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HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD.

Interim Statement
As at March 31, 2016

The original language of theses Interim Consolidated Statements is Hebrew.
The Hebrew version shall prevail over any translation thereof.

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Board of Directors Report

Harel Insurance Investments & Financial Services Ltd.

Board of Directors Report

For the three months ended March 31, 2016

The Board of Directors Report for the three months ended March 31, 2016 ("the Reporting Period"), reflects the principal changes in the business situation of Harel Insurance Investments & Financial Services Ltd. ("Harel Investments" or "The Company") during this period, and it was prepared taking into account that the reader is also in possession of the Group's full Periodic Report for 2015 which was published on March 23, 2016 ("the Periodic Report").

The Board of Directors' Report also contains forward-looking information, as defined in the Securities Law, 1968. Forward-looking information is uncertain information regarding the future, based on information that the Company has at the time of preparing the report and including the Company's estimates 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 various sectors of the insurance industry, the Company operates through the subsidiaries: Harel Insurance Company Ltd. (wholly controlled) ("Harel Insurance"); ICIC - Israel Credit Insurance Company Ltd. (ICIC) (in which the Company has a 50% stake); E.M.I. - Ezer Mortgage Insurance Company Ltd. (wholly controlled), ("EMI"); Interasco Societe Anonyme General Insurance Company S.A.G.I. (in which the Company owns 94% stake ("Interasco"), which operates in Greece in non-life insurance; and Turk Nippon (in which the Company owns a 100% stake), which operates in Turkey.

   Commencing January 1, 2016, the insurance activity of Dikla Insurance Company Ltd. was merged into Harel Insurance. On that date, Dikla ceased to be an insurer, and from that date it holds a license as an insurance agency (for further information, see Note 9 (5) to the Financial Statements).

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

   Provident fund management companies: Harel Provident and Education Funds Ltd. (wholly controlled) ("Harel Provident"), Harel Atidit Provident Funds Ltd. (wholly controlled) ("Harel Atidit Provident") (on the merger of Atidit Provident Fund into Harel Provident, see

Note 9 (2) to the Financial Statements; and the Tzva Hakeva Savings Fund - Provident Funds Management Company Ltd. (wholly controlled) ("Tzva Hakeva").

Pension fund management companies: Harel Pension Funds Management Ltd. (wholly controlled) ("Harel Pension"); Manof Pension Funds Management Ltd. (wholly controlled) ("Manof") (and on the merger of Manof into Harel Pension, see Note 9 (3) to the Financial Statements); and LeAtid Pension Funds Management Company Ltd. (in which the Company has a 79% stake), which manages an old pension fund ("LeAtid").

C. In the financial services and capital market sector, the Company operates through Harel Finance Ltd. ("Harel Finance") (wholly controlled by the Company) and its subsidiaries: Harel Pia Mutual Funds Ltd. ("Harel-Pia"), Harel Finance Investments Management Ltd. (“Harel Finance Investments”), Harel Financial Products Ltd. ("Harel Products") (which engages in financial products such as: ETNs, covered warrants and more). The products are offered to the public through the subsidiary Harel Sal Ltd. ("Harel Sal") which is a reporting corporation under the Securities Law and issues index products (covered warrants and ETNs) and through the subsidiary, Harel Sal Currencies Ltd ("Harel Currencies"), which is a reporting company and issues certificates of deposit on different currencies.

The Group has been active in the insurance industry for about 80 years, and according to its financial statements for 2015, it is Israel's largest insurance group in terms of premiums, with a market share of 21%. In health insurance the Group is the largest and most prominent in the market with of 42.6% of the market. In the non-life sectors, the Harel is the second largest insurance group with a market share of 15.1%, and it holds fourth place regarding the volume of life-assurance premiums with 16.7% of the market. In the new pension fund management sector, the Group has a market segment of about 16.5%. In the provident fund management sector, the Group has a market segment of about 7.8%. In the mutual fund management sector, the Group has a market segment of about 10.8%.

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

2.2 Company shareholders

At the publication date of the report, the Hamburger family (Yair Hamburger, Gideon Hamburger and Nurit Manor) holds - mainly through G.Y.N Financial Consulting and Management Ltd., a holding company fully controlled by them – 50.05%% of the Company's voting rights and 49.6% of the Company's issued share capital.

3 Financial position and results of operations, shareholders' equity and cash flow

3.1 Material changes in the Company's business during the Reporting Period

3.1.1 Maalot Rating - Harel Financing and Issuing

On a Maalot rating for two series of bonds of Harel Financing and Issuing, see Note 6.C to the Financial Statements.

3.1.2 Approval of the text of the consent decree under Section 50B of the Antitrust Law, 1988

On the approval by the Antitrust Court of the consent decree under Section 50B of the Antitrust Law, 1988, see Note 9 (18) to the Financial Statements.

3.1.3 Dividend distribution

On the distribution of a dividend in March 2016, see Note 9 (8) to the Financial Statements.

3.1.4 Compensation policy - Harel Insurance and the subsidiaries that are financial institutions

On the revised compensation policy of Harel Insurance and the subsidiaries that are financial institutions, see Note 9 (11) to the Financial Statements.

3.1.5 Cooperation agreement with Bank Leumi LeIsrael Ltd.

On a cooperation agreement with Bank Leumi LeIsrael Ltd. - provision of housing loans, see Note 9 (1) to the Financial Statements.

3.1.6 Changes in senior officers serving the subsidiaries

On changes in senior officers serving the subsidiaries, see Note 9 (14) to the Financial Statements.

3.1.7 Agreement relating to a non-extraordinary transaction

On entering into a transaction that is not an extraordinary transaction, see Note 9 (16) to the Financial Statements.

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

3.2.1 Issuance of hybrid tier-2 capital - Harel Financing and Issuing

On the issuance of hybrid tier-2 capital (Series 12-13 bonds) through Harel Financing & Issuing, see Note 10 (2) to the Financial Statements.

3.2.2 Annual General Meeting:

On a general meeting of the Company that took place on April 12, 2016, see Note 10 (1) to the Financial Statements

3.3 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. The following addresses the key factors in the macro-economic environment that influenced the Group’s activity:

3.3.1 General

The global capital markets were extremely volatile in Q1 2016. In the first half of the quarter, the stock market fell sharply worldwide with commodities prices, and oil in particular, plummeting. This trend was reversed in the second half of the quarter in view of more positive economic indicators from the US and China, as well as the more expansionist monetary policy of central banks all over the world.

Indicators in the US in the first quarter were mixed. The strong employment market and stable private consumption were accompanied by weak export and industry figures that were negatively impacted by the strong dollar and falling energy prices. The dollar weakened in the first quarter against most of the key currencies as expectations of an increase in interest rates moderated. According to initial estimates, Q1 growth was 0.5% at an annual rate.

In the Eurozone, indicators in the first quarter were mixed. Although private consumption improved somewhat, the general feeling in the corporate sector in the first quarter was not encouraging and inflation remained at extremely low levels. In response to the moderate growth, the ECB applied its expansionist monetary policy by increasing bond purchases, reducing the quality of the bonds that it buys, and further lowering the interest rate. According to the most recent estimate, Q1 growth was 2.1% at an annual rate.

Israel's most recent economic indicators for Q1 2016 were mixed; private consumption and Israel's labor market continued to present a positive picture (unemployment in the first quarter rose slightly to 5.3%). In contrast, due to the strong shekel and weakness of Israel's target markets, export figures were weak. According to initial estimates, growth in Q1 was 0.8% at an annual rate.

In the developing countries and emerging markets, the recovery of commodities prices worldwide together with a lowering of expectations that interest rates in the US would rise rapidly, contributed to economic improvement in most of the emerging markets, particularly in the second half of the first quarter. China's GDP rose by 6.7% over the last four quarters and the expansionist fiscal and monetary policy contributed to improving the indicators during the quarter

3.3.2 Developments in the Israeli economy

The Group operates in the Israeli economy, where the political, security and economic situation affect its activity in various sectors. Changes in the state of the Israeli economy may lead to changes in the volume of premiums and other revenues and to a change in the operating costs of the Group's companies. A change in employment levels in the Israeli economy may affect the volume of activity in life assurance and long-term savings.

3.3.3 Stock market

After a period of severe fluctuations, the TA 100 index closed 4.9% lower in Q1 2016. The daily turnover of trade in bonds was NIS 1.4 billion in Q1 2016, down 4% compared with the average for 2015. In Q1 2016, the MSCI World Index declined by 0.2% and the MSCI Emerging Markets Index rose by 5.8%.

3.3.4 Bond market

The general bond index rose by 1.3% in Q1 2016. During the quarter, the government bond index rose by 1.4% and the corporate bond index rose by 1.0%. The daily turnover of trade in bonds was NIS 4.3 billion in Q1 2016, up 4% compared with the average for 2015.

3.3.5 Mutual Funds

Mutual funds recorded net redemptions of NIS 11.6 billion in Q1 2016, after redemptions of NIS 33.7 billion in 2015. Most of the redemptions in the quarter were in the funds specializing in bonds (NIS 8.3 billion).

3.3.6 Index products

According to the Association of ETFs, at the end of Q1 2016 total assets under management amounted to NIS 98.5 billion, 5% lower than at the end of 2015 (NIS 103.5 billion). The decline was greatest for ETNs on foreign shares where redemptions of NIS 1.1 billion were registered).

3.3.7 Foreign exchange market

In Q1 2016, the shekel strengthened by 3.5% against the dollar (at NIS 3.766 / 1 USD) and was 0.9% weaker against the Euro (at NIS 4.2856 / 1 EUR)).

3.3.8 Inflation

According to the last known index, at the end of Q1 2016, the rate of inflation for the last 12 known indices was -0.2% (until February), after declining 0.9% in the first quarter. Transportation, communications and fruit and vegetables were the key factors that contributed to the lower index during the quarter (known index).

3.3.9 Bank of Israel interest

The Bank of Israel interest rate remained unchanged at 0.1% during the first quarter as well.

3.4 Legislation and regulation regarding the Company's areas of activity

Following is a description of material changes in legislation and regulation in relation to the Company's areas of activity since the Periodic Report:

3.4.1 General

3.4.1.1 Provisions of law

3.4.1.1.1 On April 12, 2016, the Compensation for Senior Officers of Financial Institutions (Special Approval and Non-allowance of an Expense for Tax Purposes on account of Extraordinary Compensation) Law, 2016 was published. The Law prescribes that an agreement between a financial institution (financial entity, manager of a joint investment trust fund, a company whose purpose is to issue index products, portfolio managers, banks or any other entity that provides financial services, as determined by the Minister of Finance) or a company that controls a financial institution ("financial corporation") and a senior officer or employee, relating to his terms of office or employment, that include the payment of compensation, where this compensation is expected to cost more than NIS 2.5 million per year, must be approved by the compensation committee, the board of directors (by a majority of the external or independent directors, insofar as there is an obligation to appoint such directors) and the general meeting (under the conditions prescribed in the Companies Law with respect to approval of the compensation policy for senior officers), and that such agreement may only be approved if the ratio between the expected cost of the compensation and the cost of the lowest remuneration that the financial corporation pays its employees, including manpower company employees who, in practice, are employed by the financial institution, in the year preceding the date of the agreement, is less than 35. Furthermore, the Income Tax Ordinance was amended and it now stipulates that insofar as a financial corporation pays a senior officer or employee a salary the cost of which is more than NIS 2.5 million, then for the purpose of calculating the taxable income of the financial corporation, payroll expenses of an amount equal to twice the difference between the employee's payroll expense and NIS 2.5 million will not be tax deductible. The provisions of the law apply to agreements that are approved from the date of publication of the law, and with respect to an agreement that was approved before the date of publication, the provisions of the law will apply from six months after the publication date of the law. On March 16, 2016, the Supervision of Financial Services Bill (Legislative Amendments), 2016, was published. The Bill proposes amending the Supervision of Financial Services (Insurance) Law, 1981, the Supervision of Financial Services (Provident Funds) Law, 2005, the Supervision of Financial Services (Pension Advice, Pension Marketing and Pension Clearing System) Law, 2005, as well as indirect amendments in other laws, and to establish an independent authority to be called The Capital Market, Insurance and Savings Authority, which will operate as an independent and separate unit under the auspices of the Minister of Finance. The Authority will be charged with protecting the affairs of insureds, fund members and customers of the supervised entities, ensuring the stability and proper management of the supervised entities, promoting competition and encouraging technological and business innovation. The Bill also proposes that, with the government's approval, the Minister of Finance will appoint for one five-year term of office, a Commissioner of the Capital Market, Insurance and Savings, who will act as the Authority's director; that the Authority will also supervise institutional holding companies that control financial institutions and in which thirty percent of their assets are the means of control in financial institutions or are managed through financial institutions, that some of the powers vested in the Minister of Finance in these law will be vested in the Commissioner, and that the currently existing right of appeal in the District Court on some of the Commissioner's decisions will be abolished, and instead it will be possible to file administrative petitions on decisions of a competent authority in the court for administrative affairs, by virtue of the supervision laws that do not prescribe rules or directives under those laws.

3.4.1.1.2 On January 25, 2016, draft Supervision of Financial Services (Insurance) (Restrictions on the Appointment and Service of Key Functionaries in Financial Institutions) Regulations, 2016, were published. The draft regulations stipulate that the controlling shareholder of a financial institution or his relative, the relative of a director in a financial institution, and any person who has been convicted of any of the offenses listed in the memorandum, or against whom proceedings have been opened with respect to such an offense, shall not serve as an officer (excluding a director) in a financial institution or as any other functionary in the category prescribed by the Commissioner, where his activity might significantly influence the financial institution's risk profile or the money held by savers in the financial institution. The draft regulations also propose that a person may hold one of the positions of a key functionary in a financial institution only if he is lawfully appointed to such position, and that no person shall prejudice the independent discretion of a key functionary.

3.4.1.1.3 On January 4, 2016, the Knesset passed the Amendment to the Income Tax Ordinance (Amendment no. 216) Law, 2016, which prescribed, inter alia, a 1.5% reduction in the rate of corporate tax, from 2016 onwards, so that it will be 25%. For additional information see Note 5.B to the Financial Statements.

3.4.1.2 Circulars

3.4.1.2.1 On May 23, 2016, the Commissioner published a circular on the retrieval of personal information. The circular stipulates that insurance companies must allow insureds to maintain private accounts that are accessible using electronic means, that will facilitate the retrieval of information about the insured, including the particulars of insureds, including information about policies held by the insured or which are or were in the insured's possession, and insurance claims filed by the insured in the last three years. The circular also stipulates that insurance companies may offer to send insureds the documents and notifications required by law, using electronic systems, and will allow insureds to submit documents to the insurer in the same manner. The circular becomes applicable on March 30, 2017.

3.4.1.2.2 On February 17, 2016, the Commissioner published a circular concerning investment rules that apply to financial institutions (which amends a previous circular on this subject). The circular prescribes provisions concerning the providing of loans by the financial institution, such as performing an analysis when the loan is given, housing loans, review of the need for collateral, providing loans to members, and provisions relating to increasing the limit on investments in partnerships and real-estate companies to 6%, and excluding loans backed by government guarantees from the 3% limit that applies to investments that do not comply with the conditions listed in the circular for providing loans, the lending of securities and investing in non-marketable debt assets. The circular takes effect on its date of publication.

3.4.1.3 Draft circulars

3.4.1.3.1 On February 25, 2016, a draft amendment to the circular was published on the involvement of institutions that are not licensed to sell and market insurance products that are not group insurance, which proposes that the involvement of external entities in the marketing and sale of travel insurance is permitted under conditions stipulated on this matter in the circular, where the insurance does not include exclusions on account medical underwriting and where the policy period is less than 30 days.

3.4.1.3.2 On February 9, 2016, the Commissioner published a second draft of the annex to the circular on clarification and settlement of claims and the handling of complaints from the public. This second draft sets out provisions in the matter of notification to be given to insureds or claimants, the information on which the settlement or dismissal of a claim must be based due to non-disclosure and the intention to defraud, the manner of investigating a claim using investigative reports, dismissal of a claim, and the settlement of LTC claims including with respect to the definition of the insured event, how claims should be filed and how a functional assessment should be performed. The Commissioner and the insurance companies are discussing the draft document.

3.4.1.4 Instructions and clarifications

3.4.1.4.1 On March 16, 2016, the Commissioner published a second draft position clarifying the reappraisal of eligibility. The draft position proposes that before the an approved period for payment of insurance benefits ends, which is shorter than the maximum period of entitlement, insurance companies must initiate a review of the entitlement in order to clarify whether the claimant is still entitled to the insurance benefits, and the company will be entitled to discontinue the insurance benefits after it has taken reasonable measures to investigate the entitlement or if the insured has informed the company that he no longer meets the definition of the insured event and that the entitlement will be reviewed in accordance with clear criteria to be determined by the insurance company taking into account, inter alia, the claimant's age and medical condition.

3.4.2 Life assurance and long-term savings

3.4.2.1 Provisions of law

3.4.2.1.1 On March 9, 2016, the Supervision of Financial Services (Provident Funds) (Amendment no. 15) Bill, 2016, was published which proposes amending the Supervision of Financial Services (Provident Funds) Law, 2005, the Income Tax Ordinance, the Supervision of Financial Services (Pension Advice, Pension Marketing and Pension Clearing System) Law, 2005, and the Allocation of Pension Savings Between Couples who have Separated Law, 2014, and allowing provident fund management companies to set up s savings product to be called "Investment Provident Fund". This product will allow savers to save amounts that can be withdrawn as a lump sum, without offering any tax benefits on the deposits and with payment of capital gains tax of 25%, or to receive exemption from capital gains tax if the member decides to withdraw this money as an annuity. Furthermore, the Bill proposes authorizing the Commissioner to impose financial penalties on management companies that act in contravention of the provisions of the Supervision of Financial Services (Provident Funds) (Insurance Cover in Provident Funds) Regulations, 2013, or in contravention of the Minister's instructions on the breakdown of provident fund accounts into components or management of each of the components.

3.4.2.1.2 On March 8, 2016, a memorandum of the Supervision of Financial Services (Provident Funds) (Amendment no. __) Law, 2016, was published. The law memorandum proposes that if a condition is prescribed in law or by agreement whereby the deposit rate for the component of the employer's payment (excluding the severance pay component) in a particular class of provident fund is a certain percentage of the employee's salary which includes the employer's payment for work disability insurance, at a rate required to guarantee at least 75% of the employee's salary, or 2.5% of the employee's salary, whichever is lower, and the statutory deposit rate or agreement rate for the component of the employer's payments to a different class of provident fund is a lower rate, then the provisions of the law or the agreement will not be deemed a condition for the employer regarding the deposit rate for the employee, in a deposit for a particular class of provident fund, and the employee will be entitled to a deposit rate for the component of the employer's payments of no less than 6.25% commencing in July 2016 and 6.5% commencing in January 2017.

3.4.2.1.3 On January 27, 2016 a memorandum of the Supervision of Financial Services (Provident Funds) (Amendment no. __) Law, 2016, was published which proposes allowing provident fund management companies to set up another savings product to be called "Investment Provident Fund". This product will allow savers to save amounts that can be withdrawn at any time, without offering tax benefits on the deposits, but which offer exemption from capital gains tax if the member decides to withdraw this money as an annuity. The memorandum also proposes cancelling the minister's authority to prescribe provisions concerning foreclosure on the rights of members in provident funds, and instead to regulate the subject in primary legislation.

3.4.2.1.4 On January 26, 2016, Supervision of Financial Services (Provident Funds) (Withdrawing money from Provident Funds) (Small Amounts) Regulations, 2016 were published. The regulations set out the conditions under which members, who have in one of their accounts which is an old fund, provident fund for retirement benefits, provident fund for savings and a personal provident fund for severance pay, that are not insurance funds, may under certain conditions withdraw the money as a lump sum. The draft regulations also obligate the management companies of such a provident fund to send their members notification of their right to withdraw the money based on the formula and on the date stipulated by the Commissioner.

3.4.2.2 Circulars

3.4.2.2.1 On April 10, 2016, an amendment was published to the circular concerning an "explanatory document" which replaces a previous circular and sets out a standard text for the explanatory document to be submitted to customers by pension advisors or marketing agents in connection with a pension advice or marketing procedure. The amendment postpones the application date to January 1, 2017.

3.4.2.2.2 On March 13, 2016, the Commissioner published a circular on provisions for choosing a provident fund. The circular prescribes that enrolling employees in provident funds without them filling out application forms will only be permitted for provident funds that are default funds, that are chosen by the Commissioner, or for provident funds that are another default option chosen by the employer or the labor union in accordance with the provisions of the circular. The circular also prescribes provisions concerning the way in which the Commissioner will choose default option funds, including that preference will be given to pension funds with a market share of 5% and that the management fees offered by these funds will be in force for newly enrolled members for at least 10 years from their date of enrollment in the fund. The circular further prescribes rules relating to employers or labor organizations that choose another default option fund, including that the choice must be made through a tender process in which all provident fund management funds of the same category are allowed to take part, that a company which has a related party that provides settlement or control services to the employer cannot be chosen, or whose related party markets supplementary insurance cover where the cost of this cover is not collected from the employee's payments, unless the management fees that it offers are the lowest offered in the tender, and if the management company or its related party give the employer any form of benefit.

Furthermore, provisions were prescribed concerning the scope of the insurance cover, the criteria and weights according to which another default option fund can be chosen, the manner of rating the offers and choosing the winner, as well as regarding ratings that change according to the type of population and choice of several other default option funds, not allowing enrollment by a default option management fund to be conditional on enrolling in other products that it markets or that are marketed by a related party, and reports to the Commissioner on default option agreements. The circular takes effect on its date of publication.

On April 10, 2016, the Commissioner published a letter to the managers of the financial institutions, on the subject of a procedure for defining selected default option funds. The letter details the rules and dates on which comprehensive pension funds that wish to be defined as a select default option fund must submit their offers to the Commissioner. The maximum rate of management fees from the deposits to be submitted by management companies must be higher than 0% but not more than 2% and the maximum rate of management fees from the accrual must be higher than 0%. When weighting the offers, the percentage management fees offered by a management company which has a market share of more than 5% will be considered 0.5% higher than the management fees on the deposits that it offered and 0.05% of the management fees from the accrual that it offered. The names of the winning pension funds and the management fee rates that the management companies will collect are expected to be published on June 1, 2016.

The Association of Life Insurance Companies Ltd. filed a petition in the High Court of Justice against the Commissioner to cancel the circular and the letter, in which context a temporary order was granted against publication of the identity of the pension funds defined as the selected default fund and the rate of management fees that the fund managers of these pension funds can collect.

3.4.2.2.3 On January 6, 2016, the Commissioner published a circular on annual reports and quarterly reports for members and insureds in financial institutions which amends and eliminates the existing circular on this subject. The circular will become applicable in the annual reports sent to members for 2015.

3.4.2.2.4 On January 5, 2016, the Commissioner published a circular on conditions for controlling the management company of an additional pension fund or the management company of an additional provident fund. The circular proposes that the holder of a permit to control a pension fund management company will be entitled to receive a permit to control another pension fund management company, and the holder of a permit to control a management company that is not a pension fund management company, or of a pension fund management company that also manages a provident fund that is not a pension fund, will be entitled to receive an additional permit to control another management company, for a defined period, provided that within one year of the date of the acquisition, the assets managed by the existing and additional companies are moved to be managed by a single management company and the license of the other company will be revoked. The circular also prescribes conditions which, when one of them is satisfied, a permit may be obtained to control the existing and the additional companies, without the need to move the managed assets. The provisions of the circular apply from its date of publication.

3.4.2.3 Draft circulars

3.4.2.3.1 On April 20, 2016, the Commissioner published a circular concerning provisions for the payment of annuities by Savings Provident Funds. The draft circular sets out conditions for receiving an old-age pension from a Savings Provident Fund - members who reach the age of early retirement, the purchase of insurance cover for longevity through the management company, and the date on which the insurer begins to pay the old-age pension. The draft circular also sets out conditions for the marketing of insurance cover for longevity by management companies, and provisions concerning payments to the beneficiaries of members of Savings Provident Funds.

3.4.2.3.2 On April 11, 2016, draft Supervision of Financial Services (Provident Funds) (Recognition of Yield in New Comprehensive Provident Funds) Regulations, 2016 were published. The draft regulations propose provisions for calculating the yield on the fund's assets and for changing the allocation of the designated bonds in three groups - recipients of annuities, members aged fifty or more, and other members.

3.4.2.3.3 On April 10, 2016, the Commissioner published a draft circular concerning enrollment in a pension fund or provident fund which proposes amending and replacing an existing circular of the same name. The draft circular proposes regulating the process of transferring members' monies in connection with their enrollment in a pension fund, from another pension fund in which they are defined as non-depositing members.

3.4.2.3.4 On February 23, 2016, a draft circular was published on rules for the operation of pension products which prescribes provisions on the method of implementing instructions prescribed in the Supervision of Financial Services (Pension Advice, Pension Marketing and Pension Clearing System) Law, 2005. If the conditions outlined in the provisions are satisfied, pension marketers or related entities will not be able to provide operating services for employers for whose employees they provide pension marketing services. The draft circular also prescribes the format for reporting to the financial institutions with respect to the need to reduce the management fees paid by the employees and the way of presenting information to employees. The Commissioner and the insurance companies are discussing the draft document.

3.4.2.3.5 On February 2, 2016, the Commissioner published a draft circular on the consolidation of existing accounts in new funds. The draft circular sets out provisions for implementing a temporary order in Section 24 A of the Provident Funds Law, with respect to the consolidation of pension savings in new pension funds, from inactive accounts to active accounts. The draft circular prescribes provisions concerning notice that must be sent to members of the intention to submit their information for the purpose of moving their money to their pension fund account, the way in which the information must be submitted to the Commissioner, obtaining information from the Commissioner about active members who are inactive members in a pension fund run by another management company, and also provisions concerning the transfer of money within the context of consolidation of existing accounts in a pension fund. The Commissioner and the insurance companies are discussing the draft document.

3.4.3 Health insurance

3.4.3.1 Provisions of law

3.4.3.1.1 On March 15. 2016, a memorandum of the National Health Insurance (Amendment no. ___) Law, 2016 was published. The law memorandum proposes amending the National Health Insurance Law, 1994 and eliminating the provision whereby the supplementary health service plans offered by HMOs will not include life-saving or life-prolonging medicines, and to allow these plans to include a provision that exempts from payment or offers a discount on cover for life-saving or life prolonging medicines, due to considerations relating to the member’s financial situation.

3.4.3.1.2 On December 31, 2015, Supervision of Financial Services (Insurance) (Group Long-term care Insurance for HMO members) Regulations, 2015, were published in the Official Gazette. The regulations set out standard conditions for group LTC policies for HMO members, as well as provisions for enrolment in group LTC insurance by HMO members.

On January 24, 2016, a circular was published about group LTC insurance for HMO members which sets out principles for drawing up group LTC insurance for HMO members. The main points of these principles are: that insurance companies will bear at least 20% of the insurance risk inherent in the plan, that the plan will be chosen by tender for a maximum period of 8 years, that statutory provisions will apply to management of the fund with respect to yield-dependent liabilities; the circular also prescribes provisions concerning income and expenses to be recognized in the fund, limitations on an insurance company entering into more than one agreement to draw up group insurance for HMO members, notifications to be sent to insureds who are eligible to enroll in the group LTC policy for HMO members when a group LTC policy ends, and provisions concerning insureds who move from one HMO to another. The provisions of the circular will apply to group long-term care insurance policies for HMO members that are introduced or renewed from July 1, 2016.

On that same day, Supervision of Financial Services (Insurance) (Group Health Insurance) (Amendment) Regulations, 2015 were published in the Official Gazette. These regulations abolish the provision in the Supervision of Financial Services (Insurance) (Group Health Insurance) Regulations, 2009 regarding amounts that insurers may refund to HMOs that run a group LTC policy for HMO members. The amendment becomes applicable on July 1, 2016.

3.4.3.2 Instructions and clarifications

3.4.3.2.1 On April 14, 2016, the Commissioner published a ruling in principle concerning the manner of marketing personal accident policies. The ruling prescribes provisions for handling personal accident policies that were sold without the policyholders being informed of the nature of the transaction and other important matters relating to the insurance transaction - namely "in a misleading manner" as described by the Commissioner. Insurance companies must check whether they sold personal accident policies in a misleading manner, they must contact by phone policyholders who received a misleading description when they enrolled in the policy, and the insurance companies must obtain their consent for continuing to insure them in the policy. Insofar as the insured states that he does not agree to the insurance, the insurance company must cancel the policy and refund the premiums that were paid from the date of enrollment in the policy.

3.4.4 Non-life insurance

3.4.4.1 Provisions of law

3.4.4.1.1 Further to publication of the recommendations of the Winograd inter-ministerial committee on the subject of the life expectancy tables and the rate of interest applied in capitalizing annuities in respect of work-related injuries under the National Insurance Institute (Capitalization) Regulations, 1978, regulations were signed on this matter so that the rate of interest will be 2% instead of the present rate of 3%. For additional information see Note 9 (23) to the Financial Statements.

3.4.4.2 Circulars

3.4.4.2.1 On January 7, 2016, the Commissioner published a circular concerning an amendment to the provisions of the consolidated circular in the compulsory motor insurance branch. The circular prescribes that the provisions whereby the net premiums for vehicles that are not motorcycles will not be more than 90% of the net premiums for the same insurance in the residual insurance, will not apply to insurance for private and commercial vehicles weighing up to 3.5 tons in the compulsory motor sector. The circular becomes applicable between March 1, 2016 and December 31, 2016. The circular also changes the provisions and dates for submitting and applying compulsory motor insurance premiums based on the revision to Section 40 of the Supervision Law, and it broadens the option to revise the premiums retroactively, subject to informing the Commissioner in advance. The provisions of the circular apply to compulsory motor insurance policies in which the policy period commences on or after March 1, 2016. Commencing January 1, 2017, insurance companies will not be allowed to use different tariff formulae for groups and car fleets and the provision on changing premiums in the compulsory motor insurance branch for periods of less than a year for car fleets and groups will also be abolished.

Concurrently, a draft circular was published amending the provisions of the consolidated circular in the compulsory motor insurance branch. The draft circular proposes revising the premiums for private vehicles in residual insurance (the Pool) for policies in the compulsory motor insurance branch where the policy period commences on January 1, 2017.

3.4.5 Financial services sector and capital market activity

3.4.5.1 Further to Amendment no.23 to the Joint Investment Trust Law, which permits foreign funds to be offered to the Israeli public, on May 5, 2016, the Joint Investment Trust (Foreign Fund Unit Offerings) Regulations, 2016, were published in the Official Gazette, together with amendments in other regulations on relevant topics - fees, distribution fees, and the classification of funds for advertising purposes, that are designed to regulate the conditions for offering foreign funds. The regulations will enter into force on November 5, 2016, together with the provisions of Amendment no. 23.

On May 9, 2016, the Association of ETFs and the Association of Mutual Fund Managers filed a petition in the High Court of Justice (HCJ) against the Minister of Finance, the Israel Securities Authority (ISA), the Knesset Finance Committee and the Association of Foreign Banks in Israel (AFB) against the regulations on the grounds that they create unfair competition between the petitioners and the managers of the foreign mutual funds.

At this stage, it is impossible to estimate the effect on the Company's financial statements.

3.4.5.2 On April 6, 2016, the ISA published a revised version of the amendment to the Joint Investment Trust Law (which is currency called "The ETFs amendment"), whereby ETNs will cease to exist as a committed asset and will become closed, tracker mutual funds, namely - traded tracker funds. The amendment prescribes new provisions on certain subjects with respect to mutual funds in general and to closed tracker funds in particular. A significant part of the future regulation of this sector is expected to be regulated in secondary legislation which has yet to be published (mostly provisions of the ISA).

At this stage, it is impossible to estimate the effect on the Company's financial statements, in part given that the Company is unable to estimate the final text of the amendment and the date on which it will enter into force.

The proposed amendment includes a proposal to amend Section 49 of the Joint Investment Trust Law (which will become Section 67A according to the amendment). In accordance with the text of the amendment, a portfolio manager who is part of the group of companies to which the fund manager belongs ("associate portfolio manager"), which holds 25% or more of the net value of the fund's assets for its customers, will be considered an "associate entity" and various obligations and limitations will apply to the fund manager that belongs to the group of companies to which the associate portfolio manager belongs, which manages such an "associate fund". These obligations and limitations include that the fee paid to the fund manager in that fund will not exceed the average rates paid to the fund manager for all the funds of that class that it manages, and the fund supplement will not exceed the average supplement rates in any of the funds that it manages. At this stage, it is impossible to estimate the impact on the Company's financial statements.

3.5 Condensed data from the consolidated financial statements of Harel Investments

3.5.1 Condensed data from the consolidated performance reports of Harel Investments (NIS thousand):

	For the three months ended March 31		change %	For year ended December 31
	2016	2015		2015
Life assurance and long-term savings segment				
Gross earned premiums	1,017,965	1,206,682	(16)	4,242,656
Income from management fees	189,872	336,298	(44)	857,019
Profit (loss) from life assurance business	(47,646)	(76,902)	(38)	176,679
Profit (loss) from provident fund management	(3,828)	11,832	-	44,167
Profit from pension fund management	8,728	17,678	(51)	69,251
Total profit (loss) from life assurance and long-term savings	(42,746)	(47,392)	(10)	290,097
Total comprehensive income (loss) from life assurance and long-term savings	(36,649)	(27,403)	34	297,815
Non-life insurance segment				-
Gross earned premiums	716,050	763,170	(6)	3,071,824
Premiums earned on retention	434,657	443,204	(2)	1,767,625
Total profit (loss) from non-life insurance	(44,081)	86,324	-	216,948
Comprehensive income (loss) from non-life insurance	(50,714)	130,839	-	123,508
Health insurance segment				-
Gross earned premiums	996,156	955,353	4	3,964,225
Premiums earned on retention	952,303	903,069	5	3,757,672
Total profit (loss) from health insurance	28,122	(37,999)	-	33,721
Comprehensive income (loss) from health insurance segment	26,896	(19,489)	-	2,136
Insurance companies overseas segment				-
Gross earned premiums	59,528	62,154	(4)	257,921
Premiums earned on retention	36,994	37,586	(2)	162,614
Total profit (loss) from insurance companies overseas segment	(595)	9,747	-	10,958
Total comprehensive income (loss) from insurance companies overseas	566	1,388	(59)	(7,482)
Capital market and financial services segment				-
Revenues from capital market and financial services	64,532	81,108	(20)	300,392
Total expenses from capital market and financial services	46,583	58,247	(20)	292,521
Total profit from capital market and financial services segment	17,938	22,863	(22)	7,860
Total comprehensive income from capital market and financial services segment	17,994	22,964	(22)	7,759
Items not included in operating segments				-
Net profit from investments and financing income	29,494	67,117	(56)	172,385
Income from commissions	45,012	33,232	35	138,959
General & administrative expenses not recognized in operating	54,526	39,355	39	159,466

	For the three months ended March 31		change %	For year ended December 31
	2016	2015		2015
segment reports				
Financing expenses (income)	14,861	(1,570)	-	94,623
Pre-tax profit (loss)	(22,685)	102,004	-	683,262
Net profit for the period	9,063	75,874	(88)	455,746
Other comprehensive income (loss) for the period, net of tax	5,217	79,069	(93)	(74,610)
Total comprehensive income for the period	14,280	154,943	(91)	381,136
Net profit for the period attributed to the Company's shareholders	8,599	75,938	(89)	455,586
Net profit (loss) attributed to non-controlling interests	464	(64)	-	160
Return on equity in annual terms in percent	1%	12%	(90)	8%

Condensed data from the consolidated balance sheets of Harel Investments (NIS million):

	At March 31			At December 31
	2016	2015	change %	2015
Total balance sheet	91,115	92,983	(2.0)	91,485
Assets for yield-dependent contracts	40,177	38,517	4.3	40,036
Other financial investments	21,516	21,603	(0.4)	21,302
Intangible assets	1,522	1,586	(4.1)	1,532
Reinsurance assets	4,946	5,482	(9.8)	4,929
Insurance liabilities (insurance reserves and outstanding claims) in life assurance				
For yield-dependent investment contracts and insurance contracts	35,930	34,266	4.9	35,594
For insurance contracts that are not yield dependent	11,434	11,448	(0.1)	11,388
In non-life insurance	9,725	10,282	(5.4)	9,325
In health insurance (yield dependent and non-yield dependent)	7,883	7,262	8.6	7,797
In insurance companies overseas (yield-dependent and non-yield-dependent)	284	253	12.0	266
Adjustments and Offsets between segments	(4)	(5)	(18.4)	(5)
Total insurance liabilities	65,250	63,505	2.7	64,365
Equity attributed to holders of the Company's equity	4,814	4,876	(1.3)	4,907

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

	March 31			December 31
	2016	2015	% change	2015
For yield dependent investment contracts and insurance contracts	40,177	38,517	4.3	40,036
For members of provident funds and pension funds *	67,885	63,552	6.8	66,721

	March 31			December 31
	2016	2015	% change	2015
For mutual fund customers *	22,128	33,045	(33.0)	24,665
For customers portfolios *	8,720	8,935	(2.4)	8,740
ETNs	13,200	16,360	(19.3)	14,116
Total assets under management for the Group's policyholders and members	152,110	160,410	(5.2)	154,278

* Total assets managed by provident funds, pension funds, mutual funds and in portfolio management are not included in the Company's consolidated financial statements.

3.6 Additional information about the results of activity

The total earned premium from insurance business decreased by 7% in the Reporting Period to NIS 2,788 million, compared with NIS 2,986 million in the corresponding period last year. The decrease is mainly attributable to a lump sum deposit of NIS 216 million in the corresponding period last year for an early retirement arrangement by a large employer in life insurance and to the failure to win the tender for insuring the vehicles of state employees in 2016, which led to a decrease of NIS 36 million in the non-life insurance sector. The results of this tender had no significant effect on the Company’s profit or equity in the Reporting Period.

Comprehensive income, which consists of income after tax for the reporting period plus the net change in a capital reserve in respect of available-for-sale financial assets and other changes in shareholders' equity decreased by 91% to NIS 14 million in the Reporting Period, compared with NIS 155 million in the corresponding period last year.

The decline in comprehensive income is mainly due to the following:

A. Yields in the capital market, which were lower in the Reporting Period than those of the corresponding quarter last year and the NIS 15 million decrease in the management fees collected in the Reporting Period, compared with an amount of NIS 152 million in the corresponding period last year.

B. The effect of the publication of the Winograd Committee recommendations on the subject of the life expectancy tables and rate of interest used for capitalizing annuities in respect of work-related injuries in accordance with the National Insurance Institute (Capitalization) Regulations, 1978, (“the Winograd Committee”), whereby the rate of interest will be 2% instead of the present rate of 3%. As a result, Harel Insurance increased its insurance liabilities by NIS 150 million so as to reflect an up-to-date estimate of the repayments that the Company will be expected to pay for claims in compulsory motor and liabilities insurance (including the NII). (For additional information, see Note 9 to the Financial Statements).

These effects were partially offset by the effect of the ongoing decline in the risk-free interest rate and the decline in the yields embedded in the assets held against insurance liabilities in the corresponding period last year, as a result of which the Group’s insurance companies revised the discounting interest rates that are used to calculate some of the insurance liabilities. Accordingly, the insurance liabilities increased in the Reporting Period by NIS 54 million before tax and NIS 35 million after tax, compared with NIS 289 million before tax and NIS 181 million after tax in the corresponding period last year (for additional information, see Note 9 to the Financial Statements).

Net profit in the Reporting Period was NIS 9 million, compared with profit of NIS 76 million in the corresponding period last year.

There was a pre-tax loss of NIS 23 million in the Reporting Period, compared with pre-tax profit of NIS 102 million in the corresponding period last year.

Net revenues from investments and financing income totaled NIS 59 million in the Reporting Period, compared with NIS 1,640 million for the corresponding period last year. The decrease is mainly attributable to yields in the capital market that were lower in the Reporting Period than those in the corresponding period last year.

The Company's financing expenses that were not attributed to the operating segments, amounted to NIS 15 million, compared with financing income of NIS 2 million in the corresponding period last year. The increase in financing expenses is attributable mainly to negative inflation at a lower rate of 0.9% in the Reporting Period, compared to negative inflation of 1.6% in the corresponding period last year.

Shareholders' equity at March 31, 2016, relating to the Company's shareholders, was NIS 4,814 million, compared with equity of NIS 4,907 million at December 31, 2015. The change in shareholders' equity can be attributed to: (a) comprehensive income attributed to the Company's shareholders in the amount of NIS 14 million; (b) the distribution of a dividend in the amount of NIS 107 million; (c) insignificant amounts in respect of a translation fund for foreign activity, a capital reserve for the issue of employee stock options and the holding of Company shares by a subsidiary that manages ETNs.

For information about the regulatory capital requirements for the Group's insurance companies and the pension and provident fund management companies, in accordance with the regulations and Commissioner's circulars, see Note 8 to the Financial Statements.

3.7 Life assurance and Long-term savings

The comprehensive loss in life assurance and long-term savings was NIS 37 million in the Reporting Period, compared with NIS 27 million in the corresponding period last year. The comprehensive loss is mainly due to the following:

A. Yields in the capital market, which were lower in the Reporting Period than those of the corresponding quarter last year and a decrease of NIS 15 million in the management fees collected in the Reporting Period, compared with an amount of NIS 152 million in the corresponding period last year.

B. A decrease in comprehensive income from the activity of the pension and provident funds, from NIS 32 million in the corresponding period last year, to NIS 6 million in the Reporting Period, which is mainly attributable to an erosion of the management fee rates, a one-time provision for the restitution of management fees to members as part of the optimization project, and to an increase in the percentage of expenses.

C. These effects were partially offset by the ongoing decline in the risk-free interest rate and the decline in the yields embedded in the assets held against insurance liabilities in the corresponding period last year, as a result of which the Group's insurance companies revised the discounting interest rates that are used to calculate some of the insurance liabilities. Accordingly, the insurance liabilities increased by NIS 54 million before tax compared with an increase in the insurance liabilities of about NIS 222 million before tax in the corresponding period last year (for additional information see Note 9 to the Financial Statements).

The pre-tax loss in the life assurance and long-term savings segment was NIS 43 million in the Reporting Period, compared with a loss of NIS 47 million in the corresponding period last year.

Life assurance

3.7.1 Total premiums earned earned in the Reporting Period decreased by 16% to NIS 1,018 million, compared with NIS 1,207 million in the corresponding period last year. The decline is mainly attributable to a lump sum deposit of NIS 216 million in the corresponding period last year for an early retirement arrangement by a large employer in life insurance. The premiums earned in the Reporting Period accounted for 37% of all premiums earned by the Group during the Reporting Period.

The comprehensive loss in life assurance was NIS 43 million in the Reporting Period, compared with a comprehensive loss of NIS 60 million in the corresponding period last year. The reduction of the comprehensive loss is mainly attributable to the ongoing decline in the risk-free interest rate and the decline in the yields embedded in the assets held against insurance liabilities in the corresponding period last year, as a result of which the Group's insurance companies revised the discounting interest rates that are used to calculate some of the insurance liabilities. Accordingly, the insurance liabilities increased by NIS ~~17~~ 54 million before tax compared with an increase in insurance liabilities of about NIS 222 million before tax in the corresponding period last year (for additional information see Note 9 to the Financial Statements). These factors were partially offset by yields in the capital market which were lower in the Reporting Period than those of the corresponding quarter last year and by a decline in the total variable management fees collected in the Reporting Period, in the amount of NIS 15 million, compared with NIS 152 million in the corresponding period last year.

The pre-tax loss in life assurance during the Reporting Period amounted to NIS 48 million compared with a pre-tax loss of NIS 77 million in the corresponding period last year.

Losses from investments held against insurance liabilities in life assurance totaled NIS 24 million in the Reporting Period, compared with investment gains of NIS 1,404 million in the corresponding period last year. Profitability in life assurance is derived principally from investment profits, which affect the income from the management fees of yield dependent liability assets and the financial margin on investing the money from liabilities that are not yield dependent. The management fees and financial margin are calculated in real values. During the Reporting Period, the financial margin achieved was lower than the financial margin for the corresponding period last year, due to the capital market yields that were lower than those of the corresponding quarter last year and to lower negative inflation in the Reporting Period compared with the corresponding period last year.

During the Reporting Period redemptions amounted to NIS 251 million and accounted for 2.4% of the average reserve in life assurance, compared to redemptions in the amount of NIS 264 million in the corresponding period last year that accounted for 2.7% of the average reserve last year.

The total amount of life assurance reserves at March 31, 2016, was approximately NIS 47 billion.

Yield-dependent policies:

	Policies issued from 1991-2003	
	1-3.2016 (in percent)	1-3.2015 (in percent)
Real yield before payment of management fees	0.67	5.95
Real yield after payment of management fees	0.46	4.96
Nominal yield before payment of management fees	(0.24)	4.26
Nominal yield after payment of management fees	(0.46)	3.29

Following are the yield rates on yield-dependent policies - General track:

	Policies issued from 2004	
	1-3.2016 (in percent)	1-3.2015 (in percent)
Real yield before payment of management fees	0.36	5.93
Real yield after payment of management fees	0.09	5.63
Nominal yield before payment of management fees	(0.55)	4.23
Nominal yield after payment of management fees	(0.81)	3.95

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

	1-3.2016	1-3.2015
Profits (losses) after management fees	(182)	1,097
Total management fees	84	218

Pension funds

3.7.2 The volume of assets managed by the pension funds at March 31, 2016, increased by 13% to NIS 38.1 billion, compared with NIS 33.7 billion at March 31, 2015, and NIS 37.1 billion at December 31, 2015, which is an increase of 3% relative to the previous year. The increase over previous year is mainly attributable to ongoing deposits.

Contribution fees that were collected by the Group's pension funds during the Reporting Period increased by 14% to NIS 1,403 million, compared with NIS 1,236 million in the corresponding period last year.

The total amount of the assets managed by the pension funds and the contribution fees deposited therein are not included in the Company’s consolidated financial statements.

Total income from management fees collected by the pension funds and managed by the Group during the Reporting Period increased by 3% to NIS 65 million, compared with NIS 63 million in the corresponding period last year.

Expenses for the management of pension funds amounted to NIS 57 million, compared with NIS 45 million in the corresponding period last year. The increase of expenses in the Reporting Period compared with the corresponding period last year is mainly attributable to an increase in the commissions paid to agents and to the revised terms of the agreement for operating services that Harel Insurance provides to Harel Pension (for additional information, see Note 9 to the Financial Statements).

Pre-tax comprehensive income from the management of pension funds and operation of an old pension fund amounted to NIS 9 million in the Reporting Period, compared with NIS 19 million in the corresponding period last year. The reduced profit in the Reporting Period compared with the corresponding period last year is mainly attributable to an increase in the commissions paid to agents and to revised terms of the agreement for operating services that Harel Insurance provides to Harel Pension.

Total pre-tax profit from the management of pension funds and the operation of an old pension fund was NIS 9 million in the Reporting Period, compared with pre-tax profit of NIS 18 million in the corresponding period last year.

In the capital market, negative yields were recorded in the Reporting Period in most of the investment tracks. The nominal yield rate attained by the new pension fund Harel Gilad Pension in the Reporting Period is 0.63%.

Provident funds

3.7.3 At the date of the report, the Group's provident fund management company manages 9 provident funds (provident funds, education funds, central and personal severance pay funds, a provident fund for sick pay and budgetary pension fund). Some of the provident funds have several investments tracks which members can choose from. At March 31, 2016, the Group operates 34 tracks in its provident funds.

The volume of assets in the provident funds managed by the Group at March 31, 2016, amounted to NIS 29.8 billion, similar to the amount at March 31, 2015, and December 31, 2015.

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

Income from management fees that were collected from the provident funds managed by the Group decreased by 25% to NIS 41 million, compared with NIS 55 million in the corresponding period last year. This decrease is attributable to a one-time provision for the restitution of management fees to members as part of the optimization project, and to an erosion of the percentage of expenses.

Provident fund expenses amounted to NIS 44 million, compared with NIS 42 million in the corresponding period last year.

The total comprehensive loss before tax of the provident fund management companies which is included in the consolidated statement of income in the life assurance and long-term savings segment, was NIS 3 million in the Reporting Period, compared with NIS 13 million in the corresponding period last year.

The shift from income to loss compared with the corresponding period last year, is mainly attributable to a one-time provision for the restitution of management fees to members as part of the optimization project and to an erosion in the rate of the management fees.

The pre-tax loss from provident fund activity which is included in the consolidated statement of income in the life assurance and long-term savings segment, was NIS 4 million, compared with NIS 12 million in corresponding period last year.

Net accrual (excluding investment profit) in the provident funds in the Reporting Period was positive and amounted to NIS 199 million, compared with negative accrual of NIS 148 million in the corresponding period last year.

3.8 Health Insurance

Premiums earned in the health insurance segment increased by 4% to NIS 996 million in the Reporting Period, compared with NIS 955 million for the corresponding period last year. Total premiums earned in the health insurance segment during the Reporting Period, accounted for 36% of all premiums earned by the Group.

Comprehensive income in the health insurance segment was NIS 27 million in the Reporting Period, compared with a comprehensive loss of NIS 19 million in the corresponding period last year. The shift from comprehensive loss to income is mainly attributable to the effect of the ongoing decline in the risk-free interest rate and the decline in the yields embedded in the assets held against insurance liabilities in the corresponding period last year, as a result of which the Group's insurance companies revised the discounting interest rates that are used to calculate some of the insurance liabilities. Accordingly, the insurance liabilities increased by NIS 61 million before tax in the corresponding period last year. These effects were partially offset by the capital market yields in the Reporting Period that were lower than those in the corresponding quarter last year and to the lower level of negative inflation in the Reporting Period compared with the corresponding period last year, and the on-going erosion in the results of group health insurance policies, due to an increase in the percentage of claims.

Pre-tax profit in the health insurance segment was NIS 28 million in the Reporting Period, compared with a pre-tax loss of NIS 38 million in the corresponding period last year.

Total payments and changes in liabilities, gross, in respect of insurance contracts in the health insurance segment in the Reporting Period decreased by 20% in the Reporting Period to NIS 705 million, compared with NIS 876 million in the corresponding period last year. The change in the insurance liabilities includes the investment profits recognized in the group long-term care insurance plan, in which most of the risk is allocated to the actual plan, in the amount of NIS 0.4 million in the Reporting Period, compared with NIS 66 million recognized in the corresponding period last year.

3.9 Non-life insurance

The composition of gross premiums and profit in non-life insurance activity for the report period, before tax, according to the insurance segments included in non-life insurance, is as follows (NIS thousand):

Gross premiums

	1-3.2016	1-3.2015	% change	2015
Compulsory motor	184,731	228,418	(19.1)	484,763
Motor property	251,637	362,941	(30.7)	798,997
Property & other branches	239,177	231,945	3.1	872,789
Other liabilities branches	290,658	276,129	5.3	826,913
Credit & mortgage insurance*	(5,486)	(7,205)	(23.9)	(29,067)
Total	960,717	1,092,228	(12.0)	2,954,395

*Net of settlements

	Comprehensive income before taxes			
	1-3.2016	1-3.2015	% change	2015
Compulsory motor	(31,470)	64,933	-	87,706
Motor property	1,564	11,520	(86.4)	(12,241)
Property & other branches	9,376	11,614	(19.3)	59,409
Other liabilities branches	(49,211)	10,586	-	(64,834)
Credit & mortgage insurance*	19,027	32,186	(40.9)	53,468
Total	(50,714)	130,839	-	123,508

Gross premiums decreased by 12% in the Reporting Period to 961 million NIS, compared with NIS 1,092 million in the corresponding period last year. The decrease in gross premiums in the Reporting Period is mainly attributable to the fact that Harel Insurance failed to win the tender to insure the vehicles of state employees for 2016 (see Section **שגיאה! מקור ההפניה לא נמצא.** below). The results of the tender had no significant effect on the Company's equity in the Reporting Period.

Premiums in retention in the Reporting Period decreased by 4% to NIS 716 million, compared with NIS 742 million in the corresponding period last year.

The comprehensive loss in non-life insurance amounted to NIS 51 million in the Reporting Period, compared with comprehensive income of NIS 131 million in the corresponding period last year. The shift from comprehensive income to comprehensive loss is attributable to the effects of the Winograd Committee recommendations as a result of which Harel Insurance increased its insurance liabilities by NIS 150 million to reflect the current estimate of the amounts that the Company will be expected to repay for claims in compulsory and liabilities insurance (including the NII), as well as to the effect of the capital market where yields were lower than those in the corresponding period last year and to lower negative inflation in the Reporting Period compared with the corresponding period last year (for additional information, see Note 9 to the Financial Statements).

The pre-tax loss in non-life insurance amounted to NIS 44 million in the Reporting Period, compared with profit of NIS 86 million in the corresponding period last year

3.9.1 Motor property

Gross premiums in motor property insurance decreased by 22% to NIS 252 million in the Reporting Period, compared with gross premiums of NIS 363 million in the corresponding period last year. This decrease is attributable mainly to the fact that Harel Insurance did not win the tender to insure the vehicles of state employees for 2016. The results of the tender are not expected to significantly affect the Company's profit or equity in the Reporting Period.

During the Reporting Period, premiums in retention decreased by 24% to NIS 246 million compared with NIS 324 million in the corresponding period last year.

Comprehensive income in motor property insurance in the Reporting Period amounted to NIS 2 million, compared with comprehensive income of about NIS 12 million in the corresponding period last year. The decrease in comprehensive income stems mostly from the effect of the capital market where yields were lower than in the corresponding period last year.

Pre-tax profit in motor property insurance in the Reporting Period amounted to NIS 2 million compared with pre-tax profit of about NIS 8 million in the corresponding period last year.

On October 11, 2015, Harel Insurance was informed that it had not been awarded the tender published by the Accountant General in the Ministry of Finance for motor property insurance and compulsory motor insurance of state employees for 2016. The results of the tender did not significantly affect the Company's profit or equity in the Reporting Period.

3.9.2 Compulsory motor

Gross premiums in compulsory motor insurance amounted to NIS 185 million in the Reporting Period, compared with gross premiums of NIS 228 million in the corresponding period last year.

On compulsory motor insurance for vehicles owned by state employees, see Section 02.9.1 above.

During the Reporting Period, premiums in retention amounted to NIS 184 million compared with NIS 205 million in the corresponding period last year.

The comprehensive loss in compulsory motor insurance amounted to NIS 31 million for the Reporting Period, compared with comprehensive income of NIS 65 million in the corresponding period last year. The shift from comprehensive income to comprehensive loss is attributable to the effects of the Winograd Committee recommendations as a result of which the Company increased its insurance liabilities by NIS 100 million to reflect a current estimate of the amounts that the Company will be expected to repay for claims in compulsory motor insurance (including the NII), as well as to the effect of the capital market where yields were lower than those in the corresponding period last year and to lower negative inflation in the Reporting Period compared with the corresponding period last year (for additional information , see Note 9 to the Financial Statements). These effects were partially offset by a positive development in the estimate of outstanding claims for previous years.

The pre-tax loss in compulsory motor insurance was NIS 29 million in the Reporting Period, compared with NIS 49 million in the corresponding quarter last year.

Given that car owners must insure their vehicles in accordance with the Motor Vehicle Insurance Ordinance, the owners of vehicles (usually motorbikes) who were rejected by the insurance companies may purchase insurance via the Pool (Israel pool for car insurance). The Pool operates as an insurance company to all intents and purposes. Its tariffs, which are set by the Commissioner, are higher than those of the insurance companies operating in the market, and they constitute the upper limit of insurance company tariffs (with the exception of motorbikes, the maximum compulsory motor tariffs which an insurance company may charge an insured cannot be more than 90% of the Pool's net tariff for that insured). All the insurance companies which operate in the compulsory motor sector are partners in the Pool, and each company bears a pro rata share of the Pool's losses in the compulsory motor insurance market for the previous year.

A letter from the Pool's CEO set the temporary share of Harel Insurance in the Pool's premiums for 2016 at 10.3% (compared with 10.5% which was the Company's share in 2015).

On October 11, 2015, Harel Insurance was informed that it had not been awarded the tender published by the Accountant General in the Ministry of Finance for motor property insurance and compulsory motor insurance of state employees for 2016. The results of the tender had no significant effect on the Company's profit or equity in the Reporting Period.

3.9.3 Liabilities and other branches

Gross premiums in liabilities and other insurance amounted to NIS 291 million in the Reporting Period, compared with NIS 276 million in the corresponding period last year.

Premiums in retention in the Reporting Period increased by 38% to NIS 218 million, compared with NIS 158 million in the corresponding period last year.

There was a comprehensive loss in liabilities and other insurance amounting to NIS 49 million in the Reporting Period, compared with comprehensive income of NIS 11 million in the corresponding period last year. The shift from comprehensive income to comprehensive loss is attributable to the effects of the Winograd Committee recommendations, as a result of which the Company increased its insurance liabilities by NIS 50 million to reflect a current estimate of the amounts that the Company will be expected to repay for claims in liabilities insurance (including the NII), as well as to the effect of the capital market where yields were lower than those in the corresponding period last year and to lower negative inflation in the Reporting Period compared with the corresponding period last year (for additional information , see Note 9 to the Financial Statements).

The pre-tax loss in liabilities and other insurance in the Reporting Period was NIS 46 million, compared with NIS 4 million in the corresponding period last year.

3.9.4 Property and other branches

Premiums in property and other branches increased by 3% to NIS 239 million in the Reporting Period compared with NIS 232 million in the corresponding period last year.

Premiums in retention increased by 16% to NIS 72 million in the Reporting Period compared with NIS 62 million in the corresponding period last year.

Comprehensive income in property insurance and other branches amounted to NIS 9 million in the Reporting Period, compared with NIS 12 million in the corresponding quarter last year.

Pre-tax profit in property and other insurance amounted to NIS 10 million in the Reporting Period, compared with NIS 10 million in the corresponding period last year.

3.9.5 Mortgage credit insurance

Premiums earned in retention in credit insurance for residential mortgages amounted to NIS 8 million in the Reporting Period, compared with NIS 14 million in the corresponding period last year.

EMI does not have reinsurance agreements in this branch.

Comprehensive income in mortgage credit insurance amounted to NIS 19 million in the Reporting Period compared with NIS 32 million in the corresponding period last year. This decrease is mostly attributable to the influence of the capital market in which yields were lower than those in the corresponding period last year and to lower negative inflation in the Reporting Period than in the corresponding period last year.

Pre-tax profit in mortgage credit insurance amounted to NIS 19 million in the Reporting Period compared with NIS 23 million in the corresponding period last year.

3.10 Insurance companies overseas

The Company is the controlling shareholder (94% stake) in Interasco Societe Anonyme General Insurance Company S.A.G.I ("Interasco"), an insurance company operating in Greece in the health and non-life insurance sectors, and holds full control of Turk Nippon which operates in Turkey.

Total premiums earned in the insurance companies' overseas segment were NIS 60 million in the Reporting Period, compared with NIS 62 million in the corresponding period last year, a decrease of 4%. Total premiums earned by the insurance companies overseas segment in the Reporting Period account for 2% of all premiums earned by the Group.

Comprehensive income for the insurance companies in the overseas operating segment was about NIS 1 million in the Reporting Period, similar to the corresponding quarter last year.

The insurance companies in the overseas operating segment posted a pre-tax loss of about NIS 1 million in the Reporting Period, compared with pre-tax profit of about NIS 10 million in the corresponding quarter last year.

3.11 Capital market and financial services

Revenues in the capital market and financial services segment in the Reporting Period decreased by 20% to NIS 65 million, compared with NIS 81 million in the corresponding quarter last year. The reduced revenues in the Reporting Period compared with the corresponding period last year are mainly attributable to the decline in the assets under management in the mutual funds and investment portfolios, as well as to the reduction in the volume of managed assets in ETNs and deposit certificates.

The volume of assets under management in the capital market and financial services segment amounted to NIS 44 billion at March 31, 2016, compared with NIS 58.3 billion at March 31, 2015, and to NIS 47.5 billion at December 31, 2015.

These amounts include mutual fund assets of NIS 22.1 billion at March 31, 2016, compared with NIS 33 billion at March 31, 2015, and NIS 24.7 billion at December 31, 2015, as well as ETN and deposit certificate assets, which at March 31, 2016 amounted to NIS 13.2 billion, compared with NIS 16.4 billion at March 31, 2015 and NIS 14.1 billion at December 31, 2015. Except for the assets in the ETN and deposit certificate company, the assets under management are not included in the Company's consolidated statements of financial position.

The capital market and financial services segment recorded comprehensive income of NIS 18 million in the Reporting Period, compared with NIS 23 million in the corresponding period last year. The reduced income in the Reporting Period compared with the corresponding period last year is mainly attributable to the decline in revenues from management fees that were collected as part of the activity of the capital market and financial services segment. This decrease stems from a decrease in the total assets under management in the mutual funds and investment portfolios, as well as a reduction in the volume of managed assets in ETNs and deposit certificates and the effect of the capital market.

3.12 Income tax

Income tax during the Reporting Period amounted to income of about NIS 32 million, compared with tax expenses of NIS 26 million in the corresponding period last year.

3.13 Liquidity and sources of finance

3.13.1 Cash flows

Net cash flows provided by current operations amounted to NIS 917 million in the Reporting Period. Net cash flows provided by investment activity amounted to NIS 30 million. Net cash flows used for financing activity and foreign exchange fluctuations amounted to NIS 776 million. The outcome of all the aforementioned activity is reflected in an increase in the cash balances in the amount of NIS 171 million.

3.13.2 Financing of operations

The Company and its subsidiaries generally finance their on-going operations from their own sources. In view of the capital requirements applicable to the Company's subsidiaries that are insurers, and pursuant to the Capital Regulations, the regulatory capital required of an insurer may comprise tier-1 capital, hybrid tier-1 capital, hybrid tier-2 capital, and hybrid tier-3 capital.

On the issuance of Series 12-13 bonds of Harel Financing and Issuing as part of a public offering, see Note 10 to the Financial Statements.

4 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.

5 Corporate governance

5.1 Information about the process of approving the Company's financial statements

The Companies (Provisions and conditions concerning the procedure for approval of the financial statements) Regulations, 2010, prescribe mandatory rules that public companies must apply in the process of approving financial statements.

The regulations stipulate that before the financial statements are presented for the approval of the company's board of directors, the reports must be discussed and approved by a special committee known as "the Committee for the Review of the Financial Statements" ("the Committee"). The Committee is responsible for discussing the financial statements and formulating a recommendation to the board of directors regarding those matters prescribed in the regulations.

The members of the Committee for the review of the financial statements are:

- David Granot, Chairman (External Director).
- Prof. Israel Gilad (External Director).
- Hava Friedman Shapira (External Director)
- Doron Cohen.

5.1.1 As noted above, the Committee is a special purpose committee appointed for the purpose of approving the financial statements and the Audit Committee will not serve as the Committee for the approval of the financial statements.

5.1.2 For information about the members of the Committee for the Review of the Financial Statements, see Regulation 26 in Chapter 5 – "Additional Information" in the Periodic Report.

5.1.3 Procedure for approval of the financial statements:

To approve the financial statements at March 31, 2016, the Committee convened on May 25, 2016.

In addition, the Company's CPA are invited to and attend meeting of the Committee and Board of Directors' meeting that discuss and approve the financial statements, and they present the principal findings, if there are such, that emerged during the course of the audit or the review. The meeting was also attended by the Company's CFO, Ronen Agassi CPA, and the Company's Corporate Counsel, Adv. Nataly Mishan-Zakai. A meeting of the Committee held on May 25, 2016 was attended by the Company's CPA, Deborah Weisel and the internal auditor was also invited to the meeting.

A detailed review of the material issues in the financial reporting is presented to the balance sheet committee, including material transactions that are not the normal course of business, if and insofar as there are any, the material assumptions and critical estimates that were applied in the financial statements (Including the review of the EV report), the reasonability of the data, the accounting policy which was applied and any changes which occurred in this policy, as well as implementation of the principle of fair disclosure in the financial statements and related information. The balance sheet committee also receives a review of issues that emerged, if they emerged, while performing the audit and risk management, the efficacy of the controls and procedures with respect to their disclosure in the Company's subsidiaries that are financial institutions.

At the committee meeting, information relating to the data included in the financial reports was reviewed, including information pertaining to the Company's financial and operating position.

The Committee also reviews various aspects of risk management and control, those that are reflected in the financial statements, as well as those that affect the credibility of the financial statements. In addition, the Committee may request that other subjects are also reviewed, at the discretion of the committee's members.

The Committee is also advised of the results of the SOX procedure implemented by the Company and its subsidiaries that are financial institutions, and it reviews the effectiveness of the internal control. The Committee also received the draft EV report.

To formulate its recommendations to the Board of Directors, the draft financial statements are submitted to the members of the Committee several days before the meeting scheduled to discuss them. The Committee meets prior to the Board of Directors' meeting which discusses and approves the Financial Statements. The Committee's recommendations are submitted to the Board of Directors as soon as the Committee's meeting is over.

At a meeting of the Committee held on May 25, 2016, the committee members held a detailed discussion of the Company's estimates and assessments on which the financial reports were based, addressing the discretion applied by management on various issues. The committee's members were also advised regarding the internal control process, they examined material issues in the financial reports, the completeness and reasonability of the financial reporting, the accounting policy and figures in the financial statements.

During the meeting of the Company's Board of Directors which approves the financial statements, the Committee's recommendations, insofar as there are any, are reviewed, in connection with the approval of the financial statements, the Company's financial performance is reviewed and the changes that have occurred during the reported period are presented. During the course of the deliberations of the Company's Board of Directors, questions are raised by the members of the board on issues that arose during the audit and whether the financial statements faithfully reflect the Company's financial position. The questions and issues discussed are answered by management. After the discussion, the Chairman of the Board calls for a vote to approve the financial statements.

At a meeting of the Company's Board of Directors held on May 29, 2016, the Board of Directors was updated about the Committee's recommendations, the CFO and CEO reviewed the main points of the attached consolidated financial statements according to the different operating segments, and the significant relevant issues were discussed.

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

Yair Hamburger	Ronen Agassi
Chairman of the Board of Directors	**CEO**

May 29, 2016

HARAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at March 31, 2016

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

Introduction

We reviewed the attached financial information of Harel Investments in Insurance and Financial Services Ltd. and its subsidiaries (hereinafter: "the Group") which include the condensed consolidated interim statement of financial position as at March 31, 2016 and the condensed consolidated interim statements of income, comprehensive income, changes in capital 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 financial information for this interim period in accordance with international accounting standard IAS 34 "Financial reporting for interim periods", and they are also responsible for the preparation of financial information for this interim period 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 Insurance in accordance with Supervision of Financial Services (Insurance) Law, 1981. Our responsibility is to express a conclusion on the financial information for this interim period, based on our review.

We did not review the condensed financial information for the interim period of consolidated companies whose assets included in the consolidation comprise 15.76% of all the consolidated assets as at March 31, 2016 and whose revenues included in the consolidation comprise 3.18% of all the consolidated revenues for the three-month period ended on that date. Furthermore, we did not review the condensed financial information for the interim period of equity accounted investees using the equity method, in which the investment is NIS 108,102 thousand as at March 31, 2016, and the Group's share of their profits is NIS 2,221 thousand for the three months ended on that date. The condensed financial information for the interim periods 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 prepared our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel "Review of financial information for interim periods prepared by the entity's auditor". The review of the financial information for interim periods comprises clarifications, mainly with the people responsible for financial and accounting matters, and from the implementation of other 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 therefore does not enable us to be certain that we are 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 notice that might cause us to believe that the above financial information is not prepared, in all significant 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 above financial information does not meet, from all significant respects, the provisions of the Pronouncement under Chapter D of the Securities (Periodic and Immediate Reports) Regulations, 1970, to the extent that these regulations apply to a corporation that consolidates insurance companies and subject to the disclosure requirements issued by the Commissioner of Insurance pursuant Supervision of Financial Services (Insurance) Law, 1981.

Without qualifying our above conclusions we direct attention to Note 7A to the condensed consolidated interim financial statements regarding exposure to contingent liabilities.

Somekh Chaikin
Certified Public Accountants (Isr)

May 29, 2016

Condensed consolidated interim statements of financial position at

	March 31		December 31
	2016	2015	2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Intangible assets	**1,521,696**	1,586,037	1,531,775
Deferred tax assets	**10,192**	8,745	14,426
Deferred Acquisition Costs	**2,081,851**	1,907,769	2,004,227
Fixed assets	**1,162,501**	909,932	1,140,078
Investments in equity accounted investees	**1,336,516**	1,452,883	1,424,871
Investment property for yield-dependent policies	**1,367,422**	1,332,111	1,368,958
Other investment property	**1,552,431**	1,508,143	1,555,403
Reinsurance assets	**4,946,455**	5,481,625	4,928,714
Current tax assets	**73,262**	98,898	86,125
Trade and other receivables	**1,146,726**	828,036	1,086,301
Premium due	**1,280,708**	1,240,193	1,167,521
Financial investments for yield-dependent policies	**37,252,864**	35,569,565	37,167,751
Financial investments for holders of ETNs and deposit certificates	**6,741,634**	10,565,572	7,110,998
Other financial investments			
Marketable debt assets	**7,460,299**	8,354,061	7,507,496
Non-marketable debt assets	**10,913,619**	10,216,094	10,790,084
Shares	**786,848**	724,628	818,192
Other	**2,355,579**	2,308,043	2,186,658
Total other financial investments	**21,516,345**	21,602,826	21,302,430
Cash, cash equivalents and deposits pledged for bearers of ETNs and deposit certificates	**6,719,793**	6,357,459	7,362,060
Cash and cash equivalents for yield-dependent contracts	**1,064,160**	1,187,167	966,875
Other cash and cash equivalents	**1,340,095**	1,345,717	1,266,638
Total assets	**91,114,651**	92,982,678	91,485,151
Total assets for yield-dependent contracts	**40,177,378**	38,517,450	40,036,286

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

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

	March 31		December 31
	2016	2015	2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Equity and liabilities			
Equity			
Share capital and share premium	**341,783**	336,578	341,832
Treasury shares	**(160,473)**	(168,277)	(161,077)
Capital reserves	**373,162**	537,986	364,340
Retained earnings	**4,259,695**	4,169,387	4,361,663
Total equity attributed to shareholders of the Company	**4,814,167**	4,875,674	4,906,758
Non-controlling interests	**6,213**	5,770	5,702
Total equity	**4,820,380**	4,881,444	4,912,460
Liabilities			
Liabilities for non-yield-dependent insurance policies and investment contracts	**25,538,752**	25,691,494	25,034,210
Liabilities for yield-dependent insurance policies and investment contracts	**39,711,593**	37,813,810	39,331,335
Deferred tax liabilities	**750,329**	830,956	788,433
Liabilities for employee benefits, net	**277,771**	277,455	270,877
Current tax liabilities	**24,507**	34,181	42,991
Trade and other payables	**2,677,064**	2,840,576	2,723,052
Liabilities for ETNs and deposit certificates	**13,181,642**	16,353,182	14,097,353
Financial liabilities	**4,132,613**	4,259,580	4,284,440
Total liabilities	**86,294,271**	88,101,234	86,572,691
Total equity and liabilities	**91,114,651**	92,982,678	91,485,151

Yair Hamburger	Ronen Agassi	Ronen Agassi
Chairman of the Board of Directors	CEO	CFO

Date of approval of the financial statements: May 29, 2016

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

Condensed consolidated interim statements of income

	For the three months ended March 31		For the year ended December 31
	2016	2015	2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Premiums earned, gross	**2,788,461**	2,985,550	11,530,684
Premiums earned by reinsurers	**379,572**	430,813	1,738,653
Earned premiums in retention	**2,408,889**	2,554,737	9,792,031
Profit from investments, net, and financing income	**59,365**	1,640,417	2,042,523
Income from management fees	**240,265**	399,065	1,097,167
Income from commissions	**81,046**	89,745	366,303
Total income	**2,789,565**	4,683,964	13,298,024
Payments and changes in liabilities for insurance policies and investment contracts, gross	**2,388,624**	4,157,483	10,772,379
Reinsurers' share of payments and change in liabilities for insurance policies	**395,574**	323,452	1,304,861
Payments and changes in liabilities for insurance policies and investment contracts in retention	**1,993,050**	3,834,031	9,467,518
Commissions, marketing expenses and other purchasing expenses	**527,134**	474,483	2,020,774
General and administrative expenses	**298,005**	282,614	1,155,097
Other expenses	**11,956**	13,194	120,598
Financing expenses, net	**2,872**	701	109,337
Total expenses	**2,833,017**	4,605,023	12,873,324
Company's share of profits of equity accounted investees	**20,767**	23,063	258,562
Profit (loss) before taxes on income	**(22,685)**	102,004	683,262
Taxes on income (tax benefits)	**(31,748)**	26,130	227,516
Profit for period	**9,063**	75,874	455,746
Attributed to:			
Shareholders of the Company	**8,599**	75,938	455,586
Non-controlling interests	**464**	(64)	160
Profit for period	**9,063**	75,874	455,746
Basic earnings per share attributed to the Company's shareholders (in NIS)	**0.04**	0.36	2.16
Diluted earnings per share attributed to the Company's shareholders (in NIS)	**0.04**	0.36	2.15

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

Condensed consolidated interim statements of income (contd.)

	For the three months ended March 31		For the year ended December 31
	2016	2015	2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Profit for period	**9,063**	75,874	455,746
Other items of comprehensive income that after initial recognition as part of comprehensive income were or will be transferred to profit or loss			
Net change in fair value of financial assets classified as available-for-sale	**38,883**	290,009	(47,894)
Net change in fair value of financial assets classified as available-for-sale carried over to income statement	**(42,323)**	(100,023)	(229,454)
Loss from impairment of available-for-sale financial assets carried over to income statement	**19,623**	350	50,897
Foreign currency translation differences for foreign activity	**(21,975)**	(38,318)	(62,535)
Taxes on income (tax benefits) for other items of comprehensive income that after initial recognition as part of comprehensive income were or will be transferred to profit or loss	**6,646**	(66,028)	98,862
Total other comprehensive income (loss) that after initial recognition as part of comprehensive income was or will be transferred to profit or loss, net of tax	**854**	85,990	(190,124)
Other items of comprehensive income that will not be transferred to profit or loss			
Capital reserve for revaluation of fixed assets	**6,891**	-	170,132
Remeasurement of a defined benefit plan	**(5,626)**	(10,957)	9,413
Taxes on income (tax benefits) for other items of comprehensive income that will not be transferred to profit or loss	**3,098**	4,036	(64,031)
Total other comprehensive income (loss) for period that will not be transferred to profit or loss, net of tax	**4,363**	(6,921)	115,514
Total other comprehensive income (loss) for period	**5,217**	79,069	(74,610)
Total comprehensive income for period	**14,280**	154,943	381,136
Attributed to:			
Shareholders of the Company	**13,769**	154,894	381,155
Non-controlling interests	**511**	49	(19)
Total profit for period	**14,280**	154,943	381,136

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

Condensed consolidated interim statements of changes in equity

	Attributed to shareholders of the Company										
	Share capital and premium	Capital reserve for available-for-sale assets	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling shareholders	Capital reserve for revaluation of fixed assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
For the three months ended March 31, 2016 (Unaudited)											
Balance as at January 1, 2016	341,832	295,955	(44,472)	13,032	(161,077)	(48,908)	148,733	4,361,663	4,906,758	5,702	4,912,460
Total comprehensive income (loss) for period											
Profit for period	-	-	-	-	-	-	-	8,599	8,599	464	9,063
Total other comprehensive income (loss)	-	16,401	(15,594)	-	-	-	8,029	(3,666)	5,170	47	5,217
Total comprehensive income (loss) for period	-	16,401	(15,594)	-	-	-	8,029	4,933	13,769	511	14,280
Transactions with owners credited directly to equity											
Declared dividend	-	-	-	-	-	-	-	(106,901)	(106,901)	-	(106,901)
Share based payment	-	-	-	84	-	-	-	-	84	-	84
Purchase of treasury stock	-	-	-	-	(1,949)	-	-	-	(1,949)	-	(1,949)
Reissuing of treasury stock	(147)	-	-	-	2,553	-	-	-	2,406	-	2,406
Exercising of stock options	98	-	-	(98)	-	-	-	-	-	-	-
Balance as at March 31, 2016	341,783	312,356	(60,066)	13,018	(160,473)	(48,908)	156,762	4,259,695	4,814,167	6,213	4,820,380

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

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

	Attributed to shareholders of the Company										
	Share capital and premium	Capital reserve for available-for-sale assets	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling interests	Capital reserve for revaluation of fixed assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
For the three months ended March 31, 2015 (Unaudited)											
Balance as at January 1, 2015	338,849	437,951	3,475	20,040	(173,231)	(48,908)	39,313	4,100,371	4,717,860	5,721	4,723,581
Total comprehensive income (loss) for the period											
Profit (loss) for the period	-	-	-	-	-	-	-	75,938	75,938	(64)	75,874
Total other comprehensive income (loss)	-	115,285	(29,407)	-	-	-	-	(6,922)	78,956	113	79,069
Total comprehensive income (loss) for period	-	115,285	(29,407)	-	-	-	-	69,016	154,894	49	154,943
Transactions with owners credited directly to equity											
Share based payment	-	-	-	356	-	-	-	-	356	-	356
Purchase of treasury stock	-	-	-	-	(4,665)	-	-	-	(4,665)	-	(4,665)
Reissuing of treasury stock	(2,390)	-	-	-	9,619	-	-	-	7,229	-	7,229
Exercising of stock options	119	-	-	(119)	-	-	-	-	-	-	-
Balance as at March 31, 2015	336,578	553,236	(25,932)	20,277	(168,277)	(48,908)	39,313	4,169,387	4,875,674	5,770	4,881,444

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

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

	Attributed to shareholders of the Company										
	Share capital and premium	Capital reserve for available-for-sale assets	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling interests	Capital reserve for revaluation of fixed assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
For the year ended December 31, 2015 (Audited)											
Balance as at January 1, 2015	338,849	437,951	3,475	20,040	(173,231)	(48,908)	39,313	4,100,371	4,717,860	5,721	4,723,581
Total comprehensive income (loss) for year											
Profit for year	-	-	-	-	-	-	-	455,586	455,586	160	455,746
Total other comprehensive income (loss)	-	(141,996)	(47,947)	-	-	-	109,420	6,092	(74,431)	(179)	(74,610)
Total comprehensive income (loss) for year	-	(141,996)	(47,947)	-	-	-	109,420	461,678	381,155	(19)	381,136
Cumulative effect at December 31, 2015 of reversal of record of accrual and initial application of best practice in non-life insurance (see Note 2E to the Financial Statements)	-	-	-	-	-	-	-	34,697	34,697	-	34,697
Transactions with owners credited directly to equity											
Dividend paid	-	-	-	-	-	-	-	(235,083)	(235,083)	-	(235,083)
Share-based payment	-	-	-	68	-	-	-	-	68	-	68
Issue of shares	109	-	-	-	-	-	-	-	109	-	109
Purchase of Treasury shares	-	-	-	-	(9,520)	-	-	-	(9,520)	-	(9,520)
Re-issuance of Treasury shares	(4,202)	-	-	-	21,674	-	-	-	17,472	-	17,472
Exercising of options	7,076	-	-	(7,076)	-	-	-	-	-	-	-
Balance as at December 31, 2015	341,832	295,955	(44,472)	13,032	(161,077)	(48,908)	148,733	4,361,663	4,906,758	5,702	4,912,460

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

Condensed consolidated interim statements of cash flows

	Appendix	For the three months ended March 31		For the year ended December 31
		2016	2015	2015
		(Unaudited)	(Unaudited)	(Audited)
		NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activity				
Before taxes on income	A	**929,144**	(493,922)	1,202,522
Income tax received (paid)		**(12,379)**	(47,937)	(169,071)
Net cash from (used for) current operations		**916,765**	(541,859)	1,033,451
Cash flows from investing activity				
Investment in investees, net		**(4,719)**	(122,678)	(196,162)
Proceeds from the sale of an investment in an equity accounted investee		**83,427**	-	161,055
Investment in fixed assets		**(33,401)**	(63,563)	(173,988)
Investment in intangible assets		**(25,207)**	(31,672)	(156,465)
Dividend received from an investee		**9,267**	4,070	162,935
Proceeds from sale of fixed assets		**301**	-	216
Net cash from (used for) investment activity		**29,668**	(213,843)	(202,409)
Cash flows from financing activities				
Proceeds from issuance of promissory notes		**-**	(1,100)	294,453
Purchase of Treasury shares, net		**457**	2,564	8,061
Proceeds of issuance (redemption) of ETNs and covered warrants, net		**(562,020)**	549,837	(1,274,738)
Short-term credit from banks, net		**(146,921)**	144,876	60,656
Loans received from interested parties		**-**	-	10,384
Repayment of loans from banks and others		**(25,167)**	(28,028)	(105,697)
Dividend paid to the Company's shareholders		**-**	-	(235,083)
Net cash from (used for) financing activity		**(733,651)**	668,149	(1,241,964)
Effect of exchange rate fluctuations on cash balances and cash equivalents		**(42,040)**	21,901	45,899
Increase (decrease) in cash and cash equivalents		**170,742**	(65,652)	(365,023)
Retained cash and cash equivalents at beginning of period	B	**2,233,513**	2,598,536	2,598,536
Retained cash and cash equivalents at end of period	C	**2,404,255**	2,532,884	2,233,513

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

Condensed consolidated interim statements of cash flows (contd.)

	For the three months ended March 31		For the year ended December 31
	2016	2015	2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
(Appendix A - Cash flows from operating activities before taxes on income (1), (2), (3			
Profit for the period	**9,063**	75,874	455,746
Items not involving cash flows:			
Company's share of profit of investee companies recorded on the equity basis	**(20,767)**	(23,063)	(258,562)
Net profits (losses) from financial investments for yield-dependent insurance policies and investment contracts	**263,964**	(1,165,857)	(190,570)
Losses (profits) net, from other financial investments			
Marketable debt assets	**63,340**	24,604	(2,367)
Non-marketable debt assets	**78,797**	111,825	7,940
Shares	**(15,565)**	(28,684)	(45,232)
Other investments	**(65,514)**	(124,036)	(98,056)
Financing expenses (incomes) for financial liabilities	**(198,022)**	476,814	(102,093)
Change in fair value of investment property for yield-dependent contracts	**10,087**	3,143	(18,893)
Change in fair value of other investment property	**9,288**	(10,044)	(32,238)
Depreciation and amortization			
Fixed assets	**20,758**	13,763	63,786
Intangible assets	**42,107**	34,617	213,624
Change in liabilities for non-yield-dependent insurance policies and investment contracts	**503,354**	668,280	24,690
Change in liabilities for yield-dependent insurance policies and investment contracts	**380,258**	2,098,446	3,615,971
Change in reinsurance assets	**(17,444)**	6,915	532,698
Change in DAC	**(77,546)**	(99,504)	(197,433)
Payroll expenses for share-based payment	**84**	356	68
Income tax expenses (benefits)	**(31,748)**	26,130	227,516
Changes in other statement of financial position items:			
Financial investments and investment property for yield-dependent insurance policies and investment contracts			
Purchase of investment property	**(8,551)**	(4,072)	(18,883)
Net acquisitions of financial investments	**(353,478)**	(1,037,587)	(3,785,048)
Other financial investments and investment property			
Purchase of investment property	**(7,468)**	(4,800)	(32,008)
Proceeds from the sale of investment property	**1,152**	-	2,143
Net sales (acquisitions) of financial investments	**(369,576)**	(128,225)	(68,574)
Premiums due	**(113,155)**	(41,912)	24,720
Trade and other receivables	**(39,396)**	(15,596)	(115,319)
Financial investments for holders of ETNs	**369,364**	675,572	4,130,146
Cash and cash equivalents pledged for holders of ETNs	**642,267**	(1,931,372)	(2,935,973)
Trade and other payables	**(147,764)**	(100,889)	(213,872)
Liabilities for employee benefits, net	**1,255**	5,380	18,595
Total adjustments required to present cash flows from operating activity	**920,081**	(569,796)	746,776
Total cash flows from operating activity before taxes on income	**929,144**	(493,922)	1,202,522

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

(2) For the operating activities, interest received was presented at NIS 309 million (for the three months ended March 31, 2015 an amount of NIS 341 million and for 2015 annual an amount of NIS 1,428 million) and interest was paid in the amount of NIS 7 million (for the three months ended March 31, 2015 an amount of NIS 8 million and for 2015 annual an amount of NIS 102 million).

(3) As part of the ongoing activity, a dividend received from other financial investments was presented in the amount of NIS 33 million (for the three months ended March 31, 2015 an amount of NIS 73 million and for 2015 annual an amount of NIS 267 million).

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

Condensed consolidated interim statements of cash flows (contd.)

	For the three months ended March 31		For the year ended December 31
	2016	2015	2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Appendix B - Cash and cash equivalents at beginning of period			
Cash and cash equivalents for yield-dependent contracts	**966,875**	1,153,223	1,153,223
Other cash and cash equivalents	**1,266,638**	1,445,313	1,445,313
Retained cash and cash equivalents at beginning of the period	**2,233,513**	2,598,536	2,598,536
Appendix C - Cash and cash equivalents at end of period			
Cash and cash equivalents for yield-dependent contracts	**1,064,160**	1,187,167	966,875
Other cash and cash equivalents	**1,340,095**	1,345,717	1,266,638
Retained cash and cash equivalents at end of the period	**2,404,255**	2,532,884	2,233,513

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

Note 1 - General

The Reporting Entity

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

The Company is a holding company whose main holdings are in subsidiaries comprising insurance and finance companies. The condensed consolidated interim financial statements, as at March 31, 2016, include those of the Company and its subsidiaries ("the Group"), the Company's rights in jointly controlled entities and the Group's rights in affiliated companies.

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

Note 2 - Basis of preparation

A. Statement of compliance with International Financial Reporting Standards

The condensed consolidated interim financial statements were prepared in accordance with IAS 34 - Financial Reporting for Interim Periods and in accordance with the requirements of the Pronouncements issued by the Commissioner of Insurance and in accordance with the Supervision of Financial Services (Insurance) Law, 1981 ("the Supervision Law"), and they do not include all the information required in full annual financial statements. They should be read them together with the financial statements as at and for the year ended December 31, 2015 ("the Annual Financial Statements"). Moreover, these statements were prepared in accordance with the provisions of Chapter D of the Securities (Periodic and Immediate Reports) Regulations, 1970, insofar as these regulations apply to a company that consolidates insurance companies.

The condensed consolidated interim financial statements were approved for publication by the Company's Board of Directors on May 29, 2016.

B. Use of estimates and discretion

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

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

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

The assessments and discretion that management uses to apply the accounting policy in preparing the condensed consolidated interim financial statements are mainly consistent with those used in the preparation of the consolidated financial statements as at December 31, 2015, and except for the information below, there was no change in the actuarial assumptions that significantly affect the reserves. In connection with the revised discounting interest rates used for calculating the insurance liabilities, including the Winograd Committee recommendations and with a Liability Adequacy Test (LAT), see also Note 9.

Note 3 - Significant accounting principles

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

A. Initial application of amendments to accounting standards

Amendment to IAS 38 Intangible Assets ("IAS 38") - clarification to generally accepted amortization methods

Commencing January 1, 2016, the Group applies the amendment to IAS 38.

The amendment to IAS 38 determines a rebuttable presumption that a revenue-based amortization method for intangible assets is inappropriate. The purpose of the amendment is to limit the use of revenue-based amortization, and therefore companies that wish to continue amortizing an intangible asset using that method must be able to demonstrate that the revenue and consumption of the economic benefits are highly correlated.

The amendments will be applied prospectively to annual periods beginning on January 1, 2016.

B. Seasonality

1. Life and health insurance and Finance

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

2. Non-life insurance

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

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

Note 4 - Operating segments

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

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

The Group operates in the following segments:

1. Life assurance and long-term savings

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

2. Health insurance

This segment includes the Group's insurance activities in illness and hospitalization branches, personal accidents, dental and long-term care. The policies sold in the framework of these insurance branches cover the range of losses incurred by the insured as a result of illness and/or accidents, including long-term care and dental 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.
- Issue to the public of index products (ETNs and deposit certificates).

6. Not attributed to operating segments

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, 2016 (Unaudited)							
	Life Insurance and Long-Term Savings	Health Insurance	General Insurance	Insurance companies overseas	Financial Services	Not Allocated To Any Specific Segment	Adjustments and Offsets	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Premiums earned, gross	1,017,965	996,156	716,050	59,528	-	-	(1,238)	2,788,461
Premiums earned by reinsurers	33,030	43,853	281,393	22,534	-	-	(1,238)	379,572
Premiums earned in retention	984,935	952,303	434,657	36,994	-	-	-	2,408,889
Net profit (losses) from investments and financial income	(23,733)	13,599	18,034	1,727	19,240	29,494	1,004	59,365
Income from management fees	189,872	1,015	-	-	44,950	8,656	(4,228)	240,265
Income from commissions	1,424	19,206	49,343	5,567	342	45,012	(39,848)	81,046
Total income	1,152,498	986,123	502,034	44,288	64,532	83,162	(43,072)	2,789,565
Payments and changes in liabilities for insurance and investment contracts, gross	883,800	704,667	768,955	32,048	-	-	(846)	2,388,624
Reinsurers' share in payments and changes for insurance contracts liabilities	26,564	5,980	354,353	9,523	-	-	(846)	395,574
Payments and changes in liabilities for insurance and investment contracts, in retention	857,236	698,687	414,602	22,525	-	-	-	1,993,050
Commission, marketing and other acquisition expenses	210,593	198,828	136,652	18,862	-	2,048	(39,849)	527,134
Management and general expenses	126,709	64,319	9,231	3,384	44,064	54,526	(4,228)	298,005
Other expenses	8,890	-	-	112	2,257	697	-	11,956
Financing expenses (incomes), net	(683)	(1,511)	(9,999)	-	262	14,861	(58)	2,872
Total expenses	1,202,745	960,323	550,486	44,883	46,583	72,132	(44,135)	2,833,017
Company’s share of profits (losses) of investee companies recorded by the equity method	7,501	2,322	4,371	-	(11)	6,584	-	20,767
Profit (loss) before income taxes	(42,746)	28,122	(44,081)	(595)	17,938	17,614	1,063	(22,685)
Other comprehensive income (loss), before income tax	6,097	(1,226)	(6,633)	1,161	56	(3,982)	-	(4,527)
Total comprehensive income (loss) before income tax	(36,649)	26,896	(50,714)	566	17,994	13,632	1,063	(27,212)
Liabilities in respect of non-yield dependent insurance and investment contracts	11,433,932	4,100,605	9,725,019	283,666	-	-	(4,470)	25,538,752
Liabilities in respect of yield dependent insurance and investment contracts	35,929,527	3,782,066	-	-	-	-	-	39,711,593

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Contd.)

	For the three months ended March 31, 2015 (Unaudited)							
	Life Insurance and Long-Term Savings	Health Insurance	General Insurance	Insurance companies overseas	Financial Services	Not Allocated To Any Specific Segment	Adjustments and Offsets	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Premiums earned, gross	1,206,682	955,353	763,170	62,154	-	-	(1,809)	2,985,550
Premiums earned by reinsurers	35,804	52,284	319,966	24,568	-	-	(1,809)	430,813
Premiums earned in retention	1,170,878	903,069	443,204	37,586	-	-	-	2,554,737
Net profit from investments and financial income	1,403,001	102,944	37,917	9,785	21,682	67,117	(2,029)	1,640,417
Income from management fees	336,298	2,144	-	-	58,969	1,753	(99)	399,065
Income from commissions	543	18,178	54,740	5,760	457	33,232	(23,165)	89,745
Total income	2,910,720	1,026,335	535,861	53,131	81,108	102,102	(25,293)	4,683,964
Payments and changes in liabilities for insurance and investment contracts, gross	2,692,992	875,512	561,815	27,654	-	-	(490)	4,157,483
Reinsurers' share in payments and changes for insurance contracts liabilities	28,855	35,319	252,110	7,658	-	-	(490)	323,452
Payments and changes in liabilities for insurance and investment contracts, in retention	2,664,137	840,193	309,705	19,996	-	-	-	3,834,031
Commission, marketing and other acquisition expenses	179,440	170,338	125,809	19,918	-	2,143	(23,165)	474,483
Management and general expenses	117,715	60,143	7,327	3,342	54,831	39,355	(99)	282,614
Other expenses	9,505	-	-	128	2,730	831	-	13,194
Financing expenses (incomes), net	(4,550)	(4,071)	11,145	-	686	(1,570)	(939)	701
Total expenses	2,966,247	1,066,603	453,986	43,384	58,247	40,759	(24,203)	4,605,023
Company’s share of profits of investee companies recorded by the equity method	8,135	2,269	4,449	-	2	8,208	-	23,063
Profit (loss) before income taxes	(47,392)	(37,999)	86,324	9,747	22,863	69,551	(1,090)	102,004
Other comprehensive income (loss), before income tax	19,989	18,510	44,515	(8,359)	101	66,305	-	141,061
Total comprehensive income (loss) before income tax	(27,403)	(19,489)	130,839	1,388	22,964	135,856	(1,090)	243,065
Liabilities in respect of non-yield dependent insurance and investment contracts	11,447,747	3,713,466	10,282,488	253,272	-	-	(5,479)	25,691,494
Liabilities in respect of yield dependent insurance and investment contracts	34,265,679	3,548,131	-	-	-	-	-	37,813,810

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Contd.)

	For the year ended December 31, 2015 (Audited)							
	Life Insurance and Long-Term Savings	Health Insurance	General Insurance	Insurance companies overseas	Financial Services	Not Allocated To Any Specific Segment	Adjustments and Offsets	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Premiums earned, gross	4,242,656	3,964,225	3,071,824	257,921	-	-	(5,942)	11,530,684
Premiums earned by reinsurers	138,536	206,553	1,304,199	95,307	-	-	(5,942)	1,738,653
Premiums earned in retention	4,104,120	3,757,672	1,767,625	162,614	-	-	-	9,792,031
Net profit from investments and financial income	1,416,232	186,320	170,705	15,567	74,413	172,385	6,901	2,042,523
Income from management fees	857,019	9,926	-	-	224,484	6,126	(388)	1,097,167
Income from commissions	35,238	62,556	224,698	23,604	1,495	138,959	(120,247)	366,303
Total income	6,412,609	4,016,474	2,163,028	201,785	300,392	317,470	(113,734)	13,298,024
Payments and changes in liabilities for insurance and investment contracts, gross	5,011,456	3,211,015	2,421,780	130,969	-	-	(2,841)	10,772,379
Reinsurers' share in payments and changes for insurance contracts liabilities	71,647	174,898	1,025,470	35,687	-	-	(2,841)	1,304,861
Payments and changes in liabilities for insurance and investment contracts, in retention	4,939,809	3,036,117	1,396,310	95,282	-	-	-	9,467,518
Commission, marketing and other acquisition expenses	725,981	726,565	599,236	82,306	-	6,933	(120,247)	2,020,774
Management and general expenses	483,480	252,045	36,671	12,659	211,164	159,466	(388)	1,155,097
Other expenses	37,135	-	-	580	79,356	3,527	-	120,598
Financing expenses, net	4,204	4,580	3,967	-	2,001	94,623	(38)	109,337
Total expenses	6,190,609	4,019,307	2,036,184	190,827	292,521	264,549	(120,673)	12,873,324
Company’s share of profits (losses) of investee companies recorded by the equity method	68,097	36,554	90,104	-	(11)	63,818	-	258,562
Profit before income taxes	290,097	33,721	216,948	10,958	7,860	116,739	6,939	683,262
Other comprehensive income (loss), before income tax	7,718	(31,585)	(93,440)	(18,440)	(101)	26,407	-	(109,441)
Total comprehensive income (loss) before income tax	297,815	2,136	123,508	(7,482)	7,759	143,146	6,939	573,821
Liabilities in respect of non-yield dependent insurance and investment contracts	11,387,906	4,060,026	9,325,361	265,681	-	-	(4,764)	25,034,210
Liabilities in respect of yield dependent insurance and investment contracts	35,594,131	3,737,204	-	-	-	-	-	39,331,335

Note 4 - Operating segments (Contd.)

B. Additional information about the non-life insurance segment

	For the three months ended March 31, 2016 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	insurance Mortgage	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Premiums earned, gross	184,731	251,637	239,177	290,658	(5,486)	960,717
Premiums earned by reinsurers	279	5,172	166,990	72,710	-	245,151
Retention premiums earned	184,452	246,465	72,187	217,948	(5,486)	715,566
Changes in premium balances that have not yet been earned, retention	83,415	92,509	19,603	98,871	(13,489)	280,909
Retention premiums earned	101,037	153,956	52,584	119,077	8,003	434,657
Profits from investments, net, and financing income	6,522	1,456	545	6,973	2,538	18,034
Commission income	700	4,100	32,851	11,692	-	49,343
Total income	108,259	159,512	85,980	137,742	10,541	502,034
Payments and changes in liabilities for insurance contracts, gross	138,657	133,098	128,667	378,338	(9,805)	768,955
Reinsurer's share of payments and changes in liabilities for insurance contracts	13,488	7,845	109,708	223,312	-	354,353
Payments and changes in liabilities for insurance contracts, retention	125,169	125,253	18,959	155,026	(9,805)	414,602
Commission, marketing expenses and other acquisition costs	15,822	30,700	56,033	34,097	-	136,652
Management and general expenses	2,102	2,746	1,892	1,427	1,064	9,231
Financing incomes, net	(4,199)	(938)	(351)	(4,490)	(21)	(9,999)
Total expenses (incomes)	138,894	157,761	76,533	186,060	(8,762)	550,486
Company's share of profits of investee companies recorded by the equity method	1,800	402	150	1,925	94	4,371
Profit (loss) before income taxes	(28,835)	2,153	9,597	(46,393)	19,397	(44,081)
Other comprehensive loss, before income tax	(2,635)	(589)	(221)	(2,818)	(370)	(6,633)
Total comprehensive income (loss) before income tax	(31,470)	1,564	9,376	(49,211)	19,027	(50,714)
Liabilities for insurance policies, gross, as at March 31, 2016	2,441,511	612,506	859,612	5,353,087	458,303	9,725,019
Liabilities for insurance policies, Retention as at March 31, 2016	2,096,399	557,288	204,914	2,311,303	458,303	5,628,207

* Property and other branches primarily include results of property loss insurance and comprehensive homeowners insurance, operations of which account for 82% 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 three months ended March 31, 2015 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	insurance Mortgage	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Premiums earned, gross	228,418	362,941	231,945	276,129	(7,205)	1,092,228
Premiums earned by reinsurers	23,589	39,436	169,843	117,708	-	350,576
Retention premiums earned	204,829	323,505	62,102	158,421	(7,205)	741,652
Changes in premium balances that have not yet been earned, retention	104,240	158,442	(2,525)	59,006	(20,715)	298,448
Retention premiums earned	100,589	165,063	64,627	99,415	13,510	443,204
Profits from investments, net, and financing income	15,680	3,411	1,226	14,338	3,262	37,917
Commission income	2,787	8,445	29,537	13,971	-	54,740
Total income	119,056	176,919	95,390	127,724	16,772	535,861
Payments and changes in liabilities for insurance contracts, gross	63,398	161,370	133,850	209,574	(6,377)	561,815
Reinsurer's share of payments and changes in liabilities for insurance contracts	10,369	24,282	103,018	114,441	-	252,110
Payments and changes in liabilities for insurance contracts, retention	53,029	137,088	30,832	95,133	(6,377)	309,705
Commission, marketing expenses and other acquisition costs	11,865	28,503	52,841	32,600	-	125,809
Management and general expenses	1,909	2,567	1,094	998	759	7,327
Financing expenses (incomes), net	5,062	1,101	396	4,629	(43)	11,145
Total expenses (income)	71,865	169,259	85,163	133,360	(5,661)	453,986
Company's share of profits of investee companies recorded by the equity method	1,959	426	153	1,791	120	4,449
Profit (loss) before income taxes	49,150	8,086	10,380	(3,845)	22,553	86,324
Other comprehensive income, before income tax	15,783	3,434	1,234	14,431	9,633	44,515
Total comprehensive income before income tax	64,933	11,520	11,614	10,586	32,186	130,839
Liabilities for insurance policies, gross, as at March 31, 2015	2,603,762	723,550	987,744	5,437,012	530,420	10,282,488
Liabilities for insurance policies, Retention as at March 31, 2015	2,201,858	611,573	185,140	2,093,879	530,420	5,622,870

* Property and other branches primarily include results of property loss insurance and comprehensive homeowners insurance, operations of which account for 81% of total premiums earned from these branches.

** Other liabilities branches include mainly results from third-party insurance and professional liability which account for 81% of total premiums in these branches.

Note 4 - Operating segments (Contd.)

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

	For year ended December 31, 2015 (Audited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	insurance Mortgage	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Premiums earned, gross	484,763	798,997	872,789	826,913	(29,067)	2,954,395
Premiums earned by reinsurers	51,066	92,205	665,012	391,241	-	1,199,524
Retention premiums earned	433,697	706,792	207,777	435,672	(29,067)	1,754,871
Changes in premium balances that have not yet been earned, retention	26,660	14,631	(19,377)	32,847	(67,515)	(12,754)
Retention premiums earned	407,037	692,161	227,154	402,825	38,448	1,767,625
Profits from investments, net, and financing income	67,699	12,827	5,753	63,227	21,199	170,705
Commission income	12,081	31,757	120,526	60,334	-	224,698
Total income	486,817	736,745	353,433	526,386	59,647	2,163,028
Payments and changes in liabilities for insurance contracts, gross	359,802	643,298	413,927	1,012,124	(7,371)	2,421,780
Reinsurer's share of payments and changes in liabilities for insurance contracts	48,865	81,441	324,952	570,212	-	1,025,470
Payments and changes in liabilities for insurance contracts, retention	310,937	561,857	88,975	441,912	(7,371)	1,396,310
Commission, marketing expenses and other acquisition costs	80,617	175,297	198,625	144,697	-	599,236
Management and general expenses	8,455	12,003	6,500	5,452	4,261	36,671
Financing expenses, Net	1,792	339	152	1,674	10	3,967
Total expenses (incomes)	401,801	749,496	294,252	593,735	(3,100)	2,036,184
Company's share of equity accounted investees profits	40,228	7,623	3,418	37,571	1,264	90,104
Profit (loss) before taxes on income	125,244	(5,128)	62,599	(29,778)	64,011	216,948
Other comprehensive loss before taxes on income	(37,538)	(7,113)	(3,190)	(35,056)	(10,543)	(93,440)
Total comprehensive income (loss) before taxes on income	87,706	(12,241)	59,409	(64,834)	53,468	123,508
Liabilities for insurance policies, gross, as at December 31, 2015	2,347,384	548,286	840,528	5,107,403	481,760	9,325,361
Liabilities for insurance policies, in retention, as at December 31, 2015	1,988,263	475,164	187,223	2,128,547	481,760	5,260,957

* Property and other branches primarily include results of property loss insurance and comprehensive homeowners insurance, operations of which account for 81% of total premiums earned from these branches.

** Other liabilities branches include mainly results from third-party insurance and professional liability which account for 79% 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-month period ended March 31, 2016 (Unaudited)				For the Three-month period ended March 31, 2015 (Unaudited)			
	Provident	Pension	Life assurance	Total	Provident	Pension	Life assurance	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Premiums earned, gross	-	-	1,017,965	1,017,965	-	-	1,206,682	1,206,682
Premiums earned by reinsurers	-	-	33,030	33,030	-	-	35,804	35,804
Premiums in retention	-	-	984,935	984,935	-	-	1,170,878	1,170,878
Profit (loss) from investments, net, and financing income	(334)	180	(23,579)	(23,733)	(467)	(246)	1,403,714	1,403,001
Income from management fees	40,988	65,384	83,500	189,872	54,721	63,276	218,301	336,298
Income from commissions	-	76	1,348	1,424	-	-	543	543
Total income	40,654	65,640	1,046,204	1,152,498	54,254	63,030	2,793,436	2,910,720
Payments and changes in liabilities for insurance policies and investment contracts, gross	532	2,338	880,930	883,800	492	2,767	2,689,733	2,692,992
Reinsurers' share of payments and change in liabilities for insurance policies	-	-	26,564	26,564	-	-	28,855	28,855
Payments and changes in liabilities for insurance policies and investment contracts in retention	532	2,338	854,366	857,236	492	2,767	2,660,878	2,664,137
Commissions, marketing expenses and other purchasing expenses	20,727	30,885	158,981	210,593	18,757	24,827	135,856	179,440
General and administrative expenses	20,412	22,919	83,378	126,709	19,764	16,919	81,032	117,715
Other expenses	2,806	770	5,314	8,890	3,350	841	5,314	9,505
Financing expenses (income), net	5	-	(688)	(683)	59	(2)	(4,607)	(4,550)
Total expenses	44,482	56,912	1,101,351	1,202,745	42,422	45,352	2,878,473	2,966,247
Company's share of profits of equity accounted investees	-	-	7,501	7,501	-	-	8,135	8,135
Profit (loss) before taxes on income	(3,828)	8,728	(47,646)	(42,746)	11,832	17,678	(76,902)	(47,392)
Other comprehensive income before taxes on income	873	468	4,756	6,097	1,049	1,598	17,342	19,989
Total comprehensive income (loss) before taxes on income	(2,955)	9,196	(42,890)	(36,649)	12,881	19,276	(59,560)	(27,403)

Note 4 - Operating segments (Contd.)

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

	For year ended December 31, 2015 (Audited)			
	Provident	Pension	Life assurance	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Premiums earned, gross	-	-	4,242,656	4,242,656
Premiums earned by reinsurers	-	-	138,536	138,536
Premiums in retention	-	-	4,104,120	4,104,120
Profit from investments, net, and financing income	118	186	1,415,928	1,416,232
Income from management fees	215,426	263,445	378,148	857,019
Income from commissions	-	286	34,952	35,238
Total income	215,544	263,917	5,933,148	6,412,609
Payments and changes in liabilities for insurance policies and investment contracts, gross	1,960	11,860	4,997,636	5,011,456
Reinsurers' share of payments and change in liabilities for insurance policies	-	-	71,647	71,647
Payments and changes in liabilities for insurance policies and investment contracts in retention	1,960	11,860	4,925,989	4,939,809
Commissions, marketing expenses and other purchasing expenses	76,731	106,673	542,577	725,981
General and administrative expenses	79,213	73,582	330,685	483,480
Other expenses	13,369	2,511	21,255	37,135
Financing expenses, net	104	40	4,060	4,204
Total expenses	171,377	194,666	5,824,566	6,190,609
Company's share of profits of equity accounted investees	-	-	68,097	68,097
Profit before taxes on income	44,167	69,251	176,679	290,097
Other comprehensive income (loss) before taxes on income	(329)	(109)	8,156	7,718
Total comprehensive income before taxes on income	43,838	69,142	184,835	297,815

Note 4 - Operating segments (Contd.)

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

Results by policy category

For the three months ended March 31, 2016 (Unaudited)	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
	NIS thousand						
Gross premiums	31,773	230,308	-	483,942	222,247	52,101	1,020,371
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(2,406)
Total							1,017,965
Amounts received for investment contracts recognized directly in insurance reserves	-	-	-	442,751	-	-	442,751
Financial margin including management fees - in terms of comprehensive income (2)	55,494	41,810	(49,642)	41,690	-	-	89,352
Payments and changes in liabilities for insurance policies gross	83,214	182,395	66,215	296,397	82,484	59,201	769,906
Payments and change in liabilities for investment contracts	-	-	(287)	111,311	-	-	111,024

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

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

Note 4 - Operating segments (Contd.)

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

Results by policy category (contd.)

For the year ended December 31, 2015 (Audited)	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
	NIS thousand						
Gross premiums	134,264	931,849	635	2,133,026	836,861	215,006	4,251,641
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(8,985)
Total							4,242,656
Amounts received for investment contracts recognized directly in insurance reserves	-	-	4	2,133,579	-	-	2,133,583
Financial margin including management fees - in terms of comprehensive income (2)	188,456	213,893	96,613	164,255	-	-	663,217
Payments and changes in liabilities for insurance policies gross	554,270	1,542,703	(46,740)	2,259,467	407,655	207,774	4,925,129
Payments and change in liabilities for investment contracts	-	-	(577)	73,084	-	-	72,507

(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

For the three months ended March 31, 2016 (Unaudited)

	Long-term care (LTC)		Other *		Total
	Personal lines	Group	long-term **	short-term **	
	NIS thousand				
Gross premiums	131,662	282,171	491,895	97,775	1,003,503
Payments and changes in liabilities for insurance policies gross	69,083	277,901	294,954	62,729	704,667

For the year ended December 31, 2015 (Audited)

	Long-term care (LTC)		Other *		Total
	Personal lines	Group	long-term **	short-term **	
	NIS thousand				
Gross premiums	516,445	1,149,277	1,876,593	431,221	3,973,536
Payments and changes in liabilities for insurance policies gross	449,576	1,209,858	1,280,001	271,580	3,211,015

* Of this, personal lines premiums in the amount of NIS 370,975 thousand (for the year ended December 31, 2015, an amount of NIS 1,444,892 thousand) and group premiums in the amount of NIS 218,695 thousand (for the year ended December 31, 2015, an amount of NIS 862,922 thousand).

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

Note 5 - Taxes on income

A. Special tax arrangements for the insurance industry

Agreement with the tax authorities

On January 13, 2016, sector-based agreements were signed for 2013-2015 between the Israel Insurers Association and the Tax Authority. The sector-based agreements for these years are unchanged relative to agreements from previous years, except for the following:

(a) Provision for indirect expenses for claims settlement in non-life insurance and health insurance that are included under the insurance liabilities will from now be recognized over several years and not when the provision is made.

(b) Rates for attributing expenses to income from 2014 through 2020 were determined that differ from the present rates.

(c) DAC - (a) Expenses incurred in the purchase of life assurance contracts and investment contracts in life assurance will be tax deductible in 10 equal annual parts, from the tax year in which they are issued, subject to cancellations; (b) expenses incurred in the purchase of pension and provident contracts will be tax deductible in 10 equal installments, from the tax year in which they were issued, independent of cancellations. The application of this method of amortization was determined for the underwriting years 2015 through 2020.

None of the foregoing was and is expected to significantly affect the Group's financial results.

The financial statements were prepared in accordance with the principles of this agreement.

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

On January 4, 2016, the Knesset passed the Amendment of the Income Tax Ordinance (Amendment no. 216) Law, 2016, which prescribed, inter alia, a 1.5% reduction in the rate of corporate tax, from 2016 onwards, so that it will be 25%. The above-mentioned change in corporate tax reduced the Group's tax expense by NIS 32 million and increased comprehensive income and shareholders' equity accordingly.

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

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

Year	Corporate tax rate	Profit tax rate	Tax rate for financial institutions
2015	26.5%	17.75%	37.58%
2016 and thereafter	25%	17%	35.9%

Note 5 - Taxes on income (contd.)

C. Approved pre-rulings

(1) In November 2015 a request was filed with the Tax Authorities to approve the spin off and merger of the insurance activity of Dikla Insurance Company (“the transferred activity) into Harel Insurance Company Ltd. (“the Recipient Company”), free of consideration, in accordance with Sections 105(I) and 103 of the Income Tax Ordinance. As part of the restructuring, the Tax Authorities were also asked to approve a transfer of the shares of Dikla Insurance Company Ltd. to Harel Insurance Investments & Financial Services Ltd., for no consideration, in accordance with Section 104 C of the Ordinance. Permission was requested to approve the merger retrospectively from December 31, 2015. As part of the Tax Authority's approval, provisions will be prescribed under Sections 103, 104 and 105 of the Income Tax Ordinance in connection with the manner of performing the restructuring. At the date of publication of the reports, the requested approval has not yet been received.

(2) In November 2015, a request was filed with the Tax Authority to approve a transfer the shares of Harel Atidit Provident Funds Ltd. (“Transferred Company 1”) and its merger into Harel Provident Funds and Education Funds Ltd. (“Recipient Company 1”), and to transfer the shares of Manof Pension Funds Management Ltd. (“Transferred Company 2”) and its merger into Harel Pension Funds Management Ltd. (“Recipient Company 2”), for no consideration, thus dissolving the Transferred Companies without liquidation and in accordance with the provisions of Sections 104(B)(f) and 103 of the Income Tax Ordinance. As part of the restructuring, the Tax Authorities were also asked to approve a transfer of the shares of LeAtid Pension Fund Management Ltd. to Harel Insurance Company Ltd., for no consideration, in accordance with Section 104 C of the Ordinance. Permission was requested to approve the merger retrospectively from December 31, 2015. As part of the Tax Authority's approval, provisions will be prescribed under Sections 103 and 104 of the Income Tax Ordinance in connection with the manner of performing the restructuring. At the date of publication of the reports, the requested approval has not yet been received.

(3) In August 2015, a request was filed with the Tax Authority to approve a merger of provident funds and pension funds owned by Harel Provident Funds and Education Funds Ltd. and Harel Pension Fund Management Ltd. Approval for the merger was requested in light of Section 35 of the Economic Efficiency Law which prescribes that the number of provident funds managed by management companies must be reduced so that each management company manages only one provident fund in each category, and in accordance with the policy of the Commissioner of the Capital Market, Insurance and Finance in the Ministry of Finance. As part of the request, the Tax Authority was asked that the process of merging the provident funds and pension funds should not be considered a tax event under the Income Tax Ordinance and/or the Land Taxation Law. At the date of publication of the reports, the requested approval has not yet been received.

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:

	March 31		December 31
	2016	2015	2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand
Investment property	**1,367,422**	1,332,111	1,368,958
Financial investments			
Marketable debt assets	**16,591,109**	16,661,650	17,043,861
Non-marketable debt assets (*)	**6,797,947**	5,592,570	6,400,091
Shares	**6,646,512**	6,342,052	6,804,453
Other financial investments	**7,217,296**	6,973,293	6,919,346
Total financial investments	**37,252,864**	35,569,565	37,167,751
Cash and cash equivalents	**1,064,160**	1,187,167	966,875
Other	**492,932**	428,607	532,702
Total assets for yield-dependent contracts **	**40,177,378**	38,517,450	40,036,286
Payables	**11,960**	21,123	21,110
Financial liabilities ***	**135,054**	179,319	163,135
Financial liabilities for yield-dependent contracts	**147,014**	200,442	184,245
(*) Assets measured at adjusted cost	**590,331**	479,342	548,126
Fair value of debt assets measured at adjusted cost	**635,555**	534,389	586,900

** Including assets in the amount of NIS 3,418,173 thousand, NIS 3,226,924 thousand and NIS 3,371,174 thousand as at March 31, 2016, 2015 and December 31, 2015 respectively, for a liability stemming from a group long-term care portfolio in which most of the investment is not imposed on the insurer.

*** Mainly derivatives and futures contracts.

Note 6 – Financial instruments

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

2. Fair value hierarch 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, 2016 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Marketable debt assets	13,057,630	3,533,479	-	16,591,109
Non-marketable debt assets	-	5,876,929	330,687	6,207,616
Shares	5,054,289	22,260	1,569,963	6,646,512
Other	4,253,639	262,007	2,701,650	7,217,296
Total	22,365,558	9,694,675	4,602,300	36,662,533

	As at March 31, 2015 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Marketable debt assets	*13,836,099	*2,820,275	5,276	16,661,650
Non-marketable debt assets	-	4,953,163	160,065	5,113,228
Shares	5,075,590	-	1,266,462	6,342,052
Other	4,406,090	336,996	2,230,207	6,973,293
Total	23,317,779	8,110,434	3,662,010	35,090,223

	As at December 31, 2016 (Audited)			
	Level 1	Level 2	Level 3	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Marketable debt assets	13,764,696	3,279,165	-	17,043,861
Non-marketable debt assets	-	5,487,299	364,666	5,851,965
Shares	5,202,323	13,076	1,589,054	6,804,453
Other	4,202,508	118,353	2,598,485	6,919,346
Total	23,169,527	8,897,893	4,552,205	36,619,625

* Reclassified.

Note 6 – Financial instruments (contd.)

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

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

For the three-month period ended March 31, 2016

	Fair-value measurement on report date			
	Financial assets at fair value through profit or loss			
	Non-marketable debt assets	Shares	Other	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Balance as at January 1, 2016	364,666	1,589,054	2,598,485	4,552,205
Total profits that were recognized:				
In profit and loss (*)	3,719	31,169	11,029	45,917
Interest and dividend receipts	(4,413)	(17,935)	(32,254)	(54,602)
Purchases	25,107	2,496	189,064	216,667
Sales	-	(5,390)	(53,695)	(59,085)
Redemptions	(16,694)	(29,431)	(10,979)	(57,104)
Transfers from Level 3 **	(41,698)	-	-	(41,698)
Balance as at March 31, 2016	330,687	1,569,963	2,701,650	4,602,300
(*) Of which total profit for the period that has not yet been exercised for financial assets held correct to March 31, 2016	3,091	31,007	11,324	45,422

** For securities whose rating changed.

For the three-month period ended March 31, 2015

	Fair-value measurement on report date			
	Financial assets at fair value through profit or loss			
	Non-marketable debt assets	Shares	Other	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Balance as at January 1, 2015	130,899	890,301	1,965,032	2,986,232
Total profits that were recognized in profit and loss (*)	9,243	14,181	84,882	108,306
Interest and dividend receipts	(1,750)	(24,055)	(46,237)	(72,042)
Purchases	24,889	319,994	358,977	703,860
Sales	(264)	(25,654)	(40,157)	(66,075)
Redemptions	(3,009)	(595)	-	(3,604)
Transfers to Level 3 **	5,333	-	-	5,333
Classification of balances	-	92,290	(92,290)	-
Balance as at March 31, 2015	165,341	1,266,462	2,230,207	3,662,010
(*) Of which total profit for the period that has not yet been exercised for financial assets held correct to March 31, 2015	9,243	14,082	89,545	112,870

** Mainly for securities whose rating changed.

Note 6 – Financial instruments (contd.)

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

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

For the year ended March 31, 2015

	Fair-value measurement on report date			
	Financial assets at fair value through profit or loss			
	Non-marketable debt assets	Shares	Other	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Balance as at January 1, 2015	130,899	890,301	1,965,032	2,986,232
Total profits that were recognized in profit and loss (*)	25,946	227,563	90,022	343,531
Interest and dividend receipts	(10,547)	(90,236)	(123,417)	(224,200)
Purchases	190,495	540,857	987,751	1,719,103
Sales	(7,243)	(37,653)	(204,908)	(249,804)
Redemptions	(31,394)	(20,992)	(23,705)	(76,091)
Transfers to Level 3 **	69,905	-	-	69,905
Transfers from Level 3 ***	(3,395)	(13,076)	-	(16,471)
Classification of balances	-	92,290	(92,290)	-
Balance as at December 31, 2015	364,666	1,589,054	2,598,485	4,552,205
(*) Of which total profit for the period that has not yet been exercised for financial assets held correct to December 31, 2015	20,909	221,474	93,859	336,242

** Mainly for securities whose rating changed.

*** Mainly for securities whose marketability changed.

Note 6 – Financial instruments (contd.)

B. Other financial investments

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

	March 31 (Unaudited)		December 31 (Audited)	March 31 (Unaudited)		December 31 (Audited)
	Book Value			Fair Value		
	2016	2015	2015	2016	2015	2015
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Loans and receivables:						
Earmarked bonds	**4,744,456**	4,480,530	4,579,010	**6,174,789**	5,956,896	5,898,915
Non-marketable, non-convertible debt assets, excluding bank deposits	**5,265,040**	4,841,640	5,298,631	**5,973,395**	5,738,710	5,903,981
Bank deposits	**903,811**	893,598	912,132	**984,533**	1,025,150	989,116
Non-marketable, convertible debt assets	**312**	326	311	**312**	326	311
Total non-marketable debt assets	**10,913,619**	10,216,094	10,790,084	**13,133,029**	12,721,082	12,792,323
Investments held to maturity:						
Marketable non-convertible debt assets	**293,034**	323,291	307,199	**309,775**	350,145	320,839
Total Investments held to maturity	**293,034**	323,291	307,199	**309,775**	350,145	320,839
Total	**11,206,653**	10,539,385	11,097,283	**13,442,804**	13,071,227	13,113,162
Impairments recognized in profit and loss (in aggregate)	**13,802**	8,875	10,231			

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 periodically, 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, 2016 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Marketable debt assets	5,572,268	1,594,997	-	7,167,265
Non-marketable debt assets	-	-	312	312
Shares	710,461	-	76,387	786,848
Other	947,805	146,331	1,261,443	2,355,579
Total	7,230,534	1,741,328	1,338,142	10,310,004

	As at March 31, 2015 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Marketable debt assets	*6,649,605	*1,381,165	-	8,030,770
Non-marketable debt assets	-	-	326	326
Shares	643,627	-	81,001	724,628
Other	1,010,734	153,411	1,143,898	2,308,043
Total	8,303,966	1,534,576	1,225,225	11,063,767

	As at December 31, 2015 (Audited)			
	Level 1	Level 2	Level 3	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Marketable debt assets	5,721,209	1,479,088	-	7,200,297
Non-marketable debt assets	-	-	311	311
Shares	741,186	-	77,006	818,192
Other	895,120	62,600	1,228,938	2,186,658
Total	7,357,515	1,541,688	1,306,255	10,205,458

* Reclassified.

Note 6 – Financial instruments (contd.)

B. Other financial investments (contd.)

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

For the three-month period ended March 31, 2016

	Fair-value measurement on reporting date Financial assets at fair value through profit or loss and available-for-sale assets			
	Non-marketable debt assets	Shares	Other	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Balance as at January 1, 2016	311	77,006	1,228,938	1,306,255
Total profits that were recognized:				
In profit and loss (*)	1	97	9,547	9,645
In other comprehensive income	-	(242)	(11,762)	(12,004)
Interest and dividend receipts	-	(81)	(14,057)	(14,138)
Purchases	-	-	71,447	71,447
Sales	-	(393)	(19,008)	(19,401)
Redemptions	-	-	(3,662)	(3,662)
Balance as at March 31, 2016	312	76,387	1,261,443	1,338,142
(*) Of which total profit for the period that has not yet been exercised for financial assets held correct to March 31, 2016	1	97	9,074	9,172

For the three-month period ended March 31, 2015

	Fair-value measurement on reporting date Financial assets at fair value through profit or loss and available-for-sale assets			
	Non-marketable debt assets	Shares	Other	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Balance as at January 1, 2015	776	115,954	1,066,339	1,183,069
Total profits (losses) that were recognized:				
In profit and loss (*)	(148)	17,841	56,820	74,513
In other comprehensive income	-	(16,579)	(27,537)	(44,116)
Interest and dividend receipts	-	(3,549)	(20,936)	(24,485)
Purchases	-	-	202,233	202,233
Sales	(302)	(648)	(20,714)	(21,664)
Transfers from Level 3 **	-	(32,018)	(112,307)	(144,325)
Balance as at March 31, 2015	326	81,001	1,143,898	1,225,225
(*) Of which total profit (loss) for the period that has not yet been exercised for financial assets held correct to March 31, 2015	(148)	3,554	23,262	26,668

** Classification of balances for investee companies.

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, 2015

	Fair-value measurement on reporting date			
	Financial assets at fair value through profit or loss and available-for-sale assets			
	Non-marketable debt assets	Shares	Other	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Balance as at January 1, 2015	776	115,954	1,066,339	1,183,069
Total profits (losses) that were recognized:				
In profit and loss (*)	(142)	20,733	56,739	77,330
In other comprehensive income	-	(18,253)	(21,188)	(39,441)
Interest and dividend receipts	3	(7,165)	(55,068)	(62,230)
Purchases	-	-	439,840	439,840
Sales	(326)	(2,245)	(130,447)	(133,018)
Redemptions	-	-	(14,970)	(14,970)
Transfers from Level 3 **	-	(32,018)	(112,307)	(144,325)
Balance as at December 31, 2015	311	77,006	1,228,938	1,306,255
(*) Of which total profit (loss) for the period that has not yet been exercised for financial assets held correct to December 31, 2015	(148)	6,455	14,783	21,090

** Classification of balances for investee companies.

Note 6 – Financial instruments (contd.)

C. Financial liabilities

1. Fair value against book value – financial liabilities presented at amortized cost

	March 31		December 31	March 31		December 31
	(Unaudited)		(Audited)	(Unaudited)		(Audited)
	Book Value			Fair Value		
	2016	2015	2015	2016	2015	2015
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Loans from banks (1)	**477,655**	552,600	481,415	**489,955**	556,478	491,962
Loans from non-bank corporations (1)	**89,833**	93,258	93,966	**90,544**	96,236	93,609
Loans from interested parties	**11,559**	958	11,484	**11,559**	958	11,484
Short-term credit from banks and other corporations	**-**	33,747	-	**-**	33,747	-
Subordinated promissory notes	**2,597,692**	2,354,759	2,633,965	**2,877,354**	2,712,097	2,903,004
Total financial liabilities presented at amortized cost	**3,176,739**	3,035,322	3,220,830	**3,469,412**	3,399,516	3,500,059

(1) Most of the loans are for short periods or at variable interest and their fair value is therefore close to their book value.

2. Interest rates used to determine the fair value

	As at March 31		As at December 31
	2016	2015	2015
In percent			
Loans	**2.61%**	2.89%	2.90%
Subordinated liability notes	**1.70%**	1.12%	1.84%

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).

	March 31, 2016 (Unaudited)		
	Level 1	Level 2	Total
	NIS Thousands	NIS Thousands	NIS Thousands
Derivatives (2)	9,905	809,229	819,134
Short sales (3)	69,443	-	69,443
Loans from banks (1)	-	67,297	67,297
Total financial liabilities	79,348	876,526	955,874

	March 31, 2015 (Unaudited)		
	Level 1	Level 2	Total
	NIS Thousands	NIS Thousands	NIS Thousands
Derivatives (2)	8,681	755,611	764,292
Short sales (3)	81,228	-	81,228
Loans from banks (1)	-	378,738	378,738
Total financial liabilities	89,909	1,134,349	1,224,258

	December 31, 2015 (Audited)		
	Level 1	Level 2	Total
	NIS Thousands	NIS Thousands	NIS Thousands
Derivatives (2)	28,257	801,680	829,937
Short sales (3)	27,441	-	27,441
Loans from banks (1)	-	206,232	206,232
Total financial liabilities	55,698	1,007,912	1,063,610

(1) Harel Financial Products has arbitrage activity which is performed as part of the ETN assets. This activity includes the acquisition of contracts in lieu of the sale of underlying assets as well as the acquisition of underlying assets and the sale of contracts on those assets. The funding for the purchase of the underlying assets comes from bank credit. Harel Financial Products' policy with respect to this arbitrage is to fully hedge the transactions so that there is no exposure to the underlying assets. At March 31, 2016, the outstanding financial liability for this activity is approximately NIS 7 million.

(2) Derivative financial instruments held against the insurance liabilities as part of the Group’s policy for asset and liability management (“ALM”). Of the above, NIS 600 million as at March 31, 2016, NIS 517 million as at March 31, 2015, and NIS 619 million as at December 31, 2015, 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 to foreign currency by means of derivatives and to the CPI. Against these liabilities, the financial institutions deposited collateral in accordance with the conditions prescribed in the contract. The Group’s financial institutions have approved credit facilities for its derivative activity. Furthermore, the Group’s financial institutions deposited NIS 723 million as collateral to cover its liabilities arising from this activity. With respect to the other liabilities, the Company provided collateral in the form of a floating charge on deposits.

(3) As part of an OTC transaction a subsidiary issued to a third party, in several transactions, non-marketable liability notes that inversely track changes in certain shares. The value of the transaction in terms of the underlying asset is NIS 64 million. The transactions are to be completed one year from their execution date.

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. At March 31, 2016 the Company is in compliance with the defined financial covenants.

2. Maalot Rating

   On March 16, 2016, Maalot set a rating of 'ilAA-' for the issuance of hybrid tier-2 capital by means of two new series of bonds, in the total amount of up to NIS 250 million. The Series 12-13 bonds were issued by Harel Insurance, Financing and Issuing Ltd.

3. On a public issuance of two new series of bonds after the report date, see Note 10.

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

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

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

Note 7 - Contingent liabilities and commitments

A. Contingent Liabilities

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

New interpretations of the information in insurance policies and long-term term pension products may, in some instances, affect the Group's future profits in respect of the existing portfolio, in addition to the exposure inherent in requirements to compensate customers for past activity. Likewise, there is an element of exposure due to regulatory changes and instructions issued by the Commissioner, in circulars that are in force and in draft circulars that are still under discussion, as well as in the Commissioner’s Position Papers and Decisions in Principle on various topics, some of which have far-reaching legal and operational ramifications.

This exposure is particularly strong in pension savings and long-term insurance, including health insurance. In these sectors, agreements with the policyholders, members and customers are over a period of many years during which there may be policy changes, regulatory changes and changes in the law, including in case law. These rights are managed through complex automated systems, and in view of these changes they must be constantly adjusted. All these create considerable operational and mechanization exposure in these areas of activity.

Among these regulatory changes, on December 21, 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 defines the stages of implementation of the optimization project as follows: (1) a gap study of the existing information at product, members and employers level - by March 31, 2013; (2) formulation of a mapping model and rating of the gaps found - by March 31, 2013; (3) a work plan is to be prepared to deal with any failure/s that are found - by September 30, 2013. The work plan will address the arrangement and saving of the existing information - by September 30, 2014. The company operates in accordance with the provisions of the circular. The optimization project is to be completed by June 30, 2016.

In addition, there is a general exposure due to complaints issued from time to time to the Commissioner of Capital Markets, Insurance and Savings in the Ministry of Finance against institutional bodies in the Group, regarding the rights of insured relating to the insurance policies and/or the law. These complaints are handled on a current basis by the public complaints division within the financial institutions. The Commissioner’s rulings on these complaints, if and to the extent that any decision is made, are liable to be given across the board and apply to large groups of insureds. 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 Commissioner 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.

Additionally, as part of the policy recently applied by the Ministry of Finance Capital Market, Insurance & Savings Division to enhance the controls and audits of financial institutions, from time to time the Commissioner 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 Commissioner may 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 Commissioner's office, during the Reporting Period several in-depth audits were and are being conducted of the pensions, actuarial practice, customer service, reinsurance, long-term care insurance sectors, information and claims systems.

Within the context of investments in debt assets by the Group companies, 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. On the merger of Dikla's insurance activity, see Note 9 below.

Following are details of the exposure to class actions and applications to recognize claims as class actions filed against the Company and/or companies in the Group.

For applications 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. The total provision included in the financial statements to cover the exposure is an insignificant amount.

For applications to approve actions as class actions under Sections 33, 34, 35, 37, 38, 40, 42, 43, 44, 45, 46, 47, 48 and 49 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 a legal 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 application for its certification as a class action. The subject of the action is a claim that the respondents unlawfully collected a "sub-annual factor fee" (a fee that insurance companies are allowed to collect when the amount of the annual premium is actually paid in installments). The plaintiffs claim damages in the amount of NIS 1,683.54 for each insurance year. 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, according to which the plaintiff will strike out 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 Insurance Commissioner filed a position that supports the position of the defendants that there is no reason to charge sub-annual policy factor, on the savings component of life insurance combined savings and other risk policies, including nursing, work disability and accidental disability.
2. In April 2008 an action was filed in the Jerusalem District Labor Court against the subsidiary Harel Insurance and against three other insurance companies (hereinafter together: “the Defendants”), together with an application for its certification as a class action. The subject of the action is the allegation that the Defendants generally credit women policyholders, when they reach the age of retirement, for old managers’ insurance policies that were sold until 2000, with a lower monthly benefit than the benefit received by male insureds with the same data, for the reason that women have a higher life expectancy. In contrast, the Defendants collect the same term (pure life) assurance premiums from the women as they collect from the men, despite the fact that the mortality rate for women, during the risk period, is ostensibly lower. The Plaintiffs argue that this conduct discriminates against female policyholders, in contravention of the statutory provisions. On August 17, 2014, the Jerusalem District Labor Court certified the action as a class action. The group that was certified for the class action consists of women who have or had an insurance policy with the four Defendants, and for whom no distinction was made between the tariff for men and women in the calculation of the risk premium. In December 2014, the Defendants filed an application for permission to appeal this ruling in the Jerusalem National Labor Court. Concurrently, the District Labor Court accepted the Defendants’ application for a stay of proceedings until a decision is made on the application for permission to appeal. In April 2015, the National Labor Court decided to grant the Defendants permission to appeal the decision. As part of a hearing on appeal, the court instructed that the material must be submitted to the Commissioner of Insurance so that he can give his opinion.
3. In July 2008, a claim and a request to certify the claim as a class action were filed in the Tel Aviv District Court against the subsidiary Harel Insurance. The claimant claims that Harel Insurance ostensibly avoided paying and / or indemnifying its insured parties for damages caused to safety devices installed in their vehicles in the event of a total loss or constructive total loss or theft, and that it signs its policyholders, in contravention of the instructions of the Commissioner of Insurance, on a letter of settlement. The claimant alleges that in this way, Harel Insurance enriches itself at the expense of the insured and is in breach of a statutory obligation. The claimant notes that he does not have all the information available in order to accurately estimate the size of the group, but he does estimate that the amount of the claim for all members of the group, over a period of four and half years, at NIS 37 million.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

4. In April 2010 a legal action and an application for its certification as a class action was filed in the Petach Tikva Central Region Distict Court against the subsidiary Harel Insurance and against four additional insurance companies (hereinafter together: “the Defendants”). The subject of the legal action is the allegation that in the event of a discontinuation of insurance in any month, after the insurance premium for that month was collected by the Defendants in advance, the defendants allegedly did not reimburse the insured the proportionate, surplus share of the premiums for that month, or alternatively they allegedly repaid the insurance premium in nominal values only. In the opinion of the applicants, the total damages to all members of the group, cumulatively claimed against all defendants, amount to NIS 225 million for a ten year period (the plaintiffs did not attribute any specific amount to each of the Defendants separately). The amount of the plaintiffs’ personal claim against Harel Insurance is NIS 80. In December 2011, the court instructed that the plaintiffs' allegations should be struck out in connection with Section 28.A of the Contracts (Insurance) Law and in connection with a policy of policyholders that has partially or temporarily expired. In November 2014, the opinion of the Commissioner of Insurance was submitted to the court, that the provisions of the policy are binding with respect to the manner of collecting the premium after the death of the insured or in the period following cancellation of the policy, and that the actuarial opinion submitted to the court by the Defendants is insufficient to confirm that the Defendants priced the policy in such a way as provides evidence that they took into account the fact that the premiums would not be returned to the insureds for the period after the death of the insured or after the policy cancellation. On June 23, 2015, the Lod-Central District Court partially certified litigation of the claim as a class action. The court certified the claim against Harel Insurance as a class action, but only with respect to the inclusion of interest and linkage differences at the time of restitution of premiums that were collected in the months after the month in which the insurance contract was cancelled or after the occurrence of the insured event.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

5. In May 2011, a claim 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 claim is an allegation that the respondents 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 claimants allege that according to instructions issued by the Commissioner of Insurance in the Capital Market, Insurance and Savings Division ("the Commissioner"), companies may charge a policy factor under certain conditions; however they also claim that in addition to the Commissioner's authorization, the respondents must stipulate collection of the policy factor in a contractual agreement with the policyholder. According to the plaintiffs, the total loss claimed for all members of the group against all the Defendants is NIS 2,325 million, and against Harel Insurance, based on its share of the market, is NIS 386 million. On June 10, 2015, the parties filed an application in the court to approve a compromise settlement. The court appointed a reviewer for the compromise settlement. Under the proposed compromise settlement, the Defendants will reimburse the group members with a total amount of one hundred million shekels for the collection of a policy factor in the past. Harel Insurance’s share of this amount is NIS 14 million. Additionally, each of the Defendants will deduct the future collection for the policy factor from the members of this group at a rate of 25% relative to the amount actually collected. Furthermore, insofar as the compromise settlement is approved, Harel Insurance will be required to pay compensation to the class plaintiff and cover the cost of his lawyer’s fees, of an amount to be decided upon by the court. Following submission of the reviewer’s expert opinion, on October 18, 2015 the court clarified its original position regarding the compromise settlement that had been given in a previous hearing, whereby it is clearly inclined not to approve the compromise settlement under the present conditions and it recommended that the parties significantly improve the terms of the compromise settlement. In February 2016, the Attorney General submitted his opinion regarding the compromise settlement, whereby he agrees in principle with the conclusions in the reviewer’s opinion relating to the compromise settlement and he left the appropriate compensation under the circumstances to be determined by the court, based on the information available to it. Nevertheless, the Attorney General stated that in his opinion, there is some difficulty with the compromise settlement, whereby the Defendants will continue to collect the policy factor in future in a manner that prevents the group members from filing a claim on this matter in the future, in view of the fact that, in his opinion, this is a waiver of grounds for a future claim. However, under the circumstances of the aforesaid application, he wishes to leave the question of further collection of the policy factor in the future to the discretion of the court. Furthermore, the Attorney General expressed his opinion to the effect that any reduction of the collection of the policy factor in the future must be directed in its entirety to increasing the savings component in the policy, and he also commented on several other matters in the compromise settlement including: notice to be given to policyholders who are entitled to receive compensation for the past, the manner of paying the compensation relating to the past, including donating any amounts owed to recipients who are not found and the proposed fee and compensation for the applicants and their attorneys.

6. In June 2011, a claim was filed at the Central District Court against the subsidiary Harel Insurance and nine other insurance companies (hereinafter together: “the Defendants”), with an application for certification as a class action. The subject of this class action is the allegation that when, due to attachments on insurance benefits imposed at the request of a third party, payment of the insurance benefits is withheld from policyholders, the insurance companies allegedly pay the policyholders the insurance benefits in nominal values without any revaluation, or in certain instances only with linkage differences, without the profits arising from them, as a result of this delay. The plaintiffs estimate that the total loss incurred by all members of the group as a result of the Defendants' actions is NIS 350 million. The plaintiffs estimate the total loss against Harel Insurance in the amount of NIS 72 million. On February 8, 2012, the plaintiffs announced that they are abandoning their claim that foreclosures were imposed illegally. On December 12, 2012, the court approved conducting the claim as a class action. The mediation process being conducted by the parties was unsuccessful and the hearing of the action has been returned to the court. The parties are negotiating to reach a compromise.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

7. In May 2012, a claim was filed against the subsidiary Dikla together with two other insurance companies and three health funds (hereinafter together: "the Defendants"), in the Jerusalem District Court, with an application for certification as a class action. The contention of the class action claim is that the Defendants refused to insure clients with disabilities in the context of the group LTC insurance provided by health funds, and this is ostensibly in breach of the provisions of the 1998 Law for the Equal Rights of Persons with Disabilities ("the Law"), thereby discriminating against them and abrogating their right to respect and equality. The plaintiffs estimate the amount of the claim for all group members they wish to represent against all Defendants at NIS 659 million. The mediation process conducted by the parties was unsuccessful and litigation of the action returned to the court. In April 2016, the plaintiffs filed a motion to abandon the application for certification. The application for abandonment is subject to the court's approval.
8. In May 2012, a claim was filed against the subsidiary Harel Insurance and the subsidiary Dikla and against four other insurance companies and one insurance agency (hereinafter together: "the Defendants") in the Jerusalem District Court, together with an application for certification as a class action. The subject of action is that the Defendants ostensibly refused to insure clients with disabilities in such individual insurance policies as healthcare, travel, pension, personal injury, life, LTC and work disability ("the personal lines insurances"), and this ostensibly in breach of the provisions of the Equal Rights for Persons with Disabilities Law, 1998 ("the Law"), thereby discriminating against them and abrogating their right to respect and equality. The plaintiffs estimate the amount of the claim for all group members they wish to represent against all Defendants at NIS 934 million. The mediation process conducted by the parties was unsuccessful and litigation of the action was returned to the court. In April 2016, the plaintiffs filed a motion to abandon the application for certification. The application for abandonment is subject to the court's approval.
9. In July 2012, a claim 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.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

10. In December 2012, a claim was filed against the subsidiary Harel Insurance and six other insurance companies (hereinafter together: "the Defendants") in the Central District Court, with an application for certification as a class action. The contention of the class action claim is that in the context of the reforms implemented in the vehicle licensing branch by the Ministry of Transportation in 2007, the 1961 Transportation Regulations were amended, thereby changing the classification of leisure ATVs and mini-vans ("the Vehicles") to private vehicles. The plaintiffs claim that the defendants chose to continue to define the Vehicles as commercial vehicles, ostensibly in contravention of the provisions of the law. It is also claimed that in respect of vehicles manufactured after the reform was in place, i.e. from the year 2008 and on, the defendants changed their conduct and insured the Vehicles as private vehicles, thus, ostensibly creating discrimination. The plaintiffs claim that by classifying the Vehicles as commercial vehicles, even though they are classified by the Ministry of Transportation as private vehicles (M-1), the defendants allegedly collect higher insurance premiums than they do for private vehicles. The plaintiffs estimate the amount of the claim for all group members at a sum exceeding NIS 189 million.

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

12. 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 January 2016, a motion was filed in the Supreme Court for a stay of proceedings and in February 2016 the Supreme Court responded to the motion and ordered a stay of proceedings. Furthermore, the Supreme Court determined that the hearing on the application for permission to appeal will be held in the presence of a panel of judges.

13. In July 2013, a claim was filed in the Lod District Court against the subsidiary Harel Insurance, with an application for its certification as a class action. The subject of the action is the allegation that Harel Insurance allegedly refrains from publishing full 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 insured, and this ostensibly in contravention of the provisions of a circular issued by the Commissioner of Insurance - "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.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

14. In October 2013, an action was filed in the Lod-Central District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance and three other insurance companies (hereinafter together: "the Defendants"). The subject of the action is an allegation that where enrolment in the insurance takes place at the beginning of the month in which the insured purchased the policy, the Defendants ostensibly update the premiums for both index linkage and a change of age in life and health insurance policies which have a variable premium, on a date which precedes the date scheduled for updating, and they link the premium to an index preceding the index that should be applied. The overall loss claimed for all members of the group against all the Defendants amounts to NIS 399 million.
15. In October 2013, an action was filed in the Lod District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action is an allegation that Harel Insurance ostensibly refrains from paying compensation to insureds who performed surgery that was fully or partially paid for by their healthcare providers, at a rate of half the amount that it saved from the full cost of the surgery, due to the participation of the health funds. The total loss claimed for all members of the group amounts to NIS 14 million. In March 2016, a compromise settlement was submitted for the court's approval.
16. In April 2014, a claim was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Dikla Insurance. 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).
17. 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.
18. 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 and against two other insurance companies (hereinafter together: "the Defendants"). The subject of the action is the allegation that where Harel Insurance sells a service agreement that includes a replacement vehicle together with motor property insurance that includes cover for young drivers, the young drivers are unable to benefit from the service agreement as the service provider does not allow young drivers to drive replacement vehicles. The Plaintiffs argue that the policy does not contain a satisfactory exclusion which disallows young drivers from driving replacement vehicles. According to the Plaintiffs, the Defendants thus mislead their policyholders, acting in contravention of the law with respect to the insurer's obligation to highlight the limitations that apply to the insurance cover. The Plaintiffs estimate that the total loss claimed for all members of the Group that they wish to represent amounts to NIS 17.3 million against Harel Insurance, and NIS 28.4 million against all the Defendants. The court passed the motion to accept the position of the Commissioner of Insurance. In March 2016, the Commissioner of Insurance submitted her position whereby the purpose of the schedule is to present to the insured a summary of the main points of the cover he has purchased, and there is therefore no obligation to list all the exclusions in the policy and the service notes in the schedule.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

19. In April 2014, an action was filed in the Lod District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action is that Harel Insurance does not provide the holders of health insurance for the diagnosis of critical illness ("the Policy") with insurance cover if they are diagnosed with the specific illness from which the claimant suffered, despite the fact that according to the Plaintiff, the proper interpretation of the policy should, ostensibly lead to the conclusion that insurance cover should be provided in such a case (even though the illness is excluded under the policy conditions). According to the action, the Plaintiff has made no estimate of the loss claimed for all members of the Group that it wishes to represent.

20. In May 2014, an action was filed in the Central District Court - Lod, 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 insurance benefits to policyholders which include coverage for accidental disability, in respect of insured limb disability that is not mentioned explicitly in the policy, according to a calculation mechanism which are in contravention of the law. Based on the action, the Plaintiffs estimate that the total loss claimed for all members of the Group that they wish to represent amounts to NIS 50 million against Harel Insurance.

21. 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. 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 instructions of the Commissioner of Insurance 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 position of the Commissioner of Insurance regarding the disputes that are the subject of the motion for certification of the action as a class action. In January 2016, the position of the Commissioner of Insurance was submitted which stated that the policy definition of the insured event does not violate the Commissioner's instructions and that the policy which is the subject of the claim was approved separately by the Regulator.

22. In June 2014, an action was filed in the Jerusalem District Court against the subsidiary Harel Insurance and against six other insurance companies (hereinafter together: "the Defendants"), together with an application for its certification it as a class action. The subject of the action is the allegation that the Defendants set sums assured in life assurance policies that are required for mortgage loans, on the basis of information that is not based on the mortgage and interest track as determined by the lending bank, and for policy periods during which the sums are not revised in line with the outstanding amount of the mortgage. As a result, the Defendants allegedly collect sums insured that are higher than the amounts that should have been calculated according to the outstanding amount of the mortgage provided by the lending banks, and the Defendants therefore ostensibly mislead their insureds and operate in contravention of the law. The Plaintiffs estimate that the total loss claimed for all members of the Group that they wish to represent against Harel Insurance amounts to NIS 88 million, and NIS 1,182 million against all the Defendants. The court passed the motion to accept the position of the Commissioner of Insurance on the questions arising from the application for certification. The Commissioner of Insurance forwarded the court's questions for the comments of the Supervisor of Banks. On March 23, 2016, the position of the Commissioner of Insurance was submitted which, in general, supports the defendants' position, and determines that there is no obligation according to the regulations for the insurance companies to voluntarily update, from time to time, the sum insured in the policy and that insurance companies are not entitled to change the conditions of insurance contracts, including to change the sum insured, without obtaining an explicit instruction from the insured.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

23. In July 2014, an application for certification of a claim as a class action was filed in the Central Region Lod District Court against Harel Pension Fund Management Ltd. and against four other pension fund management companies (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants raise the management fees paid by pension fund members from the cumulative savings (accrued balance) to the maximum rate permitted by law on the date on which the members become pensioners, receive their old-age pension and they are no longer able to move their pension savings. In this way, the Defendants ostensibly apply the contractual right to which they are entitled under the provisions of the pension fund articles, in an unacceptable manner, in bad faith and contrary to the provisions of the law. According to the Plaintiffs, the total loss claimed for all members of the group that the Plaintiffs wish to represent, amounts to NIS 48 million against all the Defendants.

24. In November 2014, an application for certification of a claim as a class action was filed against the subsidiary Harel Insurance and Standard Insurance Ltd. and against other insurance companies and insurance agencies (together: "the Defendants") in the Central District Court in Lod. The subject of the action is the allegation that when the holders of Isracard and CAL credit cards call the sales call centers run by the Defendants in order to activate an overseas travel insurance policy that they are entitled to receive free of charge ("the Basic Policy"), the Defendants ostensibly then sell these customers riders or extensions to the Basic Policy, in practice selling them complete, standard policies that provide cover from the first shekel and include coverages that overlap the cover included in the Basic Policy. This, at full cost and without deducting the value of the Basic Policy. The Plaintiffs argue that the Respondents are therefore misleading the insureds, in breach of the disclosure obligations, operating in contravention of the law and practicing unjust enrichment. According to the action, the total loss claimed for all members of the Group that the Plaintiffs wish to represent is estimated at NIS 270 million. The parties are conducting a mediation process.

25. In December 2014 an application was filed in the Tel Aviv District Court (Economic Department) to certify an action as a class action against Harel-Pia Mutual Funds Ltd. ("Harel-Pia"), against 8 other fund management companies and against 6 trust companies that served as trustees for the mutual funds (hereinafter together: "the Defendants"). The subject of the action is the allegation that before Amendment no. 14 to the Joint Investment Trust Law, 1994 ("the Investment Law") entered into force, the Defendants that are mutual fund management companies, performed transactions for the holders of participation units in the funds ("the Investors"), ostensibly without making any effort to reduce the brokerage fee that is paid by the Investors, and that the Defendant trust funds allegedly refrained from fulfilling their duty as trustee by not operating for the good of the Investors in the funds and they did not oversee the activity in the mutual funds. The Plaintiffs argue that the Defendants were therefore ostensibly in breach of their fiduciary obligation and/or the duty of caution towards the investing public, they operated contrary to the provisions of the Investment Law and statutory provisions, were in breach of a legislated obligation, practiced unjust enrichment, and acted so as to mislead and take advantage of the Investors monies. The Plaintiff estimates the total loss claimed for all members of the Group that it wishes to represent at NIS 45 million against Harel-Pia and a total of NIS 220 million against all the Defendants.

26. In March 2015, an action was filed in the Rishon LeZion Magistrate's Court together with an application for its recognition as a class action against the subsidiary Harel Insurance. The subject of the action is an allegation that Harel Insurance does not cover aesthetic disability for athletes in the personal accident policy, and this ostensibly, contrary to the provisions of the Sport Law, 1988, and the Sports (Insurance) Regulations, 1994. The Plaintiff has made no estimate of the loss claimed for all members of the Group that it wishes to represent, but limits it to the limit of the Magistrate Court's authority, which is NIS 2.5 million.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

27. In April 2015, an action was filed in the Tel Aviv-Jaffa District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance and against Pelephone Communications Ltd. The subject of the action is the allegation that Harel Insurance allegedly practices prohibited discrimination on the basis of gender and sexual orientation between men who are not in a spousal relationship with a woman and men who are in a spousal relationship with a woman and women with respect to providing insurance cover for pregnancy and birth as part of health insurance policies. The Plaintiff estimates the total loss claimed for all members of the Group that it wishes to represent at NIS 52 million.
28. In May 2015, a claim was filed in the Central Region (Lod) District Court against the subsidiary Harel Insurance and three other insurance companies (hereinafter together: The Defendants"), together with an application for its certification as a class action. The subject of the action is the allegation that the Defendants ostensibly refrained from paying insurance benefits for the VAT component that applies to the cost of a repair in those instances where the damage was not actually repaired. This, ostensibly, in contravention of the provisions of the law and by unjust enrichment. The Plaintiffs estimate the total loss claimed for all members of the Group that they wish to represent in the amount of NIS 136 million against Harel Insurance, and NIS 489.5 million against all the Defendants.
29. In June 2015, a claim was filed in the Central Region District Court against the subsidiary Harel Insurance and another insurance company (hereinafter together: "the Defendants"), together with an application for its certification as a class action. The subject of the action is the allegation that the Defendants ostensibly collect insurance premiums that include a "risk supplement" stemming from the nature of the insureds' work, also in periods when the insureds are not working. This, ostensibly, in contravention of the provisions of the law, gaining unjust enrichment, in breach of a legislated obligation, in breach of contract, improper disclosure and deception. The Plaintiff has made no estimate of the loss claimed for all members of the Group that it wishes to represent.
30. In July 2015, a claim was filed in the Central Region 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 ostensibly compensates its insureds in the event of loss, theft or damage caused to an item of jewelry that was insured by Harel Insurance as part of a homeowners' insurance policy, by way of providing a voucher to buy a piece of jewelry in one of the arrangement stores and/or by underpaying them for the jewelry. The Plaintiff argues that Harel Insurance is therefore in breach of the conditions of the standard homeowners' policy, in breach of the provisions of the Supervision of Insurance Business Law, 1981 and of the provisions of the homeowners insurance policy issued and marketed by Harel Insurance. The Plaintiff has not estimated the loss claimed for all members of the Group that it wishes to represent.
31. In July 2015, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance and against an additional insurance company (hereinafter together: "the Defendants"). The subject of the action is the allegation that when the Defendants determine the premiums for comprehensive motor insurance, they ostensibly do not take into account the subjective, historic data about the insured vehicle which affects its value, but they do take this information into account when calculating the amount of compensation to which the insured is entitled for an entitling event based on the policy. The Defendants also do not specify the value of the vehicle in the policy as the basis for calculating the amount of the compensation when the entitling event occurs. The Plaintiffs argue that the Defendants are therefore in breach of the statutory provisions and that they harm the interest of certainty and reliance of the group's members. The personal loss claimed by the plaintiff in relation to Harel Insurance is NIS 200 for each year in which his vehicle was insured by Harel Insurance. The Plaintiffs have not estimated the loss claimed for all members of the group they wish to represent.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

32. In August 2015, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Dikla. 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 circulars of the Commissioner of Insurance 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.

33. In September 2015, an action was filed in the Central District Court together with an application for its certification as a class action against the subsidiaries Harel Insurance and Dikla 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.

34. In September 2015, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against Harel Pension Funds Management Ltd. and against four other companies ("hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants were ostensibly in breach of their fiduciary duties towards the members of the provident funds they manage by paying commissions to the insurance agents at a rate derived from the management fees they collect from the members, thereby compensating the agents by an amount that increases in line with the increase in the management fees. Their argument is that the Defendants ostensibly practiced unjust enrichment by creating a mechanism aimed at increasing the management fees in favor of the agents and management companies. The Plaintiffs estimate the loss for all members of the group they wish to represent in the amount of NIS 300 million per annum since 2008 and in total by NIS 2 billion.

35. In September 2015, an action was filed in the Central District Court together with an application for its certification as a class action against the subsidiaries Harel Insurance and Dikla and against two other insurance companies (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants ostensibly collect full management fees from insureds who are reserve soldiers even when they are on reserve duty, despite the fact that the Defendants do not provide full insurance cover, but only partial insurance cover during this period, the value of which is significantly less than the premiums collected from them. The Plaintiffs claim that by such conduct, the Defendants practice unjust enrichment, are in breach of a statutory obligation, and in violation of the disclosure obligation that applies to them. The Plaintiffs further argue that the provisions that limit the insurance cover for insureds on reserve duty without reducing the premiums during this period constitute a discriminatory condition in a standard policy, and that they are contrary to the insureds' reasonable expectation. The Plaintiffs have not quantified the loss claimed for all members of the group they wish to represent, but they estimate it to be tens of millions of shekels.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

36. In September 2015, an action was filed against the subsidiary Harel Insurance ("Harel Insurance") in the Tel Aviv District Court, together with an application for its certification as a class action. The subject of the action is the argument that Harel Insurance compensates insureds who have had surgery in a public hospital by an amount equal to only 25% of the fee for a surgeon who has an agreement with Harel Insurance, whereas according to the policy conditions it must compensate them by an amount equal to 50% of the agreement surgeon's fee for the relevant operation. The Plaintiff argues that Harel Insurance is therefore in breach of the provisions of the policy, acts negligently, in bad faith and misleads the insureds, and is in breach of the provisions of the Supervision of Financial Services (Insurance) Law, 1981. The Plaintiff estimates the loss for all members of the group it seeks to represent in the amount of NIS 13.1 million.

37. In October 2015, a claim was filed in the Jerusalem District Court with an application for its certification as a class action against the subsidiary Harel Insurance and another insurance company (hereinafter together: "the Defendants'). The subject of the action is the allegation that the Defendants ostensibly compensate insureds whose vehicles are damaged in road accidents and who received a repair proposal and/or assessment by an assessor listed in the Defendants' list of external assessors, by way of repairing the vehicle, paying insurance benefits or in any other way, while changing and significantly reducing the repair proposal and/or assessment prepared by the external assessor, instead relying on an opinion provided by their own assessor. This without having referred to the appeal mechanism before an adjudicating assessor. The Plaintiffs claim that by such conduct, the Defendants act in contravention of the provisions of a circular published by the Commissioner of Insurance on this subject, practice unjust enrichment, are in breach of a statutory obligation, and in violation of the duty of integrity. The Plaintiffs further argue that in those instances where the insureds are asked to sign a waiver as a condition for receiving the compensation, the Defendants are in breach of the Standard Contracts Law and their duty of integrity and have entered into an invalid contract, and that the signing of these forms constitutes extortion of the group's members. The Plaintiffs have not quantified the loss claimed for all members of the group they wish to represent, but they estimate it to be tens or even hundreds of millions of shekels.

38. In November 2015, an action was filed in the Central District Court together with an application for its certification as a class action against the subsidiary Harel Insurance ("Harel Insurance") and against Madanes Insurance Agency Ltd. ("Madanes") (hereinafter together: "the Defendants"). The subject of the action is that the Defendants entered into a long-term exclusivity agreement in connection with medical malpractice policies whereby Harel Insurance undertook to provide insurance exclusively for insureds referred by Madanes and to direct to Madanes any other insurance agent that might contact it for drawing up the insurance through it, and Madanes undertook to draw up medical malpractice insurance for its customers exclusively through Harel Insurance. The Plaintiffs argue that the Defendants therefore entered into a restrictive arrangement (cartel), were in breach of a statutory obligation, abused their monopolistic position in a manner that might limit or harm competition, they were in breach of the Antitrust Law, practiced unjust enrichment, were negligent and in breach of the fiduciary obligations, disclosure obligations and duty of caution that apply to insurance agents. The Plaintiffs estimate the loss caused to all members of the group they wish to represent as an amount of more than NIS 300 million.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

39. In November 2015, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Dikla Insurance ("Dikla") and against Clalit Health Services ("Clalit") (hereinafter together: "the Defendants"). The subject of the action is the group long-term care insurance policy for members of Clalit Health Services - Supplementary Plus LTC ("the Policy"). The Plaintiff argues that where rights are transferred from one period of entitlement ("the First Entitlement Period") to another entitlement period, in which the insured is eligible for insurance that are less than the benefits in the First Entitlement Period ("the Second Entitlement Period"), and when the transition between the entitlement periods occurs after the first day of a calendar month, insurance benefits are paid according to the reduced amount, for the entire month in which the transfer took place. The Plaintiff argues that he is therefore deprived of insurance benefits, equal to the amount of the difference between the insurance benefits for the First Period and the insurance benefits for the Second Period, multiplied by the proportional part of the month for which he is entitled to insurance benefits in respect of the First Entitlement Period. The Plaintiff further argues that group members who survived the entire cumulative periods of entitlement did not receive any insurance benefits for the proportional missing part of the first calendar month of their entitlement and that they are entitled to receive insurance benefits for that proportional part of the month. The Plaintiff argues that in this manner, Dikla practices unjust enrichment, is in breach of the provisions of the Supervision of Financial Services (Insurance) Law, 1981 and the provisions of the insurance policy. The personal loss claimed by the Plaintiff is estimated at NIS 540 while the total loss claimed for all members of the Group that the Plaintiff wishes to represent is estimated at NIS 60 million.

40. In November 2015, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance and against an additional insurance company (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants allegedly arbitrarily deduct various amounts from the loss amounts claimed by third parties for the insured's negligence. This, ostensibly, with the general reason of "contributory negligence" by the third party without explanation, as required in the provisions of the law. The Plaintiffs argue that the Defendants are therefore in breach of the statutory provisions, including circulars of the Commissioner of Insurance, they are in breach of a statutory obligation, act in bad faith and practice unjust enrichment. The Plaintiffs estimate the loss caused to all members of the group they wish to represent to be more than NIS 3 million for each of the Defendants.

41. In December 2015, an application to certify a claim as a class action was filed in the Tel Aviv District Labor Court against Standard Insurance Ltd. ("Standard"), together with a motion to approve a compromise settlement. The subject of the action is the allegation that Standard did not include the component for commission and/or wages according to output listed in the wage slips of the workers at its sales centers in the effective wage for the purpose of calculating payments for annual vacation, religious holidays, sick pay, pension and overtime, and that these were paid only on the basis of the basic wage. The Plaintiff argues that such conduct is a breach of rights under the wage protection laws. Concurrent with the filing of the application for certification, a motion was filed in the court to approve a compromise settlement in the action. The Plaintiff estimates the loss caused to all members of the group it seeks to represent in the amount of NIS 2.65 million.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

Actions filed during the Reporting Period

42. In January 2016, 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 ("Harel Insurance"). The subject of the action is the allegation that whereas in its insurance proposal Harel Insurance promises customers who buy Peugeot and Citroen cars through Lubit Insurance Agency (1997) Ltd., that when an accidental loss occurs their vehicle will be repaired using only new, original spare parts to replace the damaged parts, in practice, when the insured event occurs, Harel Insurance uses an external appraiser without obligating him and the arrangement garage to act in accordance with the policy, so that the appraiser decides which repairs will be made using original parts and which repairs will be made by way of repairing the damaged parts. The Plaintiff argues that Harel therefore reduces the gross value of the loss, so that the percentage loss calculated as a percent of the value of the insured vehicle is less than its real percentage value. The Plaintiff argues that Harel Insurance is therefore in breach of the provisions of the Contracts (Insurance) Law, 1981 and the provisions of the insurance law, it acts in bad faith and practices unjust enrichment. The Plaintiff estimates the loss caused to all members of the group it seeks to represent at more than NIS 3 million.
43. In January 2016, 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 ("Harel Insurance"). The subject of the action is the allegation that Harel Insurance requires its insureds who have dental insurance to perform an X-ray the purpose of which is to check that the dentist actually performed the treatment which is the subject of the insured's claim. This, ostensibly in contravention of the instructions of the Ministry of Health and an infringement of the individual's autonomy. The Plaintiff estimates the loss caused to all members of the group it wishes to represent in the amount of NIS 200 million.
44. In February 2016, an action and application for its certification as a class action was filed in the Central Region Lod District Court against Harel Pension Fund Management Ltd. and against four other pension fund management companies ("the Defendants"). The subject of the action is the allegation that the Defendants begin to collect management fees at the maximum rate permitted by law from the recipients of disability and survivors allowances when they begin to receive the allowances so that they are no longer able to move their money to another pension fund, without giving them advance notice. This ostensibly in breach of the applicable voluntary disclosure obligation, in breach of statutory duties and duties of trust, agency and caution, taking unfair advantage through mala fides in a contractual right, practicing unjust enrichment and behavior as a cartel. The Plaintiff has not quantified the total loss claimed for all members of the group that it wishes to represent, although her initial estimate is about a billion shekels against all the Defendants.
45. In February 2016, an action was filed in the Lod-Central District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance ("Harel Insurance"). 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.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

Actions filed during the Reporting Period (contd.)

46. In February 2016, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against Harel Pension Funds Management Ltd. ("Harel Pension"). The subject of the action is the allegation that Harel Pension ostensibly collects money from its members, who make lump-sum deposits in the pension fund, in respect of insurance for disability risks and insurance for death for a period that has already passed on the collection date in the knowledge that the risk for which the money is collected has not and will not materialize. The Plaintiff argues that in this manner, Harel Pension is in breach of the provisions of the Insurance Contact Law, 1981, the provisions of the Supervision of Financial Services (Insurance) Law, 1981, the voluntary disclosure obligation and the Contracts (General Section) Law, 1973, and that according to the Plaintiff, it practices unjust enrichment and exploits the inexperience of its members. The personal loss claimed by the Plaintiff is estimated at NIS 826 while the total loss claimed for all members of the Group that the Plaintiff wishes to represent is estimated at NIS 5.58 million.
47. In March 2016, an action was filed in the Tel Aviv District Labor Court against Standard Insurance Ltd. ("Standard"), together with an application for its certification as a class action ("Application for Approval"). The subject of the action is the argument that Standard allegedly neglected to provide its employees with the rights prescribed in the Extension Order in the import, export and wholesale trade industry ("Extension Order in the Import Industry"), but did so only in accordance with the extension orders and general laws that apply to all workers in the economy, including that it deposited payments for them in a pension in accordance with the general extension order in the economy relating to pensions ("General Extension Order") and not in accordance with the Extension Order in the Import Industry, that it did not pay them vacation differences and payments for the holidays and elective days by virtue of the Extension Order in the Import Industry, and that it did not deposit payments for them in a pension for the holidays, vacation and sick-pay component in accordance with the Extension Order in the Import Industry. This, according to the Plaintiff, in breach of ther rights under the wage protection laws. The Plaintiff estimates the total loss claimed for all members of the group that it wishes to represent at NIS 8 million.
48. In March 2016, an action was filed in the Central Region District Court against the Company, together with an application 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.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

Actions filed after the Reporting Period

49. In April 2016, a claim was filed in the Jerusalem District Court against the subsidiary Harel Insurance ("Harel Insurance"), together with an application for its certification as a class action. The subject of the action is the allegation that Harel Insurance rejects claims to pay insurance benefits for disability due to illness and/or an accident on the grounds that these claims have a three-year limitation period from the date of the insured event, and this ostensibly in contravention of the Contracts (Insurance) Law, 1981 (Amendment no. 6), whereby the prescription period for the payment of insurance benefits for a claim the cause of which is disability due to an illness or accident is counted from the date on which the insured's right to file a claim for compensation under the terms of the insurance contract is established. The plaintiff argues that Harel Insurance is therefore in breach of a statutory obligation, practices unjust enrichment, fails to act in good faith in upholding the contract and misleads its policyholders. The Plaintiff estimates the loss caused to the group members that it wishes to represent in the amount of NIS 416 million.

Summary table:

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

Type	Number of claims	Amount claimed NIS thousand
Actions certified a class action:		
Amount pertaining to the Company and/ or subsidiaries is specified	3	237,731
Claim relates to several companies and no specific amount was attributed to the Company and/ or subsidiaries	1	225,000
Claim amount is not specified	1	
Pending requests for certification of actions as class actions:		
Amount pertaining to the Company and/ or subsidiaries is specified	25	2,530,491
Claim relates to several companies and no specific amount was attributed to the Company and/ or subsidiaries	9	5,671,090
Claim amount is not specified	10	
Other significant claims	1	15,605

The table does not include the claim and motion for certification as a derivative claim, as described in Section B(2) below (other contingent liabilities), and it does not mention a specific amount of claim against the Company.

The total provision for claims filed against the Company as noted above amounts to NIS 64 million (at December 31, 2015, an amount of NIS 48 million).

Note 7 - Contingent liabilities and commitments (contd.)

B. Other contingent liabilities

1. In June 2004, a claim was filed with the Tel Aviv District Court and an application to approve it as a derivative claim against the subsidiary Yedidim Holdings Management (1994) Ltd. (hereinafter: "Yedidim"), the former Chairman and CEO of Yedidim, and against an additional subsidiary, Harel Pension Funds Management Services (1987) Ltd., which is the controlling shareholder in Yedidim by the minority shareholders Leatid Pension Fund Management Ltd., a subsidiary of Yedidim (hereinafter: "Leatid") for an amount of NIS 15,605 thousand. The subject of the claim is compensation to Atidit Pension Fund Ltd. (hereinafter: "Atidit"), a pension fund managed by Leatid, for the use of Atidit's various resources, such as: the use of the operating infrastructure and reputation, the use of Adidit property, for taking a continuing pension fund and the loss of profits. In addition the plaintiffs claim royalties of NIS 3,177 thousand in the framework of their personal claim. On July 29, 2010, after investigations had been conducted and written summaries had been submitted as part of the application to approve the derivative claim, the Court accepted and granted the claimants the option of suing the defendants in Leatid's name in respect of rights which they claim Leatid is entitled to. On August 24, 2015, the court dismissed the Plaintiffs' arguments in the matter of the derivative claim and it ruled that they are precluded from making any claim regarding rights stemming from the establishment of the new pension fund and that LeAtid is not entitled to compensation for the use of Atidit's resources for the purpose of setting up the new fund. The court accepted the Plaintiffs' personal claim for royalties. 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 argue that the amount transferred is not the final amount to which they are entitled according to the judgment. Accordingly, the court appointed an expert to rule on the financial issues that are in dispute. The main point of the dispute between the parties concerns the interest to be added to the principal. Concurrently, a motion was filed to extend the time for filing an appeal on the personal claim to June 2016. Furthermore, on October 28, 2015, the Plaintiffs appealed the ruling on the derivative claim in the Supreme Court, in which they asked for the ruling to be cancelled and the derivative claim to be accepted, and alternatively to return the case to the District Court for a hearing on the subject of the amount of the loss. The Supreme Court has yet to hand down a decision on this matter.
2. In February 2014, a claim was filed in the Tel Aviv District Court (Economic Department) together with an application for its certification as a derivative claim against the subsidiary Harel Insurance, against four other insurance companies and against Clalit Health Services, in which the hearing was consolidated with a claim and application on the same subject that was filed in March 2014 against the subsidiary Harel Insurance, against four other insurance companies, and against Maccabi Healthcare Services (Clalit Health Services and Maccabi Healthcare Services, together - "the HMOs"). The applications to recognize the actions as derivative claims, after they were amended pursuant to a request which was accepted by the court, are the argument that the HMOs allegedly refrained from fully utilizing the right of participation available to them by virtue of the law, against the insurance companies in respect of expenses incurred as part of the supplementary health services ("SHS") in those instances where, ostensibly, the liabilities in the SHS overlap with those in the health insurance policies sold by the insurance companies, and in respect of expenses incurred by the HMOs as part of the services they render under the National Health Insurance Law, 1994 ("the Basic Basket of Services") in relation to those instances where there is such overlap between the Basic Basket of Services and the health insurance policies sold by the insurance companies. The Plaintiffs argue that most of the overlap is in respect of performing surgery (choice of surgeon and any related costs) and for medical consultations. The applications were filed after the HMOs made it clear to the Plaintiffs, subsequent to their request, that they refuse to file such an action against the insurance companies after explaining to the claimants that the action is unfounded both with respect to the provisions of the law and from other perspectives, and that as long as the present provisions of law remain unchanged, there is no place for such an action. The Plaintiffs estimate the amount of the claim against all the insurance companies being sued to be about NIS 5.2 billion. Based on the opinion of its legal advisors, the management of Harel Insurance is of the opinion that the action is more likely to be rejected than accepted and it therefore did not include provision in the financial statements for this action. The court passed the application to accept the Attorney General's position on the issues raised in the application for certification which will address the position of the Ministry of Finance, the Commissioner of Insurance and the Ministry of Health. In March 2016, the Attorney General submitted his position in the application for certification of the derivative claim, whereby he believes that the HMO members have no right to file a derivative claim in the fund's name, and that even essentially in his opinion there is no room to approve the application to file a derivative claim for several reasons. These include the fact that in view of the complexity of filing and administering the subrogation claims, it cannot be said that the decisions of the HMOs not to file claims in cases of multiple insurance are unreasonable decisions economically, publically and legally, all the more so in circumstances in which the government is examining an option to determine, where necessary, insofar as a statutory subrogation arrangement is found, whether, after formulating the relevant factual basis, it can be justified. In his opinion, the Attorney General further stipulates that in any event, there is no room to consider creating a subrogation arrangement between the public basket and the commercial insurance or between it and the supplementary health services.

Note 7 - Contingent liabilities and commitments (contd.)

C. Claims that were settled during the Reporting Period

1. In July 2012, an action was filed in the Haifa District Court together with an application for its recognition as a class action against the subsidiary Harel Insurance. The subject of the claim was an allegation that in health insurance policies in which the premium is scheduled to change every five years, Harel Insurance raises the premiums when the policyholders have reached the age of 65, even before five years have elapsed from the date of purchasing the policy. The Plaintiff argued that this ostensibly constitutes breach of the agreement, deceit and unjust enrichment. On October 16, 2013, the parties filed an application to approve the compromise settlement. The court ruled that the definition of the group in the settlement must be corrected. On November 24, 2013, an amended application was filed in the court to approve a compromise settlement. Pursuant to the court's decision, the opinion of a reviewer appointed to review the compromise settlement was submitted, as a result of which and in accordance with the court's decisions, in October 2015 an amended compromise settlement was submitted to the court. On January 17, 2016 the compromise settlement in the action and the application was validated as a court ruling. As part of the compromise settlement, Harel Insurance undertook to send the relevant, active policyholders a clarification regarding the conditions of the policy which is the subject of the action and the application for certification, to amend the wording of future policies that include a similar mechanism for increasing the premium, and to give a bonus to insureds aged 65 and above, who declare that they misunderstood the relevant condition in the insurance policy in their possession. Furthermore, compensation and lawyers' fees of insignificant amounts were ruled in favor of the Plaintiff.
2. In April 2006, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance and against four other insurance companies (hereinafter together: "the Defendants"). The cause of the claim was that the Defendants collected premiums from the policyholders for work disability policies for the last three months of the policy period, in accordance with the policy, despite the fact that the Plaintiffs were not entitled to insurance compensation for this period even if they suffered a work disability (due to the waiting period defined in the policy) and that the Defendants did not provide the policyholders with information about their intention to collect premiums for the last three months of the policy period according to the policy. On February 3, 2009, the court certified the action as a class action. Harel Insurance filed an application for permission to appeal this decision. On April 11, 2013, the court accepted the application for permission to appeal and returned the hearing on the action to the District Court to rule on the question of whether the action should be litigated as a class action, whether payment in the last three months of the policy is for service that the policyholders are not entitled to receive, or whether it refers to a scheduling of the payments as a result of an actuarial calculation, whether the Defendants were in breach of the duty of proper disclosure and whether prescription applies in the circumstances of this case. Based on the Plaintiffs' application to withdraw from the application for certification which was presented to the court as part of a hearing that took place on February 10, 2016, the Tel Aviv District Court approved the Plaintiffs' abandonment of the application for certification and instructed that it be dismissed and on the dismissal of the personal claims of the Applicants.
3. In October 2014, 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 was the allegation that the Company ostensibly refunds its customers with amounts that it overcharged in their nominal values, without adding interest and linkage and/or without any additional payment for the consumer's expenses, as defined in the Consumer Protection Law, 1981. The Company therefore practices unlawful enrichment and operates contrary to the provisions of the law. In January 2016, an agreed application was filed in the court for the Applicant to withdraw from the application for certification, to strike out the application for certification and to dismiss the Applicant's personal claim. In February 2016, the Tel Aviv District Court approved the agreed application for the Plaintiff to abandon the application for certification, and it instructed that the application for certification and dismissal of the Plaintiff's personal claim should both be struck out.

Note 7 - Contingent liabilities and commitments (contd.)

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

Claims that were settled after the Reporting Period

4. In April, 2014, an action was filed in the Central District Court - Lod, together with an application for its certification as a class action, against the subsidiary Harel Insurance. This action was filed by way of an amended motion to certify as a class action a pending claim that was filed against four other insurance companies for the same reasons (hereinafter together: "the Defendants"). The subject of the action was the allegation that the compulsory motor insurance that the Defendants issued to the Plaintiffs specifies the commencement of the insurance as the date noted in the insurance certificate with a reservation that the policy will not take effect before the actual date of payment of the certificate. The Plaintiffs argue that where the insured is overdue in paying the compulsory insurance certificate, after the given date on the certificate, he is not credited for the days from the date on the certificate up to the actual date of payment. In April 2016, the Lod-Central District Court dismissed the application for certification of the action as a class action.
5. In May 2014, a claim was filed in the Jerusalem District Court against the subsidiary Harel Insurance together with an application for its certification as a class action. The subject of the action was the allegation that Harel Insurance also provides life assurance and disability insurance for state employees who have motor insurance through Harel Insurance, ostensibly under conditions that are different from the policy conditions defined in the tender published by the State of Israel through the Accountant General ("the Tender"). As a result, Harel Insurance allegedly computed the insurance benefits differently from the way in which it should have calculated the benefits under the Tender conditions. In December 2015, an application was filed in the court to approve a compromise settlement according to which it was agreed, inter alia, that Harel Insurance will send those were insured in this policy in the period 2009 through 2013 an amended version of the policy, that insofar as any claims for insurance benefits under the policy are filed after this dispatch, Harel Insurance will review these claims in accordance with the provisions prescribed in the compromise settlement, and where necessary it will pay the insurance benefits to those insureds who are found to be eligible, that Harel Insurance will examine whether there are any insureds who were underpaid and the amount of the insurance benefits has not yet been supplemented, and it will make up the necessary benefits in accordance with the tender instructions, that Harel Insurance will pay additional insurance benefits to insureds whose disability level was determined by a company doctor ostensibly in contravention of the tender instructions, and that Harel Insurance will pay special compensation to insureds who received reduced insurance benefits not in accordance with the provisions of the tender. In March 2016, the position of the Attorney General and the Commissioner of Insurance was submitted in which they asked for several insignificant amendments to be made in the compromise agreement. In May 2016, after submitting the amended compromise agreement for the court's approval, the Jerusalem District Court validated the amended compromise settlement as a court ruling.
6. In April 2007, an action was filed in the Tel Aviv District Court together with an application for its certification as a class action against Bank Hapoalim Ltd., Bank Leumi Le'Israel Ltd., Israel Discount Bank Ltd., First International Bank of Israel Ltd. ("the Banks'), Clal Finance Batucha Investment Management Ltd., the Central Company for Stock Exchange Services (N.E.) Ltd. and Harel Investment House (the last three will henceforth together be called: "the Fund Managers"). The grounds for the action was a refund of brokerage fees that were ostensibly paid by the plaintiffs from the beginning of 2004, in connection with their holding of various mutual fund units as detailed in the statement of claim, for a charge for brokerage commissions and fees relating to trade in foreign exchange at a rate that was ostensibly higher than the rate that should have been charged by the defendants. According to the plaintiff, from 2004, the defendants collected commissions from several private entities at rates lower than those charged with respect to the mutual funds that were controlled by the banks. According to the statement of claim, the relevant period for Harel Investment House was from November 15, 2006 until the end of March 2007. It was also argued that as part of the sale of the banks' control of the mutual funds to the mutual fund managers, it was determined that the banks would ostensibly continue to provide the fund managers with trading services on the TASE and/or banking services (buying/selling of foreign currency) and to collect the same high fee they had collected prior to the sale, and that this would ostensibly be expressed in a reduced price paid in consideration of the purchase of the control of the mutual funds at the expense of preventing profits of the mutual fund managers. In May 2016, the Tel Aviv Central District Court dismissed the application for certification of the action as a class action.

Note 8 - Capital requirements and management

1. The following is data regarding the required and existing capital of the subsidiaries which are insurance companies according to Supervision of Insurance Business (Minimum Capital Required of an Insurer) Regulations, 1998 ("the Capital Regulations") and the Supervisor's directives:

	March 31, 2016		December 31, 2015		
	Harel Insurance	EMI	Harel Insurance	EMI	Dikla
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Amount required according to regulations and Commissioner's directives (A)	**5,521,233**	**92,776**	5,537,624	578,390	101,327
The present amount calculated in accordance with the Capital Regulations:					
Tier-1 capital					
Basic Tier-1 capital	**3,699,230**	**435,120**	3,953,922	673,681	446,037
Hybrid tier-1 capital	**350,515**	**-**	350,517	-	-
Total tier-1 capital	**4,049,745**	**435,120**	4,304,439	673,681	446,037
Tier-2 capital					
Subordinated tier-2 capital (B)	**168,724**	**-**	200,543	-	-
Hybrid tier-2 capital (C)	**1,613,155**	**-**	1,517,606	99,902	-
Total tier-2 capital	**1,781,879**	**-**	1,718,149	99,902	-
Hybrid tier-3 capital	**739,448**	**-**	745,097	-	-
	2,521,327	**-**	2,463,246	99,902	-
Total present amount calculated in accordance with the Capital Regulations	**6,571,072**	**435,120**	6,767,685	773,583	446,037
Surplus at report date	**1,049,839**	**342,344**	1,230,061	195,193	344,710
Events after the balance sheet date					
Obsolescence of tier-2 capital	**(24,615)**	**-**	(30,274)	-	-
Issue of hybrid tier-2 capital after balance sheet date	**207,413**	**-**	-	-	-
Dividend distribution (for additional information see Note 7)	**-**	**-**	(210,000)	-	(18,000)
Dikla merger (for additional information see Note 9(5))	**-**	**-**	180,000	(195,193)	-
Amount retained taking into account events after the balance sheet date*	**1,232,637**	**342,344**	1,169,787	-	326,710

Note 8 - Capital requirements and management (contd.)

1. Contd.

a. The amount required including, inter alia, capital requirements in respect of:

	March 31, 2016		December 31, 2015		
	Harel Insurance	EMI	Harel Insurance	EMI	Dikla
The required amount includes, inter alia, capital requirements for:	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Activity in non-life insurance	**701,858**	**92,776**	655,218	89,375	98,852
Activity in long-term care insurance [LTC]	**324,691**	**-**	92,477	239,908	-
Capital requirements for yield-guaranteed plans	**44,222**	**-**	43,125	-	-
Investment assets and other assets (D)	**1,346,392**	**-**	1,257,335	45,155	-
Catastrophe risks in non-life insurance	**79,263**	**-**	79,728	-	-
Operating risks	**330,080**	**-**	293,531	52,061	-
Deferred acquisition costs in life assurance and insurance against illness and hospitalization	**1,548,352**	**-**	1,389,550	137,197	-
Investment in consolidated management companies and insurers and in Broadgate	**913,980**	**-**	1,501,916	-	-
Relief in capital requirements for cost of acquiring provident funds	**(197,309)**	**-**	(198,295)	-	-
Extraordinary risks in life assurance (E)	**382,906**	**-**	363,577	12,635	-
Unrecognized assets as defined in the Capital Regulations (F)	**46,798**	**-**	59,462	2,059	2,475
Total amount required under the amended Capital Regulations	**5,521,233**	**92,776**	5,537,624	578,390	101,327

* The supplement, which is included in calculating the required capital for Harel Insurance on account of the balance of the original difference attributed to the management companies and provident funds, for the purpose of a dividend distribution, amounts to NIS 103 million at March 31, 2016.

b. Including subordinated promissory notes in the amount of NIS 255,421 thousand that were issued until December 31, 2006 and constitute subordinated tier-2 capital.
c. On the issuance of bonds, the consideration of which serves as hybrid capital for the Company, see Note 10.
d. On the Commissioner's approval to use an internal credit rating model, see Note 37 G 3 to the annual financial statements. This approval reduced the capital requirements of Harel Insurance at December 31, 2015 by NIS 57 million.
e. A capital requirement at a rate of 0.17% of the amount at risk in the self-retention, but no less than the requirement on the date of the transfer. The capital requirement for Harel Insurance is for an amount of no less than NIS 190 million.
f. Including an unrecognized asset of a negligible amount for a passive deviation from the investment regulations.

2. In accordance with a permit to control and hold the means of control in insurers and management companies, the Company undertook, at all times, to supplement the equity of the insurance companies that are included among the financial institutions it controls, including ICIC, to the amount prescribed in the Supervision of Financial Services (Insurance) (Minimum Equity Required of Insurers) Regulation, 1998, or any other regulation or law that may replace them, and also to supplement at all times the equity of the provident fund and pension fund management companies it controls, to the amount prescribed in the Income Tax (Rules for the Approval and Management of Provident Funds) Regulations, 1965, or any other regulation or law that may replace them. This undertaking is irrevocable and will remain in force as long as the Company controls the financial institutions, directly or indirectly.

Note 8 - Capital requirements and management (contd.)

3. On April 6, 2016, the ISA published a revised version of the amendment to the ETNs law (which was previously published as Amendment No. 21 to the Joint Investments Trust Law, 1994). According to the amendment, ETNs will cease to exist as a committed asset and will become closed, tracker mutual funds, namely - traded tracker funds. The amendment prescribes new provisions on certain subjects with respect to mutual funds in general and to closed tracker funds in particular, but the most significant part of the future regulation of this sector will be regulated in secondary legislation which has yet to be published (regulations or provisions of the ISA).

   At this stage, Harel Sal is unable to estimate the effect of the amendment on its financial results and position. Furthermore, Harel Sal is unable to estimate the date on which the amendment will enter into force and the final text of the amendment.

4. In March 2012, the ISA published draft Joint Investment Trust (Backing Account) Regulations, 2012 (“Backing Account Regulations”), which regulate the amount that an ETN manager is required to deposit in a backing account as a cushion to meet its obligations to the holders of the ETNs, according to the actual risk components of the ETN manager and based on the definitions prescribed in the Backing Account Regulations. The Backing Account Regulations are expected to be approved and enter into force together with the amended to legislation initiated by the ISA to regulate the ETN market, as part of the Joint Investment Trust Law, 1994. At this stage, it is impossible to estimate when the legislative amendment and the Backing Account Regulations will be completed and enter into force.

   At the publication date of the financial statements, the ETN issuing companies (Harel Sal Ltd. and Harel Sal Currencies Ltd.) are in compliance with the above-mentioned draft Backing Account Regulations.

5. Harel Investments provided a credit facility to Harel Financial Products in the amount of NIS 25 million, with the purpose of supporting the capital requirements of Harel Sal. The need to increase the equity of Harel Sal is due to the increase in the scope of its operations and to ISA instructions concerning a backing account. At the date of the financial statements, Harel Sal has not utilized the credit facility provided by Harel Investments.

6. Subsidiaries which 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, 2016, the subsidiaries are in compliance with these requirements.

7. On March 23, 2016, the Board of Directors of Harel Insurance approved the distribution of a cash dividend in the amount of NIS 210 million, on the "green track" (distribution which does not require prior approval from the Commissioner, in accordance with the Commissioner's instructions concerning the distribution of dividends by an insurer). The Board of Directors reached its decision after taking into account the financial results of Harel Insurance as at December 31, 2015; the distributable surplus of Harel Insurance as at December 31, 2015 was presented, and the capital surpluses and equity requirements of Harel Insurance were tested, based on the equity management policy of Harel Insurance and taking into consideration the expected adoption of Solvency II. The dividend was paid on April 10, 2016.

8. On March 21, 2016, the Board of Directors of EMI approved the distribution of a dividend in the amount of NIS 18 million, on the "green track" (distribution which does not require prior approval from the Commissioner, in accordance with the Commissioner's instructions concerning the distribution of dividends by insurers). The Board of Directors reached its decision after taking into account the financial results of EMI as at December 31, 2015; the distributable surplus of EMI as at December 31, 2015 was presented, and the capital surpluses and equity requirements of EMI were tested, based on its equity management policy. The dividend was distributed in kind (by means of a transfer of securities) on March 22, 2016.

Note 8 - Capital requirements and management (contd.)

9. On January 1, 2016, as part of the merger of the insurance activity of Dikla into Harel Insurance, shares of Dikla Insurance Company Ltd. were transferred from Harel Insurance to the Company, for no consideration. The equity of Dikla on the date of the transfer, in the amount of NIS 30 million, was distributed as a dividend in kind. For additional information, see Note 9.

10. To enable the subsidiaries of Harel Insurance that are pension fund management companies to comply with the requirements for liquid assets as prescribed in the Supervision of Financial Services (Provident Funds) (Minimum Equity Required of the Management Company of a Provident Fund or Pension Fund) Regulations, 2012, on June 17, 2014, the Board of Directors of Harel Insurance approved the providing of a loan to Harel Pension in the amount of NIS 10 million. Additionally, a credit facility in the amount of NIS 20 million was approved which will remain in force until the end of 2014. On December 15, 2014, the master agreement was renewed for another year, which will remain in force until the end of 2015. In January 2016, the Company repaid both the aforementioned loans plus the interest accrued on them.

11. To enable Turk Nippon to comply with the capital regulations as an insurer operating in Turkey, on January 26, 2015 the Company's Board of Directors approved a capital injection of TRY 8 million (about NIS 11 million) for 2015. Following the revised provisions for calculating the capital required of an insurer in Turkey, and in order to meet the capital requirements at the end of the year, on October 18, 2015, the Board of Directors of the Company approved a further capital injection of TRY 2 million (about NIS 2.7 million) to enable Turk Nippon to comply with the capital requirements. The aforementioned injection of capital took place on December 1, 2015. On December 26, 2015, the Company's Board of Directors approved a capital injection of TRY 10 million (about NIS 13 million) for 2016.

12. Information about progress in the preparation to implement Solvency II

    On April 21, 2016, the Commissioner's office published a directive to perform an exercise for 2015 (IQIS5), which was based on the revised directives from Europe, adjusted to the local market. The Company is preparing to perform the exercise and its results will be discussed by the Board of Directors and reported to the Commissioner by August 7, 2016, as instructed.

13. In December 2011, the Commissioner published a letter extending the validity of the criteria for distribution of a dividend, as follows: an insurer may apply to the Commissioner requesting permission to distribute a dividend provided that the ratio of the company's recognized equity to required equity, after distribution of the dividend, is at least 105%.

    An insurer who has a ratio of recognized equity to required equity, after distribution of the dividend, of at least 115% may distribute a dividend without first obtaining the Commissioner's approval, provided that it informs the Commissioner in advance and submits the documents specified in the letter. A reduction of the minimum equity required on account of the balance of the original difference attributed to management companies and provident funds will be added to the capital required for distribution of a dividend (hereinafter - 'supplement to the required equity) (see also section 1 above).

    To obtain the approval, the insurer must submit an annual profit forecast for two consecutive years, a debt servicing plan approved by the board of directors of the insurance company and the insurance company's holding company, a plan of action for supplementing the equity, and a copy of the minutes of the board of directors' meeting at which the distribution was approved.

Note 8 - Capital requirements and management (contd.)

13. Contd.

Additionally, the Commissioner sent a letter to the insurance company directors concerning the monitoring and management of equity, in an effort to ensure that a procedure is constantly in place for reviewing and monitoring the insurance companies own management, against the backdrop of fluctuations in the financial markets. Pursuant to the letter, insurance companies must report an estimate of their equity position to the Commissioner every month.

Note 9 – Material events in the Reporting Period

1. Cooperation agreement with Bank Leumi LeIsrael Ltd. - provision of a housing loan

   On February 28, 2016, the Group's financial institutions ("Harel Insurance Group") entered into an agreement for 2016 and 2017 with Bank Leumi LeIsrael Ltd. ("the Bank"), and this after the boards of directors of Harel Insurance Group and of the Bank approved the agreement on February 14, 2016, whereby the Bank and Harel Insurance Group will cooperate so that the parties will together provide housing loans that are guaranteed, inter alia, by mortgages and pledges on contractual rights in connection with the land. Harel Insurance Group's share of any joint loan with the bank will not be more than 50%.

   These joint loans will be provided and the conditions of approving the applications and entering into agreement in the credit documents will be determined by the Bank at its exclusive discretion, subject to the statutory provisions and the threshold conditions agreed upon by the parties. The Bank will administer the joint loans for the parties, and in consideration Harel Insurance Group will pay the Bank a monthly management fee.

   Under the agreement, subject to Harel Group's percentage participation in each loan, as noted above, its share will be NIS 2 billion at most in 2016 and at least NIS 2 billion in 2017, where most of the amount will be provided by assets of the members of Harel Insurance Group.

   The cooperation between the parties will enter into force immediately upon completion of the parties' operational deployment and subject to that on that date there is no regulatory impediment arising from opposition to the cooperation by any of the relevant regulators. The conditions precedent for the entering into force of the cooperation have not yet been fulfilled. Harel Insurance Group is discussing the aforesaid approval with the Commissioner.

2. On January 1, 2016, the restructuring of Harel Group's provident fund companies was completed. Accordingly, Harel Atidit Provident Funds Ltd. was merged into Harel Provident Funds & Education Funds Ltd. and the provident funds that had been managed by Harel Atidit were merged into the provident funds managed by Harel Provident Funds & Education Funds. For additional information, see Note 8D in the annual financial statements.

3. On January 1, 2016, the restructuring of Harel Group's pension fund companies was completed. Accordingly, Manof Pension Fund Management Ltd. was merged into Harel Pension Fund Management Ltd. and the Harel Manof pension fund managed by Manof Pension was merged into the Harel Gilad pension fund managed by Harel Pension. For additional information, see Note 8D in the annual financial statements.

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

4. On March 22, 2016, the boards of directors of Harel Provident and Education Funds and Harel Pension Funds Management Ltd. approved a restructuring which is scheduled to enter into force on July 1, 2016. Accordingly, Harel Provident Funds and Education Funds Ltd. will be merged into Harel Pension Funds Management Ltd. and the provident funds managed by Harel Provident Funds and Education Funds Ltd. will be transferred to the management of Harel Pension Funds Management Ltd. The restructuring is subject to the approval of the competent entities, including approval from the Commissioner.

5. Merger of Dikla's insurance activity

   Commencing January 1, 2016, the insurance activity of Dikla was merged into Harel Insurance. From that date, Dikla is no longer an insurer, its name was changed to Dikla General Insurance Agency Ltd. and it operates in accordance with an insurance agency license.

   From this date, Dikla ceased to be an insurer and accordingly no capital requirements apply to it. This merger had a positive effect on the capital requirements of Harel Insurance in the amount of NIS 80 million. In addition to the above, as part of the transfer of Dikla's insurance activity to Harel Insurance, a letter of subordinate liability in the amount of NIS 100 million was transferred to Harel Insurance, to serves as hybrid tier-2 capital by Harel Insurance. Accordingly, the capital requirements decreased and the recognized equity of Harel Insurance increased by the aforesaid amounts.

   On January 1, 2016, Dikla distributed a dividend in the amount of NIS 644 million and on that date all the insurance liabilities and the assets held against them were transferred to Harel Insurance.

6. Agreement between Harel Insurance and Dikla Insurance Agency for the provision of services

   Harel Insurance entered into agreement with Dikla General Insurance Agency Ltd. for services to be provided by Dikla from January 1, 2016 for a period of 24 months, as follows: (a) claims settlement services and customers services for long-term care insureds and pensioners in the supplementary and group policies of the HMOs; (b) services to enroll insureds in the supplementary long-term care plans; (c) claims settlement services in connection with all the policies for which Dikla was the insurer prior to the transfer of its insurance activity and/or other policies to Harel; (d) marketing and sales services for Harel's insurance policies. The agreement was approved by the Audit Committee and Board of Directors of Harel Insurance.

   Under the agreement, Harel Insurance will pay Dikla for these services the cost of the service incurred by Dikla plus a margin. The agreement will be extended automatically for further periods of 24 months each time unless either party announces that it does not wish to renew the agreement or that it wishes to discontinue the agreement by giving prior, written notice.

7. Group LTC policy for members of Clalit Health Services

   Harel Insurance and Clalit agreed to extend the term of the group long-term care insurance and the existing arrangement between the parties for additional periods, with the necessary adjustments to the Supervision of Financial Services (Insurance) (Group Long-term care Insurance for HMO members) Regulations, 2015, and the circular on group long-term care insurance for HMO members, and they are working to obtain the Commissioner's agreement. Subsequently, Harel Insurance and Clalit are expected to sign an agreement.

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

8. Dividend distribution by Harel Investments

   On March 23, 2016, the Board of Directors of the Company approved distribution of a cash dividend in the amount of NIS 107 million (NIS 0.5 per share). The Board of Directors' resolution was passed after taking into account the Company's financial results for 2015. The Board of Directors was presented with the distributable profits, capital surpluses of the Company's subsidiaries, the Group's cash requirements, in different scenarios. The Board of Directors tested the Company's compliance with the profit test and solvency test as prescribed in Section 203(A) of the Companies Law. After this test, the Board of Directors approved the Company's compliance with the distribution test. The dividend was paid on April 12, 2016.

9. On the distribution of a dividend by Harel Insurance and EMI, see Note 8.

10. Revision of the discounting interest rates used to calculate the insurance liabilities

    Due to the decrease in the risk-free interest used for testing the adequacy of the reserves, Harel Insurance increased the insurance liabilities in the life assurance and long-term savings segment by NIS 54 million before tax, and by NIS 35 million after tax, thus reducing pre-tax profit and comprehensive income by the aforesaid amount.

11. Revised compensation policy

    Based on the recommendations of the Compensation Committee, in February and March 2016, the boards of directors of the financial institutions approved adjustment of their compensation policy to the provisions of the Amended Circular as well as several additional updates.

    The principal updates to the compensation policy are: (1) the addition of comments relating to the compensation paid to directors and chairman of the board, that does not allow the payment of variable compensation, including for the transition periods prescribed in the circular; (2) the addition of comments relating to calculation of the salary paid to the chairman of the board as a function of the fee paid to external directors; (3) the addition of comments relating to directors' fees which will be in accordance with the regulations on compensation for directors, as prescribed in the provisions of the Amended Circular; (4) the addition of sections allowing the company to reclaim amounts from the variable compensation that were paid to key officeholders, in exceptional cases that are included in the Amended Circular; (5) the addition of comments to the Amended Circular in those sections that require financial institutions that are part of an investment group, to bear the costs of employing their own senior officers and directors.

    Based on the above updates, and for the transition periods prescribed in the circular, the Company will work to adjust the compensation for the Chairman of the Board and the other directors whose compensation must be adjusted in accordance with the circular, up to the adjustments periods prescribed in the circular.

    In addition to the foregoing, several general updates were included in the Company's compensation policy, as follows: (1) the addition of comments relating to the parameters of the compensation for key officeholder who are the CEO of Harel Investments; (2) the addition of revised comments relating to the memorandum of law that limits the fee paid to senior officeholders in financial institutions; (3) revised indices for the variable compensation paid to key officeholders in the investment division.

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

12. Termination of office of the Co-CEOs of Harel Investments

On November 24, 2015, the Company's Board of Directors approved an internal reorganization in which context:

Mr. Shimon Elkabetz, who had been the Company's Co-CEO, stepped down on December 31, 2015, after informing the Company that having served as Co-CEO for five years, he had reached saturation point and he had done all he could in this position. Mr. Elkabetz will continue to serve as chairman of the board of directors of Harel Finance and of Harel-Pia even after stepping down as the Company's Co-CEO. In addition to terminating his position as Co-CEO, Mr. Elkabetz also stepped down as Chairman of the Board of E.M.I. and as a director of Harel Financing and Issuing. The conditions of Mr. Elkabetz's retirement are in accordance with his employment agreement which was approved by the general meeting on August 22, 2013.

Mr. Michel Siboni, who served as Co-CEO of the Company and CEO of Harel Insurance, stepped down as the Company's Co-CEO on December 31, 2015, and he continues to serve as CEO of Harel Insurance. This is due to the ever-increasing challenges in the activity of Harel Insurance, from the business and regulatory perspectives. Mr. Siboni is concentrating on his key position as CEO of Harel Insurance and his other positions in the Group which are associated with his key position as CEO of Harel Insurance. Notably, on February 10, 2016 and February 14, 2016, the Compensation Committee and Board of Directors, respectively, approved the employment conditions of Mr. Siboni which will remain unchanged, even after he has stepped down as Co-CEO of the Company.

13. Conditions of employment of the CEO of Harel Investments

On November 24, 2015, the Board of Directors approved the appointment of Mr. Ronen Agassi, who is the Company's CFO, Deputy CEO of Harel Insurance and head of the Finance and Resources Division, as Company CEO commencing January 1, 2016. Mr. Agassi will continue to hold his present positions even after his appointment as CEO of the Company.

Employment conditions of Mr. Ronen Agassi

Based on the approval of the employment conditions by the Compensation Committee, Board of Directors and General Meeting of the Company, the provisions of Mr. Agassi's employment contract as CEO of the Company ("the Contract") will apply from January 1, 2016, for an undefined period. Both parties may terminate the agreement at any time, by giving 6 months advance notice.

As payment for serving as the Company's CEO and his other positions in the Company, in Harel Insurance and in other companies in the Group, Mr. Agassi will be entitled to an inclusive monthly salary of NIS 150,000 ("the Current Salary"). The Current Salary will be revised monthly in line with changes in the CPI.

Mr. Agassi is entitled to a performance-linked annual bonus, based on and subject to certain pre-conditions prescribed in the compensation plan and parameters defined in the compensation plan. The performance-linked annual bonus is 6 times the Current Salary (the maximum bonus is 7.2 times the Current Salary). As part of this annual bonus, Mr. Agassi is entitled to a guaranteed annual bonus of 2.5 times the Current Salary.

When the agreement ends, Mr. Agassi will be entitled to a three-month adjustment period during which his salary and fringe benefits will be paid as if he continues to be a Company employee to all intents and purposes, from the end of his six months advance notice period.

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

13. Conditions of employment of the CEO of Harel Investments (contd.)

Under his present employment conditions, Mr. Agassi is entitled to severance pay of 125% of his current salary, subject to that at the end of November 2016 Mr. Agassi still has an employment relationship with the Company (or with any other company in Harel Group). Under his new employment conditions, Mr. Agassi is entitled to severance pay of 150% of his last current salary (50% more than the statutory severance pay rate), subject to that at the end of November 2018 Mr. Agassi still has an employment relationship with the Company (or with any other company in Harel Group).

Mr. Agassi is entitled to fringe benefits, including: a company car of the standard accepted for the Company's CEO, where the cost of the car maintenance, including the tax recognized for use of the car, will be paid by the Company, a refund of reasonable expenses incurred in the course of performing his duties; professional liability insurance, periodic surveys, insurance policies as generally accepted for senior Harel Group executives; participation in study days and incentive trips for agents (with spouse), wellbeing activities as accepted in the Harel Group (e.g. pre-festival gifts, vacation, meals, team-building activities, etc.), purchase of Harel Group insurance products under conditions given to the Group's employees, fringe benefits, vacation days, sick pay and convalescence as accepted for Harel Group executives.

Ronen Agassi received a letter of indemnity as part of Harel Group's decisions as approved by the General Meeting of the Company in July 2006 and March 2012.

14. Replacement of senior officers in the subsidiaries

On January 25, 2016, the boards of directors of the Company's relevant subsidiaries approved the following changes in the CEOs and board chairs serving key subsidiaries of the Group:

(a) Mr. David Milgrom - CEO of ICIC - Israel Credit Insurance Company Ltd. ("ICIC"), an affiliate in which the Company holds a 50% stake, will step down effective from March 31, 2016, in accordance with his notice to ICIC, after 13 years as the company's CEO. From that date, Mr. Milgrom will also no longer serve as chairman of the board of Dikla General Insurance Agency Ltd. (which until December 31, 2015 was Dikla Insurance Company Ltd.).

(b) Mr. Hagit Chitayat Levin, who has been CEO of Harel Group's provident and education fund management company (Harel Provident & Education Funds) for the last nine years, will end her term of office effective from March 31, 2016, and from April 1, 2016 will take up the position of CEO of ICIC.

(c) In addition to his position as CEO of Harel Group's pension fund management company (Harel Pension), Mr. Dudi Leidner will be appointed as CEO of Harel Provident Funds and Education Funds, effective from April 1, 2016.

(d) Mr. Avi Keller, who has served Harel Group in a variety of positions and for the last ten years was CEO of Dikla Insurance Company Ltd. (now Dikla General Insurance Agency Ltd.), until Dikla's insurance activity was merged into Harel Insurance Company Ltd., will step down and retire from the Group in 2016.

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

15. Definition of a negligible transaction

On March 17, 2016 and March 23, 2016, the Company's Audit Committee and Board of Directors, respectively, determined that a transaction with a controlling shareholder shall be deemed negligible if it meets all the following conditions:

(a) It is not an extraordinary transaction (according to the meaning of this term in the Companies Law).

(b) With respect to insurance transactions, long-term savings and finance transactions: they are performed under the same rules applicable to benefits given to all the Group's employees, as approved on January 21, 2014 by the Board of Directors.

(c) The sum insured in the Company’s self-retention in each policy is no more than NIS 10 million (1.6% of the normative gain) and the sum insured in each policy is no more than NIS 50 million). This limitation does not apply to savings policies.

(d) Other agreements, for which the cumulative annual cost to the Group is no more than NIS 100,000.

It is stipulated that any transaction for services provided by a controlling shareholder or his relative will not be classified as a negligible transaction. It is further stipulated that separate transactions, that are interdependent, so that in practice they are part of the same agreement, shall be construed as a single transaction. Transactions that fall within the parameters of negligible transactions do not require special approval.

16. Agreement with an architect

On December 31, 2015 and on January 25, 2016, the Company’s Audit Committee and Board of Directors, respectively, approved a two-year extension (until December 31, 2017) of the agreement to receive architectural services from Mr. Miki Kornhauser, after reviewing that the terms of the agreement meet market conditions. Within the context of the agreement, Mr. Kornhauser is entitled to a monthly payment of NIS 70,000 for his services. Mr. Miki Kornhauser, is a brother-in-law of Mr. Yair Hamburger (his wife’s brother), the controlling shareholder and Chairman of the Board of Directors of the Company. It is stipulated that the provision in the agreement allowing either party to terminate the agreement by giving 60 days advance notice, remains in force. The other conditions of the agreement are unchanged.

17. Doron Cohen

On April 12, 2016, the General Meeting approved fixed monthly compensation of NIS 15,000 plus VAT linked to the CPI for Mr. Doron Cohen, for his service as Chairman of the Board of EMI.

Mr. Doron Cohen is a director in the Company, in Harel Insurance and Harel Finance and he is also a member of board committees and committees of the Group’s financial institutions.

For his duties, Doron Cohen is entitled to compensation in accordance with the Compensation Regulations and subject to the Companies (Matters that do not Constitute an Interest) Regulations, 2006.

Commencing March 1, 2016, Doron Cohen is not entitled to monthly compensation of NIS 50,000 as approved by a General Meeting from January 30, 2013.

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

18. Signing of a consent decree under Section 50B of the Antitrust Law, 1988

On October 20, 2015, the subsidiary Harel Insurance signed a consent decree under Section 50B of the Antitrust Law, 1988 ("the Antitrust Law"). The consent decree relates to an agreement dated November 15, 2009 ("the Agreement') between Harel Insurance and Madanes Insurance Agency Ltd. ("Madanes"), an agency in which the Company has a 24.73% stake, which regulates cooperation between the parties with respect to medical malpractice insurance in Israel.

Within the context of the consent decree, Harel Insurance and Madanes undertook:

(1) To immediately cancel all the provisions of the agreement pertaining to exclusivity and non-competition between the parties with respect to medical malpractice insurance. Notably, on August 26, 2015, Harel Insurance and Madanes signed an agreement canceling the aforementioned provisions in the agreement between the parties.

(2) Harel Insurance will pay NIS 4 million to the State treasury.

(3) Madanes will pay NIS 2.4 million to the State treasury.

According to the consent decree it was also agreed that subject to approval of the consent decree by the Antitrust Court, and to Harel Insurance and Madanes meeting their aforementioned obligations, the Antitrust Commissioner will not take enforcement measures against Harel Insurance, Madanes, or any other person connected with any of them or acting on their behalf, including their company officers, advisors, employees, managers and owners of the rights therein, for provisions that ostensibly contravene the Antitrust Law, in the period until the end of the present agreement period, namely up to November 15, 2019. The consent decree further states that the agreements therein do not constitute admission or agreement by Harel Insurance, Madanes, or any person acting on their behalf, including their company officers, of a breach of the Antitrust Law in any manner whatsoever. On March 7, 2016, the Antitrust Court approved the text of the aforementioned consent decree.

19. Bonus for other senior officers

On March 23, 2016, the boards of directors of the Company and the subsidiaries, approved bonuses for officers of the Company and officers who were included in the compensation plan. The bonuses were calculated on the basis of actual data and based on estimates relating mainly to comparison figures for the results of the operations of other insurance companies included in the comparison group as well as to calculations that the Company did not have in its possession at the time of the calculation. The final calculation of the bonuses will be prepared by the end of June 2016.

20. Revised management and operating agreements - Harel Pension

On March 23, 2016 and March 22, 2016, the boards of directors of Harel Insurance and Harel Pension, respectively, approved a revised agreement between Harel Insurance and Harel Pension for operating services that Harel Insurance provides to Harel Pension. Under this revised agreement, the management and operating fees will be determined on the basis of the actual expenses incurred by Harel Insurance for these services. The new management agreement includes an allocation of direct expenses and indirect expenses based on a certain percentage of the volume of the assets under management. The agreement was applied retrospectively from January 2016.

Until this date, Harel Pension paid Harel Insurance operating fees at an annual rate of 0.1% of the assets of the pension funds, excluding the assets of members covered by the IDF pension arrangement, as long as they are active members through this arrangement and are entitled to the fixed management fees prescribed therein.

The change in this agreement creates a more reasonable allocation of expenses for each year of the agreement. Nevertheless, the change in the agreement does not have any significant effect in the long term.

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

20. Revised management and operating agreements - Harel Pension (contd.)

Based on all the foregoing, expenses in the pension activity sector are expected to increase by NIS 20 million from 2016 and accordingly profit in this operating segment will decline. Expenses and profit in the life assurance segment will change accordingly.

Implementation of the agreement is not expected to significantly affect the Group's performance.

The agreement between Harel Pension and the Company, according to which Harel Pension pays management fees at an annual rate of 0.5% of the annual benefit contributions received by the pension funds managed by Harel Pension, excluding contributions received form the IDF, remains in force in accordance with its conditions. Within the context of the approval of this agreement, a ceiling of NIS 50 million per annum was set for the management fees that Harel Pension pays the Company. At this stage, the management fees are below this ceiling.

21. Rental agreement – Harel Finance and ICIC

On March 23, 2016, the Board of Directors of Harel Insurance approved an agreement with Harel Finance and ICIC, both sister companies of Harel Insurance, whereby Harel Insurance will enter into rental agreements with ICIC and Harel Finance to rent office space and shops in M.E.H. House, a property owned by Harel Insurance.

22. Law governing the compensation of officers in financial institutions

On April 12, 2016, the Compensation for Senior Officers of Financial Institutions (Special Approval and Non-allowance of an Expense for Tax Purposes on account of Extraordinary Compensation) Law, 2016 was published. The Law prescribes that an agreement between a financial institution (financial entity, manager of a joint investment trust fund, a company whose purpose is to issue index products, portfolio managers, banks or any other entity that provides financial services, as determined by the Minister of Finance) or a company that controls a financial institution ("financial corporation") and a senior officer or employee, relating to his terms of office or employment, that include the payment of compensation, where this compensation is expected to cost more than NIS 2.5 million per year, must be approved by the compensation committee, the board of directors (by a majority of the external or independent directors, insofar as there is an obligation to appoint such directors) and the general meeting (under the conditions prescribed in the Companies Law with respect to approval of the compensation policy for senior officers), and that such agreement may only be approved if the ratio between the expected cost of the compensation and the cost of the lowest remuneration that the financial corporation pays its employees, including manpower company employees who, in practice, are employed by the financial institution, in the year preceding the date of the agreement, is less than 35. Furthermore, the Income Tax Ordinance was amended and it now stipulates that insofar as a financial corporation pays a senior officer or employee a salary the cost of which is more than NIS 2.5 million, then for the purpose of calculating the taxable income of the financial corporation, payroll expenses of an amount equal to twice the difference between the employee's payroll expense and NIS 2.5 million will not be tax deductible. The provisions of the law apply to agreements that are approved from the date of publication of the law, and with respect to an agreement that was approved before the date of publication, the provisions of the law will apply from six months after the publication date of the law.

23. Winograd Committee recommendations

Further to publication of the recommendations of the Winograd inter-ministerial committee on the subject of the life expectancy tables and rate of interest used for capitalizing annuities in respect of work-related injuries in accordance with the National Insurance Institute (Capitalization) Regulations, 1978, and the text of the regulations published on this matter whereby the rate of interest will be 2% instead of the present rate of 3%, Harel Insurance increased its insurance liabilities by NIS 150 million so as to reflect an up-to-date estimate of the repayments that the Company will be expected to pay for claims in compulsory motor and liabilities insurance (including the NII). It should be emphasized that in view of the foregoing, at this stage the effect of this revision, if any, on the Company's liabilities, remains uncertain. Consequently, claims development in the future may differ significantly from the Company's estimates, subsequently requiring a further revision of the estimates.

Note 10 – Material events after the Reporting Period

1. Annual General Meeting

   On April 12, 2016, an annual general meeting was held. The items on the agenda were: (a) discussion of the 2015 Periodic Report; (b) reappointment of the Company's auditors; (c) reappointment of members of the Board who are not external directors, for a further term of office: Mr. Yair Hamburger (Chairman of the Board), Mr. Gideon Hamburger, Mr. Yoav Manor, Yosef Ciechanover, and Doron Cohen; (d) approval of the employment conditions of Mr. Ronen Agassi, the Company's CEO; (e) approval of compensation for Doron Cohen for his service as chairman of the board of the second-tier subsidiary - EMI Ezer Mortgage Insurance Ltd. The General Meeting approved all the items on the agenda.

2. Issuance of hybrid tier-2 capital (Series 12-13) through Harel Financing and Issuing

   In April 2016, Harel Insurance issued, through Harel Financing and Issuing Ltd. ("Harel Issuing"), a special purpose subsidiary (SPC) of Harel Insurance which is fully owned by Harel Insurance, subordinated liability notes in the amount of NIS 210 million, which will serve as hybrid tier-2 capital of Harel Insurance. The issuance took place by virtue of a shelf offering report of Harel Issuing from February 12, 2014, as amended on December 22, 2014 and the validity of which was extended on December 31, 2015 until February 11, 2017.

   The issuance was performed by means of two series of bonds, as follows:

   Series 12: in the amount of NIS 105 million, is not linked to the CPI or any currency and bears fixed interest at a rate of 3.95%. The interest will be paid in semi-annual installments. The principal will be paid on December 31, 2031, which is the final maturity date for the series.

   Series 13: in the amount of NIS 105 million, is not linked to the CPI or any currency and bears fixed interest at a rate of 3.95%. The interest will be paid in semi-annual installments. The principal will be paid on December 31, 2032, which is the final maturity date for the series.

   Harel Financing and Issuing has the right to full or partial early repayment of the liability notes, five years after the issuance date or three years before the final maturity date of each series. The right may be exercised subject to obtaining the Commissioner's approval.

   The subordinated liability notes are rated ilAA- by Maalot.

   The effective interest rates, after costs of the issuance, of the Series 12 and 13 liability notes is 4.087% and 3.963% respectively.

3. Decline in the risk-free interest rate curve

   After the Reporting Period, the risk-free interest rate curve continued to decline. The decline in the interest rate may cause the insurance liabilities to increase. Such a change in the interest curve may positively affect the value of the Group's financial assets in a manner that might reduce this aforesaid impact. Furthermore, redemptions in the mutual funds included in the Company's financial services segment continued. These continuing redemptions might affect the value of the Company's intangible asset for mutual fund activity.

HAREL INSURANCE INVESTMENTS & 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

	At March 31, 2016 (Unaudited)				
	Presented at fair value through profit or loss	Available for sale	Held to maturity	Loans and Receivables	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Negotiable debt assets (a1)	**556,056**	**6,581,592**	**293,034**	**-**	**7,430,682**
Non-negotiable debt assets (*)	**312**	**-**	**-**	**10,905,219**	**10,905,531**
Shares (a2)	**-**	**786,841**	**-**	**-**	**786,841**
Other (a3)	**259,517**	**1,770,821**	**-**	**-**	**2,030,338**
Total other financial investments	**815,885**	**9,139,254**	**293,034**	**10,905,219**	**21,153,392**

	At March 31, 2015 (Unaudited)				
	Presented at fair value through profit or loss	Available for sale	Held to maturity	Loans and Receivables	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Negotiable debt assets (a1)	856,746	7,136,262	323,291	-	8,316,299
Non-negotiable debt assets (*)	326	-	-	10,185,187	10,185,513
Shares (a2)	-	724,621	-	-	724,621
Other (a3)	272,768	1,617,971	-	-	1,890,739
Total other financial investments	1,129,840	9,478,854	323,291	10,185,187	21,117,172

	At December 31, 2015 (Audited)				
	Presented at fair value through profit or loss	Available for sale	Held to maturity	Loans and Receivables	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Negotiable debt assets (a1)	591,566	6,579,578	307,199	-	7,478,343
Non-negotiable debt assets (*)	311	-	-	10,781,616	10,781,927
Shares (a2)	-	818,184	-	-	818,184
Other (a3)	183,086	1,644,783	-	-	1,827,869
Total other financial investments	774,963	9,042,545	307,199	10,781,616	20,906,323

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

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

A1. Marketable debt assets

	Book value			Amortized cost		
	As at March 31		As at December 31	As at March 31		As at December 31
	2016	2015	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Government bonds	**2,074,696**	2,908,723	2,081,721	**1,971,252**	2,673,434	2,009,282
Other debt assets:						
Other non-convertible debt assets	**5,351,920**	5,401,024	5,392,548	**5,201,913**	5,102,117	5,290,189
Other convertible debt assets	**4,066**	6,552	4,074	**3,703**	5,445	3,703
Total marketable debt assets	**7,430,682**	8,316,299	7,478,343	**7,176,868**	7,780,996	7,303,174
Impairments recognized in profit and loss (in aggregate)	**3,464**	2,781	6,797			

A2. Shares

	Book value			Amortized cost		
	As at March 31		As at December 31	As at March 31		As at December 31
	2016	2015	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Marketable shares	**710,462**	643,627	741,186	**644,143**	496,619	637,021
Non-marketable shares	**76,379**	80,994	76,998	**56,781**	59,479	57,158
Total shares	**786,841**	724,621	818,184	**700,924**	556,098	694,179
Impairments recognized in profit and loss (in aggregate)	**55,673**	41,958	56,995			

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
	2016	2015	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Marketable financial investments	**628,403**	631,712	538,540	**607,136**	529,739	509,326
Non-marketable financial investments	**1,401,935**	1,259,027	1,289,329	**1,068,237**	929,371	1,021,882
Total other financial investments	**2,030,338**	1,890,739	1,827,869	**1,675,373**	1,459,110	1,531,208
Impairments recognized in profit and loss (in aggregate)	**117,134**	70,631	107,458			
Derivative financial instruments presented in financial liabilities	**595,826**	517,041	616,518			

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

HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD

FINANCIAL INFORMATION FROM THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS RELATING TO THE COMPANY ITSELF

As at March 31, 2016

Somekh Chaikin
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Telephone: 03-684 8000
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To:

The shareholders of Harel Insurance Investments and Financial Services Ltd.

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

Introduction

We reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970, of Harel Insurance Investments and Financial Services Ltd. (hereinafter: "the Company") as at March 31, 2016 and for the three-month period ended on that date. The separate interim financial information is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial information for these interim periods, based on our review.

We did not review the separate interim financial information from the financial statements of investee companies, in which the investment amounts to NIS 702,683 thousand as at March 31, 2016, and where the Company's profit (loss) from these investee companies amounts to NIS 12,550 thousand for the three-month periods ended on that date. The financial statements of those companies was reviewed by other auditors whose review reports were furnished to us, and our conclusion, to the extent that it relates to amounts included for those companies, is based on the review reports of the other auditors.

Scope of the review

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

May 29, 2016

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

	March 31		December 31
	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Deferred tax assets	**2,752**	3,308	2,639
Fixed assets	**1,482**	1,999	1,574
Investments in investee companies	**4,606,802**	4,744,765	4,823,099
Loans to investee companies	**350,515**	350,517	350,517
Real estate for investment	**19,310**	18,275	19,310
Other receivables	**222,391**	14,749	5,212
Other financial investments			
Non marketable debt assets	**8,087**	23,253	8,157
Non marketable debt assets	**216,916**	302,009	256,812
Total financial investments and others	**225,003**	325,262	264,969
Cash and cash equivalents	**84,137**	62,212	41,827
Total assets	**5,512,392**	5,521,087	5,509,147
Capital			
Share capital and premium on shares	**341,783**	336,578	341,832
Treasury stock	**(160,473)**	(168,277)	(161,077)
Capital reserves	**373,162**	537,986	364,340
Retained earnings	**4,259,695**	4,169,387	4,361,663
Total capital	**4,814,167**	4,875,674	4,906,758
Liabilities			
Liabilities for benefits to employees, Net	**23,058**	23,242	22,293
Other payables	**131,267**	25,233	33,232
Liabilities for current taxes	**5,425**	8,704	4,287
Financial liabilities	**538,475**	588,234	542,577
Total liabilities	**698,225**	645,413	602,389
Total liabilities and capital	**5,512,392**	5,521,087	5,509,147

Yair Hamburger	Ronen Agassi	Ronen Agassi
Chairman of the Board of Directors	CEO	CFO

Date of approval of the financial statements: May 29, 2016

Financial information from the condensed consolidated interim statements of income

	For the three months ended March 31		For the year ended December 31
	2016	2015	2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Profits from investments, net, and financing revenues	**3,534**	11,107	27,291
Revenues from management fees	**22,913**	23,066	88,062
Total revenues	**26,447**	34,173	115,353
General and administrative expenses	**5,473**	5,978	24,085
Financing expenses	**4,070**	3,650	19,656
Total expenses	**9,543**	9,628	43,741
Company's shares in profits of investee companies	**(4,093)**	57,922	403,283
Income before taxes on income	**12,811**	82,467	474,895
Taxes on income	**4,212**	6,529	19,309
Income for period ended relating to the Company's shareholders	**8,599**	75,938	455,586

Financial information from the condensed consolidated interim statements of comprehensive income

	For the three months ended March 31		For the year ended December 31
	2016	2015	2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Profit for the period	**8,599**	75,938	455,586
Other items of comprehensive income which after initial recognition under comprehensive income were or will be transferred to profit or loss			
Net changes in fair value of financial assets available for sale	**(47)**	601	(1,263)
Net changes in fair value of financial assets available for sale transferred to statement of income	**(28)**	(1,806)	(2,171)
Foreign currency transaction's difference in respect of overseas operations	**504**	(9,795)	(15,732)
The Group share in the comprehensive income (loss) of investee companies	**5,148**	90,315	(57,143)
Tax on income for items of other comprehensive income which after initial recognition under comprehensive income were or will be transferred to profit or loss	**32**	319	910
Total other comprehensive income (loss) for the period which after initial recognition under comprehensive income was or will be transferred to profit or loss, net of tax	**5,609**	79,634	(75,399)
Other items of comprehensive income which will not be transferred to profit or loss			
Remeasurement of a defined benefit plan	**(585)**	(922)	1,317
Taxes on income (loss) for other items of comprehensive income which will not be transferred to profit or loss	**146**	244	(349)
Other comprehensive loss for the period which will not be transferred to profit or loss, net of tax	**(439)**	(678)	968
Other comprehensive income (loss) for the period	**5,170**	78,956	(74,431)
Total income for the period Attributed to the company's owners	**13,769**	154,894	381,155

Financial information from the condensed consolidated interim statements of changes in equity

	Share capital and premium	Capital reserve for financing assets available for sale	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling interests	Capital reserve for revaluation of fixed assets	Retained earnings	Total
	NIS thousands	NIS thousands	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
For the three months ended March 31 2016 (Unaudited)									
Balance as at January 1, 2016	341,832	295,955	(44,472)	13,032	(161,077)	(48,908)	148,733	4,361,663	4,906,758
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	-	-	8,599	8,599
Other comprehensive income (loss)	-	16,401	(15,594)	-	-	-	8,029	(3,666)	5,170
Total comprehensive income (loss) for the period	-	16,401	(15,594)	-	-	-	8,029	4,933	13,769
Transactions with owners credited directly to equity									
Declared dividend	-	-	-	-	-	-	-	(106,901)	(106,901)
Share-based payments	-	-	-	84	-	-	-	-	84
Purchase of Treasury shares	-	-	-	-	(1,949)	-	-	-	(1,949)
Re-issuance of Treasury shares	(147)	-	-	-	2,553	-	-	-	2,406
Exercising of options	98	-	-	(98)	-	-	-	-	-
Balance as at March 31, 2016	341,783	312,356	(60,066)	13,018	(160,473)	(48,908)	156,762	4,259,695	4,814,167

Financial information from the condensed consolidated interim statements of changes in equity

	Share capital and premium	Capital reserve for available-for-sale assets	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling interests	Capital reserve for revaluation of fixed assets	Retained earnings	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
For the three months ended March 31 2015 (Unaudited)									
Balance as at January 1, 2015	338,849	437,951	3,475	20,040	(173,231)	(48,908)	39,313	4,100,371	4,717,860
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	-	-	75,938	75,938
Other comprehensive income (loss)	-	115,285	(29,407)	-	-	-	-	(6,922)	78,956
Total comprehensive income (loss) for the period	-	115,285	(29,407)	-	-	-	-	69,016	154,894
Transactions with owners credited directly to equity									
Share-based payment	-	-	-	356	-	-	-	-	356
Purchase of Treasury shares	-	-	-	-	(4,665)	-	-	-	(4,665)
Re-issuance of Treasury shares	(2,390)	-	-	-	9,619	-	-	-	7,229
Exercising of options	119	-	-	(119)	-	-	-	-	-
Balance as at March 31, 2015	336,578	553,236	(25,932)	20,277	(168,277)	(48,908)	39,313	4,169,387	4,875,674

Financial information from the condensed consolidated interim statements of changes in equity

	Share capital and premium	Capital reserve for available-for-sale assets	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling interests	Capital reserve for revaluation of fixed assets	Retained earnings	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
For the year ended December 31 2015 (Audited)									
Balance as at January 1, 2015	338,849	437,951	3,475	20,040	(173,231)	(48,908)	39,313	4,100,371	4,717,860
Total comprehensive income (loss) for the year									
Profit for year	-	-	-	-	-	-	-	455,586	455,586
Other comprehensive income (loss)	-	(141,996)	(47,947)	-	-	-	109,420	6,092	(74,431)
Total comprehensive income (loss) for year	-	(141,996)	(47,947)	-	-	-	109,420	461,678	381,155
Cumulative effect at December 31, 2015 of elimination of recording of the accrual and initial application of the best practice in non-life insurance	-	-	-	-	-	-	-	34,697	34,697
Transactions with owners credited directly to equity									
Dividend paid	-	-	-	-	-	-	-	(235,083)	(235,083)
Share-based payments	-	-	-	68	-	-	-	-	68
Issuance of shares	109	-	-	-	-	-	-	-	109
Purchase of Treasury shares	-	-	-	-	(9,520)	-	-	-	(9,520)
Re-issuance of Treasury shares	(4,202)	-	-	-	21,674	-	-	-	17,472
Exercising of options	7,076	-	-	(7,076)	-	-	-	-	-
Balance as at December 31, 2015	341,832	295,955	(44,472)	13,032	(161,077)	(48,908)	148,733	4,361,663	4,906,758

Financial information from the condensed consolidated interim statement of cash flows

	Appendix	For the three months ended March 31		For the year ended December 31
		2016	2015	2015
		(Unaudited)	(Unaudited)	(Audited)
		NIS thousand	NIS thousand	NIS thousand
Cash flows from operating activities				
Before taxes on income	A	**(1,399)**	10,015	71,609
Income tax paid		**(3,229)**	(3,318)	(19,550)
Net cash provided by (used for) current operations		**(4,628)**	6,697	52,059
Cash flow from investing activities				
Investment in investees		**-**	210	(11,054)
Investment in fixed assets		**(7)**	(39)	(44)
Investment in intangible assets		**-**	-	104
Dividends from investees		**-**	100,000	246,180
Investment in financial investments, net		**39,496**	(80,464)	(19,378)
Repayment of loans and capital notes provided to investees		**8,001**	9,100	29,730
Net cash provided by investment activity		**47,490**	28,807	245,538
Cash flows from financing activities				
Dividends paid		**-**	-	(235,083)
Repayment of loans from banks and others		**(552)**	(3,363)	(50,758)
Net cash used for financing activity		**(552)**	(3,363)	(285,841)
Net increase in cash and cash equivalents		**42,310**	32,141	11,756
Cash and cash equivalents at beginning of the period		**41,827**	30,071	30,071
Cash and cash equivalents at end of the period		**84,137**	62,212	41,827

Financial information from the condensed consolidated interim statement of cash flows

Appendix A – Cash flows from operating activities before taxes on income

	For the three months ended March 31		For the year ended December 31
	2016	2015	2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand
Appendix A - Cash flows from operating activities before taxes on income			
Profit for the period	**8,599**	75,938	455,586
Items which are not connected with cash flows			
Company's shares in revenues (losses) of investee companies	**4,093**	(57,922)	(403,283)
Net losses (profits) from financing activities	**394**	(7,310)	(10,331)
Loss from sale of fixed assets	**-**	-	15
Change in fair value of investment property	**-**	-	(1,035)
Financing income, net	**(9,015)**	(7,376)	(1,647)
Taxes on income	**4,212**	6,529	19,309
Depreciation and amortization	**99**	112	421
Share-based payment	**34**	356	181
Changes in other balance sheet items			
Other receivables	**(7,179)**	4,346	13,883
Other payables	**(3,401)**	(5,772)	(1,655)
Liabilities for benefits to employees, net	**765**	1,114	165
Total adjustments required to present cash flows from operating activities	**(9,998)**	(65,923)	(383,977)
Total cash flows from operating activities, before taxes on income	**(1,399)**	10,015	71,609

Note 1 - Method of preparing the financial information from the Company's consolidated financial statements relating to the Company itself

A. General

Following is a summary of financial information from the condensed consolidated interim financial statements of the Group as at March 31, 2016 ("Consolidated Statements") which are published as part of the Periodic Reports, attributed to the actual company ("Condensed separate interim financial information"), which are presented in accordance with the provisions of Regulation 38D ("the Regulation") and Annex no. 10 to the Securities (Periodic and Immediate Reports) Regulations, 1970 ("Annex no. 10"), concerning a summary of separate, interim financial information for the corporation. This condensed, separate interim financial information should be read together with the separate financial information as at December 31, 2014, 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

Except for the information detailed in Note 3 to the consolidated financial statements, the separate financial information was prepared in accordance with the accounting principles detailed in Note 1 to the separate annual financial statements of the Company.

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

1. In accordance with a permit to control and hold the means of control in insurers and management companies, the Company undertook, at all times, to supplement the equity of the insurance companies that are included among the financial institutions it controls, including ICIC, to the amount prescribed in the Supervision of Financial Services (Insurance) (Minimum Equity Required of Insurers) Regulation, 1998, or any other regulation or law that may replace them, and also to supplement at all times the equity of the provident fund and pension fund management companies it controls, to the amount prescribed in the Income Tax (Rules for the Approval and Management of Provident Funds) Regulations, 1965, or any other regulation or law that may replace them. This undertaking is irrevocable and will remain in force as long as the Company controls the financial institutions, directly or indirectly.
2. In 2015, parts of the capital note that the Company had provided to Harel-Pia in 2007 were repaid, in the total amount of NIS 20 million. On March 10, 2016, the board of directors of a subsidiary approved an additional partial repayment of the capital note to Harel Investments, in the amount of NIS 4 million.
3. On the distribution of a dividend to the Company by Harel Insurance, see Note 8 to the consolidated financial statements.
4. On the distribution of a dividend in kind to the Company by Harel Insurance, see Note 8 to the consolidated financial statements.
5. On the distribution of a dividend to the Company by EMI, see Note 8 to the consolidated financial statements.

Note 3 - Significant events during the reporting period

1. Dividend distribution

   On March 23, 2016, the Company's Board of Directors approved the distribution of a cash dividend in the amount of NIS 107 million (NIS 0.5 per share). The Board of Directors made its decision after taking into account the Company's financial performance for 2015. The Board of Directors was presented with information about the distributable profits, capital surpluses of the Company's subsidiaries, the Group's cash requirements, in various scenarios. The Board of Directors reviewed the Company's compliance with the profit test and solvency test prescribed in Section 203(a) of the Companies Law. Following this review, the Board of Directors confirmed that the Company was in compliance with the distribution test. The dividend was paid on April 12, 2016.
2. On a revised compensation policy for the financial institutions, see Note 9 to the consolidated financial statements.
3. On the termination of the service of the Co-CEOs of Harel Investments, see Note 9 to the consolidated financial statements.
4. On the approval of the employment conditions of the CEO of Harel Investments, see Note 9 to the consolidated financial statements.
5. On an agreement with an architect, see Note 9 to the consolidated financial statements.
6. On a bonus for other senior officers, see Note 9 to the consolidated financial statements.
7. On a rental agreement between Harel Insurance and Harel Finance and ICIC, see Note 9 to the consolidated financial statements.
8. On a law governing the compensation of officers in financial institutions, see Note 9 to the consolidated financial statements.

Note 4 – Material events after the Reporting Period

1. Capital notes for investee companies

   On May 16, 2016, the Board of Directors of Harel Pia, a consolidated subsidiary, approved the partial repayment of a capital note that the Company had provided to Harel-Pia in 2007, in the amount of NIS 3 million. The repayment was made on May 18, 2016.

2. On a general meeting that was held on April 12, 2016, see Note 10 to the consolidated financial statements.

Harel Insurance Investments & Financial Services Ltd.

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

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

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:

1. Mr. Ronen Agassi - the Company's CEO, VP Finance, Chairman of the Board of Directors of EMI Mortgage Insurance Company Ltd., deputy CEO and head of the Finance and Resources Division of Harel Insurance Company Ltd.
2. Mr. Michel Siboni - CEO of Harel Insurance Ltd. and Chairman of the Boards of Directors of the Group's subsidiaries that are financial institutions.
3. Mr. Sami Babkov - CEO of Harel Finance Holdings and CEO of Harel-Pia Mutual Funds Ltd.
4. Ms. Nataly Mishan-Zakai, General Counsel to the Cormpany and the Group's companies, deputy CEO of Harel Insurance Company Ltd.
5. Mr. Amir Hessel, VP of the Company and manager of the Group's investments, deputy CEO and manager of the investment division of Harel Insurance Company Ltd.
6. Ms. Osnat Manor Zisman, Internal Auditor of the Company and companies in the Group.

Internal control over the financial reporting and disclosure includes the Company's existing controls and procedures that were planned or are monitored by the general manager and the most senior financial officer, 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 on the effectiveness of internal control over the financial reporting and disclosure that was included in the Periodic Report for the Period ended December 31, 2015 (hereinafter – the last annual report on internal control), the Company's Board of Directors and management concluded that this internal control, at December 31, 2015, is effective.

Prior to the date of the report, the Board of Directors and Management received no information of 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.

Certification

I, Ronen Agassi, hereby certify that:

(1) I have reviewed the quarterly report of Harel Insurance Investments & Financial Services Ltd. ("the Company") for Q1 2016 ("the Reports").

(2) Based on my knowledge, the Reports contain no misstatement of a material fact nor do they omit any presentation of a material fact necessary to ensure that the presentations included therein, 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) I disclosed to the Company's external auditor, the Board of Directors and the Audit Committee and Financial Reports Committee, based on my most recent assessment of the internal control over financial reporting:

(a) Any significant flaws and material weakenesses in the determination or application of the internal control over financial reporting and disclosure that may reasonably have an adverse effect on the Company's ability to collect, process, summarise 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 have a significant role in the Company's 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 controls and procedures are in place under my oversight, to ensure that material information pertaining to the Company, including its subsidiaries as they are defined in the Securities (Annual Financial Statements) Regulations, 2010, is brought to my attention by others in the Company and in the subsidiaries, specifically during the period in which the Reports are prepared; and -

(b) Defined controls and procedures, or ensured that controls and procedures under my supervision are in place, designed to ensure with reasonable certainty that the financial reporting is reliable and that the financial statementsis 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, was brought to my attention, that might alter the conclusions 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.

May 29, 2016

Ronen Agassi

CEO

Certification

I, Ronen Agassi, hereby certify that:

(1) I have reviewed the Interim Financial Statements and other financial information included in the Interim Reports of Harel Insurance Investments and Financial Services Ltd. ("the Company") for Q1 2016 ("the Reports" or “the Interim Reports”).

(2) Based on my knowledge, the Interim Financial Statements and other financial information included 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 included therein, 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 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 for the periods covered in the Reports;

(4) I disclosed to the Company's external auditor, the Board of Directors and the Audit Committee and Financial Reports Committee, based on my most recent assessment of the internal control over financial reporting:

   (a) Any significant flaws and material weakenesses in the determination or application of the internal control over financial reporting and disclosure, insofar at it relates to the Interim Financial Statements and other financial information included in the Reports, that might reasonably have an adverse effect on the Company's ability to collect, process, summarise 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 have a significant role in the Company's 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 controls and procedures are in place under my oversight, to ensure that material information pertaining to the Company, including its subsidiaries as defined in the Securities (Annual Financial Statements) Regulations, 2010, is brought to my attention by others in the Company and in the subsidiaries, specifically during the period in which the Reports are prepared; and -

   (b) Defined controls and procedures, or ensured that controls and procedures under my supervision are in place, to provide a reasonable measure of certainty that the financial reports are reliable and 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 included in the Interim Financial Statements, was brought to my attention, that might alter, in my opinion, the conclusions 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.

May 29, 2016

Ronen Agassi
CFO

Report Regarding Embedded Value Of

Harel Insurance Company Ltd.

(Including Pension Fund Management Companies)

as at 31.12.2015

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1. General

1.1. Background and extent of disclosure

According to the Commissioner for Insurance’s circular dated 12 August 2007 (insurance circular 1-11-2007) (“**the circular**”), together with financial reports for the first quarter, insurance companies must publish annual information regarding embedded value (**EV** or **embedded value**) of long term insurance policies (life and medical insurance) for the end of the previous year. In accordance with the circular, Harel Insurance Co. Ltd. (“**the company”**) hereby publishes the embedded value of company long term insurance business as at 31 December 2015.

This report has been made according to the rules and principles determined by the Commissioner for Insurance who adopted the rules and principles in the report of a joint committee for the insurance companies and Commissioner for Insurance, assisted by Israeli and foreign consultants (hereinafter: “the committee” and the “committee report”), except for the matter of handling particular risks described in paragraph 1.5.3 below, as specified in said paragraph.

Apart from insurance businesses whose publication is obliged by the circular, this report also includes the embedded value of Harel Pension Fund Management Ltd. and Yedidim Holding and Management (1984) Ltd., subsidiaries that are fully owned by the company, which were calculated according to the aforementioned principles, mutatis mutandis.

The rules and principles determined in the committee report are published on the Ministry of Treasury website – Capital Market, Insurance and Savings Division (www.mof.gov.il).

The method of disclosure in this report is in accordance with the general disclosure regulations prescribed in the committee report and the instructions specified in the "disclosure format" prepared by the committee, in conjunction with the commissioner. The "disclosure format" has yet to be published by the commissioner as an addition to the circular.

On January 1, 2016, Manof Pension Funds Management Ltd. was merged into Harel Pension Funds Management Ltd.

On January 1, 2016, the insurance activity of Dikla Insurance Company Ltd. was merged into Harel Insurance Company Ltd. On that same date, Dikla’s insurer’s license was revoked and Dikla received a license to for a general insurance agency. From that date, Dikla operates as a general insurance agency, owned by the Company.

The insurance liabilities were calculated in accordance with generally accepted actuarial practice, and with the assumptions and methods that the Company uses for its calculations. Except for future profit from the insurance portfolio purchased from Eliyahu Insurance Company, which was subtracted from the amount of the reserve, no other adjustments were made in the insurance liabilities. Accordingly, calculation of the Value in Force was based on the outstanding insurance liabilities after the deduction of the aforementioned future profit.

1.2. Clarification regarding forward looking information

Determination of embedded value and value of new business (in accordance with the definition of this term hereunder) is based on forecasts, estimates and valuations of future events whose realization is not certain and not controlled by the company and must be regarded as "forward looking information" as defined in paragraph 32a of the Securities Law – 1968. The above forecasts, estimates and valuations may, all or part thereof, not be realized or be realized in a manner differing from the manner presented in the embedded value report, therefore causing actual results to differ from the forecast.

1.3. Major chapters in the document

- General background and explanation of calculation method
- Discussion of assumptions on which calculations were based
- Embedded value and new business value results
- Analysis of change in the embedded value
- Results of embedded value sensitivity analysis

1.4. Definitions

The following definitions provide a concise explanation of major terms used to understand the following report. Complete descriptions and explanations are to be found in the Committee Report Rules and Principles.

Present value of future profits (PVFP)	Capitalization of the future anticipated flow of profit, emanating from the existing portfolio on the date of the included business' report (see paragraph 2.5.2 hereunder).
Adjusted Net Worth (ANW)	The company equity, after adaptation in order for same to be consistent with the in force portfolio value (see paragraph 2.5.1).
Cost of required capital	The influence on the embedded value – from company shareholders point of view – following the minimal equity holding requirement imposed on the company (see paragraph 2.5.3 hereunder).
Value In Force (VIF)	Current value of future profits, less the required capital cost.
Embedded value (EV)	Comprised of a combination of the in force portfolio value (VIF) and the adjusted equity. It is to be clarified that the adjusted equity is the company equity relating to the array of the activities of the entire company and not only in respect of the businesses included in the embedded value. It should also be clarified that the in force portfolio value

does not include:

- General (elementary) insurance business.
- Other company fields of operation controlled by the company, such as insurance agencies and provident fund management.
- The ability to generate future business (reputation).

Value of new business (VNB)	Current value of profits of businesses sold during the 12 months preceding the report date.
Included businesses	Businesses included in calculation of in force portfolio value: Long term personal policies in life and medical insurance portfolios, valid on 31 December 2015, including increases in premium and one-time future deposits emanating from an increase in wages in respect of the aforementioned policies. Group life and medical insurance policies valid on 31 December 2015. According to the rules and principles in the committee report, the profits of these policies have only been valued until the next renewal date of these policies. The pension fund management business which is managed by management companies which are owned by the company (including 79% of La'atid Pension Fund Management Company Ltd.)

1.5. Comments, clarifications and exceptions

1.5.1. General

As mentioned above, the embedded value was calculated by methodology, rules and principles determined in the committee report. The assumptions in the model are based on best estimate assumptions, i.e. assumptions which emanate from extrapolation of existing experience in respect of the future in the framework of the environment in which insurance companies operate without conservative coefficients. Naturally, since we are relating to long term future estimates, actual results may differ from the estimates made when calculating the embedded value.

Deviation from the parameters and assumptions made in predicting the embedded value may have substantial influence over the result. Inter alia, these parameters include:

1. Financial factors (e.g. – capitalization interest, yields)
2. Demographic factors (e.g. – changes in mortality and morbidity)
3. Legislation and legislative arrangements on relevant matters
4. Pending liabilities (see Note 38 of the Harel Insurance Investments and Financial Services Ltd 2015 Annual Report)
5. Taxation
6. Changes in the business environment

Future results deviating from assessments based on 'best estimate assumptions' are natural and expected to occur, even if no change whatsoever occurs in the aforementioned parameters. Therefore, it is expected that the actual annual results will differ from the results forecast in the embedded value model, if only due to regular random fluctuations.

1.5.2. Reforms and legislation

Circular concerning Personal Health Insurance Plans

On September 24, 2015, the Commissioner published a circular on drawing up personal lines health insurance plans, which replaced a previous circular with the same name. The circular prescribes that all health insurance plans will be for a two-year period and will be renewed automatically every two years on June 1, without a review of a pre-existing medical condition and without a further qualifying period. Policyholders must give their express consent for renewal of the insurance if, on the renewal date, the monthly premiums increase by more than NIS 10 or more than 20%, whichever is higher, or if the insurance cover is reduced in lieu of an increase in the premium. If, in such cases, no consent is given, the insurance for such policyholders will be cancelled. If the policy is renewed without the policyholder's express consent, he may give notice within 60 days of the renewal date that the policy is null and void, and the policy will be cancelled from the date of the renewal, provided that the policyholder has not filed a claim to exercise his rights under the policy on account of an insured event that took place during this period. Regarding changes that insurers are required to make in the policy at the time of the renewal - insurers are entitled not to make these changes provided that they do not continue to sell the policy to new policyholders. Any changes that insurers make in the policy will become applicable for all existing policyholders from February 2016. Insurers will inform existing policyholders of the option to move over to a personal lines policy in accordance with the provisions of the circular with continuity of insurance for the existing coverages in the policyholder's present policy. The circular becomes applicable on February 1, 2016.

The report does not give expression to the future impact of this circular, which may affect the rate of cancellations of these programs, given that at this stage one cannot predict the behavior of policyholders regarding the exercise of this transition.

Economic Plan Law – Health Chapter

On November 30, 2015, the chapter on medical insurance in the Economic Plan (Legislative Amendments for Implementing Economic Policy for Fiscal Years 2015 and 2016) Law, 2015, was published in the Official Gazette. Among other things, this chapter stipulates that a plan for additional health services will not be approved with respect to cover for surgery, and permission

will not be given to market policies that include insurance for surgery or to change such policies, unless the HMOs or the insurance companies have an arrangement for surgery that guarantees members or policyholders adequate provision of surgeons and surgery, types of surgery and their geographical distribution, including in peripheral areas. Furthermore, HMOs, as part of their supplementary health services, and insurance companies will pay doctors or medical institutions at which the surgery is performed for surgery in accordance with insurance plans or as part of the supplementary health services, only in accordance with an arrangement for surgery and they will not pay any additional amount or reimburse patients for surgery other than as part of the prescribed exclusions, whereby HMOs or insurance companies will be entitled to submit for approval a list of 50 specialists to whom a refund may be offered.
Furthermore, doctors or medical institutions or any person acting on their behalf will not ask for and will not accept any payment from patients other than the deductible; for surgery or for the choice of a surgeon, if the surgery is performed as part of an arrangement for surgery; the list of surgeons shall not include doctors with whom the HMOs or insurance companies have surgery arrangements, unless they have a consulting arrangement with that doctor, and the law also proposes amending the National Health Insurance Law, 1994, and the Public Health Ordinance, 1940 so that any payment to a doctor or medical professional for medical services performed by that medical institution will be made exclusively by the medical institution (except in those instances where the doctor or medical professional is entitled to payment from the insurance company or HMO as part of an agreement between them).

The report does not give expression to the future impact of this law, which may affect the amounts of claims under these programs, given that at this stage one cannot predict the behavior of health system in light of this law.

Circular Concerning Marketing of Service Notes

On December 14, 2015, the Commissioner published a circular on the introduction and marketing of service notes which prescribes rules for introducing service notes, including the services that may be offered in the service note, and the way they may be marketed by insurance companies or agencies without the involvement of insurance companies. The circular enters into force on June 30, 2016, and it applies to service notes that are sold or renewed after that date (including service notes that are renewed automatically every year), and to insurance companies and insurance agencies in all branches of insurance.

The report does not give expression to the future impact of this circular, which may affect the cancellation or updates of service notes in the existing portfolio, given that at this stage one cannot predict the behavior of policyholders regarding the exercise of this transition.

Circular concerning guaranteed annuity coefficients in life assurance policies

On December 6, 2015, the Commissioner published a circular concerning the marketing of life assurance policies that incorporate annuity coefficients for longevity [known as guaranteed annuity options - GAO factors]. The circular prescribes provisions allowing these plans to be sold to insureds who have combined savings - life insurance policies with GAO factors that were purchased up to December 31, 2013, and who wish to move their savings. The provisions enter into force on their date of publication.

The report does not give expression to the future impact of this circular, which may affect lapse rates for these plans, given that it is difficult to estimate the behavior of policyholders with respect to cancellation or movement of funds.

Combination of Provident Funds Accounts

On November 5, 2015, the Supervision of Financial Services (Provident Funds) (Amendment no. 13), Law, 2015, was published which prescribes a temporary provision allowing the consolidation of existing accounts in a pension fund which regulates a mechanism for transferring the money of inactive members in pension funds to active accounts of those same members in other pension funds, as well as provisions that prescribe a mechanism for transferring money to the accounts of newly enrolled members of a pension fund from inactive accounts of those members in other pension funds, provided that the members do not refuse these arrangements. The provisions on the consolidation of existing accounts in pension funds will enter into force on April 1, 2016, and the provisions on the consolidation of accounts when joining a pension fund will enter into force on January 1, 2017.

The report does not give expression to the future impact of this law, which may affect the movement of funds in and out of pension funds, given that at this stage one cannot predict the behavior of policyholders regarding the exercise of this transition.

Default Provident Funds – Instructions Regarding Choosing a Provident Fund

On March 13, 2016, the Commissioner published a circular on provisions for choosing a provident fund. The circular prescribes that enrolling employees in provident funds without them filling out application forms will only be permitted for provident funds that are default funds, that are chosen by the Commissioner, or for provident funds that are another default option chosen by the employer or the labor union in accordance with the provisions of the circular. The circular also prescribes provisions concerning the way in which the Commissioner will choose default option funds, including that preference will be given to pension funds with a market share of 5% and that the management fees offered by these funds will be in force for newly enrolled members for at least 10 years from their date of enrollment in the fund. The circular further prescribes rules relating to employers or labor organizations that choose another default option fund, including that the choice must be made through a tender process in which all provident fund management funds of the same category are allowed to take part, that a company which has a related party that provides settlement or control services to the employer cannot be chosen, or whose related party markets supplementary insurance cover where the cost of this cover is not collected from the employee's payments, unless the management fees that it offers are the lowest offered in the tender, and if the management company or its related party give the employer any form of benefit.

The report does not give expression to the future impact of this circular, which may affect the level of management fees the pension funds, given that at this stage one cannot predict these changes.

Commissioner position concerning Financial Institution Payments to a Licensee

On January 18, 2015 the Commissioner publicized a position concerning payment of a financial institution to a licensee and on March 30, 2015 a clarification was published. According to the position, commission payments to licensees derived from management fees charged by the financial institution to the customer, in such a way that higher management fees will mean higher commissions paid to the licensee, is inconsistent with the obligations imposed on companies managing the financial institutions and licensees under the Supervision of Financial Services (Provident Funds) Law, 2015 and the Supervision of Pension Services (Consulting, Marketing and Pension Clearing System) Law, 2005.

This report does not give expression to the position, given that at this stage one cannot estimate its impact.

Economic Efficiency Law

On November 30, 2015, the Economic Efficiency (Legislative Amendments for Implementing Economic Policy for Fiscal Years 2015 and 2016) Law, 2015, was published in the Official Gazette. The law amends the Supervision of Financial Services (Pension Advice, Pension Marketing and Pension Clearing System) Law, 2005 and it determines, inter alia, that an entity engaged in pension marketing, or its associate, will not provide operating services to employers for whose employees they provide pension marketing, unless the conditions specified in the law are satisfied, whereby each month the pension insurance agent will collect clearing fees from the employer for the operating services for each employee of at least 0.6% of the total amount deposited in the provident fund on the employee's behalf, plus VAT, or at least NIS 10.5 plus VAT, whichever is higher. The distribution fees that financial institutions pay pension insurance agents will be reduced by the rate of this clearing fee, and the management fees paid by the employee will be reduced by the percentage deducted from the distribution fee and the default option fund will be chosen for the employee under Section 20 of the Supervision of Provident Funds law. The law further prescribes that pension advice or marketing will not be required when a customer performs a transaction involving a pension product directly with a financial institution, at the customer's initiative (unless the customer is an active insured in an old fund, an active insured in an insurance fund, the transaction includes exclusions due to the customer's medical condition, or if additional conditions as may be prescribed by the Commissioner are satisfied), when payments are deposited in a provident fund by an employer for an employee who has been given the opportunity to choose another provident fund but refused to do so, and when a transaction is performed in a pension product by virtue of a statutory obligation. Furthermore, an insurance agent may only accept one of the following in connect with pension marketing or performing a transaction for a customer: payment of a fee or direct expenses from the customer or a distribution fee from the financial institution. Moreover, as part of the amendment to the Supervision of Financial Services (Provident Funds) Law, 2005, employees will be entitled choose the licensee for providing pension marketing or pension advice or making transactions in a provident fund, excluding the deposit of money, and employers will not condition the deposit of money for an employee or the granting of any other employee benefits on pension marketing or pension advice or transactions performed for the employee by a particular licensee.

This report does not give expression to this circular, given that at this stage one cannot estimate its impact.

1.5.3. Risk handling

Hereunder, are exceptions regarding the estimated embedded value detailed in this report emanating from the manner in which the company calculated the embedded value:

- The embedded value calculation did not take extreme risks into account, having low probability of occurrence in regard to which the company cannot estimate the probability of the occurrence of such risks, as well as other risks, whose impact the company cannot estimate, such as operational risks. Furthermore, the demographic assumptions on which the model is based were developed mainly on the basis of studies and analyses which rely on the company experience over recent years, which do not include extreme events. Therefore, there is a possibility of extreme events occurring in the future which the company did not take into account when determining the assumptions on which the model is based, notwithstanding the attempt to determine real assumptions which correspond with the actual long term experience.

- The model is based on the assumption that there is no correlation between the model assumptions regarding risks which are not market risks and market risks which may significantly impact embedded value. Due to lack of sufficient data to inspect the above correlation, the company did not examine this assumption.

- According to the committee instructions and rules, inter alia, the determination of assumptions must be based on the expectancy of the embedded value share owners will obtain. In the absence of clear statistical data for which is appropriate to value the distribution of the embedded value for all demographic and operational factors, the company used realistic assumptions for each parameter separately, according to the expectancy of each relevant factor.

- The embedded value is based on the theory in terms of which investors do not require compensation in respect of risks which are not market risks, provided that they are hedgeable or the investors are able to distribute the uncertainty by possessing a diverse and distributed investment portfolio. In actual fact, it is possible that part of the demographic and operational risks will be impossible to be distributed or which investors cannot hedge ("non hedgeable risks"). In the absence of a deep liquid market which will serve to estimate the 'risk price' given to these risks by the market, and in the absence of an agreed methodology to quantify the theoretical market price of these risks –the EV in respect of these risks was not reduced

  It should be noted that during 2011 the Committee entered into agreement with foreign actuarial consultants to formulate an appropriate, practical methodology whereby the EV will be adjusted to reflect the cost of non-hedgeable risks. This adjustment is expected to be reflected in a reduction of the EV, both in relation to the value of the portfolio in force (VIF) and to the value of new business (VNB), so that they will more appropriately reflect their value when taking all the risks into account, including the un-hedged risks, and this consistent with accepted practice for EV reporting around the world. At the publication date of this report, no detailed or final recommendations have been received from the aforementioned consultants, and the Committee has therefore not yet formulated a proper methodology on this matter. In view of the foregoing, it was impossible to make the adjustment in this report.

  In order to reflect the estimation of the risks which have not been taken into account as aforementioned, the readers of the report may adapt the presented embedded value at their discretion, by means of the sensitivity analyses presented in paragraph 3.6. It should be emphasized that, as already noted above, the company cannot estimate from a quantity, scientific and objective point of view, the influence of the aforementioned matters on the embedded value and therefore the sensitivity analysis presented by the company does not constitute an estimate by the company, but rather is intended to serve as a tool for the readers of the report in order to assess the possible influence of the realization of the risks detailed above and other matters, at their discretion.

1.5.4. Asset revaluation by fair value

According to committee report rules and principles, the accounting value of all company assets has not been adjusted to fair value, rather only the assets overlapping with the included businesses have been adjusted in the embedded value. It should be noted that dedicated debentures (both in life insurance and in the new pension funds) were estimated for technical reasons in accordance with their adjusted cost in the books, taking into account the interest due to the holders of these debentures, in a manner which caused their fair value to be included in the embedded value.

1.5.5. Pension fund governmental subsidization arrangements

In calculating the embedded value and the value of pension management business' new businesses, the company assumed that no changes will occur in the various governmental subsidization arrangements, expressed in the guaranteed yield rates on existing dedicated debentures and/or which are anticipated to be issued in the future in the new and the veteran pension funds, in addition to the yield on assets in the veteran pension fund.

1.5.6. Embedded value is not intended to represent the company's - or its holding company's financial or market value

As aforementioned the in force portfolio value does include not include general (elementary) insurance business and does not other fields of operation by companies controlled by the company or the ability to generate future business (reputation). Furthermore, it should be emphasized that the embedded value does not relate to Harel Insurance Investments and Financial Services Ltd., the company's holding company which has additional operations and businesses.

Furthermore, embedded value does not include certain risks specified in paragraph 1.5.3 above.

Therefore, in light of the above, embedded value does not represent the market value or the inclusive economic value of the company and its subsidiaries, and market value or the economic value of Harel Insurance Investments and Financial Services Ltd.

2. Embedded value calculation methodology

2.1. General

Embedded value calculation principles are based on committee report rules and principles, subject to the matter of handling certain risks described above in paragraph 1.5.3, as specified in the above paragraph. The assumptions in the model are based on best estimate assumptions, i.e. without conservative coefficients. The model does not include future sales value, however, from a level of expenses point of view etc., the calculation assumes that business activities will continue.

2.2. Handling risks

- Financial (or market) risks – every flow is capitalized according to the capitalization interest, conforming to the risk entailed therein. In effect the model makes use of a financing technique known as Certainty Equivalent Approach, in which cash flows area adjusted to market risks embedded therein and therefore same are capitalized according to risk-free interest. This risk-free interest also serves to assess the anticipated yield on investments.

- As part of the consultation being carried out by the Committee and the foreign consultants, as noted above, the Committee and the consultants, have begun for formulate a methodology which will reflect the fact that surplus yields may be assumed on risk-fee interest, in view of the fact that investments can be made in non-negotiable assets against non-liquid insurance liabilities. An assumption can therefore be made that there will be a supplement to the risk-free interest rate which is appropriate for negotiable assets ("non-liquid premium"), as accepted for EV reports worldwide, and in other areas of the global insurance industry. An adjustment of the risk-free interest rate for the non-liquid premium is expected to produce an increase in the EV. At the publication date of this report, the Committee has not yet formulated detailed and final recommendations, and the non-liquid premium is therefore not reflected in this report.

- Risks which are not market risks – embedded value is calculated based on the financial theory whereby investors do not require additional compensation in the form of capitalization interest for risks which are not market risks, provided they are able to distribute the uncertainty by keeping a diversified, varied investment portfolio. Therefore, on the basis of this assumption, the embedded value was calculated on the basis of demographic and operational assumptions which are 'the best estimated assumptions' and by capitalization of the cash flows by the rate of the risk-free interest, without adding margins for discounts or capitalization interest rates in respect of these risks.

2.3. Financial assumptions

2.3.1. Yield, interest, capitalization and inflation

Future yield and capitalization interest were determined according to the yield curve of the index linked risk-free interest. The risk free (spot) interest rates at the end of 2015 were:

End of	Interest Rate		End of	Interest Rate		End of	Interest Rate
2016	0.45%	2026	0.77%	2036	1.41%	2016	0.45%
2017	0.41%	2027	0.86%	2037	1.44%	2017	0.41%
2018	0.22%	2028	0.95%	2038	1.48%	2018	0.22%
2019	0.10%	2029	1.02%	2039	1.51%	2019	0.10%
2020	0.14%	2030	1.09%	2040	1.54%	2020	0.14%
2021	0.23%	2031	1.16%	2041	1.56%	2021	0.23%
2022	0.32%	2032	1.22%	2042	1.59%	2022	0.32%
2023	0.43%	2033	1.27%	2043	1.61%	2023	0.43%
2024	0.54%	2034	1.32%	2044	1.63%	2024	0.54%
2025	0.66%	2035	1.37%	2045	1.65%	2025	0.66%

It is to be noted that there is no need for an expressed assumption regarding future inflation since all sums in the model are linked. When it is anticipated that a particular parameter will vary not in accordance with future inflation, an expressed assumption has been taken into account regarding the anticipated deviation from the future inflation.

2.3.2. Taxation

Statutory tax applied to financial institutions (including profit tax)

Year	2015	2016	2017	2018	2019	2020	2021	2021+
Tax rate	37.58%	37.18%	37.18%	37.18%	37.18%	37.18%	37.18%	37.18%

On January 5, 2016, an amendment was published to the Income Tax Ordinance (Amendment no. 216), 2016. Under the amendment, the corporate tax rate prescribed in Section 126 (A) of the Income Tax Ordinance was reduced from 26.5% to 25%, effective from January 1, 2016. Accordingly, the statutory tax rate (including profit tax) applicable to financial institutions in and after 2016 is 35.9%.

2.4. Demographic and operational assumptions

All assumptions with significant impact on embedded value were determined according to the company's best estimates for each demographic and operational factor and reflect company future expectations for such factors (also see section 1.5).

2.4.1. Demographic assumptions

The demographic assumptions included in the calculations were based on internal company studies and conclusions stemming from professional discretion, based both on relevant experience and also information integrated from external sources, e.g. information from reinsurers and published mortality and morbidity tables.

2.4.2. Future management and general expenses

The management and general expenses were calculated according to results of an internal pricing model generated by the company for expenses relating to the included businesses, including: allocation of expenses by different spheres (life and health insurance) and loading expenses onto different activities (production, ongoing administration, investments, etc.).

The company assumed that in the future, the expenses will rise by the index rate, the rate of rise in premiums/ benefits or by the rate of increase in the asset portfolio, in accordance with the loading of expenses in respect of the various activities.

2.5. Calculation method

2.5.1. Adjusted equity (ANW)

The Appraised Net Worth (ANW) is based on the Company's equity at the reporting date plus a revaluation of fair value (net of tax) of the assets corresponding with covered business which are presented in the financial statements at cost. Several adjustments were made to this amount so that it is consistent with the Value in Force. See table in Section 3.3.

2.5.2. Present value of future profits (PVFP)

The present value of future profits was calculated using an actuarial model based on policy data, management of the pension rights of the pension fund members and other data in the possession of the company and the pension fund management companies. This model enables generating projected future cash flows and capitalization of these cash flows.

2.5.3. Cost of capital (CoC)

A forecast of the required capital was compiled according to the existing demands and the anticipated future development of included businesses. The cost of capital is capitalization of taxes on investment profits in respect of the required capital for the included businesses.

2.5.4. Value of new business (VNB)

As mentioned above, the value of new business is calculated as the present value of profits from the time of sale, until the lapse of the transaction (the policy or pension plan). The present value of profits was calculated using an actuarial model based on policy data, details regarding the pension fund members and other data, all in order to reflect the contribution of the year's production to embedded value.

VNB was calculated for the following populations:

- All the policies which were issued in 2015
- New coverage issued in 2015 as an addition to policies which were issued before 2015.
- Group policies which were renewed in 2015.
- One-time premiums on existing policies which do not emanate from a wage increase.
- New members of the pension funds during 2015.

It should be clarified that the present value of future profits (PVFP) includes the value of profits from the end of 2015 onwards in respect of new businesses as aforementioned.

2.6. Handling options and financial guarantees

There are no substantial options and financial guarantees in the included businesses in favor of the insureds.

2.7. Analysis of the EV change and the profit on an EV basis

The table in paragraph 3.4 hereunder presents the change in the embedded value, distributed into the adjusted capital and portfolio value components (less the capital cost), including transfers between these two components. All the sums are presented after deduction of tax. The change is broken down into its various influential causes as follows:

1. Adjustments to embedded value as at 31 December 2014 – this paragraph includes corrections in respect of the opening data. For pension businesses, the principal change relates to an update of the calculation of management fees from future pensioners.

2. Changes in operational and demographic assumptions – each year the company updates the various assumptions according to which it assesses the embedded value, inter alia, on the basis of new data regarding the actual experience and the changes in the company management's expectations. The main changes in these spheres were:

    1. Increase resulting from a revision of the expense assumption
    2. For Life and Health insurances, a decrease resulting from a revision of the lapse and surrender assumptions
    3. For Pension, a decrease stemming from a revision of the assumption for future management fees.

3. Anticipated profit which is included in the embedded value – the embedded value includes profits which the company is anticipated to gain, even if it does not sell new businesses and does not operate in

additional spheres which are not included in the embedded value. These profits emanate from three sources:

   1. The anticipated yield on the in-force portfolio value, valid at the end of the previous period – this anticipated income is based on the real yield rate (above the index) anticipated at the beginning of the year, including margins above the no-risk interest which was anticipated to be received.

   2. The anticipated yield on the adjusted equity – the anticipated income on investments from assets placed against the adjusted capital - this anticipated income is based on the real yield rate (above the index) anticipated at the beginning of the year, including margins above the anticipated no-risk interest to be received.

   3. Profit anticipated to transfer from the in force portfolio value to the adjusted equity during 2015 – during 2015 the anticipated profit for the year 2015 was removed from the portfolio value and added to the adjusted capital so that in total, this source did not influence the sum of the embedded value in its entirety, but rather brought about a transfer from the in force portfolio value component to the adjusted capital component. In accordance with the method of determining the adjusted equity, this profit did not include the influence of reduction of the DAC.

4. The influence of the deviations from the operational and demographic assumptions during this period the actual experience regarding the rate of claims, cancellations, expenses, etc. were different than the assumptions based on section 2 above for the purpose of calculating the embedded value. These deviations also influence the anticipated profits from the end of the year and the profits of the year itself. The influences are presented separately in this paragraph in respect of the in force portfolio value and the adjusted capital respectively. In addition, this paragraph includes the influence from a number of causes, each of which is immaterial in the company estimate which include inter alia, changes in existing insurance policies, reinsurance conditions or commission agreements with agents. In 2015, most of the deviations in insurance business were in the increase in claims payments for amounts that were higher than expected and an increase in the reserves that were higher than anticipated, especially for group health and group Long Term Care policies, which led to a reduction in ANW. In pension business, the main cause of the deviation is a lower than anticipated cancellations and withdrawals.

5. Profit from new businesses – the embedded value does not include the value which is anticipated to be added from new businesses which will be sold in the future. Therefore, this paragraph presents the addition to the embedded value as at the end of the previous period, following the

sale of new insurance policies during the year and the joining of new members to the pension funds. The addition is distributed into actual influence of new businesses on profits during the period itself (presented in the framework of the adjusted capital) and anticipated profits from new businesses in the future (presented in the framework of the in force portfolio value).

The summary of the changes appearing in paragraphs 2-5 above are usually referred to as ‘the operational real profit on an embedded value basis’. This sum reflects the value which was added to the embedded value, or the profit in value terms emanating from the company’s current activities, except the influence from businesses which are not included in the embedded value (such as general insurance) before the influence of inflation and unexpected economic factors, such as unanticipated changes in the market interest rates, the capital market and inflation.

6. Development expenses not included in the embedded value – the influence on the actual profits during the year is reflected due to extraordinary expenses which were not included in the embedded value but rather were attributed to future sales. During 2015, there were no expenses which were not included in the embedded value.

7. Profit from special items – there were no special items in 2015

8. Influence of inflation during 2015 – this paragraph includes the influence of inflation during 2015 (-0.1%) on the opening balance of the embedded value. The influence of inflation was mainly in respect of linking the policies to the index, a fact which influences the in force value of the portfolio and the influence of the expected yield in the index rate on the adjusted capital.

9. Profit resulting from deviation from the economic assumptions during 2015 and changes in the economic assumptions – this paragraph includes three components:

    1. Influence on the portfolio value from changes occurring in the economic assumptions which are based on the market interests. Such assumptions include the capitalization interest and anticipated yields.

    2. Influence from the deviations of the actual economic parameters during the year as opposed to expected yields including expected spreads over risk free rates. The influence is in two of the embedded value components:

        i. In the adjusted capital – due to the influence on the profit, mainly from yields which were different from those anticipated on the company assets which are placed vis-à-vis the capital and against the insurance reserves in respect of the included businesses. However, an increase in the special LAT reserve reduced this effect.

ii. In the value of the portfolio – due to the changes in the anticipated profits from the portfolio caused by the change in the risk free yield curve. However, an increase in the special LAT reserve reduced this effect.

It is customary to refer to the changes appearing in paragraphs 2-9 above as ‘the operational real profit on an embedded value basis’. This sum reflects the value which was added to the embedded value, or the profit in value terms emanating from the company’s current activities, including the influences of economic factors and including special items, however, excluding the influence businesses not included in the embedded value (such as general insurance).

Profit from non-included businesses – the embedded value sum includes the company’s entire equity and therefore a part of the increase/ decrease of the embedded value is explained by the profits/ losses of spheres of activity which are not included in the portfolio value. Also included in this paragraph (increase to capital adapted) are financing expenses in a sum of NIS 55 million (after taxes).

The summary of the changes in paragraphs 2-10 constitutes the ‘sum of the profit on an embedded value basis’ (including inflation effect).

10. Capital movements – this paragraph presents the change in the embedded value emanating from capital movements, including payment of dividends during the year.

2.8. Sensitivity tests

The sensitivity tests presented in paragraph 3.6 hereunder have adopted the following approaches:

1. Unless stated otherwise, the sensitivity relates to all included businesses.
2. The sensitivity tests relate to each assumption separately without measuring accumulating or offsetting influences or derivative changes on other factors, etc.
3. The sensitivity in respect of the value of new businesses relates to changes from the end of 2015 onwards, not to the period from the time of sale until the end of 2015.
4. Mortality before retirement age – mortality rate sensitivity tests (including death by accident) not including mortality of insureds that are receiving retirement pensions or monthly restitution for loss of ability or nursing.

5. Mortality among retirement pension recipients – sensitivity test of mortality rate among retirement pension recipients only, not including mortality among other pension recipients.
6. Morbidity – sensitivity tests include all claims except for mortality included in section 4 above, including morbidity from severe diseases, loss of ability to work, nursing, surgery and hospitalization, disability from accidents, etc. The test relates to frequency of claims and not period of payment for inability in respect of work or nursing claims.
7. Interest – sensitivity test results include:

   i. Impact of changes in interest rate serving as capitalization interest and the expected yield on company asset investments on present value of future profits (PVFP).

   ii. Impact of changes in interest rate on value of assets bearing Shekel or linked interest, placed vis-à-vis the included businesses.

8. Annuity Utilization Rate – sensitivity test relates to an increase in the rate of conversion, at the assumed retirement age, of savings balances to monthly annuities.

9. Changes in Salary - sensitivity test in the pension businesses relates to changes in the rates of salary increases.

10. Changes in Management Fees - sensitivity test in the pension businesses relates to changes in future management fees.

2.9 Embedded value report review

Annexed to this report is an external reviewer's report that performed a review of the report regarding the embedded value as at December 31, 2015 and value of new businesses for the year ending on that date, as well as the sensitivity analysis presented in this report.

3. Results

3.1. Embedded value on 31.12.2015 (in NIS millions)

	Included businesses in life and health insurance	Pension fund management businesses	Adjustment to joinder of pension fund management businesses into the company's Embedded Value	Total Embedded Value of life and health insurance and pension fund management businesses
Adjusted equity	3,358	156	(439)	3,075
Present value of future profits, less taxes	7,474	2,994	0	10,468
Less cost of required capital	(230)	(26)	0	(256)
Embedded value	**10,602**	**3,124**	**(439)**	**13,287**

3.2. Value of new businesses for sales during 2015 (in NIS millions)

	VNB for included life and health insurance businesses	VNB for pension fund management businesses	Total VNB for insurance and pension
Value of new businesses before required capital cost	1,036	253	1,289
Value of required capital in respect of new businesses	(22)	(3)	(25)
Total value of new businesses	**1,014**	**250**	**1,264**

For comparison purposes only, presented here is the value of new business for sales during 2014 (in NIS million) as published in the Embedded Value Report as at 31.12.2014.

	VNB for included life and health insurance businesses	VNB for pension fund management businesses	Total VNB for insurance and pension
Value of new businesses before required capital cost	1,052	279	1,331
Value of required capital in respect of new businesses	(24)	(3)	(27)
Total value of new businesses	**1,028**	**276**	**1,304**

3.3. Adjustment between adjusted equity and the equity in the financial reports

Table 3.3a – Insurance Business

	NIS millions
Equity (company's balance)	3,954
Reevaluation of overlapping assets of included businesses and displayed in financial reports by cost of fair value, less taxes	368
Less deferred acquisition costs (DAC)	(1,534)
Plus reserves for deferred tax on DAC	570
Adjusted equity in respect of long-term insurance included businesses	**3,358**

Table 3.3b – Pension fund management companies

	NIS millions
Equity (company's balances)	293
Less deferred acquisition costs (DAC)	(189)
Plus reserves for deferred tax and future tax benefits on DAC	53
Less reputation in respect of purchased pension funds, appearing in the company's balance sheet of the pension fund management company	(1)
Adjusted equity in respect of pension businesses	**156**

Table 3.3c – Harel Insurance Company: inclusion of pension fund management business

	NIS millions
Adjusted equity in respect of long-term insurance policies (life and health insurance), from table 3.3a above	3,358
Less deferred acquisition costs (balance sheet DAC) in respect of pension	(189)
Plus reserves for deferred tax and future tax benefits on DAC, Pension	53
Less the value of purchased pension fund management companies and reputation in respect thereof included in the equity	(147)
Adjusted equity of Harel Insurance, taking pension fund management businesses into account	**3,075**

3.4. Analysis of the change in embedded value and profits on an embedded value basis (in NIS millions)

Table 3.4a –Insurance business

	Reference	Adjusted Net Worth	Value In Force	Embedded Value
Embedded value as at 31.12.2014 (opening balance)		**3,326**	**6,538**	**9,864**
Adjustment to embedded value in respect of the opening balance	2.7.1	0	87	87
Embedded value adjusted to the opening balance		**3,326**	**6,625**	**9,951**
Operational profit from the in-force portfolio to the opening balance				
- Changes in operational and demographic assumptions	2.7.2	(183)	64	(119)
- Anticipated profit on the value in force	2.7.3	59	307	366
- Inclusive profit predicted in 2015, transferred from portfolio value to equity	2.7.3	807	(807)	0
- Influence of deviations from the operational and demographic assumptions during 2015, plus other changes to the inforce portfolio	2.7.4	(250)	(172)	(422)
Total operational profit from the in-force portfolio 31.12.2014		**433**	**(608)**	**(175)**
Profit from new businesses	2.7.5	(338)	1,352	1,014
Real operational profit according to embedded value		**95**	**744**	**839**
Development expenses not included in the embedded value	2.7.6	0	0	0
Profit from special items	2.7.7	0	0	0
Influence of inflation in 2015	2.7.8	(14)	(61)	(75)
Profit (loss) from deviations from the economic assumptions during 2015 and amendments of the economic assumptions	2.7.9	(2)	(64)	(66)
Total real profit on an embedded value basis		**79**	**619**	**698**
Profit from pension businesses		22	0	22
Profit from non-included businesses	2.7.10	97	0	97
Total real profit on an embedded value basis - including all business of the company		**198**	**619**	**817**
Capital Movements		(166)	0	(166)
Embedded value as at 31.12.2015		**3,358**	**7,244**	**10,602**

Table 3.4b - Pension fund management businesses

	Reference	Adjusted Net Worth	Value In Force	Embedded Value
Embedded value as at 31.12.2014 (opening balance)		**139**	**2,674**	**2,813**
Adjustment to embedded value in respect of the opening balance	2.7.1	0	(140)	(140)
Embedded value adjusted to the opening balance		**139**	**2,534**	**2,673**
Operational profit from the in-force portfolio to the opening balance				
- Changes in operational and demographic assumptions	2.7.2	0	135	135
- Anticipated profit on the value in force	2.7.3	6	84	90
- Inclusive profit predicted in 2015, transferred from portfolio value to equity	2.7.3	58	(58)	0
- Influence of deviations from the operational and demographic assumptions during 2015, plus other changes to the inforce portfolio	2.7.4	(1)	(8)	(9)
Total operational profit from the in-force portfolio 31.12.2014		**63**	**153**	**216**
Profit from new businesses	2.7.5	(40)	290	250
Real operational profit according to embedded value		**23**	**443**	**466**
Development expenses not included in the embedded value	2.7.6	0	0	0
Profit from special items	2.7.7	0	0	0
Influence of inflation in 2015	2.7.8	0	(22)	(22)
Profit (loss) from deviations from the economic assumptions during 2015 and amendments of the economic assumptions	2.7.9	(5)	13	8
Total real profit on an embedded value basis		**18**	**434**	**452**
Capital Movements		(1)	0	(1)
Embedded value as at 31.12.2015		**156**	**2,968**	**3,124**

Table 3.4c - Total Insurance and Pension fund management businesses

	Reference	Adjusted Net Worth	Value In Force	Embedded Value
Embedded value as at 31.12.2014 (opening balance)		**3,058**	**9,212**	**12,270**
Adjustment to embedded value in respect of the opening balance	2.7.1	0	(53)	(53)
Embedded value adjusted to the opening balance		**3,058**	**9,159**	**12,217**
Operational profit from the in-force portfolio to the opening balance				
- Changes in operational and demographic assumptions	2.7.2	(183)	199	16
- Anticipated profit on the value in force	2.7.3	74	391	465
- Inclusive profit predicted in 2015, transferred from portfolio value to equity	2.7.3	865	(865)	0
- Influence of deviations from the operational and demographic assumptions during 2015, plus other changes to the inforce portfolio	2.7.4	(251)	(180)	(431)
Total operational profit from the in-force portfolio 31.12.2014		**505**	**(455)**	**50**
Profit from new businesses	2.7.5	(378)	1,642	1,264
Real operational profit according to embedded value		**127**	**1,187**	**1,314**
Development expenses not included in the embedded value	2.7.6	0	0	0
Profit from special items	2.7.7	0	0	0
Influence of inflation in 2015	2.7.8	(17)	(83)	(100)
Profit (loss) from deviations from the economic assumptions during 2015 and amendments of the economic assumptions	2.7.9	(13)	(51)	(64)
Total real profit on an embedded value basis		**97**	**1,053**	**1,150**
Profit from non-included businesses		97	0	97
Capital Movements		(177)	0	(177)
Total Change in EV		**17**	**1,053**	**1,070**
Embedded value as at 31.12.2015		**3,075**	**10,212**	**13,287**

3.5. Adjustment between the changes in adjusted equity and the net profit of the company for 2015 (in NIS millions)

a. Insurance business

	NIS millions
Net profit for 2015	393
Items attributed directly to equity	(55)
Total After-Tax Profit	338
Changes in DAC, before tax	(151)
Tax in respect of changes in DAC not included in the in force portfolio value	51
Changes in the difference of fair value, less tax	(42)
Total Profit Adjusted to EV Basis	196
Opening Adjustment to Adjusted Equity	0
Capital Movements	(166)
Total Change in Adjusted Equity	30

b. Pension management businesses

	NIS millions
Net profit for 2015	34
Items attributed directly to equity	0
Total After-Tax Profit	34
Changes in DAC, before tax	(24)
Tax in respect of changes in DAC not included in the in force portfolio value	8
Changes in the difference of fair value, less tax	0
Total Profit Adjusted to EV Basis	18
Capital Movements	(1)
Total Change in Adjusted Equity	17

3.6. Sensitivity analysis for included businesses as at 31.12.2015

a. Insurance businesses

	Change in embedded value		**Change in value of new business**	
	NIS millions	**%**	**NIS millions**	**%**
Base result	**10,602**	**100%**	**1,014**	**100%**
0.5% reduction in risk-free interest	(152)	(1.4%)	22	2.2%
10% increase in administration and general expenses	(281)	(2.6%)	(35)	(3.4%)
Relative 10% increase in cancellation rate (including redemptions and settlements)	(595)	(5.6%)	(156)	(15.4%)
10% increase in mortality rates among pre-retired insured's	(27)	(0.3%)	(32)	(3.2%)
10% increase in morbidity rates	(786)	(7.4%)	(94)	(9.3%)
Relative 10% decrease in mortality rate among recipients of old-age pensions	(321)	(3.0%)	(7)	(0.7%)
Relative 10% increase in annuity utilization rate	(110)	(1.0%)	-	(0.0%)
Relative 0.5% increase in risk-free interest	111	1.0%	(24)	(2.3%)
10% decrease in administration and general expenses	281	2.6%	35	3.4%
Relative 10% decrease in cancellation rate (including redemptions and settlements)	696	6.6%	193	19.0%
10% decrease in mortality rates among pre-retired insureds	15	0.1%	27	2.6%
10% decrease in morbidity rates	777	7.3%	100	9.9%
Relative 10% increase in mortality rate among recipients of old-age pensions	284	2.7%	14	1.4%

b. Pension businesses

	CHANGE IN EMBEDDED VALUE		CHANGE IN VALUE OF NEW BUSINESS	
	NIS millions	%	NIS millions	%
Base result	**3,124**	**100%**	**250**	**100%**
0.5% reduction in risk-free interest	151	4.8%	15	6.0%
10% increase in administration and general expenses	(173)	(5.5%)	(20)	(7.9%)
Relative 10% increase in cancellation rate (including redemptions and freezing)	(263)	(8.4%)	(53)	(21.0%)
1% decrease in wages rises	(187)	(6.0%)	(34)	(13.4%)
Increase in governmental interest by 0.5%	(144)	(4.6%)	(15)	(6.2%)
10% decrease in administration and general expenses	173	5.5%	20	7.9%
10% decrease in cancellation rate (including redemptions and freezing)	288	9.2%	58	23.3%
1% increase in wages rises	203	6.5%	38	15.1%
10 % decrease in management fees	(452)	(14.5%)	(49)	(19.7%)

Michel Siboni
CEO

Ronen Agassi
Deputy CEO and CFO

Arie Wurtzburger
Deputy CEO and
Chief Actuary

May 29, 2016

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

Dear Sir / Madam,

Re: Review of the Report of Embedded Value at December 31, 2015

Forward

We have reviewed the information that was prepared by Harel Insurance Company Ltd. concerning the Embedded Value at December 31, 2015, the Value of New Business (VNB) for the year ended on that date, an analysis of changes in the Embedded Value and the sensitivity analyses relating to those changes, with respect to long-term health and life insurance policies and pension fund management business (the Embedded Value Report). The Board of Directors and management are responsible for the preparation and presentation of the EV Report. Our responsibility is to express a conclusion about the embedded value based on our review.

Scope of the review

Our review included the following procedures: reading the EV report, holding meetings and clarifications with the professional and responsible entities in the Company who were involved in preparing the report, reviewing the methodology and its method of presentation used to prepare the EV Report, and the extent to which they correspond with the guidelines set out in Circular no. 2007-1-11 and its appendices published by the Commissioner of Insurance (“the Commissioner's Circular”). Furthermore, the review included the application of analytical procedures in relation to the results presented in the report, a comparison between the results of the calculation and relevant financial information about the Company, as well as a review of the reasonability of the assumptions.

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, nothing was brought to our attention that indicates a need for changes in the EV Report so that it can be considered a report prepared in accordance with the methodology and assumptions described in the EV Report, subject to the information in Section 1.5 of the EV Report and that specified below. Moreover, nothing was brought to our attention that indicates a need for changes in the manner and format of the report and our review produced nothing to indicate that the demographic and operating assumptions submitted to us during the course of the review are unreasonable, based on the Company's past and present experience and management's expectations for the future, subject to that mentioned in Sections 1 and 2 below.

KPMG

We wish to draw your attention to the following:

1. The EV Report was prepared on the basis of assumptions that are the result of projecting present experience onto the future. Within the context of the environment in which the Company operates, and in the nature of things, given that these are long-term future estimates, actual results can be expected to differ from those estimated when the EV was calculated. The foregoing is of considerable importance in view of the uncertainty regarding the reforms in the long-term savings market and health insurance market. Calculation of the embedded value does not include the range of possible effects, insofar as there are any.
2. Please read the range of exclusions listed in Section 1.5 of the EV Report carefully with respect to the handling of risks and other matters.
3. The EV also includes the embedded value of pension fund management business owned by the Company, the publication of which is not mandatory under the Commissioner's instructions.

Yours faithfully,

Somekh Chaikin

Certified Public Accountants