, comply with the statutory provisions relating to the location of members with whom contact has been lost and relating to the location and notification of beneficiaries and heirs of deceased members. It is further alleged the Company ostensibly collected excess management fees in contravention of the statutory provisions. The applicants do not quantify the overall loss claimed for all members of the class they wish to represent, but they estimate it to be tens or even hundreds of millions of shekels. In February 2020, the Company filed a motion for abandonment *in limine* of the motion for certification of the claim as a class action.
46. In August 2019, an action was filed in the Lod-Center District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance and against two other insurance companies (hereinafter together: "the Defendants"). The subject of the action is the allegation that in property insurance policies for mechanical engineering equipment ("the Equipment"), the Defendants ostensibly determine the value of the Equipment for the purpose of calculating the insurance premium without considering the age of the Equipment, whereas in cases of total loss they ostensibly determine the amount of the insurance compensation according to the real value of the Equipment on the date of occurrence of the insured event, taking into account the age of the Equipment. The applicants do not quantify the overall loss claimed for all members of the class they wish to represent, but they estimate it to be millions of shekels.

[1] On a restructuring of the holding of Harel Pension & Provident, see Note 10(1) below.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

47. In October 2019, an action was filed in the Jerusalem Magistrates Court together with a motion for its certification as a class action against the consolidated subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly rejects travel insurance claims relating to the cancellation or curtailing of overseas travel due to the death or hospitalization of a close relative, based on exclusions in the policy that allegedly do not comply with the provisions of the Contracts (Insurance) Law, 1981 and are not included in the policy schedule that Harel Insurance sends to insureds. The applicant estimates the overall loss caused to all members of the class it wishes to represent at about a million and a half shekels.

48. In December 2019, 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. The subject of the action is the allegation that Harel Insurance ostensibly only disclosed to its policyholders who purchased Magen 1 life assurance policies with a variable premium and/or Harel LeAtid work disability policies, at the time of the purchase, the premium to be paid for a few years and not for the entire policy period. The plaintiff does not quantify the total loss caused to all members of the class it wishes to represent but he estimates the loss at hundreds of millions of shekels.

Actions filed during the Reporting Period

49. In January 2020, an action was filed in the Beersheba District Court, together with a motion for its certification as a class action, against the consolidated subsidiary Harel Insurance and against Kranot Hashotrim Be'Israel Ltd. (Israel Police funds). The subject of the action is the allegation that Harel Insurance ostensibly failed to provide a cop y of the insurance policy for its insureds who hold group life assurance and that it ostensibly neglected to disclose to them changes that were made in the policy regarding renewal of the policy. The plaintiffs did not quantify the financial loss alleged for all members of the classes they wish to represent, but they estimate the overall non-financial loss for all the class members at NIS 400 million.

50. In January 2020, an action was filed in the Central District Court, together with application motion for its certification as a class action, against the subsidiary Harel Insurance and against two other insurance companies and a roadside assistance / breakdown service company (hereinafter together: "the Defendants"). The action alleges that the Defendants ostensibly provide their customers with substitute windshields that are not original and are not standard certified, and this ostensibly in contravention of their undertakings towards their customers in the agreements with them. The plaintiffs do not quantify the overall loss claimed for all members of the classes they wish to represent, but they estimate that it is substantially more than NIS 2.5 million.

Actions filed after the Reporting Period

51. In April 2020, 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 refuses to indemnify insureds in health insurance policies that entitle the insureds to indemnity for expenses for tests during pregnancy more than once in each pregnancy. This, ostensibly, in contravention of the provisions of the insurance policy. The plaintiff estimates the total loss claimed for all members of the group she wishes to represent to be at least NIS 5.75 million.

52. In April 2020, 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 and against twelve other insurance companies (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants must refund to holders of their motor insurance and homeowners insurance policies part of the premiums which they ostensibly overpaid, in view of the alleged significant reduction of the risk that the Defendants undertook when they determined the premiums in these policies. This following the outbreak of the COVID-19 pandemic and the restrictions on movement and activity that were imposed as a result of the virus and which allegedly led to a much lower volume of traffic and travel and subsequently a significant decrease in bodily injury and damage to property. The plaintiffs estimate the total loss claimed for all members of the class they wish to represent against Harel Insurance in the amount of NIS 95 million, and against all the Defendants in the amount of NIS 886 million.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

Actions filed after the Reporting Period (contd.)

53. In April 2020, an action was filed in the Haifa District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance and against eleven other insurance companies (hereinafter together: “the Defendants”). The subject of the action is the allegation that the Defendants do not refund the holders of their compulsory motor, comprehensive and third-party insurance policies for premiums that were ostensibly overpaid by the policyholders in view of the seeming substantial reduction of the risk level to which the Defendants are exposed from March 2020 in view of the contraction of economic activity due to the outbreak of the COVID-19 pandemic and subsequent reduced volume of traffic. The plaintiffs estimate the total loss claimed for all members of the class they wish to represent against Harel Insurance in the amount of NIS 130 million, and against all the Defendants in the amount of NIS 1.2 billion.
54. In April 2020, 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, against six other insurance companies and against the company that manages the pool for compulsory motor insurance (“the Pool) (hereinafter together: “the Defendants”). The subject of the action is the allegation that the Defendants do not refund the holders of their compulsory motor, comprehensive and third-party insurance policies for premiums that were ostensibly overpaid by the policyholders in view of the seeming drastic reduction of the risk level to which the Defendants are exposed in view of the dramatic decrease in the number of claims submitted to the Defendants due to the contraction of economic activity as a result of the outbreak of the COVID-19 pandemic and alleged subsequent reduction in the volume of traffic on the roads and percentage of road accidents in Israel. The plaintiffs estimate the total loss claimed for all members of the class they wish to represent against Harel Insurance in the amount of NIS 110 million, and against all the Defendants in the amount of NIS 720 million.
55. In April 2020, an action was filed in the Haifa District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance and against six other insurance companies (hereinafter together: “the Defendants”). The subject of the action is the allegation that the Defendants do not refund the holders of their business insurance policies premiums for employers liability and third-party insurance that were ostensibly overpaid by the policyholders in view of the alleged substantial reduction of the risk level to which the Defendants are exposed from March 2020 in light of the significant contraction of economic activity by the businesses due to the outbreak of the COVID-19 pandemic and subsequent restrictions on economic activity. The plaintiffs estimate the total loss claimed for all members of the class they wish to represent against Harel Insurance in the amount of NIS 19 million, and against all the Defendants in the amount of NIS 81 million.
56. In April 2020, 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 Harel Insurance and against an additional insurance company (hereinafter together: “the Defendants”). The subject of the action is the allegation that the Defendants ostensibly refuse to extend the validity of the insurance cover for insureds in work disability insurance (P.H.I.) that was purchased before 2017 and in which the policy period terminates at age 65, and to pay them insurance benefits up to the age of retirement which, in 2004, rose to 67 for salaried employees and 70 for the self-employed. The plaintiff estimates the overall loss caused to all members of the class it wishes to represent against the Defendants at about a NIS 540 million.
57. In May 2020, 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 Pension and Provident Ltd. (“Harel Pension & Provident”) and against nine other management companies (“the Defendants”).[1] The subject of the action is the allegation that the Enforcement and Collection Authority collects excess payments from applicants for seizure and transfers them to the Defendants, ostensibly unlawfully, in respect of online requests for seizure which are submitted with respect to several provident funds managed by one management company. The plaintiff does not quantify the total loss claimed with respect to all members of the class it wishes to represent.

[1] On a restructuring of the holding of Harel Pension & Provident, see Note 10(1) below.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

Actions filed after the Reporting Period (contd.)

58. In May 2020, 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 Pension and Provident Ltd. ("Harel Pension & Provident") and against thirteen other management companies ("the Defendants").[1] The subject of the action is the allegation that the Defendants ostensibly classify part of the provisions for their customers to the education funds that they manage as taxable provisions, despite the fact that they are not considered as such. The plaintiffs have not quantified the loss claimed for all members of the class they wish to represent, but they estimate it, on the low side, in the amount of hundreds of millions of shekels.

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	7	1,096
Claim relates to several companies and no specific amount was attributed to the Company and/ or subsidiaries	1	225
Claim amount is not specified	3	
Pending requests for certification of actions as class actions:		
Amount pertaining to the Company and/ or subsidiaries is specified	26	4,616
Claim relates to several companies and no specific amount was attributed to the Company and/ or subsidiaries	6	4,138
Claim amount is not specified	15	

The total provision for claims filed against the Company as noted above as at March 31, 2020 and December 31, 2019, amounts to NIS 133 million and NIS 134 million, respectively.

[1] On a restructuring of the holding of Harel Pension & Provident, see Note 10(1) below.

Note 7 - Contingent liabilities and commitments (Contd.)

B. Other contingent liabilities that were terminated in the Reporting Period

1. In June 2004, a claim was filed in the Tel Aviv District Court and a motion to certify it as a derivative claim against the subsidiary Yedidim Holdings Management (1994) Ltd. ("Yedidim"), the former Chairman and CEO of Yedidim, and against an additional subsidiary, Harel Pension Funds Management Services (1987) Ltd., which at the time of filing the claim was the controlling shareholder in Yedidim (hereinafter together: “the Defendants”), by the minority shareholders Leatid Pension Fund Management Ltd., which at the time of filing the claim was a subsidiary of Yedidim ("LeAtid") for an amount of NIS 15,605 thousand. The subject of the claim is compensation for Atidit Pension Fund Ltd. ("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. In July 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. In August 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. In October 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 concerned 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. In August 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, in January 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 322,000 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. In May 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. In February 2018, the expert submitted his final expert opinion to the court in which he dismissed the Defendants arguments on the subject of the commissions. In March 2018, the plaintiffs appealed the opinion of the court-appointed expert which addresses payment of the commissions to which the plaintiffs are entitled. In May 2018, the Defendants filed a response to the appeal. At that date, the difference between the positions of the parties was NIS 171,000 (including interest). The appeal was heard in July 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. In October 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. In February 2020, a hearing was held on the parties’ appeals, in which both parties accepted the court’s recommendation and retracted their appeals. Accordingly, both appeals were dismissed.

Note 7 - Contingent liabilities and commitments (Contd.)

C. Claims that were settled in the Reporting Period

1. In November 2015, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action, against the subsidiary Dikla Insurance Agency Ltd. (under its previous name Dikla Insurance Company Ltd.) ("Dikla") and against Clalit Health Services ("Clalit") (hereinafter together: "the Defendants"). The subject of the action was 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 ("the Second Entitlement Period"), in which the insured is eligible for insurance benefits that are less than the benefits in the First 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 ("Grounds for the First Claim"). The plaintiff argued 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 argued 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 ("Grounds for the Second Claim"). The plaintiff argues that in this manner, Dikla practiced unjust enrichment, was in breach of the provisions of the Insurance Contracts Law, 1981, the Supervision of Financial Services (Insurance) Law, 1981 and the provisions of the insurance policy. In November 2016, the plaintiff filed a motion for a partial ruling on the motion for certification. In March 2017, the court dismissed the plaintiff's motion for a partial ruling on the motion for certification. At a hearing that took place in July 2017, the court approved the parties' agreement to terminate the proceeding in the outline in which context the Company's external auditors were appointed as experts for the court to perform a due diligence of the process of refunding the payment by Dikla. In January 2018, the reviewer'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 Cause 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. Subsequently, on February 27, 2020, a ruling was given on the action instructing the contribution of the outstanding amounts that Dikla had been unable to pay to the eligible parties on account of the First Claim and which fully exhausts the arguments and claims in respect of this claim and a verdict in respect of the Cause of the Second Claim, which was dismissed.

2. In September 2016, an action was filed in the Lod-Center District Court together with application 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 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. According to the plaintiff the purpose of this is to reduce the amounts of indemnification to which its insureds are entitled. The Plaintiff argues that Harel is therefore in breach of contract, in breach of the instructions of the Commissioner, it refrains from providing proper disclosure of the amounts of indemnity to which insureds are entitled and acts fraudulently. In June 2017, the parties filed a motion in the court to approve a compromise settlement in which the method of calculating the insurance compensation was agreed for members of the class who, after the date of approval of the arrangement, will submit an insurance claim for indemnity in respect of expenses for surgery they underwent, as well as a mechanism for supplementing the amounts of insurance compensation for class members, who received such indemnity in the past. In November 2017, the Attorney General's position was submitted to the court in which he does not oppose the compromise settlement. In his position, the Attorney General made several remarks relating to the agreement, he expressed his support for the parties' motion to appoint a reviewer for the agreement and he asked to submit a supplementary 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

Note 7 - Contingent liabilities and commitments (Contd.)

C. Claims that were settled in the Reporting Period

Par. 2 (Contd.)

submitted to the court whereby the compensation mechanism defined in the compromise settlement is fair and reasonable. In May 2019, a revised compromise settlement was submitted for the court's approval. In November 2019, the Attorney General's position was submitted to the court according to which the State's professional entities did not see fit to express an opinion, either positive or negative, in relation to the motion to approve the compromise settlement. On March 15, 2020, the court validated the revised compromise settlement as a judgment.

3. 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 was 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 pension contributions for them 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. In March 2020, an agreed motion for abandonment of the motion for certification against Standard by the plaintiff was filed in the Tel Aviv District Labor Court in which the court was asked to approve the Plaintiff's abandonment of the motion for certification and the action. On March 16, 2020, the Labor Court approved the plaintiff's motion to abandon the motion for certification.
4. In May 2019, an action was filed in the Tel Aviv Magistrates 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 refuses to give insureds who have received insurance cover for a test through the Oncotest laboratory in connection with cancer once, insurance cover for an additional test in the Oncotest labs. In January 2020, an agreed motion for abandonment of the motion for certification against Harel Insurance by the plaintiff was filed in the Tel Aviv Magistrate's Court in which the court was asked to approve the plaintiff's abandonment of the motion for certification and the action and to instruct that the motion for certification be struck out and that the plaintiff's personal claim should be dismissed. In April 2020, the court approved the plaintiff's application to abandon the motion for certification, and it ordered the dismissal of her personal claim and to strike out the application for certification. Furthermore, the court awarded the plaintiff and her attorney compensation and lawyers' fees of insignificant amounts.
5. 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 was the allegation that Dikla ostensibly deposited payments for pension for its employees 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, export and wholesale commerce industry ("Extension Order in the Import Industry"), despite its ostensible obligation to operate in accordance with the Extension Order in the Import Industry. In March 2020, an agreed motion for abandonment of the motion for certification against Dikla by the plaintiff was filed in the Tel Aviv District Labor Court in which the court was asked to approve the plaintiff's abandonment of the motion for certification and the action. In April, 2020, the Labor Court approved the plaintiff's motion to abandon the motion for certification.

Note 7 - Contingent liabilities and commitments (Contd.)

D. Transactions with related parties

Approval to invest in and establish the IIF 4 partnership

In April 2020, subsidiaries of the Company that are financial institutions ("the Subsidiaries") entered into a transaction in which they undertook to invest a total of USD 80 million in the IIF 4 Fund, a fourth infrastructure fund in the IIF Group, , of which up to USD 73.6 million was money of members managed by the Group's financial institutions. The Company will hold (directly and indirectly) 49% of the General Partner and Harel Insurance and the Group's financial institutions will hold percentages of the fund as limited partners. Harel Insurance and the Group's financial institutions will not be required to pay the fund managers management fees or success fees in respect of their investment as limited partners.

Note 8 - Capital requirements and management

1. Solvency II based economic solvency regime

On June 1, 2017, , the Commissioner published an insurance circular on "Provisions for the Implementation of an Economic Solvency Regime for Insurance Companies Based on Solvency II" ("Solvency Circular"), which discusses provisions for the implementation of the economic solvency regime for insurance companies. The circular prescribes that from 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 present ratio of the solvency capital requirement (SCR) at June 30, 2019, will not be less than 70% and the SCR to be calculated on data at December 31, 2024 and thereafter will not be less than 100%.

On December 3, 2017, the Commissioner published a circular on the disclosure format required in the periodic reports and websites of the insurance companies relating to the Solvency II based economic solvency regime ("the Disclosure"). According to the Disclosure Circular, insurance companies must include in their annual and quarterly reports, and also on the dates to be defined on their websites, a report about the solvency ratio in accordance with the appendix to the Disclosure Circular. In November 2018, Harel Insurance received the Commissioner's approval for the audit that was performed by the external auditors in accordance with the Commissioner's instructions. As a direct consequence, and in view of the repeal of the old Capital Regulations, from December 2018 the new capital requirements concerning an economic solvency regime are the only capital requirements that obligate Harel Insurance under the Supervision of Financial Services (Insurance) Law, 1981.

On December 25, 2019, in accordance with the Commissioner's instructions, Harel Insurance published a report on the economic solvency ratio ("the Solvency Report") in respect of data at June 30, 2019, on its website:https://www.harel-group.co.il/about/harel-group/harel/investor-relations/Pages/repayment-ability.aspx. According to the report, Harel Insurance has a capital surplus even without taking the transitional provisions into account.

The calculation prepared by the Harel Insurance for data at December 31, 2018 was reviewed in accordance with ISAE 3400 - Review of Future Financial Information. This standard is relevant for audits of the solvency calculation and it is not part of the auditing standards applicable to financial reports. A special report prepared by the external auditors 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, such as a decrease of the interest rate in the Reporting Period, past data do not necessarily reflect future performance. The calculation prepared by Harel Insurance as at June 30, 2019 was not audited or reviewed by the external auditors. 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 performance could 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. The external auditors' report for the calculation as at December 31, 2018, draws attention to the information in the Solvency Report regarding the uncertainty that stems from regulatory changes and exposure to contingent liabilities whose effect on the solvency ratio cannot be estimated.

Notably, the model in its current format is extremely sensitive to changes in market and other variables, such as changes in the interest rate, changes in investment profits, revised actuarial assumptions and changes relating to the activity of Harel Insurance. According to an initial estimate of these changes by Harel Insurance up to the date of the annual calculation and thereafter, there is no significant impact on the solvency ratio of Harel Insurance, but at this stage, Harel Insurance is unable to estimate the full effect, given that it has yet to complete the calculation for the solvency report as at December 31, 2019. The solvency report and submittal of the Solvency reporting files to the Commissioner as at December 31, 2019, will be published, in accordance with the directives, by August 31, 2020.

On February 16, 2020, a letter was published for insurance company executives on a "Draft outline for implementation of the European format of the Solvency II Directives ("the Draft"). The Draft states that the Capital Market, Insurance and Savings Authority ("the Authority") intends to operate to adapt the solvency regime in Israel to the Solvency II directives and updates. The Draft sets out the key milestones for

Note 8 - Capital requirements and management (Contd.)

1. Solvency II based economic solvency regime (Contd.)

   implementing the modifications and instructions with respect to reports on an economic solvency regime in the near future.

   It was further noted that the Authority considers the second pillar of the Directive, which has yet to be adopted in Israel and a key component of which is own risk and solvency assessment (ORSA), to be a key and significant component of the implementation of risk-based solvency, and its assimilation in conformity with the directives applied in Europe is an extremely important part of the cautious, sensible management of the risks to which the insurance companies are exposed. In view of the foregoing, in March 2020, the Authority intends to publish draft provisions regarding the implementation of ORSA and solvency, based on the provisions of the current European Directive.

   The Authority will work towards ensuring that the updated provisions relating to a solvency regime enter into force in accordance with the format adopted in Europe by July 2020.

   Further to the Draft, on April 23, 2020, the Commissioner published a second draft amendment to the Consolidated Circular on the implementation of an economic solvency regime for insurance companies based on Solvency II" ("the Additional Draft"). According to the Additional Draft, the transitional provisions will be adapted to the format set out in the European Directive, with an option to gradually increase the reserves in respect of long-term insurance products that were sold in the past by 2032. The Additional Draft also includes updates to the provisions of the Circular based on changes that were made in Europe and are relevant to the Israeli market. Additionally, on April 16, 2020, the Commissioner published a draft setting out the principles for calculating the discounting during the transitional period in accordance with the transitional instructions adjusted to the European Directive.

   These aforementioned drafts are still being discussed with the Commissioner and the final format of the changes is, as yet, unknown.

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. 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 March 31, 2020, the subsidiaries are in compliance with these requirements.

Note 9 - Material events in the Reporting Period

1. Revision of the discounting interest rates used to calculated the insurance liabilities

Life Assurance

Due to an update of the interest rate used to calculate the reserves for annuities in payment, Harel Insurance reduced the insurance liabilities in the life assurance and long-term savings segment in the Reporting Period by NIS 92 million and it reduced the pre-tax loss and comprehensive loss by the same amount.

In the corresponding period last year, due to a revision of the interest rate applied in calculating the reserve for claims for the payment of work disability insurance, Harel Insurance increased the insurance liabilities in the life assurance and long-term savings segment by NIS 4 million and it reduced pre-tax profit and comprehensive income before tax by the same amount.

Health

Due to changes in the risk-free interest curve and decrease in the difference between the fair value and book value of the non-marketable assets, Harel Insurance increased the insurance liabilities in the health insurance segment in the personal lines long-term care sector by NIS 181 million in the Reporting Period and it increased the pre-tax loss and comprehensive loss before tax by the same amount. In the corresponding period last year, due to a decline of the interest rate curve, Harel Insurance increased the reserve for claims in payment in the personal lines and group long-term care sectors by NIS 13 million and it reduced pre-tax profit and comprehensive income before tax by the same amount.

Non-life insurance

Due to an increase of the risk-free interest curve, Harel Insurance reduced the insurance liabilities in the non-life insurance segment by NIS 63 million and it reduced the pre-tax loss and comprehensive loss before tax by the same amount (of which NIS 34 million are in the compulsory motor sector and NIS 29 million are in the liabilities and other sector). In the corresponding period last year, due to a decrease in the risk-free interest curve, Harel Insurance increased the insurance liabilities by NIS 99 million and it reduced pre-tax profit and comprehensive income by the same amount (of which NIS 33 million was in the compulsory motor sector and NIS 66 million was in the liabilities and other sectors).

The effect on the financial results is set out below:

	For the three months ended March 31		**For the year ended**
	2020	**2019**	**2019**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**
Decrease (increase) in the insurance liabilities as a result of the effects of the interest rate - life assurance	**92**	(4) *	(120) *
Increase in the insurance liabilities due to the effects of the interest rate - health insurance	**(181)**	(13)	(926)
Decrease (increase) in the insurance liabilities due to the effects of the interest rate - non-life insurance	**63**	(99)	(183)
Total effect of the interest rate on profit (loss) and comprehensive income (loss) before tax	**(26)**	(116)	(1,229)
Total effect of the interest rate on profit (loss) and comprehensive income (loss) after tax	**(17)**	(76)	(809)

* Retrospective application of a new insurance circular – see Note 2C

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

2. Publication of a shelf prospectus by Harel Financing & Issuing

   On February 24, 2020, Harel Financing & Issuing published a shelf prospectus bearing the date February 25, 2020. By virtue of this shelf prospectus, Harel Financing & Issuing will be able to issue different categories of securities, in accordance with the statutory provisions. This shelf prospectus replaced a previous shelf prospectus of Harel Financing & Issuing from February 2017, which was in force until February 2020.

3. Bonds issued by a second-tier subsidiary of Harel Finance

   A. In 2019, Harel Exchange Traded Deposit Ltd. (“Harel Exchange Traded Deposit”), a wholly owned second-tier subsidiary of Harel Finance, issued Series 1 bonds in the total amount of NIS 1,349 million par value by means of a prospectus (“Series 1 bonds”). The Series 1 bonds, which received a preliminary rating of Aaa from Midroog, are not linked to the CPI and bear interest at the Bank of Israel rate plus 0.24%, and they are due for repayment as a lump sum on August 5, 2024. As collateral for the Series 1 bonds, the proceeds of the issue are held in deposits in pledged accounts in banks in Israel, in accordance with the conditions of the prospectus. As part of the conditions of the bonds, the bond holders may perform a forced sale of the bonds to Harel Exchange Traded Deposit, after giving advance notice and payment of a conversion fee, as specified in the Deed of Trust. On February 10, 2020, an additional expansion of Series 1 bonds was performed in the amount of NIS 122 million par value.

      In March 2020, requests were received to perform forced conversion in the amount of NIS 848 million par value Series 1 bonds. After the date of the report, requests were received to perform addition forced conversion in the amount of NIS 68 million par value - the total aforementioned conversions account for 62% of the total series at the reporting date. Harel Exchange Traded Deposit worked and is working to perform the conversion in accordance with the provisions of the Deed of Trust.

   B. On January 22, 2020, Harel Exchange Traded Deposit issued Series 2 bonds in the amount of NIS 110 million par value (“Series 2 bonds”). The Series 2 bonds, which received a preliminary rating of Aaa from Midroog, are not CPI-linked and bear interest at a fixed annual rate of 1.2%, are due for repayment as a lump sum on August 24, 2027. As collateral for the bonds, the proceeds of the issue are held in deposits in pledged accounts in banks in Israel, in accordance with the conditions of the prospectus.

4. Changes in the composition of the Company’s Board of Directors

   On March 31, 2020, Mr. Udi Nissan completed three years of service as an external director in the Company. Pursuant to the provisions of the circular “Board of Directors of a Financial Institution”, external directors of a company may not serve as independent directors of a subsidiary that is a financial institution. On April 1, 2020, Mr. Udi Nissan began a second term of office as an independent director of Harel Insurance and he was therefore forced to step down as an external director in the Company.

   After the Reporting Period, on June 1, 2020, Mr. Naim Najar took up his position as an external director in the Company.

Note 10 – Material Events after the Reporting Period

1. In the period after the date of the report and up to immediately prior to the date of publication of the financial reports, prices on the capital markets rose which significantly offset the decrease in the value of the AUM held by the Group from NIS 25 billion to NIS 8 billion and completely offset the Nostro investment losses. The prices increases in the capital market in the period after the date of the report and up to immediately prior to the date of publication of the financial statements reduced the estimate of the variable management fees that will not be collected until a real, cumulative positive yield is attained that covers the management fee debt for the investment losses accrued as a debt towards the insureds, from NIS 290 million before tax to NIS 78 million before tax.

   Additionally, in the period after the date of the report and immediately prior to the date of publication of the financial statements, the volume of redemptions of savings products, pension funds and provident and education funds, insurance contracts and investment contracts, moderated and they returned to their normal pre-crisis levels. In the mutual funds sector too, in the period after the date of the report and immediately prior to the date of publication of the financial statements, the volume of redemptions moderated and new amounts were raised.

   It should be emphasized that the foregoing is based on the information in the Company's possession close to the date of publication of the financial statements, and that these data are partial and do not include other components of investment income (losses) and the effect of the Group's other activity on its equity and assets

2. Restructuring – Harel Pension & Provident

   On April 1, 2020, the restructuring of the Group entered into force. Accordingly, the rights of Harel Insurance in the customer portfolios and the goodwill of the provident activity were transferred to Harel Pension & Provident, and this was immediately followed by the transfer of all the holdings of Harel Insurance in Harel Pension & Provident to the Company. The transfer of these holdings to the Company as part of the restructuring was accounted for as a dividend in kind from Harel Insurance to the Company, from the distributable profits. The restructuring was implemented in accordance with the provisions of Section 104A and 104C of the Income Tax Ordinance.

3. Restructuring - transfer of all the share capital of Standard to Harel Insurance for the purpose of the merger of Standard into Harel Insurance

   In February 2020, the relevant organs of the Company, Harel Insurance and Standard approved the merger in which all the Company's holdings in Standard will be transferred to Harel Insurance against an allocation of Harel Insurance shares of to the Company. This will be performed as part of the restructuring of the Group, after which Standard will be fully merged with and into Harel Insurance and Standard will be dissolved. The merger of Standard will facilitate concentration of the Company's marketing activity and it is part of the strategic measures being implemented by the Group to concentrate similar activity and simplify the Group's organizational structure. The merger is in force from April 1, 2020, subject to satisfying all the conditions precedent.

   As a preliminary measure, and integral part of the merger, on January 1, 2020, all the employees of Standard were moved to Harel Insurance with full continuity of rights and in accordance with their employment conditions in Standard.

4. Agreement with Hachshara Insurance Company Ltd.

   On May 18, 2020, Harel Insurance entered into agreement with Hachshara Insurance Company Ltd. ("Hachshara") in which Harel Insurance will provide operating services for Hachshara's pension portfolio ("the Past Portfolio"), and it will also provide software house services and service bureau services for the Past Portfolio and for the insurance portfolio of Hachshara in the health, long-term care, risk, mortgage, and critical illness sectors, personal lines Best Invest and Amendment 190 sectors, as it is on the date of signing

Note 10 – Material Events after the Reporting Period (Contd.)

Section 4 (Contd.)

the agreement and as it will be during the period of the agreement, as well as new sales in the pension sector and work disability sector (to the extent that Hachshara decides to resume the sale of these policies) ("the New Portfolio") (hereinafter together: "the Services").

To provide the aforesaid services, Harel Insurance will provide Hachshara with a user license for its computer systems as specified in the agreement, and this in addition to developing data interfaces for Hachshara for the existing systems of Harel Insurance ("the Computer Systems").

This agreement is contingent on obtaining unconditional approval from the Commissioner to enable Hachshara to receive the services. If the Commissioner does not approve the agreement and/or his approval is contingent upon any conditions that are unacceptable by either party, within 90 days of signing the agreement, the agreement will be nullified.

Harel Insurance will operate the Past Portfolio in the Computer Systems for Hachshara, except for processes that require business decisions relating to the Past Portfolio which will continue to be performed by Hachshara.

Management of the data in Hachshara's Past Portfolio and New Portfolio in the Computer Systems will take place in an environment with permissions that are separate from the other activity of Harel Insurance.

Hachshara will remain the owners of the Past Portfolio and the New Portfolio and it will bear exclusive responsibility towards any third parties regarding all aspects of decision making as the insurer in connection with the services, responsibility towards the authorities, responsibility for the financial statements and their content, investment management, money laundering, Solvency management, actuarial practice, internal audit and Commissioner's audits, etc. Additionally, Hachshara will bear sole and full responsibility for demands, claims fines or any administrative and legal proceedings, if there are any, in connection with the aforementioned portfolios, and Harel Insurance will not bear any responsibility for them.

Regarding all aspects of the provision of the services, Harel Insurance will be a material outsourcing provider, and in this context it will allow Hachshara to inspect provision of the services, including that it will allow access by several of Hachshara's functionaries (the legal advisor, CFO, internal auditor, risk manager and external auditors) to information pertaining to the services handled by Harel Insurance, with reasonable cooperation and appropriate availability for this purpose.

Under the provisions of the agreement, the agreement period is not limited in time. Nevertheless, as of 2029, the parties will be able to terminate the agreement and/or discontinue some of the services by giving advance notice in writing and subject to the provisions of the agreement.

The annual consideration to be received by Harel Insurance for the services will be NIS 28.5 million in the first eight years of the engagement, after which the consideration will be reduced to NIS 14 million and adjusted each year to the scope of the services provided .

5. Decline of the interest rate curve

In the period after the date of the report and up to close to the date of publication of the financial statements, the interest rate curve declined which might lead to a further increase in the insurance liabilities. In contrast, a further decline of the interest rate curve might have a positive impact on the value of the financial assets in a manner that could reduce this aforesaid impact. Additionally, the application of a draft circular which was published on May 18, 2020, concerning a revision of the provisions of the Consolidated Circular - Allocation of assets not at their fair value when calculating the adequacy of the reserves (LAT), and application of a circular published on June 7, 2020, concerning an amendment of the provisions of the Consolidated Circular on the measurement of liabilities - liquidity premium (see also Note 10(11) and 10(12) and additional circulars, if and when they are published, might reduce the aforementioned effect. It should be noted that the information described above is not an estimate of the expected financial results of the Company. This information is only partial and it does not include other components of profit or loss from investments and other effects.

Note 10 – Material Events after the Reporting Period (Contd.)

6. On the full early redemption of bonds (Series 4) of Harel Financing & Issuing, after the Reporting Period, see Note 6C.
7. Annual and Special General Meeting

   On May 31, 2020, an annual general meeting of the Company took place, with the following items on the agenda: (1) discussion of the Periodic Report for 2019; (2) appointment of external auditors for 2020 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, Josef Ciechanover and Eli Defes); (4) approval of the terms of office of Ben Hamburger who serves as Deputy Chairman of the Board of Directors; (5) appointment of Naim Najar as an external director in the Company. The general meeting approved all the items that were on the agenda.
8. On a request for forced conversion of Series 1 bonds of a second-tier subsidiary of Harel Finance after the Reporting Period, see Notes 6 and 9.
9. On approval to invest in and establish the IIF 4 Partnership, see Note 7D.
10. On changes in the composition of the Company's Board of Directors after the Reporting Period, see Note 9(4).
11. Amendment to the provisions of the consolidated circular on the measurement of liability - liquidity premium ("the Circular")

    In May 2020, the Circular was published which determines that a liquidity premium at various rates can be added to the risk-free interest rate applied in calculating the adequacy of the reserves (LAT). The Circular proposes setting an individual rate for the liquidity premium to be used in calculating the LAT for personal lines long-term care policies and for compulsory motor and liabilities insurance. According to the Circular, a liquidity premium may be added to the risk-free interest rate for both the yield assumption and the discounting interest rate assumption, as set out in the Circular. The Circular will enter into force from June 30, 2020. Initial application of the Circular will be by way of a change in the accounting estimate. Harel Insurance is examining the effect of the Circular on its financial statements.
12. Draft circular concerning the method of allocating assets that are not at fair value when calculating the LAT ("the Draft").

    In May 2020, the Draft was published the purpose of which is to provide clarifications on the method of implementing the provisions pertaining to the entitlement of an insurance company to account for the difference between the amortized cost and the fair value of assets, other than earmarked bonds, that are not recorded in the statement of financial position at fair value, when preparing the LAT (Unrealized Gains & Losses - "UGL"). According to these provisions, if there is an external limitation (such as regulatory instructions) or internal limitation (such as an administrative limitation) with respect to distribution of the assets to cover certain reserves, the assets will be allocated to certain liabilities on the basis of these limitations. Otherwise, the allocation will be made in accordance with a documented allocation procedure to be determined by the company or in proportion to the size of the reserve. Harel Insurance is reviewing the effect of the Draft on its financial statements.
13. Roadmap for the adoption of International Financial Reporting Standard 17 (IFRS 17) - *Insurance Contracts* ("the Roadmap")

    Further to the information in Note 3T(3) to the Company's annual financial statements, on June 7, 2020, the Commissioner published the roadmap for the adoption of IFRS 17 ("the Standard" or "IFRS 17") which determines that the initial date of application of the standard in Israel will apply from quarterly and annual periods commencing January 1, 2023. The roadmap also details the key deployment and time frames that, in the opinion of the Capital Market, Insurance and Savings Authority, are required to ensure deployment by Israel's insurance companies for the proper application of IFRS 17, in part with respect to adapting and operating their information systems, project management and documentation, the formulation of accounting policy, performing quantitative tests and the required methods of disclosure to the public.

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 March31, 2020 (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)	173	10,023	67	-	10,263
Non-marketable debt assets (*)	-	-	-	13,164	13,164
Shares (a2)	-	1,459	-	-	1,459
Other (a3)	143	1,693	-	-	1,836
Total other financial investments	316	13,175	67	13,164	26,722

	As at March 31, 2019 (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)	210	8,521	98	-	8,829
Non-marketable debt assets (*)	-	-	-	13,204	13,204
Shares (a2)	-	1,105	-	-	1,105
Other (a3)	188	1,905	-	-	2,093
Total other financial investments	398	11,531	98	13,204	25,231

	As at December 31, 2019 (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)	186	10,892	79	-	11,157
Non-marketable debt assets (*)	-	-	-	13,023	13,023
Shares (a2)	-	1,273	-	-	1,273
Other (a3)	156	1,998	-	-	2,154
Total other financial investments	342	14,163	79	13,023	27,607

(*) For information about the composition of 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 March 31		As at December 31	As at March 31		As at December 31
	2020	2019	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Government bonds	**4,911**	3,734	5,894	**4,729**	3,652	5,587
Other debt assets:						
Other non-convertible debt assets	**5,352**	5,095	5,263	**5,404**	4,937	4,931
Total marketable debt assets	**10,263**	8,829	11,157	**10,133**	8,589	10,518
Impairments recognized in profit and loss (in aggregate)	**33**	1	-			

A2. Shares

	Book value			Amortized cost		
	As at March 31		As at December 31	As at March 31		As at December 31
	2020	2019	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Marketable shares	**1,002**	825	899	**906**	715	672
Non-marketable shares	**457**	280	374	**335**	224	272
Total shares	**1,459**	1,105	1,273	**1,241**	939	944
Impairments recognized in profit and loss (in aggregate)	**122**	81	89			

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 March 31		As at December 31	As at March 31		As at December 31
	2020	2019	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Marketable financial investments	**281**	478	444	**268**	426	410
Non-marketable financial investments	**1,555**	1,615	1,710	**1,147**	1,174	1,243
Total other financial investments	**1,836**	2,093	2,154	**1,415**	1,600	1,653
Impairments recognized in profit and loss (in aggregate)	**153**	143	127			
Derivative financial instruments presented in financial liabilities	**492**	350	364			

Other financial investments include mainly investments in ETNs, ETFs, mutual fund participation notes, investment funds, financial derivatives, forward contracts, options and structured products.

HAREL INSURANCE INVESTMENTS AND FINANCIAL SERVICES LTD.

SEPARATE FINANCIAL INFORMATION FROM THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at March 31, 2020

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arbaa Street, P.O. Box 609
Tel-Aviv 61006
03 684 8000

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 have 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 March 31, 2020, and for the 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 this interim period, based on our review.

We did not review the separate interim financial information of investee companies, in which the investments amount to NIS 828 million as at March 31, 2020, and where the profit from these investees amounts to NIS 7 million for the three months 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 Standard on Review (Israel) 2410 of the Institute of Certified Public Accountants in Israel "Review of Interim Financial Information Performed by the Entity's Independent 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. Accordingly, we 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

June 10, 2020

Harel Insurance Investments and Financial Services Ltd.

Condensed Separate Interim Information on Financial Position as at

	March 31		December 31
	2020	2019	2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Fixed assets	**27**	1	28
Investments in equity accounted investees	**5,825**	6,009*	6,407*
Loans to investee companies	**351**	351	352
Investment property	**25**	22	23
Other receivables	**31**	17	25
Other financial investments	**605**	491	591
Cash and cash equivalents	**83**	47	77
Total assets	**6,947**	6,938	7,503
Capital			
Share capital and premium on shares	**359**	359	359
Treasury stock	**(123)**	(123)	(123)
Capital reserves	**538**	589	957
Surpluses	**5,573**	5,711*	5,709*
Total capital	**6,347**	6,536	6,902
Liabilities			
Deferred tax liabilities	**-**	1	2
Liabilities for employee benefits, net	**18**	18	17
Other payables	**43**	16	41
Current tax liabilities	**7**	6	9
Financial liabilities	**532**	361	532
Total liabilities	**600**	402	601
Total liabilities and equity	**6,947**	6,938	7,503

* Retrospective application of a new insurance circular – see Note 2

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

Date of approval of the financial statements: June 10, 2020

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

Condensed Separate Interim Information on Profit and Loss

	For the three months ended March 31		For the year ended December 31
	2020	2019	2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profits from investments, net, and financing revenues	**5**	6	24
Revenues from management fees	**30**	31	129
Total revenues	**35**	37	153
General and administrative expenses	**3**	4	15
Financing expenses	**5**	4	15
Total expenses	**8**	8	30
Company's shares in profits (losses) of investee companies	**(155)**	198*	362*
Profit (loss) before taxes on income	**(128)**	227	485
Taxes on income	**7**	6	28
Profit (loss) for period ended attributed to the Company's shareholders	**(135)**	221	457

* Retrospective application of a new insurance circular – see Note 2

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

Condensed Separate Interim Information on Comprehensive Income

	For the three months ended March 31		For the year ended December 31
	2020	2019	2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profit (loss) for the period	**(135)**	221*	457*
Other items of comprehensive income (loss) 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	**(13)**	4	8
Net change in fair value of financial assets classified as available for sale that was transferred to the statement of profit or loss	**1**	-	(1)
Foreign currency translation differences for foreign activity	**(3)**	(7)	(20)
The Group's share of the comprehensive income (loss) of investees	**(408)**	159	535
Tax benefit (income tax) attributable to available-for-sale financial assets	**3**	(1)	(1)
Total other comprehensive income (loss) for the period that after initial recognition as part of comprehensive income was or will be transferred to profit or loss, net of tax	**(420)**	155	521
Other comprehensive income (loss) for the period, net of tax	**(420)**	155	521
Total comprehensive income (loss) for the period attributed to the Company's shareholders	**(555)**	376	978

* Retrospective application of a new insurance circular – see Note 2

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

Condensed Separate Interim Information on 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 stock	Capital reserve for transactions with non-controlling interests	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 March 31, 2020 (Unaudited)									
Balance as at January 1, 2020	359	875	(145)	1	(123)	(49)	275	5,709*	6,902
Total comprehensive income (loss)									
Loss for the period	-	-	-	-	-	-	-	(135)	(135)
Other comprehensive income (loss)	-	(441)	14	-	-	-	8	(1)	(420)
Total comprehensive income (loss) for the year	-	(441)	14	-	-	-	8	(136)	(555)
Balance as at March 31, 2020	359	434	(131)	1	(123)	(49)	283	5,573	6,347

* Retrospective application of a new insurance circular – see Note 2

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

Harel Insurance Investments and Financial Services Ltd.

Condensed Separate Interim Information on 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 stock	Capital reserve for transactions with non-controlling interests	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 March 31, 2019 (Unaudited)									
Balance as at January 1, 2019	359	312	(89)	1	(123)	(49)	256	5,493*	6,160
Total comprehensive income (loss)									
Profit for the period	-	-	-	-	-	-	-	221*	221
Other comprehensive income (loss)	-	184	(28)	-	-	-	2	(3)	155
Total comprehensive income (loss) for the year	-	184	(28)	-	-	-	2	218	376
Balance as at March 31, 2019	359	496	(117)	1	(123)	(49)	258	5,711	6,536

* Retrospective application of a new insurance circular – see Note 2

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

Harel Insurance Investments and Financial Services Ltd.

Condensed Separate Interim Information on 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 stock	Capital reserve for transactions with non-controlling interests	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, 2019 (Audited)									
Balance as at January 1, 2019	359	312	(89)	1	(123)	(49)	256	5,493*	6,160
Total comprehensive income (loss)									
Profit for the year	-	-	-	-	-	-	-	457*	457
Other comprehensive income (loss)	-	563	(56)	-	-	-	19	(5)	521
Total comprehensive income (loss)	-	563	(56)	-	-	-	19	452	978
Dividend distributed	-	-	-	-	-	-	-	(236)	(236)
Balance as at December 31, 2019	359	875	(145)	1	(123)	(49)	275	5,709	6,902

* Retrospective application of a new insurance circular – see Note 2

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

Harel Insurance Investments and Financial Services Ltd.

Condensed Separate Interim Information on Cash Flows

	Annex	For the three months ended March 31		For the year ended December 31
		2020	2019	2019
		(Unaudited)	(Unaudited)	(Audited)
		NIS million	NIS million	NIS million
Cash flows from operating activities				
Before taxes on income	A	**25**	14 [1]*	101 [1]
Taxes paid		**(10)**	(3)	(21)
Net cash provided by operating activities		**15**	11	80
Cash flows from investing activities				
Investment in investees		**-**	-	(29)
Proceeds from sale of fixed assets		**-**	-	1
Dividend and interest from investees		**19**	-	143
Financial investments, net		**(27)**	(65)	(158)
Loans and capital notes provided to investees		**-**	-	(1)
Repayment of loans and capital notes provided to investees		**-**	-	15
Net cash used for investment activity		**(8)**	(65)	(29)
Cash flows from financing activity				
Dividend paid		**-**	(107)*	(343)
Repayment of loans from banks and others		**-**	(27)	(53)*
Loans received from banks and others		**-**	-	190*
Repayment of lease liabilities		**(1)**	-	(3)
Net cash used for financing activity		**(1)**	(134)	(209)
Increase (decrease), net, in cash and cash equivalents		**6**	(188)	(158)
Cash and cash equivalents at beginning of the period		**77**	235	235
Cash and cash equivalents at end of the period		**83**	47	77

* Reclassified

1 Retrospective application of a new insurance circular – see Note 2

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

Condensed Separate Interim Information on Cash Flows (contd.)

	For the three months ended March 31		For the year ended December 31
	2020	2019	2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Annex A - Cash flows from operating activities before taxes on income			
Profit (loss) for the period attributed to the Company's shareholders	**(135)**	221**	457**
Items not involving cash flows			
Company's share of losses (profits) of equity accounted investees	**155**	(198) **	(362) **
Net losses (profits) from financial investments	**1**	(3)	(7)
Change in fair value of investment property	**(2)**	-	(1)
Financing expenses (income), net	**(5)**	(8)	2
Taxes on income	**7**	6	28
Depreciation and amortization	**-**	-	1
Changes in other balance sheet items			
Other receivables	**(6)**	(4)	(12)
Other payables	**9**	(1)*	(5)
Liabilities for employee benefits, net	**1**	1	-
Total adjustments required to present cash flows from operating activities	**160**	(207)	(356)
Total cash flows provided by operating activities, before taxes on income	**25**	14	101

* Reclassified

** Retrospective application of a new insurance circular – see Note 2

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

NOTE 1 - Method of preparing the separate financial information

A. General

The following is condensed separate interim financial information from the Group's Condensed Consolidated Interim Financial Statements as at March 31, 2020 ("Consolidated Statements") which are published as part of the Periodic Reports ("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 in conjunction with the separate financial information as at December 31, 2019, 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 – Basis of preparation

Retrospective application of a new insurance circular

On March 29, 2020, Insurance Circular 2020-1-5 was published concerning an amendment to the provisions of the consolidated circular on the measurement of liability - Liability Adequacy Test (LAT) ("the Circular"). The Circular changes the grouping of insurance products so that the LAT can be calculated for the entire life assurance segment together. According to the Circular, calculations for the long-term care sector will continue to be prepared separately. The provisions of the Circular entered into force in Q1 2020 by way of retrospective application. Following are the effects of the Circular on the comparison figures in the financial data from the Separate Consolidated Interim Financial Statements.

(1) Effect of the Circular on the Statement of Financial Position:

	As at March 31, 2019		
	As reported in the past (Unaudited)	Change	As reported in these financial statements
	NIS million	NIS million	NIS million
Assets			
Investments in equity accounted investees	5,727	282	6,009
Equity			
Surpluses	5,429	282	5,711

	As at December 31, 2019		
	As reported in the past (Unaudited)	Change	As reported in these financial statements
	NIS million	NIS million	NIS million
Assets			
Investments in equity accounted investees	5,943	464	6,407
Equity			
Surpluses	5,245	464	5,709

(2) Effect of the Circular on Equity:

	As at January 1, 2019		
	As reported in the past (Unaudited)	Change	As reported in these financial statements
	NIS million	NIS million	NIS million
Retained earnings	5,247	246	5,493

NOTE 2 – Basis of preparation (contd.)

Retrospective application of a new insurance circular (contd.)

(3) Effect of the Circular on the Statement of Profit and Loss and Other Comprehensive Income:

	For the three months ended March 31, 2019		
	As reported in the past (Unaudited)	Change	As reported in these financial statements
	NIS million	NIS million	NIS million
Company's share of the profits of equity accounted investees	162	36	198

	For the year ended December 31, 2019		
	As reported in the past (Unaudited)	Change	As reported in these financial statements
	NIS million	NIS million	NIS million
Company's share of the profits of equity accounted investees	144	218	362

NOTE 3 - 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. On March 24, 2020, the Board of Directors of Standard Insurance Ltd. ("Standard") approved the distribution of a dividend in the amount of NIS 16 million. The Board of Directors made its decision after taking into account the financial results of Standard. The dividend was paid on March 26, 2020.
3. On approval to invest in and establish the IIF 4 partnership, see Notes 7 and 10 to the Consolidated Financial Statements.

NOTE 4 – Material Events in the Reporting Period

1. On changes in the composition of the Company's Board of Directors, see Notes 9 and 10 to the Consolidated Financial Statements.
2. On the publication of a shelf prospectus by Harel Financing & Issuing, see Note 9 to the Consolidated Financial Statements.
3. On the effects of the outbreak of the COVID-19 pandemic on the Group, see Note 1 to the Consolidated Financial Statements.

NOTE 5 – Significant Events after the Reporting Period

1. On a restructuring of Harel Pension & Provident, see Note 10 to the Consolidated Financial Statements.
2. On a restructuring - transfer of all the share capital of Standard to Harel Insurance for the purpose of the merger of Standard into Harel Insurance, see Note 10 to the Consolidated Financial Statements.
3. On an Annual and Special General Meeting of the Company, see Note 10 to the Consolidated Financial Statements.

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 annual report concerning the effectiveness of the internal control over financial reporting and disclosure that was included in the Periodic Report for the period ended December 31, 2019 (hereinafter – the last annual report on internal control), the Board of Directors and management assessed the Company's internal control; based on this assessment, the Board of Directors and management of the Company concluded that this internal control, at December 31, 2019, is effective.

Prior to the date of the report, the Board of Directors and management received no information regarding any event or matter that might change the assessment of the effectiveness of the internal control, as presented in the last annual report on internal control;

At the date of the report, based on the assessment of the effectiveness of the internal control in the last annual report on internal control, and based on information submitted to management and the Board of Directors, as noted above, the internal control is effective.

<u>Certification</u>

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 Q1 2020 ("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.

June 10, 2020

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 Q1 2020 ("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.

June 10, 2020

Arik Peretz

CFO