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HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD.

Interim Statement
As at September 30, 2016

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Contents

Board of Directors Report

Harel Insurance Investments & Financial Services Ltd.

Board of Directors Report

for the nine months ended September 30, 2016

The Board of Directors Report for the nine months ended September 30, 2016 ("the Reporting Period"), reflects the principal changes in the state of business of Harel Insurance Investments & Financial Services Ltd. ("Harel Investments" or “the Company") during this period, and it was prepared assuming that the reader is also in possession of the Group's full Periodic Report for 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 concerning the future based on information in the company's possession at the time of publishing the report and which includes the company's assessments or intentions at the date of the report. Actual performance may differ substantially from the results estimated or inferred from this information. In certain instances, sections can be found that contain forward-looking information, where words such as: "the Company/the Group estimates", "the Company/the Group believes", "the Company/the Group anticipates", and the like appear, and such forward-looking information may also be worded differently.

1 Description of the Company

1.1 General

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

A. In the different 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 a 94% stake ("Interasco"), which operates in Greece in non-life insurance; and Turk Nippon (fully controlled by the Company), which operates in Turkey.

   On January 1, 2016, the insurance activity of Dikla Insurance Company Ltd. (“Dikla”) 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(13) 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 Funds and Education Funds Ltd. (wholly controlled) ("Harel Provident"), and the Tzava Hakeva Savings Fund – Provident Funds Management Company Ltd. (wholly controlled) ("Tzava Hakeva").

Pension Fund management companies: Harel Pension Funds Management Ltd. (wholly controlled) ("Harel Pension"), and LeAtid Pension Funds Management Company Ltd. (wholly controlled) ("LeAtid").

On October 1, 2016, Harel Provident was merged into Harel Pension and Harel Pension's name was changed to Harel Pension and Provident Ltd. (for further information, see Note 9(12) to the Financial Statements).

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 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 that issues certificates of deposit on different currencies.

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.

1.2 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 & Management Ltd., a holding company fully owned by them) about 49.98% of the voting rights in the Company and 49.58% of the Company's issued share capital.

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

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

2.1.1 Waiver notice by the controlling shareholders

On notice of a waiver by the controlling shareholders concerning the conditions of their employment, dated September 22, 2016, see Note 9(26) to the Financial Statements.

2.1.2 Engagement in a D&O liability insurance policy

On an engagement in a Directors and Officers liability insurance policy (D&O), see Note 9(15) to the Financial Statements.

2.1.3 Decision to distribute a dividend

On the distribution of a dividend in August 2016 and March 2016, see Note 9(17) to the Financial Statements.

2.1.4 Financial penalty

On a financial penalty imposed on Harel Insurance following a review conducted by the Capital Market Division on the subject of sending of periodic reports - see Note 7(a).

2.1.5 Exchange purchase offer - Harel Financing and Issuing

On the results of an exchange purchase offer by Harel Insurance Financing and Issuing, see Note 9(3) to the Financial Statements.

2.1.6 Termination of service and the appointment of company officers

On the termination of service and appointment of company officers, see Section 4.1 below and Note 9(20) to the Financial Statements.

2.1.7 Transaction with Noble Energy Mediterranean Ltd.

On a transaction with Noble Energy Mediterranean Ltd., see Note 9(1) to the Financial Statements.

2.1.8 Affirmation of a Maalot rating for Harel Financing and Issuing

On the affirmation of a Maalot rating for bond series 12 and 13 of Harel Financing and Issuing, see Note 6(c) to the Financial Statements.

2.1.9 Bonus for 2015

On the Board of Directors' approval from June 22, 2016, of the manner of calculating the bonuses for the Company's senior officers and controlling shareholders, in accordance with the compensation policy, see Notes 9(4) and 9(5) to the Financial Statements.

2.1.10 Cooperation agreement with Bank Leumi LeIsrael Ltd.

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

2.1.11 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 and Issuing, see Note 9(8) to the Financial Statements.

2.1.12 General meeting

On a general meeting of the Company that took place on April 12, 2016, see Note 9(7) to the Financial Statements.

2.1.13 Maalot rating for 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.

2.1.14 Restructuring

On the approval of a restructuring - merger of management companies and transfer of the management of provident funds, see Note 9(12) to the Financial Statements.

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

On the approval of the consent decree by the Antitrust Court under Section 50B of the Antitrust Law, 1988, see Note 9(31) to the Financial Statements.

2.1.16 Revised 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(23) to the Financial Statements.

2.1.17 Changeover of senior officers serving the subsidiaries

On changes in senior officers serving the subsidiaries, see Note 9(28) to the Financial Statements.

2.1.18 Agreement relating to a non-extraordinary transaction

On entering into a transaction that is not an extraordinary transaction, see Note 9(1) to the Financial Statements.

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

2.2.1 Revised compensation policy and updated employment conditions for the Company’s CEO

On the Company’s revised compensation policy and updated employment conditions for Mr. Ronen Agassi, the Company’s CEO, that were approved by the general meeting held on October 31, 2016, see Notes 9(22) and 9(25) to the Financial Statements.

2.3 Developments in the macroeconomic environment of the Group

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

2.3.1 General

The data received in Q3 2016 point to continuing moderate but positive growth of the global economy. Global indices indicate a slight slowdown of activity in the industry and service sectors in the third quarter. Additionally, during the quarter, some of the fears that emerged following the Brexit vote (Britain’s referendum on EU membership) at the end of the previous quarter had abated.

USA: initial indicators for the third quarter were mostly positive and point to accelerated growth compared with the first half of the year. Private consumption is still the key growth engine while the unemployment rate remained low. The weak export and industry figures tapered off during this quarter.

Europe: market fears following Brexit faded in the quarter and initial third-quarter indicators were better than preliminary estimates. The sharp devaluation of the pound following the Brexit vote remained in place and the Central Bank lowered the interest rate and expanded its bond purchase plan (quantitative easing). In the Eurozone, indicators were mixed and continued to point to positive and moderate growth, similar to the previous quarter.

Japan: economic indicators remained disappointing and inflation continued to fall. As a result, the Central Bank changed its policy to quality quantitative easing combined with a cap on the yield curve.

China: indicators for the third quarter continued to show positive growth, while government measures positively impacted the figures and corporate sentiment.

Israel: after sluggish growth in the second quarter, third quarter growth was positive if more moderate at 3.2% in annual terms. Employment remained at a record high with extremely low unemployment, which fell to 4.7% in the third quarter. Investments in fixed assets increased sharply in the third quarter. Nevertheless, figures for the export of goods and services were weak and indicators for private consumption pointed to a more moderate rate of growth compared with the first half of the year.

2.3.2 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 Israel may affect the volume of activity in life insurance and long-term savings.

2.3.3 Stock market

The TA-100 index rose 4.2% in Q3 2016, but has declined by 4% from the beginning of the year. The MSCI World Index rose by 5% in Q3 (in dollar terms) and the MSCI Emerging Markets Index rose by 9%. The daily turnover of trade in shares and convertibles was NIS 1.1 billion in Q3 2016, down 25% compared with the average for 2015.

2.3.4 Bond market

The general bond index was 0.1% down in Q3 2016, but rose by 2.6% from the beginning of the year. The government bond index fell by 0.5% in the third quarter, compared with an increase of 0.6% for corporate bonds. Since the beginning of the year, the government and corporate bond indices have risen by 2.2% and 3.3% respectively. The daily turnover of trade in bonds was NIS 3.4 billion in Q3 2016, down 18% compared with the average for 2015.

2.3.5 Mutual funds

In Q3 2016, the mutual funds raised a net amount of NIS 550 million and for the first time since Q3 2014 a net positive raising was recorded. Nevertheless, since the beginning of the year, there have been redemptions of approximately NIS 15.6 billion, about half of this amount in the money-market funds. Particularly noteworthy in the quarter were the funds specializing in shares and bonds.

2.3.6 Index products

According to the Association of ETFs, at the end of Q3 2016 total assets under management amounted to NIS 96.4 billion, 7% lower than at the end of 2015. From the beginning of the year, the most negative decline was for ETNs on foreign shares where redemptions of NIS 4.3 billion were recorded.

2.3.7 Foreign exchange market

In Q3 2016, the shekel was 2.5% stronger against the Bank of Israel's nominal basket of currencies. The shekel gained 2.3% against the US dollar and (to NIS 3.758/ USD) and 1.9% against the Euro (to NIS 4.203/EUR) and rose by 5.8% against the pound (to NIS 4.817 / GBP).

2.3.8 Inflation

According to the last known index, at the end of Q3 2016, the rate of inflation for the last 12 indices was down 0.7% (until August), after increasing by 0.4% in the third quarter. Housing was the key factor that contributed to increasing the CPI in the third quarter (known index).

2.3.9 Bank of Israel interest

The Bank of Israel interest rate remained unchanged at 0.1% in Q3 2016 as well. The Bank of Israel has left the interest rate unchanged since it was cut at the end of February 2015. The Bank of Israel's foreign exchange reserves increased to USD 98.4 billion at the end of the third quarter, during which the Bank purchased USD 1.2 billion.

2.4 Legislation and regulation in the Group's operating segments

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

2.4.1 General

2.4.1.1 Provisions of law

2.4.1.1.1 On November 21, 2016, the Knesset passed a second and third reading of the proposed Contracts (Insurance) (Amendment no. 8) Bill, 2016. The bill proposes increasing the special rate of interest that the court is authorized to adjudicate in cases where insurers have neglected, in good faith, to pay undisputed insurance benefits on the dates prescribed in the law, from three to twenty times the interest rate prescribed in the Adjudication of Interest and Linkage Law, 1961, and also to extend the categories of insurance where the court must rule on special interest, so that they also include insurance for illness and hospitalization, and insurance in accordance with the requirements of the Motor Vehicle Insurance Ordinance [New Version], 1970.

2.4.1.1.2 On October 31, 2016, the Economic Efficiency (Legislative Amendments to Achieve the Budget Goals for 2017 and 2018) Bill, 2016, was published, including Chapter C: Severance Pay, which prescribes the following provisions: (1) Payment into the severance pay component in annuity provident funds will replace severance pay, unless the employment contract or collective labor agreement stipulates otherwise. The money will belong to the employee and cannot be returned, transferred or pledged. (2) Employers will not be able to withdraw money that is deposited in a personal provident for severance pay or in the severance pay component of an annuity provident fund, unless circumstances are met that justify depriving the employee of his right to severance pay and he informs the provident fund to this effect within 3 months of the termination of employment relations with the employee. Employers will able to withdraw amounts that were deposited before January 1, 2017 only if they give notice on the prescribed dates. (3) A maximum tax benefit limit was set for employers’ contributions to severance pay of up to three times the average wage in the economy.

2.4.1.1.3 On August 21, 2016, the Supervision of Financial Services (Legislative Amendments) Law, 2016 was published which prescribes that a Capital Market, Insurance and Savings Authority will be established, which will have independent powers for the purpose of fulfilling its function. With the government’s approval, the Finance Minister will appoint a Superintendent of the Capital Market, Insurance and Savings for one five-year term of office to serve as director of the Authority and who will be assigned some of the powers currently invested in the Minister of Finance. Furthermore, regarding some of the Commissioner’s decisions, the existing right of appeal in the District Court will be abolished and it will be replaced with the authority to file an administrative petition in the Court for Administrative Affairs with respect to some of the Commissioner’s decisions. The amended law entered into force on November 1, 2016.

2.4.1.1.4 On July 17, 2016, a Bank of Israel Memorandum of Law (Amendment) (the Committee for Financial Stability) was published which proposes establishing a Joint Committee for Financial Stability to be headed by the Governor of the Bank of Israel. The purpose of the Committee will be to coordinate between the financial supervision authorities - Banking Supervision, Department of the Superintendent of the Capital Market, Insurance and Savings in the Ministry of Finance, Regulator of Non-Institutional Financial Services Providers in the Ministry of Finance, and Supervision of Payments Systems and Securities. The Committee will also coordinate between these authorities and the Bank of Israel and Ministry of Finance and encourage cooperation between them in order to support the stability of the financial system and ensure its proper function. The Law Memorandum sets out the functions and composition of the Committee and it proposes establishing a decision-making mechanism.

2.4.1.1.5 On April 12, 2016, the Compensation for Executives 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 executive or employee, relating to his terms of office or employment, that includes the payment of compensation, where the cost of this compensation is expected to exceed 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 cost of this expected compensation is less than 35 times higher than the expense for the lowest compensation that the financial corporation paid its employees, including manpower company employees who, in practice, are employed by the financial institution, in the year preceding the date of the agreement (i.e. less than a ratio of 35:1). 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 employment 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.

The Association of Banks in Israel and the Israel Insurance Association filed petitions against the law in the High Court of Justice. On July 11, 2016, HCJ issued a temporary order whereby senior executives and employees of banking corporations who submit notice of resignation from their positions within 45 days of the ruling on the petition or from the date of repeal of the interim order will not lose their current entitlement to receive the full post-employment benefits they would have been entitled to had they submitted notice of resignation on the date on which the petition was filed. On July 27, 2016, HCJ issued an order nisi instructing the respondents to explain why the statutory provisions stipulating that a financial corporation will not be entitled to approve compensation for an employee unless the ratio between this compensation and the lowest wage in the company is less than 35:1 should not be repealed together with the provisions of the law that impose a special tax on financial corporations.

On September 29, 2016, the Supreme Court handed down its ruling which dismissed the requested relief in connection with the approval of employment agreements between financial corporations and senior employees and the amendment to the Income Tax Ordinance, and it dismissed the application to extend the deployment period prescribed in the law with respect to existing contracts. Nevertheless, the Supreme Court adopted the broad interpretation concerning rights that should be excluded from the law, with respect to the extent to which it covers rights that are seniority dependent, and it determined that the law should not be applied to rights that were acquired in return for work performed by employees before the end of the deployment period (October 12, 2016) and that were written into employment contracts before the law entered into force. The court also stipulated that the interim order will remain in force until January 1, 2017 and that it also applies to senior employees of insurance companies.

2.4.1.1.6 On April 3, 2016, the following amendments were published to the Companies Regulations:

(a) Companies (Matters that do not Constitute an Interest) Regulations, 2016 whereby the presence of business or professional relationships that began after the date of appointment of an external director will not constitute an interest if the external director and the company consider them to be negligible , and this fact has been confirmed by the audit committee, and also if the external director has submitted an appropriate declaration; (b) Companies (Announcement and Notice of a General Meeting and Class Meeting in a Public Company and the Addition of a Topic to the Agenda) Regulations, 2016, whereby a company that has announced the convening of a general meeting on its website will be exempt from publishing an announcement in two daily newspapers; (c) Companies (Relief in Transactions with Interested Parties) (Amendment) Regulations, 2016, whereby when certain conditions are satisfied, the renewal or extension of an agreement with the CEO and an insignificant change in the terms of office and employment conditions of a company officer will not require the approval of the general meeting; (d) Companies (Rules Concerning Compensation and Expenses for an External Director) (Amendment) Regulations, 2016, which reduce the linkage requirements for calculating compensation for external directors and reduce some of the compensation amounts. Furthermore, the Companies (Change of the First Schedule to the Law) Order, 2016, was published whereby a bonus may be given to a company executive in the amount of three monthly salaries based on criteria that cannot be measured.

2.4.1.1.7 On February 24, 2016, Equal Rights for People with Disabilities (Notice by Insurers Concerning Differential Treatment of People or a Refusal to Insure Them) Regulations, 2016, were published which prescribe, inter alia, the text of the notice that insurers must send to people with disabilities if they refuse to insure them or if they decide to treat them differently regarding their options to file a complaint with the Commissioner and a complaints committee or to file a claim in court. The regulations became applicable on May 23, 2016.

2.4.1.1.8 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 executive (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 of savers held 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 appointed to such position by law, and that no person shall prejudice the independent discretion of a key functionary.

2.4.1.1.9 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.

2.4.1.1.10 On March 18, 2010, the American Congress passed the Foreign Account Tax Compliance Act (FATCA) the purpose of which is to prevent tax evasion by Americans who hold financial accounts outside the US, and to increase enforcement of and compliance with US tax laws. In June 2014, Israel signed an international agreement with the US in connection with implementation of FATCA and it undertook to apply the provisions of the law to the financial institutions of the State of Israel. On August 4, 2016, the Income Tax (Application of the FATCA Agreement) Regulations, 2016 ("the Regulations") were approved, and upon publication the agreement between Israel and the US received official status in Israeli law. The Regulations apply to certain categories of accounts and accordingly, insurance companies, among others, are obligated to conduct an identification process for account holders covered by the Regulations, to collect information received about them and to monitor indications that demonstrate a relationship between the account holders and the USA and the fact that they are [US tax] assessees. Information about these account holders must be reported to the Israel Tax Authority once a year and the Tax Authority is also responsible for submitting the reports to the relevant entities in the USA. A failure to comply with the Regulations could result in a declaration of non-compliance with respect to the financial institution and also lead to the imposition of significant sanctions.

2.4.1.2 Circulars

2.4.1.2.1 On October 31, 2016, the Commissioner published a circular concerning an internet interface for locating insurance products that will allow insureds to find information about their insurance portfolio with all the insurance companies. The circular prescribes requirements for the insurance companies to submit information to the Commissioner of the Capital Market for the purpose of operating the interface. The provisions of the circular are applicable from March 1, 2017.

2.4.1.2.2 On August 31, 2016, the Commissioner published a draft circular on the management of cyber risks in financial institutions (which replaces the existing circular - instruction for the management of information security risks in financial institutions). According to the circular, the management of cyber risks will include preventive, neutralization and investigative activity as well as coping with cyber threats and events. Among other things, the circular prescribes provisions concerning the duty to appoint a steering committee to manage cyber risks; broadens the board of directors functions, functions of the financial institution's CEO; it prescribes an obligation to appoint a cyber protection manager, to establish a work plan and its content; it extends the provisions concerning risk management, system security, communications and operation; the use of cloud computing services; protection of internet-based channels of communication with customers and the protection of channels of communication with external entities. The provisions of the circular will become applicable on April 2, 2017.

2.4.1.2.3 On August 31, 2016, the Commissioner published a circular concerning electronic signatures which broadens the options for customers of financial institutions to sign documents electronically as part of an agreement relating to pension products and insurance products, subject to provisions concerning customer identification. The circular takes effect on its date of publication and financial institutions must accept documents that contain an electronic signature, commencing January 1, 2017.

2.4.1.2.4 On August 31, 2016, the Commissioner published a circular which prescribes provisions for the activity of institutional investors who form a group of investors, by means of a master account through which securities activities are divided among several accounts in marketable securities and derivative assets and it also prescribes provisions for dividing up transactions in non-marketable assets among several financial institutions. The provisions of the circular become applicable on October 30, 2016.

2.4.1.2.5 On August 3, 2016, the Commissioner published a circular concerning agreements between financial institutions and license holders, which replaces an existing circular on the same subject. The circular stipulates that license holders and financial institutions that operate through trust accounts, must each apply oversight and control mechanisms to check money transfers and that license holders will not be allowed to deposit in their own accounts money that has been transferred to them. Furthermore, as of January 1, 2017, it will no longer be possible to transfer deposits for financial institutions from a trust account to the account of an insurance company that controls the financial institution, or that has the same controlling shareholder as the financial institution. The provisions of the circular apply to agreements that are in force from November 1, 2016.

2.4.1.2.6 On July 5, 2016, the Commissioner published a circular amending the existing circular on the subject of the investigation and settlement of claims and the handling of public complaints. In the amended circular, Appendix B is added which includes detailed instructions about claims settlement such as notification at the time of investigating a claim, the information which forms the basis for the claim settlement, notice of rejection of a claim and rejection on the grounds of a failure to disclose information, the manner of investigating a claim with the help of investigation reports, settlement of long-term care claims, including with respect to the definition of the insured event, and so on. The provisions of Appendix B will become applicable on September 1, 2016.

2.4.1.2.7 On June 9, 2016, the Commissioner published a circular amending the circular on enrollment in insurance which prescribes provisions concerning the comparing and cancelling of a policy if, during the process of customizing insurance that is not a group policy, it is found that the candidate for the insurance already has a policy for the relevant insurance (these provisions cancel the provisions prescribed in the circular "replacement of life and health insurance policies"). Furthermore, the provisions concerning the providing of information and documents to the insured were amended, and obligations to document information were added. The provisions of the circular become applicable on September 1, 2016 (insurers may apply the provisions pertaining to comparison and cancellation from the date of publication of the circular).

2.4.1.2.8 On May 31, 2016, the Commissioner published a circular concerning the management of investments by means of investment packages (which amends the existing circular on this subject). The circular prescribes the rules relating to marketable and non-marketable investment packages that are managed by several institutional investors that are part of the same group of investors, it amends the provisions on the general conditions for the management of investment packages and non-marketable packages, and it prescribes transition provisions which if they are not upheld, the package will be broken up. The provisions of the circular apply from its date of publication.

2.4.1.2.9 On May 23, 2016, the Commissioner published a circular on retrieving personal information. The circular stipulates that insurance companies must allow insureds to maintain private accounts which are accessible using electronic devices, that will allow insureds to retrieve their information, including their particulars, 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 devices, and will allow insureds to submit documents to the insurer in the same manner. The circular becomes applicable on March 30, 2017.

2.4.1.2.10 On April 21, 2016, the Commissioner published a circular on a directive for performing IQIS for 2015, which is based on the final regulations in Europe and the final instructions of EIPOA. The main points of the directive, compared with the directive for IQIS4, relate to stabilizing risk-free interest curves, the composition of recognized capital, a reduced capital requirement for investing in infrastructure (equity and debt), adjustment of the capital requirement for management companies, revision of the formula for calculating a capital requirement for premium and reserve risk in non-life insurance, and revised instructions on a special auditor's report which will focus on a best estimate and risk margin. The provisions of the circular become applicable on their date of publication.

2.4.1.2.11 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 loans provided by financial institutions, 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 meet 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.

On September 29, 2016, the Commissioner published an amendment to this circular. The circular broadens the investment options available to financial institutions and prescribes conditions for providing housing loans as well as temporary provisions for two years with respect to providing loans that are considered project finance for financing construction projects, that were excluded from the restrictions specified in the circular on providing loans, the lending of securities and investments in non-marketable debt assets, subject to satisfying the conditions listed in the circular. The provisions of the circular apply from its date of publication.

2.4.1.3 Draft circulars

2.4.1.3.1 On October 31, 2016, the Commissioner published a draft circular concerning project finance the purpose of which is to set out rules that will apply to financial institutions wishing to finance construction projects through the project finance method. The draft circular stipulates that financial institutions must print a booklet of payment vouchers for providing guarantees to home buyers for the amount that was paid by means of the voucher, or they must verify the issuance or provision of some other form of surety, and the circular also prescribes the details to be included in the project finance agreement.

2.4.1.3.2 On October 31, 2016, the Commissioner published a draft circular concerning the involvement of sales personnel in the process of marketing and selling insurance products. The purpose of the circular is to regulate the activity of sales personnel, who are not license holders, by insurance agents for the purpose of marketing and selling insurance products. The draft circular prescribes the activities that insurance agents may perform through sales personnel for non-pension insurance products, such as locating customers who wish to receive information about enrolment in the insurance and providing initial information about insurance products (after which the insurance agent will provide full information about the product) based on a conversation script prepared by the insurance agent, obtaining technical details after the agent has made the sale and submitting a proposal to the customer, signing the contract and input of the signed policy, as well as provisions concerning the way in which sales personnel may work, including that an agent must employ at least 5 sales people, and that their activity must be supervised, documented and monitored by the license holder. The draft circular further stipulates that insurance companies will not accept requests for enrollment that involve the activity of such sales personnel without obtaining all the sales calls.

2.4.1.3.3 On September 29, 2016, the Commissioner published a draft circular concerning provisions for the conduct of insurers during the life of a policy which brings together provisions about the conduct of insurers in the interfaces between insurers and policyholders, including the text of the policies, underwriting practices and claims settlement. The draft circular proposes prescribing additional provisions on the subject of enrollment in insurance, the text of insurance plans, payment to insureds and claims settlement.

2.4.1.3.4 On September 29, 2016, the Commissioner published a second draft circular concerning "involvement of entities that are not license holders in the marketing and sale of insurance products which are not group insurance". The draft circular proposes amending the existing circular on this subject and it stipulates, inter alia, that long-term insurance products will be defined so that the policy period is not more than two years, and it prescribes relief regarding the involvement of travel agents in the marketing of travel insurance that do not include medical exclusions and in which the policy period does not exceed 30 days. On October 31, 2016, the Commissioner published an amendment to this circular postponing the commencement of the circular with respect to the sale of travel insurance through travel agents only, to March 31, 2017.

2.4.1.3.5 On September 29, 2016, the Commissioner published a draft amendment to the circular on the investigation and settlement of claims and handling of requests from the public. The amendment proposes that financial institutions that find poor conduct as a result of a customer's request must conduct an investigation of whether this deficiency is system-wide, and if so, they must take action to find similar cases, correct them within a reasonable time, draw the relevant conclusions and implement the lessons learnt, and they must also document and save information about the investigation, the conclusions drawn and correct the deficiency and submit a report to the Commissioner once a year about system-wide deficiencies that were found.

2.4.1.3.6 On May 31, 2016, the Commissioner published a circular concerning the cancellation of insurance policies which prescribes the methods that insureds may use to cancel insurance policies (email, personal account online, call to a call center, fax and other methods chosen by the insurer) and additional provisions relating to the cancellation process.

2.4.1.4 Instructions and clarifications

2.4.1.4.1 On September 1, 2016, the Commissioner published a letter to the insurance company managers concerning the encouragement of investments in technology infrastructures, whereby the Capital Market Division intends to prescribe a temporary order in the provisions for implementation of the first pillar of the Solvency II directive according to which insurance companies that demonstrate to the Commissioner a plan for the development of technology infrastructure, as described in the provisions of the letter, will receive relief on this matter in the calculation of their solvency ratio.

2.4.1.4.2 On August 10, 2016, the Commissioner published a letter to insurance company executives on the subject of dividend distributions by insurance companies. The letter revises the letter on this subject dated December 29, 2011 and it determines the conditions that insurance companies must satisfy for distributing a dividend. For additional information, see Note 8(15) to the Financial Statements.

2.4.1.4.3 On June 16, 2016, the Bank of Israel announced a change of its policy relating to the upper threshold for the controlling shareholders' holdings of bank shares in institutions managing customers' funds (provident funds, insurance companies, mutual funds, and ETNs) allowing them to hold more than 5% and up to 7.5% of the shares of a banking corporation, subject to receiving a permit from the Governor of the Bank of Israel.

2.4.1.4.4 On March 16, 2016, the Commissioner published a second draft position clarifying the reappraisal of eligibility in long-term care insurance. The draft position proposes that if the insurance company approves the payment of insurance benefits for a period which is shorter than the maximum period of entitlement, then before this period of entitlement ends, the insurance company must initiate a review of the entitlement in order to clarify whether the claimant is still eligible for the insurance benefits, and it will only 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 satisfies the definition of the insured event. Furthermore, the insured's eligibility will be reviewed in accordance with clearly defined criteria to be determined by the insurance company taking into account, inter alia, the claimant's age and medical condition.

2.4.1.4.5 On January 18, 2015, the Commissioner published a position paper concerning payments by financial institutions to license holders, whereby a review found that financial institutions generally pay license holders commissions that are derived from the management fees paid by members or insureds. The Commissioner's position is that payment of commissions in the aforementioned manner encourages license holders to offer customers products with higher management fees, and is therefore unacceptable. On March 30, 2015, the Commissioner published a clarification to this position according to which the payment of commissions in a manner that creates an in-built preference for the license holder's personal interest over the interest of the customer to pay lower management fees, is a breach of the obligations that apply to management companies with respect to providing services for members and the financial institution's other duties, and that financial institutions and insurance agents must take immediate action to amend the contracts regulating payment of the commissions so that they are consistent with the provisions, and that no new contracts may be signed that contravene these provisions. Nevertheless, the Commissioner noted that this position is not intended to prevent a company from setting differential management fees up to the maximum defined by law and that she does not intend to apply her enforcement powers against financial institutions and insurance agents in relation to existing customers and to customers who were enrolled in the period immediately after publication of the Commissioner's position paper. On June 24, 2015, the Association of Life Insurance Companies Ltd. filed an originating summons in the Tel Aviv District Court in which the court was asked to declare and determine that compensation deriving from management fees is not, in itself, prohibited by law and that the entering into agreements by financial institutions that include compensation deriving from management fees does not constitute a breach of any obligation by the financial institutions. The District Court dismissed the originating summons and the Association appealed this decision in the Supreme Court. The appeal hearing is scheduled for January 9, 2017.

2.4.2 Life assurance and long-term savings

2.4.2.1 Provisions of law

2.4.2.1.1 On August 9, 2016, draft Supervision of Financial Services (Provident Funds) (Transfer of Monies between Provident Funds) (Amendment) Regulations, 2016 were published. The draft regulations propose allowing the recipients of old-age pensions to move the money in provident funds and transfer it from an investment provident fund to an annuity provident fund, provided that the fund member has reached the age of early retirement.

2.4.2.1.2 On August 4, 2016, a second draft of the Supervision of Financial Services (Provident Funds) (Recognition of Yield on Bonds n New Comprehensive Provident Funds) Regulations, 2016 was published. The draft regulations propose provisions for calculating the yield on the fund's assets and for changing the allocation of the designated bonds by group - annuity recipients, members aged fifty or more, and other members. The Commissioner will be entitled to increase the percentage of the yield on designated bonds that is recognized for the fund's annuity recipients (up to 85% of the total assets of the annuity recipients) if he finds that when compared with another fund the percentage the bond yields recognized for members aged 50 or more and for other members is more than one quarter of a percent higher and that this difference could upset the demographic balance between members in the fund. Furthermore, until December 31, 2023, the yield recognized for members aged 50 or more will be the same as the yield recognized for members who are less than 50 years old.

2.4.2.1.3 On August 3, 2016, draft Supervision of Financial Services (Provident Funds) (Insurance Cover in Provident Funds) (Amendment no. ___) Regulations, 2015, were published. The draft regulations propose that the limit of 35% of the total deposits paid into the retirement benefits component which currently applies to the cost of the insurance cover, will not apply to insurance cover for longevity, and that as of January 1, 2017 the present option in the regulations to continue existing agreements for insurance cover in addition to those provided as part of a pension fund's articles that were signed before December 1, 2012 will be eliminated.

2.4.2.1.4 On August 2, 2016, draft Supervision of Financial Services (Insurance) (Maximum Brokerage Fees in Structural Insurance for Mortgages) Regulations, 2016, were published. The draft regulations propose determining that the restriction whereby the brokerage fees will not be more than 20% of the premium that applies to the brokerage fee for mortgage-related structural insurance, will also apply to the brokerage fees for mortgage-related life assurance. Furthermore, in the first year of the insurance, a first-year commission can also be paid for marketing mortgage-related life assurance according to the rules set out in the draft regulations.

2.4.2.1.5 On July 13, 2016, draft Income Tax (Rules for the Approval and Management of Provident Funds) (Amendment) Regulations, 2016, were published which propose abolishing the condition stipulated in the regulations whereby a deposit of more than 5% paid by an employer into a provident fund will be paid into another account with the same insurer. The draft regulations also prescribe that money may be deposited in an annuity provident fund for severance pay without the need for a corresponding deposit for retirement benefits in the same account in the fund, in accordance with the conditions prescribed in the draft regulations.

2.4.2.1.6 On June 29, 2016, the Supervision of Financial Services (Provident Funds) (Amendment no. 17) (Prohibition of a Relationship Between a Distribution Fee and Management Fees) Bill, 2016 was published. The Bill proposes prohibiting any relationship between the calculation of distribution fees and the percentage management fees collected from members, and it also prescribes the penalty for violating this prohibition.

2.4.2.1.7 On June 28, 2016, Supervision of Financial Services (Provident Funds) (Payments to a Provident Fund) (Amendment no. 2) Regulations, 2016, were published. The regulations postpone the application of the provisions relating to information that employers must submit to management companies when making and discontinuing deposits, notice that provident funds must send employees when payments are discontinued, initial feedback, concluding feedback, monthly and annual summary feedback, a request to refund excess deposits, and with respect to a standard reporting structure so that for employers who have less than fifty employees the regulations will become effective on February 1, 2018, and for employers who have at least fifty but no more than one hundred employees, the regulations will become effective on February 1, 2017.

2.4.2.1.8 On June 16, 2016, a memorandum of the Supervision of Financial Services (Provident Funds) (Amendment no. 16) Law, 2016, was published. The law memorandum stipulates 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 and includes the employer's contribution for work disability insurance, at a rate required to guarantee at least 75% of the employee's salary, or at a rate of 2.5% of the employee's salary, whichever is lower, and the statutory deposit rate or agreement rate for a different class of provident fund is a lower rate, then such condition will not be treated as a condition imposed on the employer regarding the deposit rate for the employee, in contributing to a particular class of provident fund, provided that the employee is entitled to an employer's contribution of at least 6.25% commencing in July 2016 and 6.5% commencing in January 2017. The law entered into force on February 5, 2016.

2.4.2.1.9 On June 7, 2016, Supervision of Financial Services (Provident Funds) (Amendment no. 15), 2016, was published allowing provident fund management companies to establish investment provident funds - a savings product designed to pay a lump sum (capital amount) to self-employed members or their beneficiaries. Members will be allowed to deposit an amount of no more than NIS 70,000 in an investment provident fund. Furthermore, the amendment also includes indirect amendments to the Income Tax Ordinance [New Version], 1961, the Supervision of Financial Services (Pension Advice, Pension Marketing and Pension Settlement System) Law, 2005, and the Law for the Division of Pension Savings Between Separated Couples, 2014.

2.4.2.1.10 On May 30, 2016, the Commissioner published draft Supervision of Financial Services (Provident Funds) (Payments to a Provident Fund) (Amendment) Regulations, 2016 which propose that the interest paid by an employer on account of a delay in the payment of deposits into a provident fund will be the same rate of interest that applies to a delay in transferring money from the banking system.

2.4.2.1.11 On May 26, 2016, an extension order was published increasing the provisions for pension insurance in the economy. The extension order stipulates that the contributions made by employees and employers in the retirement benefits component throughout the economy will be increased in two stages: (a) from July 1, 2016 - employer's contributions will be 6.25%, employee's contributions will be 5.75%; (b) from January 1, 2017, employers' contributions will be 6.5% and employee's contributions will be 6%. The extension order also stipulates that the basic pensionable wage from which payments for new and existing payments are to be transferred will be as noted in the employment agreement that applies to the parties, provided that it is not less than the mandatory amount under the compulsory pension extension order. In pension arrangements that are managers' insurance / provident funds, the rate of payments will include the employer's payment for the purchase of cover for work disability that guarantees 75% of the employee's wage, provided that the employer's contribution to the retirement benefits part alone is not less than 5%. The order entered into force on July 1, 2016.

2.4.2.1.12 On May 24, 2016, a draft amendment was published to the Supervision of Financial Services (Provident Funds) (Purchase, Sale and Possession of Securities) Regulations, 2009. The draft amendment proposes that securities will be bought and sold for the fund by means of a tender in which at least eight bidders must participate, that a separate tender will be held for each channel of investment and that institutional investors will not be permitted to buy or sell securities or foreign currency through a related party. The draft amendments also propose that securities, including settlement of a security, will be held in accordance with a tender that must take place at least once every three years among at least five bidders, as well as rules for exemption from this procedure.

2.4.2.1.13 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.

On September 29, 2016, the Commissioner published a circular concerning the withdrawing of money from small provident fund accounts. The circular prescribes provisions for notifying members of their right to withdraw money from their accounts and of the implications of leaving such money in the provident funds with respect to the payment of management fees; the ways in which it will be possible to withdraw money from small accounts; the obligation to publish the information on the management company's website, and the manner of submitting reports about small accounts to the Commissioner. The circular will become applicable on December 31, 2016.

2.4.2.2 Circulars

2.4.2.2.1 On November 3, 2016, the Commissioner published a circular concerning investment provident funds for long-term savings for children which prescribes provisions for long-term savings provident funds for children for the deposit of savings transferred by the National Insurance Institution. This follows an amendment to Chapter 4 of the National Insurance Law [Consolidated Version], 1995 which was implemented as part of the Economic Efficiency Law for fiscal years 2015-2016. The circular prescribes provisions concerning provident fund investment tracks, notifications and reports to be sent to members, options for moving the money in the provident fund and provisions concerning the withdrawal of money accumulated in the fund. Together with the circular, the text of standard articles for long-term savings provident funds for children was published. The circular becomes applicable on its date of publication.

2.4.2.2.2 On August 31, 2016, the Commissioner published an amendment to a circular on an explanatory document which prescribes limited explanatory procedures for deposits made in investment provident funds.

On October 31, 2016, the commencement date of the amendment to the explanatory document circular from 2015 was postponed to July 1, 2017 (instead of January 1, 2017), except for the provisions concerning investment provident funds, which will commence, as planned, on January 1, 2017.

2.4.2.2.3 On September 29, 2016, the Commissioner published a circular concerning fixed-premium life assurance plans. The circular sets out the principles for refunding premiums to insureds that were paid for a future risk, by way of defining an additional policy period, if the sum insured in cover for death with fixed premiums is cancelled or reduced, on fixed-premium plans with a term of more than five years. The provisions of the circular will apply to policies sold as of January 1, 2017.

2.4.2.2.4 On September 29, 2016, the Commissioner published a circular on provisions concerning the rights and obligations of members in the articles of new comprehensive pension funds. The circular prescribes a mandatory text for the pension fund which may be deviated from only with the Commissioner's approval, as well as additional provisions that management companies may determine in their articles. Management companies must submit the articles for the Commissioner's approval by September 1, 2017 and must update their articles in accordance with the provisions of the circular by January 1, 2018. The circular takes effect on its date of publication.

2.4.2.2.5 On September 29, 2016, the Commissioner published an amendment to the circular on enrollment in pension funds or provident funds. The circular regulates 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, within the context of consolidating existing pension fund accounts. The circular also prescribes provisions and dates for the enrollment of new members in pension funds and provident funds, including in a default-option fund and it also stipulates that management companies must allow on-line enrollment through their websites. The circular becomes applicable on June 1, 2017.

2.4.2.2.6 On September 29, 2016, the Commissioner published a circular on guidelines for insurance plans for work disability (P.H.I.). The circular prescribes that a P.H.I. plan will consist of a basic plan - regarding which the circular prescribes provisions pertaining to an insured event, policy period, waiting period, scope of the cover, insurance benefits, etc. Riders may be added to the basic plan which will extend the basic cover, in line with the conditions and provisions prescribed in the circular. The circular also stipulates that only plans that comply with the provisions of the circular will be defined as P.H.I. insurance that are also recognized as preferential insurance under the Income Tax Ordinance. The provisions of the circular become applicable on May 1, 2017 and the policy period in group P.H.I. policies that are sold between the publication date and commencement date of this circular will be one year during which time P.H.I. plans in which the insured event is defined as "any occupation" will not be sold, except for insured events that are defined as a state of no employment.

2.4.2.2.7 On August 31, 2016, the Commissioner published a circular concerning a standard format for submitting information and data in the pension savings market, which replaces previous circulars on the same subject. The circular adds provisions concerning a clearing fee interface which details the information that insurance agents or their related entities must submit to financial institutions for operating services provided to employers. The provisions of the circular become applicable on January 1, 2017.

2.4.2.2.8 On August 31, 2016, the Commissioner published a circular which replaces the existing circular on the subject of marketing life assurance policies that include guaranteed annuity options (GAOs). The circular prescribes an obligation to disclose the maximum premium rates that may be collected for a longevity rider, including disclosure of the actual premium rates and amounts when the policy schedule is issued and it amends the calculation of the premium for insurance cover for longevity. The circular takes effect on its date of publication.

2.4.2.2.9 On August 31, 2016, the Commissioner published a circular on rules for the operation of pension products. The circular prescribes provisions concerning reports that pension insurance agents must submit to financial institutions through a remittance fee interface on the need to subtract the management fees for members when the remittance fee is received by the agent, the manner of subtracting the fees and presenting the information to the member, and concerning subtraction of the agent's distribution fee. The provisions of the circular will become applicable from January 1, 2017.

2.4.2.2.10 On August 31, 2016, the Commissioner published an amendment to a circular on the subject of investment tracks in provident funds. The amendment proposes that the provisions applicable to the investment tracks in investment provident funds will be those specified in the circular with respect to the management of investment tracks in education funds and policies that are not insurance funds. The provisions of the circular become applicable on their date of publication.

2.4.2.2.11 On July 19, 2016, the Commissioner published a circular amending the existing circular on the subject of transferring money between provident funds. The circular abolishes the obligation on the recipient fund to inform the transferring fund that it has received a request to transfer money; prescribes an obligation to deliver a request to transfer money by the recipient fund to the transferring fund's managing entity; if the transfer cannot be made, the transferring fund's managing entity must inform the recipient fund to this effect within 3 business days. The circular also prescribes an option to send notifications to members by email. The provisions of the circular become applicable on January 1, 2017.

2.4.2.2.12 On July 19, 2016, the Commissioner published a circular amending the existing circular on the subject of contributions paid into a provident fund. The circular stipulates that in the event of an employer who fails to comply with the provisions of the regulations, the management company must inform the employer to this effect on the first business day of the month following the month in which the report was delivered or the payments were made, and if the employer neglected to submit a report as required - then a second notice will be sent within 30 business days of the date of receiving the notice. The circular also prescribes the means of payment for making a refund when refunding excess payments that have been made and the date on which the refund must be made. The provisions of the circular apply from its date of publication.

2.4.2.2.13 On June 30, 2016, the Commissioner published a circular on the consolidation of existing accounts in new funds - from inactive accounts to active accounts. The circular prescribes provisions for the transfer of money when consolidating existing accounts in a pension funds and provisions concerning notification to be sent to members about forwarding their information for the purpose of transferring the money into their pension fund account; with respect to the submittal of information to and receiving information from the Commissioner, a special-purpose vault must be set up for the transfer of the information. The circular takes effect on its date of publication.

2.4.2.2.14 On June 22, 2016, the Commissioner published a circular concerning "Reporting Tariffs on Life Insurance Plans to the Commissioner - Amendment". The circular stipulates that once every quarter, insurance companies must submit to the Commissioner a report on the premiums that have actually been set in life insurance coverages issued during that quarter, for each category of life insurance plan sold by the company in the quarter. The circular also prescribes the variables that the quarterly report to the Commissioner must address. The amendment becomes applicable on its date of publication.

2.4.2.2.15 On March 13, 2016, a Commissioner's circular was published concerning the choice of a default fund and the conditions required of a provident fund management company that enrolls members in accordance with the provisions of Section 20(B) of the Provident Funds Law. The circular stipulates that employees will enroll in a provident fund by actively choosing their own provident fund or through the employer in a provident fund of his choice, pursuant to Section 20(B) of the Provident Funds Law, and that if the employee does not choose a provident fund and a provident fund is not chosen by the employer under Section 20(B) of the Provident Funds Law, the employer will enroll the employee in the provident fund of the Commissioner's choice. The circular also stipulates that the management fees to be offered by the chosen pension funds will be in force for 10 years from the date of enrolment in the fund. The pension funds will be chosen by the Commissioner once in three years, commencing September 1, 2016. The circular also stipulates that the default fund will be chosen by the employer or workers' organization (union) by tender, in accordance with the criteria prescribed by the Commissioner. Existing default arrangements will remain in force until March 2019 at the latest.

Following publication of the circular, on April 21, 2016, the Association of Life Insurance Companies petitioned the High Court of Justice to grant an order nisi and an interim order. The arguments of the Association of Life Insurance Companies were not accepted in the ruling on the petition, but with the Commissioner's agreement, it was determined that the pension funds to be chosen by the Commissioner in the first tender, will be chosen once every two years instead of once in three years as was originally stipulated. Following publication of the ruling, the Commissioner published an amendment to the circular as well as new instructions concerning the process of determining the default option funds.

On August 1, 2016, the Commissioner announced that the funds are the pension fund of Meitav Dash Provident Funds and Pension Ltd., which will collect management fees at a rate of 0.01% of the accrual and 1.31% of the deposits, and the pension fund of Halman-Aldubi Provident and Pension Funds Ltd. which will collect management fees at a rate of 0.001% of the accrual and 1.49% of the deposits. In accordance with the provisions of the circular, the pension funds began to function as the chosen default option funds on November 1, 2016.

Implementation of the circular could have material repercussions on the Company's activity and it may affect the management fees collected from members in a manner that compromises the Company's profitability, affects the Company's market share of the pension industry and the way in which the Company's products are distributed. At this stage, the Company is unable to estimate the overall effect of the implementation of this circular.

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

2.4.2.2.17 On January 5, 2016, the Commissioner published a circular concerning the conditions for control of 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 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 is 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.

2.4.2.3 Draft circulars

2.4.2.3.1 On July 28, 2016, the Commissioner published a draft circular on "Power of Attorney for Licensees". The draft circular proposes replacing the present circular and determining that an insurance agent who submits an application in the name of a customer using an authorization that was given to him before May 1, 2013, will not require the customer to sign a new power of attorney in accordance with the circular, and it establishes additional options for agents to sign members on a one-time power of attorney for obtaining and verifying information. The draft circular also proposes that financial institutions will be able to condition the performing of transactions through licensees by virtue of a power of attorney, when an agreement is in place between the financial institution and the licensee.

2.4.2.3.2 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 - for members who have reached early retirement age, 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.

2.4.2.4 Instructions and clarifications

On September 29, 2016, the Commissioner published a clarification on the subject of increased management fees. The clarification stipulates that financial institutions that neglected to inform their members of their intention to collect management fees by amount, will be able to do so only after complete, proper notification has been sent, in accordance with the time schedule prescribed in the circular. Likewise, management companies may send notification by electronic mail to members who have agreed to receive an abbreviated annual report by email.

2.4.3 Health insurance

2.4.3.1 Provisions of law

2.4.3.1.1 On July 27, 2016, draft Supervision of Financial Services (Insurance) (Group Health Insurance) (Amendment) Regulations, 2016 were published. The draft regulations propose allowing a person who is not eligible to be a policyholder under the present version of the regulations, to enter into a group health insurance contract for a group of insureds as the policyholder, even if he benefits from being the policyholder, when the conditions specified in the draft circular are satisfied. Provisions are also proposed concerning group insurance for the members of HMOs.

2.4.3.1.2 On July 27, 2016, the Personal Accident Insurance for Pupils (Legislative Amendments) Law, 2016 was published. The law authorizes the Minister of Education to determine, with the approval of the Knesset Committee for Education, Culture and Sport, the payment to be collected from parents for personal accident insurance by the different local municipalities. The Law also sets out a mechanism for holding a joint tender for all the local municipalities for the purpose of entering into a contract for personal accident insurance for all school pupils, in which standard premiums will be determined in advance.

2.4.3.1.3 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.

2.4.3.1.4 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 on group LTC insurance for HMO members which sets out principles for drawing up group LTC insurance for HMO members. The main points of the circular are: insurance companies will bear at least 20% of the insurance risk inherent in the plan, 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 a 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 became applicable on July 1, 2016.

On June 14, 2016, the Commissioner published a draft circular amending the circular on LTC insurance for HMO members. The draft circular postpones the commencement date of the provisions with respect to submitting information to insureds with LTC insurance, for HMO members who had LTC insurance for HMO members immediately prior to moving to another HMO, and with respect to submitting an annual report to the Commissioner about insureds who enrolled in and left the plan due to moving from one HMO to another. The commencement date was postponed to January 1, 2017, and the commencement dates of the instruction whereby insurance companies will bear at least 20% of the insurance risk inherent in the plan were postponed to January 1, 2019.

2.4.3.2 Draft circulars

2.4.3.2.1 On September 29, 2016, the Commissioner published a draft circular concerning the text of travel insurance plans and how to market them. The draft circular proposes that the limits of liability in such plans should correspond with the expected cost to the insured (if an insured event should occur), in part depending on the travel destination, and that the insurance plan will consist of a basic layer which includes defined types of coverages and riders that can be offered to insureds. The draft circular also sets out provisions concerning a proposal to purchase a rider for deterioration of a pre-existing medical condition, extending the policy, not including conditions that could have been clarified with the insured during the sale process, and obligations that apply to financial institutions to document activity vis-a-vis the candidate for insurance and the insured.

2.4.3.3 Instructions and clarifications

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.

2.4.4 Non-life insurance

2.4.4.1 Provisions of law

On June 9, 2016, the National Insurance (Capitalization) (Amendment) Regulations, 2016 (“the Amendment”) were published, 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. The regulations prescribe, inter alia, that the rate of interest will be 2% instead of the present rate of 3%. For additional information see Note 9(34) to the Financial Statements.

On September 13, 2016, National Insurance (Capitalization) (Amendment) Regulations, 2016 were published, deferring the commencement date of the amendment so that it will be a year and three months after the publication date.

2.4.4.2 Circulars

2.4.4.2.1 On September 29, 2016, the Commissioner published a circular concerning the restitution of monies by Karnit to the insured public, which are surpluses held by Karnit, to members of the public who have motor vehicle insurance. The provisions refer to the rate of restitution, payment by Karnit to the insurance companies, withholding of restitution money when a policy is cancelled, the sums insured specified in the insurance certificate and reporting to Karnit.

2.4.4.2.2 On September 29, 2016, the Commissioner published a circular amending the provisions of the consolidated circular in the compulsory motor insurance branch. The amendment revises the premiums, variables and policy factors for calculating the premiums for private vehicles in residual insurance (the Pool) in respect of policies in the compulsory motor insurance branch where the policy period commences on or after January 1, 2017.

2.4.4.2.3 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 instructions according to which 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.

In August, following a petition by the insurance companies to the Supreme Court, further amendments to this circular were published, cancelling the stipulation that the insurance premiums shall not be more than 90% of the Pool’s net tariff with respect to policies in which the policy period begins on or after August 2, 2016. The amendments also update the residual premiums for motorcycles equipped with a safety mechanism and for three-wheel motorcycles, with respect to policies in which the policy period begins on or after November 1, 2016.

On the same date, a circular was published concerning variables in the compulsory motor sector, which add variables and categories that can be used for setting premiums. The provisions of this circular will apply to premiums in policies that enter into force as of October 1, 2016.

2.4.5 Financial services and capital market activity

2.4.5.1 Provisions of law

2.4.5.1.1 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. The court has yet to issue a final decision on this petition. At this stage, it is impossible to estimate the impact on Harel's financial statements.

2.4.5.1.2 On October 10, 2016, a law memorandum amending the Joint Investment Trust Law was published in connection with ETFs (which previously was published as Amendment no. 21 to the law). According to the proposed amendment, the ETNs will become closed (traded) tracker mutual funds, and the provisions of the Joint Investment Trust Law will apply to these funds, mutatis mutandis, together with special arrangements to be prescribed in the regulations or instructions of the Israel Securities Authority with respect to ETFs. The law will take effect when the regulations promulgated by virtue of the law enter into force, or on October 1, 2017, whichever is later.

2.5 Condensed data from the consolidated financial statements of Harel Investments

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

	For the nine months ended September 30		% change	For the three months ended September 30		For year ended December 31
	2016	2015		2016	2015	2015
Life assurance and long-term savings segment						
Gross earned premiums	3,085,570	3,186,140	(3)	1,048,320	992,564	4,242,656
Income from management fees	639,852	591,275	8	249,173	113,086	857,019
Profit (loss) from life assurance business	(111,464)	20,376	-	62,148	(226,366)	176,679
Profit from provident fund management	12,033	33,696	(64)	9,656	8,713	44,167
Profit from pension fund management	39,560	52,856	(25)	15,164	14,780	69,251
Total profit (loss) from life assurance and long-term savings	(59,871)	106,928	-	86,968	(202,873)	290,097
Total comprehensive income (loss) from life assurance and long-term savings	(20,324)	117,144	-	89,057	(106,439)	297,815
Non-life insurance segment						
Gross earned premiums	2,193,297	2,289,348	(4)	741,592	769,840	3,071,824
Premiums earned on retention	1,382,991	1,314,673	5	474,819	443,629	1,767,625
Total profit (loss) from non-life insurance	50,177	133,179	(62)	54,684	(23,121)	216,948
Comprehensive income (loss) from non-life insurance	35,056	55,824	(37)	38,339	(39,536)	123,508
Health insurance segment						
Gross earned premiums	3,103,972	2,955,915	5	1,084,889	1,029,837	3,964,225
Premiums earned on retention	2,984,144	2,799,442	7	1,055,222	978,031	3,757,672
Total profit (loss) from health insurance	125,191	(3,846)	-	36,740	(29,611)	33,721
Comprehensive income (loss) from health insurance segment	127,820	(37,520)	-	32,778	(37,261)	2,136
Insurance companies overseas segment						
Gross earned premiums	211,028	193,487	9	81,334	64,971	257,921
Premiums earned on retention	140,536	121,665	16	57,609	41,676	162,614
Total profit (loss) from insurance companies overseas segment	9,106	12,410	(27)	5,797	(121)	10,958
Total comprehensive income (loss) from insurance companies overseas	7,033	(5,754)	-	2,082	(4,303)	(7,482)
Capital market and financial services segment						
Revenues from capital market and financial services	196,254	230,449	(15)	61,805	70,711	300,392
Total expenses from capital market and financial services	161,741	194,496	(17)	44,531	78,116	292,521
Total profit (loss) from capital market and financial services segment	34,513	35,943	(4)	17,274	(7,406)	7,860

	For the nine months ended September 30		% change	For the three months ended September 30		For year ended December 31
	2016	2015		2016	2015	2015
Total comprehensive income (loss) from capital market and financial services segment	34,651	35,887	(3)	17,282	(7,405)	7,759
Items not included in operating segments						
Net profit (loss) from investments and financing income	114,944	108,565	6	55,752	(30,135)	172,385
Income from commissions	136,880	103,404	32	48,595	37,048	138,959
General & administrative expenses not recognized in operating segment reports	170,028	122,691	39	59,099	43,458	159,466
Financing expenses	88,359	77,062	15	37,038	34,357	94,623
Pre-tax profit (loss)	201,401	321,360	(37)	235,623	(322,604)	683,262
Net profit (loss) for the period	159,774	222,289	(28)	163,328	(196,921)	455,746
Other comprehensive income (loss) for the period, net of tax	45,561	(72,133)	-	(243)	66,738	(74,610)
Total comprehensive income (loss) for the period	205,335	150,156	37	163,085	(130,183)	381,136
Net profit (loss) for the period attributed to the Company's shareholders	159,527	222,281	(28)	163,596	(196,801)	455,586
Net profit (loss) attributed to non-controlling interests	247	8	-	(268)	(120)	160
Return on equity in annual terms in percent	6%	4%	37	13%	(11%)	8%

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

	At September 30			At December 31
	2016	2015	% change	2015
Total balance sheet	94,051	90,643	3.8	91,485
Assets for yield-dependent contracts	42,398	38,869	9.1	40,036
Other financial investments	22,121	20,915	5.8	21,302
Intangible assets	1,491	1,572	(5.1)	1,532
Reinsurance assets	4,822	5,264	(8.4)	4,929
Insurance liabilities (insurance reserves and outstanding claims) in life assurance				
For yield-dependent investment contracts and insurance contracts	37,997	34,535	10.0	35,594
For insurance contracts that are not yield dependent	11,686	11,236	4.0	11,388
In non-life insurance	9,479	9,758	(2.9)	9,325
In health insurance (yield dependent and non-yield dependent)	8,322	7,590	9.6	7,797
In insurance companies overseas (yield-dependent and non-yield-dependent)	370	256	44.2	266
Adjustments and Offsets between segments	(4)	(5)	(19.1)	(5)
Total insurance liabilities	67,850	63,370	7.1	64,365
Equity attributed to holders of the Company's equity	4,944	4,745	4.2	4,907

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

	September 30			December 31
	2016	2015	% change	2015
For yield dependent investment contracts and insurance contracts	42,398	38,869	9.1	40,036
For members of provident funds and pension funds *	73,230	63,879	14.6	66,721
For mutual fund customers *	19,335	27,482	(29.6)	24,665
For customers portfolios *	8,499	8,939	(4.9)	8,740
ETNs	13,239	14,157	(6.5)	14,116
Total assets under management for the Group's policyholders and members	156,701	153,326	2.2	154,278

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

2.6 Additional information about the results of activity

Total earned premiums from insurance business in the Reporting Period were NIS 8,590 million, similar to the corresponding period last year.

Total earned premiums from insurance business in Q3 2016 amounted to NIS 2,955 million, compared with NIS 2,853 million for the corresponding quarter last year.

Comprehensive income, which is profit 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, increased by 37% to NIS 205 million in the Reporting Period, compared with NIS 150 million in the corresponding period last year. The increase in comprehensive income is mainly attributable to the following:

A. Yields in the capital market, which were higher in the Reporting Period than in the corresponding period last year and an increase in the variable management fees collected in the Reporting Period to NIS 77 million, compared with an amount of NIS 29 million collected in the corresponding period last year.

B. Revision of an extraordinary claim in the liabilities and other lines of business sector in the corresponding period last year, by a total, gross amount of NIS 293 million before tax, of which the Company's self-retention is NIS 57 million. Most of the retention was included as an expense in the corresponding period last year.

C. Increased profit in the health insurance segment, which is mainly attributable to improved underwriting performance in the Reporting Period.

These effects were partially offset by the following:

A. The effect of the 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, ("Winograd Committee") whereby the rate of interest will be 2% instead of the present rate of 3%, as a result of which Harel Insurance revised its insurance liabilities by NIS 175 million before tax and NIS 112 million after tax, so as to reflect an up-to-date estimate of the refunds 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.)

B. 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 Reporting Period, 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 149 million before tax, and NIS 96 million after tax in the Reporting Period, compared with a marginal effect in the corresponding period last year.

C. A change in accounting policy in the corresponding period last year, regarding the measurement of owner-occupied real estate, from measurement based on amortized cost to measurement based on fair value. This policy change increased comprehensive income in the corresponding period last year by NIS 72 million before tax and NIS 47 million after tax. This gain was not attributed to the Company's segments of operation.

Comprehensive income after tax amounted to NIS 163 million in Q3 2016, compared with a comprehensive loss of NIS 130 million in the corresponding quarter last year. The shift from comprehensive loss to comprehensive income is mainly due to the following:

A. Yields in the capital market that were higher in Q3 2016 than in the corresponding quarter last year as well as a collection of variable management fees amounting to NIS 52 million in Q3 2016, compared with a refund of variable management fees amounting to NIS 77 million in the corresponding quarter last year.

B. A decline in the volume of mutual fund assets managed by Harel-Pia, which is attributable to falling prices in the capital market and a high volume of redemptions in the mutual fund sector, as a result of which in the corresponding quarter last year the Company included an impairment of NIS 22 million before tax and NIS 16 million after tax for the reduced value of the mutual fund activity.

C. These effects were offset by the change in accounting policy in the corresponding quarter last year, regarding the measurement of owner-occupied real estate, from measurement based on amortized cost to measurement based on fair value. This policy change increased comprehensive income in the corresponding quarter last year by NIS 72 million before tax and NIS 47 million after tax. This gain was not attributed to the Company's segments of operation.

Net profit in the Reporting Period was NIS 160 million, compared with net profit of NIS 222 million in the corresponding period last year.

Net profit was NIS 163 million in Q3 2016, compared with a loss of NIS 197 million in the corresponding quarter last year.

Pre-tax profit amounted to NIS 201 million in the Reporting Period, compared with NIS 321 million in the corresponding period last year.

Pre-tax profit amounted to NIS 236 million in Q3 2016, compared with a pre-tax loss of NIS 323 million in the corresponding quarter last year.

Net income from investments and financing income totaled NIS 2,037 million in the Reporting Period, compared with NIS 1,040 million for the corresponding period last year. The increase is mainly attributable to yields in the capital market which were higher than those of the corresponding period last year.

In Q3 2016, net income from investments and financing income amounted to NIS 1,244 million, compared with investment losses of NIS 835 million in the corresponding quarter last year. The shift from investment loss to investment profit is mainly attributable to yields in the capital market in Q3 2016 that were higher than those in the corresponding quarter last year.

The Company's financing expenses that were not attributed to the operating segments, amounted to NIS 88 million in the Reporting Period, compared with NIS 77 million in the corresponding period last year. The increase in financing expenses is attributable mainly to the issuance of hybrid tier-2 capital (Series 12-13) through Harel Financing and Issuing (for additional information, see Note 9 to the Financial Statements).

The Company's equity, relating to the Company's shareholders, was NIS 4,944 million at September 30, 2016, compared with NIS 4,745 million at September 30, 2015 and NIS 4,907 million at December 31, 2015. The change in shareholders' equity is attributable to: (a) comprehensive income attributed to the Company's shareholders in the amount of NIS 205 million; (b) the distribution of a dividend in the amount of NIS 171 million; (c) insignificant amounts in respect of a translation reserve 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.

On the IQIS5 exercise, see Section 5 below and Note 8 to the Financial Statements.

2.7 Life assurance and long-term savings

The comprehensive loss before tax in life assurance and long-term savings was NIS 20 million in the Reporting Period, compared with comprehensive income of NIS 117 million in the corresponding period last year. The shift from comprehensive income to comprehensive loss is attributable mainly to the following:

A. 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 Reporting Period, 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 149 million before tax, compared with a marginal effect in the corresponding period last year.

B. A decrease in comprehensive income before tax from the activity of the pension and provident funds, from NIS 86 million in the corresponding period last year, to NIS 52 million in the Reporting Period, which is mainly attributable to a one-time provision for the refund of management fees to members as part of the optimization project, an increase in the percentage of expenses and an erosion of the management fees.

C. These effects were partially offset by yields in the capital market, which were higher in the Reporting Period than in the corresponding period last year and an increase in the variable management fees collected in the Reporting Period of NIS 77 million, compared with NIS 29 million collected in the corresponding period last year.

Comprehensive income before tax on life assurance and long-term savings in Q3 2016 was NIS 89 million, compared with a comprehensive loss before tax of NIS 106 million in the corresponding quarter last year. The shift from comprehensive loss to comprehensive income is mainly attributable to yields in the capital market that were higher in Q3 2016 than in the corresponding quarter last year as well as a collection of variable management fees in the amount of NIS 52 million in Q3 2016, compared with a refund of variable management fees amounting to NIS 77 million in the corresponding quarter last year.

Pre-tax loss in the life assurance and long-term savings segment of NIS 60 million in the Reporting Period, compared with pre-tax profit of NIS 107 million in the corresponding period last year.

Pre-tax profit in the life assurance and long-term savings segment was NIS 87 million in Q3 2016, compared with a pre-tax loss of NIS 203 million in the corresponding quarter last year.

Life assurance

2.7.1 Total premiums earned in the Reporting Period decreased by 3% to NIS 3,086 million, compared with NIS 3,186 million in the corresponding period last year. The decline is mainly attributable to a lump sum deposit of NIS 230 million in the corresponding period last year for an early retirement arrangement by a large employer in life insurance. Premiums earned during the Reporting Period accounted for 36% of all premiums earned by the Group during that period.

Total premiums earned in Q3 2016 increased by 6% to NIS 1,048 million, compared with NIS 993 million in the corresponding quarter last year.

The comprehensive loss before tax in life assurance amounted to NIS 72 million in the Reporting Period, compared with comprehensive income of NIS 31 million in the corresponding period last year. The shift from comprehensive income to comprehensive loss is attributable mainly to the following:

A. 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 Reporting Period, 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 149 million before tax, compared with a marginal effect in the corresponding period last year.

B. These effects were partially offset by yields in the capital market, which were higher in the Reporting Period than in the corresponding period last year and an increase in the variable management fees collected in the Reporting Period of NIS 77 million, compared with NIS 29 million collected in the corresponding period last year.

Comprehensive income in life assurance amounted to NIS 66 million in Q3 2016, compared with a comprehensive loss of NIS 130 million in the corresponding quarter last year. The shift from comprehensive loss to comprehensive income is mainly attributable to yields in the capital market that were higher in Q3 2016 than in the corresponding quarter last year as well as a collection of variable management fees in Q3 2016 in the amount of NIS 52 million, compared with a refund of variable management fees amounting to NIS 77 million in the corresponding quarter last year.

The pre-tax loss in life assurance was NIS 111 million in the Reporting Period, compared with pre-tax profit of NIS 20 million for the corresponding period last year.

Pre-tax profit in life assurance amounted to NIS 62 million in Q3 2016, compared with a pre-tax loss of NIS 226 million in the corresponding quarter last year.

Profits from investments held against insurance liabilities in life assurance amounted to NIS 1,513 million in the Reporting Period, compared with NIS 619 million in the corresponding period last year. The financial margin achieved in the Reporting Period was higher than the financial margin for the corresponding period last year in view of the capital market yields that were higher than those in the corresponding period last year.

Profitability in life assurance is derived principally from investment profits, which affect income from the management fees of yield dependent liability assets and the financial margin from investing the money from liabilities that are not yield dependent. The management fees and financial margin are calculated in real values.

Profits from investments held against insurance liabilities in life assurance amounted to NIS 994 million in Q3 2016, compared with investment losses of NIS 782 million in the corresponding quarter last year. In the third quarter, the financial margin achieved was higher than the financial margin for the corresponding quarter last year in light of yields in the capital market that were higher than those in the corresponding quarter last year.

Profitability in life assurance is derived principally from investment profits, which affect income from the management fees of yield dependent liability assets and the financial margin from investing the money from liabilities that are not yield dependent. The management fees and financial margin are calculated in real values.

Redemptions in the Reporting Period amounted to NIS 824 million, accounting for 2.6% of the average reserve in life assurance, compared with redemptions of NIS 689 million in the corresponding period last year, which accounted for 2.3% of the average reserve last year.

Redemptions amounted to NIS 309 million in Q3 2016, accounting for 3% of the average reserve in life assurance, compared with redemptions of NIS 201 million in the corresponding quarter last year, which accounted for 2.1% of the average reserve last year.

Total life assurance reserves as at September 30, 2016 amounted to NIS 50 billion.

Yield-dependent policies:

	Policies issued from 1991-2003			
	1-9.2016 (in percent)	1-9.2015 (in percent)	7-9.2016 (in percent)	7-9.2015 (in percent)
Real yield before payment of management fees	3.25	1.34	2.02	(2.88)
Real yield after payment of management fees	2.40	0.79	1.61	(2.59)
Nominal yield before payment of management fees	3.25	1.14	2.43	(2.59)
Nominal yield after payment of management fees	2.40	0.59	2.02	(2.29)

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

	Policies issued from 2004			
	1-9.2016 (in percent)	1-9.2015 (in percent)	7-9.2016 (in percent)	7-9.2015 (in percent)
Real yield before payment of management fees	3.10	0.85	1.99	(2.97)
Real yield after payment of management fees	2.28	0.01	1.72	(3.24)
Nominal yield before payment of management fees	3.10	0.65	2.41	(2.68)
Nominal yield after payment of management fees	2.28	(0.19)	2.13	(2.95)

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 set by the Commissioner, on the basis of the quarterly yield and balances of the average insurance reserves, is (NIS million):

	1-9.2016	1-9.2015	7-9.2016	7-9.2015
Profits (losses) after management fees	826	12	691	(832)
Total management fees	290	232	126	(8)

Pension funds

2.7.2 Assets managed by the pension funds increased by 20% to NIS 42.2 billion at September 30, 2016, compared with NIS 35 billion at September 30, 2015, and by 14% compared with assets of NIS 37.1 billion at December 31, 2015. The increase in assets relative to the previous year, is mainly attributable to an increase in the amounts of provision deposited by members and the yield attained during the Reporting Period.

Benefit contributions collected by the Group's pension funds increased by 15% to NIS 4,592 million in the Reporting Period, compared with NIS 3,992 million in the corresponding period last year.

Benefit contributions collected by the Group's pension funds increased by 10% to NIS 1,581 million in Q3 2016, compared with NIS 1,434 million in the corresponding quarter 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.

Income from management fees collected from the pension funds managed by the Group increased by 5% to NIS 206 million in the Reporting Period, compared with NIS 197 million in the corresponding period last year.

Income from management fees collected from the pension funds managed by the Group increased by 4% to NIS 71 million in Q3 2016, compared with NIS 68 million in the corresponding quarter last year.

Expenses for management of the pension funds amounted to NIS 169 million in the Reporting Period, compared with NIS 145 million in the corresponding period last year. The increase in expenses in the Reporting Period compared with the corresponding period last year is mainly attributable to an increase in the commissions paid to agents resulting from an expansion of activity, 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).

Expenses for management of the pension funds amounted to NIS 56 million in Q3 2016, compared with NIS 53 million in the corresponding quarter last year.

Comprehensive income before tax from the management of pension funds and operation of an old pension fund decreased by 26% to NIS 39 million in the Reporting Period, compared with NIS 53 million in the corresponding period last year. This decline is mainly attributable to revised terms of the agreement for operating services that Harel Insurance provides to Harel Pension.

Comprehensive income before tax from the management of pension funds and operation of an old pension fund amounted to NIS 14 million in Q3 2016, similar to the corresponding quarter last year.

Pre-tax profit from the management of pension funds and operation of an old pension fund amounted to NIS 40 million in the Reporting Period, compared with a pre-tax profit of NIS 53 million in the corresponding period last year.

Pre-tax profit from the management of pension funds and operation of an old pension fund amounted to NIS 15 million in Q3 2016, similar to the corresponding quarter last year.

Positive yields were recorded in most investment channels in the capital market during the Reporting Period. Nominal yield rates attained by the new pension fund Harel Pension in the Reporting Period:

For the nine months ended September 30, 2016

Fund name	Investment yield (in percent)
Harel Pension	3.21

For the three months ended September 30, 2016

Fund name	Investment yield (in percent)
Harel Pension	2.70

Provident funds

2.7.3 At the date of the report, the Group has 9 provident funds (provident funds, education funds, central and personal severance pay funds, a provident fund for sick pay and non-contributory pension fund). Some of the provident funds offer several investment tracks for members to choose from. In all, the Group operates 37 tracks in its provident funds.

The provident funds managed by the Group held assets under management of NIS 31 billion at September 30, 2016, compared with NIS 28.9 billion at September 30, 2015, and NIS 29.6 billion at December 31, 2015. Most of the increase is attributable to positive accrual and the yield attained in the Reporting Period.

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

Income from management fees collected by the provident funds managed by the Group, decreased by 12% to NIS 143 million in the Reporting Period, compared with NIS 162 million in the corresponding period last year. The decline in management fees is attributable to a one-time provision for the refund of management fees to members as part of the optimization project and to an erosion in the rate of the management fees.

Income from management fees collected by the provident funds managed by the Group amounted to NIS 53 million in Q3 2016, similar to the income from management fees in the corresponding quarter last year.

Provident fund expenses in the Reporting Period amounted to NIS 132 million in the Reporting Period, compared with NIS 129 million in the corresponding period last year.

Provident fund expenses in Q3 2016 amounted to NIS 43 million, compared with NIS 45 million in the corresponding quarter last year.

Total comprehensive income before tax for 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 13 million in the Reporting Period, compared with NIS 33 million before tax in the corresponding period last year. The decline in comprehensive income compared with the corresponding period last year, is mainly attributable to a one-time provision for the refund of management fees to members as part of the optimization project and to an erosion in the rate of the management fees.

Comprehensive income before tax for the provident fund management companies which is included in the consolidated statement of income in the life assurance and long-term savings segment, amounted to NIS 9 million in Q3 2016, similar to the corresponding quarter last year.

Pre-tax profit for provident fund activity which is included in the consolidated statement of income in the life assurance and long-term savings segment, amounted to NIS 12 million in the Reporting Period, compared with NIS 34 million in the corresponding period last year.

Pre-tax profit from provident fund activity which is included in the consolidated statement of income in the life assurance and long-term savings segment, was NIS 10 million in Q3 2016, compared with NIS 9 million in the corresponding quarter last year.

The provident funds accrued a net, positive amount (excluding investment profit) of NIS 804 million in the Reporting Period, compared with negative accrual of NIS 219 million in the corresponding period last year. The change is mainly attributable to ongoing deposits in respect of Amendment 190 to the Income Tax Ordinance.

2.8 Health insurance

Total premiums earned in the health insurance segment increased by 5% to NIS 3,104 million in the Reporting Period, compared with NIS 2,956 million in the corresponding period last year. Total premiums earned in the health insurance segment account for 36% of all premiums earned by the Group in the Reporting Period.

Total premiums earned in the health insurance segment increased by 5% to NIS 1,085 million in Q3 2016, compared with NIS 1,030 million in the corresponding quarter last year.

Comprehensive income before tax in the health insurance segment was NIS 128 million in the Reporting Period, compared with a comprehensive loss before tax of NIS 38 million in the corresponding period last year. The shift from comprehensive loss to comprehensive income is mainly due to the following:

A. Yields in the capital market which were higher than in the corresponding period last year.

B. Improved underwriting performance in the Reporting Period.

Comprehensive income before tax in the health insurance segment was NIS 33 million in Q3 2016, compared with a comprehensive loss of NIS 37 million in the corresponding quarter last year. The shift from comprehensive loss to comprehensive income is mainly attributable to yields in the capital market in Q3 2016 that were higher than those in the corresponding quarter last year.

Pre-tax profit in the health insurance segment was NIS 125 million in the Reporting Period, compared with a pre-tax loss of NIS 4 million in the corresponding period last year.

Pre-tax profit in the health insurance segment was NIS 37 million in Q3 2016, compared with a pre-tax loss of NIS 30 million in the corresponding quarter last year.

Total payments and changes in liabilities, gross, in respect of insurance contracts in the health insurance segment amounted to NIS 2,391 million, similar to 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 83.1 million in the Reporting Period, compared with NIS 17.7 million which was recognized in the corresponding period last year.

2.9 Non-life insurance

Composition of gross premiums and profit in non-life insurance activity in the Reporting Period, before tax, according to the lines of insurance business included in non-life insurance (NIS thousand):

	Gross premiums						
	1-9.2016	1-9.2015	% change	7-9.2016	7-9.2015	% change	2015
Compulsory motor	378,845	405,283	(6.5)	104,743	94,799	10.5	484,763
Motor property	587,161	670,076	(12.4)	165,343	151,259	9.3	798,997
Property & other segments	751,698	634,649	18.4	230,534	219,241	5.2	872,789
Other liabilities segments	585,057	571,461	2.4	131,681	139,565	(5.6)	826,913
Mortgage insurance*	(14,606)	(23,421)	(37.6)	(4,073)	(8,980)	(54.6)	(29,067)
Total	2,288,155	2,258,048	1.3	628,228	595,884	5.4	2,954,395

*Net of settlements

	Comprehensive income before taxes						
	1-9.2016	1-9.2015	% change	7-9.2016	7-9.2015	% change	2015
Compulsory motor	(27,161)	43,068	-	1,834	(21,725)	-	87,706
Motor property	7,918	(4,100)	-	1,613	(8,463)	-	(12,241)
Property & other segments	52,757	43,770	20.5	20,965	14,108	48.6	59,409
Other liabilities segments	(43,383)	(63,296)	(31.5)	(1,253)	(24,292)	(94.8)	(64,834)
Mortgage insurance*	44,925	36,382	23.5	15,180	836	-	53,468
Total	35,056	55,824	(37.2)	38,339	(39,536)	-	123,508

Gross premiums in the Reporting Period amounted to NIS 2,288 million, similar to the corresponding period last year.

Gross premiums increased by 5% to NIS 628 million in Q3 2016, compared with NIS 596 million in the corresponding quarter last year.

Premiums in retention increased by 11% to NIS 1,509 million in the Reporting Period, compared with NIS 1,354 million in the corresponding period last year.

Premiums in retention increased by 18% to NIS 372 million in Q3 2016, compared with NIS 315 million in the corresponding quarter last year.

The increase in premiums in retention in the Reporting Period and in Q3 is due to the fact that the transaction with NICO, in which NICO participated in about 10% of all the Company's retention in the non-life insurance branches, was not renewed for 2016 (for additional information see Section 3.5.4.3.1 in the 2015 Periodic Report), and to a decline in the share of some of the reinsurers in the premium in the professional liability line of business.

Comprehensive income before tax in non-life insurance amounted to NIS 35 million in the Reporting Period, compared with NIS 56 million in the corresponding period last year. The decline is mainly due to the following:

A. The effect of the 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, ("Winograd Committee") whereby the rate of interest will be 2% instead of the present rate of 3%, as a result of which Harel Insurance increased its insurance liabilities by NIS 175 million before tax 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 following:

A. Effect of the capital market where yields in the Reporting Period were higher than in the corresponding period last year.

B. Revision of an extraordinary claim in the liabilities and other lines of business sector in the corresponding period last year, by a total, gross amount of NIS 293 million before tax, of which the Company's self-retention is NIS 57 million. Most of the retention is included as an expense in the corresponding period last year.

Comprehensive income before tax in non-life insurance was NIS 38 million in Q3 2016, compared with a comprehensive loss before tax of NIS 40 million in the corresponding quarter last year. The shift from comprehensive loss to comprehensive income is mainly attributable to yields in the capital market in Q3 2016 that were higher than those in the corresponding quarter last year.

Pre-tax profit in non-life insurance was NIS 50 million in the Reporting Period, compared with NIS 133 million in the corresponding period last year.

Pre-tax profit in non-life insurance was NIS 55 million in Q3 2016, compared with a loss of NIS 23 million in the corresponding quarter last year.

2.9.1 Motor property

Gross premiums in motor property insurance decreased by 12% to NIS 587 million in the Reporting Period, compared with NIS 670 million in the corresponding period last year. The decline in premiums is mainly attributable to the fact that Harel Insurance did not win the tender for insuring the vehicles of state employees for 2016. The results of this tender did not significantly affect the Company's profit or equity in the Reporting Period.

Gross premiums in motor property insurance increased by 9% to NIS 165 million in Q3 2016, compared with NIS 151 million in the corresponding quarter last year.

Premiums in retention decreased by 4% to NIS 572 million in the Reporting Period, compared with NIS 594 million in the corresponding period last year.

Premiums in retention increased by 20% to NIS 161 million in Q3 2016, compared with NIS 134 million in the corresponding quarter last year.

Comprehensive income before tax in motor property insurance was NIS 8 million in the Reporting Period, compared with a comprehensive loss of NIS 4 million in the corresponding period last year. The shift from comprehensive loss to comprehensive income is mainly attributable to positive developments in claims.

Comprehensive income before tax from motor property insurance amounted to NIS 2 million in Q3 2016, compared with a comprehensive loss of NIS 8 million in the corresponding quarter last year. The shift from comprehensive loss to comprehensive income is mainly attributable to positive developments in claims.

Pre-tax profit in motor property insurance was NIS 9 million in the Reporting Period, compared with NIS 2 million in the corresponding period last year.

Pre-tax profit in motor property insurance amounted to NIS 3 million in Q3 2016, compared with a pre-tax loss of NIS 8 million in the corresponding quarter 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 this tender did not significantly affect the Company's profit or equity in the Reporting Period.

On September 18, 2016, Harel Insurance was informed that it had been awarded 7% of the tender published by the Ministry of Finance Accountant General for motor property insurance and compulsory motor insurance of state employees for 2017. Winning of the tender is not expected to significantly affect the financial results of Harel Insurance.

2.9.2 Compulsory motor

Gross premiums in compulsory motor insurance decreased by 7% to NIS 379 million in the Reporting Period, compared with NIS 405 million in the corresponding period last year.

Gross premiums in compulsory motor insurance increased by 10% to NIS 105 million in Q3 2016, compared with NIS 95 million in the corresponding quarter last year. On compulsory motor insurance for vehicles owned by state employees, see Section 2.9.1.

Premiums in retention increased by 4% to NIS 377 million in the Reporting Period, compared with NIS 363 million in the corresponding period last year.

Premiums in retention increased by 23% to NIS 103 million in Q3 2016, compared with NIS 84 million in the corresponding quarter last year. The increase in premiums in retention in Q3 2016 is due to the fact that the transaction with NICO, in which NICO participated in about -10% of all the Company's retention in the non-life insurance branches, was not renewed for 2016 (for additional information see Section 3.5.4.3.1 in the 2015 Periodic Report).

The comprehensive loss before tax in compulsory motor insurance amounted to NIS 27 million in the Reporting Period, compared with comprehensive income of NIS 43 million in the corresponding period last year. The shift from comprehensive income to comprehensive loss is mainly attributable to the effect of the Winograd Committee recommendations as a result of which the Company increased its insurance liabilities by NIS 106 million to reflect a current estimate of the amounts that the Company will be expected to pay for claims in compulsory motor insurance (including the NII). (For additional information, see Note 9 to the Financial Statements.) This was partially offset by a positive development in the estimate of outstanding claims for previous years.

Comprehensive income before tax from compulsory motor insurance amounted to NIS 2 million in Q3 2016, compared with a comprehensive loss of NIS 22 million in the corresponding quarter last year. The shift from comprehensive loss to comprehensive income is mainly attributable to the capital market where yields in Q3 2016 were higher than in the corresponding quarter last year.

Pre-tax loss before tax in compulsory motor insurance amounted to NIS 21 million in the Reporting Period, compared with pre-tax profit before tax of NIS 74 million in the corresponding period last year.

Pre-tax profit in compulsory motor insurance amounted to NIS 9 million in Q3 2016, compared with a pre-tax loss of NIS 17 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 defined the temporary share of Harel Insurance in the net premiums for 2016 at 10.3% (as against 10.5% which was the share of Harel Insurance 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 this tender did not significantly affect the Company’s profit or equity in the Reporting Period.

On September 18, 2016, Harel Insurance was informed that it had been awarded 7% of the tender published by the Ministry of Finance Accountant General for motor property insurance and compulsory motor insurance of state employees for 2017. Winning of the tender is not expected to significantly affect the financial results of Harel Insurance.

2.9.3 Liabilities and other branches

Gross premiums in liabilities and other insurance amounted to NIS 585 million in the Reporting Period, compared with NIS 571 million in the corresponding period last year.

Gross premiums in liabilities and other insurance amounted to NIS 132 million in Q3 2016, compared with NIS 140 million in the corresponding quarter last year.

Premiums in retention increased by 45% to NIS 382 million in the Reporting Period, compared with NIS 263 million in the corresponding period last year. The increase in premiums in retention in the Reporting Period is mainly attributable to the decline in the reinsurer’s share of the premium in the professional liability line of business.

Premiums in retention decreased by 6% to NIS 52 million in Q3 2016, compared with NIS 55 million in the corresponding quarter last year.

The comprehensive loss before tax in liabilities and other insurance amounted to NIS 43 million in the Reporting Period, compared with a comprehensive loss of NIS 63 million in the corresponding period last year. The reduced comprehensive loss is mainly attributable to the following:

A. Yields in the capital market which were higher than in the corresponding period last year.

B. Revision of an extraordinary claim in the liabilities and other lines of business in the corresponding period last year, by a total, gross amount of NIS 293 million before tax, of which the Company’s self-retention is NIS 57 million. Most of the retention was included as an expense in the corresponding period last year.

C. These effects were partially offset by the effect of the Winograd Committee recommendations, as a result of which, during the Reporting Period, the Company increased its insurance liabilities by NIS 69 million before tax to reflect a current estimate of the amounts that the Company will be expected to pay for claims in liabilities insurance (including the NII). (For additional information, see Note 9 to the Financial Statements.)

The comprehensive loss before tax in liabilities and other insurance amounted to NIS 1 million in Q3 2016, compared with a comprehensive loss of NIS 24 million in the corresponding quarter last year. The reduced comprehensive loss is mainly attributable to yields in the capital market in Q3 2016 that were higher than in the corresponding quarter last year.

The pre-tax loss in liabilities and other insurance amounted to NIS 37 million in the Reporting Period, compared with a pre-tax loss of NIS 36 million in the corresponding period last year.

Pre-tax profit in liabilities and other insurance amounted to NIS 6 million in Q3 2016, compared with a pre-tax loss of NIS 21 million in the corresponding quarter last year.

2.9.4 Property and other lines of business

Premiums in property and other lines of business increased by 18% to NIS 752 million in the Reporting Period, compared with NIS 635 million in the corresponding period last year.

Premiums in property and other lines of business increased by 5% to NIS 231 million in Q3 2016, compared with NIS 219 million in the corresponding quarter last year.

Premiums in retention increased by 22% to NIS 194 million in the Reporting Period, compared with NIS 158 million in the corresponding period last year.

Premiums in retention increased by 17% to NIS 60 million in Q3 2016, compared with NIS 51 million in the corresponding quarter last year.

Comprehensive income before tax in property and other insurance was NIS 53 million in the Reporting Period, compared with NIS 44 million in the corresponding period last year.

Comprehensive income before tax in property and other insurance was NIS 21 million in Q3 2016, compared with NIS 14 million in the corresponding quarter last year.

Pre-tax profit in property and other insurance was NIS 53 million in the Reporting Period, compared with NIS 46 million in the corresponding period last year.

Pre-tax profit in property and other insurance was NIS 22 million in Q3 2016, compared with NIS 15 million in the corresponding quarter last year.

2.9.5 Credit insurance for mortgages

Premiums earned in retention from credit insurance for residential mortgages amounted to NIS 18 million in the Reporting Period, compared with NIS 30 million in the corresponding period last year.

Premiums earned in retention from credit insurance for residential mortgages amounted to NIS 5 million in Q3 2016, compared with NIS 9 million in the corresponding quarter last year.

EMI has no reinsurance agreements in this line of insurance business.

Comprehensive income before tax in credit insurance for residential mortgages amounted to NIS 45 million in the Reporting Period, compared with NIS 36 million in the corresponding period last year.

The increased profit is attributable to the effect of the capital market where yields in the Reporting Period were higher than in the corresponding period last year.

Comprehensive income before tax in credit insurance for residential mortgages amounted to NIS 15 million in Q3 2016, compared with NIS 1 million in the corresponding quarter last year. This increase is mainly attributable to the capital market where yields in Q3 2016 were higher than in the corresponding quarter last year.

Pre-tax profit in credit insurance for residential mortgages amounted to NIS 45 million in the Reporting Period, compared with NIS 46 million in the corresponding period last year.

Pre-tax profit in credit insurance for residential mortgages amounted to NIS 15 million in Q3 2016, compared with NIS 8 million in the corresponding quarter last year.

2.10 Insurance companies overseas

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

Premiums earned in the insurance companies overseas segment increased by 9% to NIS 211 million in the Reporting Period, compared with NIS 193 million in the corresponding period last year. The increase in premiums earned is mainly attributable to the increase in tariffs in the Turkey's compulsory motor sector.

Premiums earned in the insurance companies operating overseas segment in the Reporting Period account for 2% of all premiums earned by the Group.

Premiums earned in the insurance companies operating overseas segment increased by 25% to NIS 81 million in Q3 2016, compared with NIS 65 million in the corresponding quarter last year. The increase in premiums earned is mainly attributable to the increase in tariffs in the Turkey's compulsory motor sector. Premiums earned by the insurance companies operating overseas segment in Q3 2016 account for 3% of all premiums earned by the Group.

Comprehensive income before tax in the insurance companies overseas segment amounted to NIS 7 million in the Reporting Period, compared with a comprehensive loss of NIS 6 million in the corresponding period last year. The shift from comprehensive loss to comprehensive income is attributable to the effect of the capital market where yields in the Reporting Period were higher than in the corresponding period last year, and also to a slowdown of the devaluation of the Turkish lira against the shekel.

Comprehensive income before tax in the insurance companies overseas segment amounted to NIS 2 million in Q3 2016, compared with a comprehensive loss of NIS 4 million in the corresponding quarter last year. The shift from comprehensive loss to comprehensive income is mainly attributable to the effect of the capital market where yields in Q3 2016 were higher than in the corresponding quarter last year, and also to a slowdown of the devaluation of the Turkish lira against the shekel.

Pre-tax profit in the insurance companies overseas segment was NIS 9 million in the Reporting Period, compared with pre-tax profit of NIS 12 million in the corresponding period last year..

Pre-tax profit in the insurance companies overseas segment amounted to NIS 6 million in Q3 2016, compared with a pre-tax loss of NIS 0.1 million in the corresponding quarter last year.

2.11 Capital market and financial services

Revenues in the capital market and financial services segment decreased by 15% to NIS 196 million in the Reporting Period, compared with revenues of NIS 230 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 portfolio management.

The volume of assets under management in the capital market and financial services segment amounted to NIS 41.1 billion at September 30, 2016, compared with NIS 50.6 billion at September 30, 2015, and to NIS 47.5 billion at December 31, 2015.

These amounts include mutual fund assets of NIS 19.3 billion at September 30, 2016, compared with NIS 27.5 billion at September 30, 2015, and NIS 24.7 billion at December 31, 2015, as well as ETN and deposit certificate assets, which at September 30, 2016 amounted to NIS 13.2 billion, as compared with NIS 14.2 billion at September 30, 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.

Comprehensive income before tax and pre-tax profit in the capital market and financial services segment amounted to NIS 35 million in the Reporting Period, compared with NIS 36 million in the corresponding period last year. Profit in the Reporting Period includes an impairment of NIS 25 million before tax for the value of the mutual fund activity, in contrast with an impairment of NIS 22 million before tax in the corresponding period last year. After adjustment for this impairment, pre-tax profit in the capital market and financial services segment was NIS 60 million before tax in the Reporting Period, compared with NIS 58 million before tax in the corresponding period last year.

On a review of the value of the intangible asset recorded in the Company's books for mutual fund activity and the impairment that was recorded in the Reporting Period, see Note 9 to the Financial Statements.

Comprehensive income before tax and pre-tax profit in the capital market and financial services segment amounted to NIS 17 million in Q3 2016, compared with a comprehensive loss and pre-tax loss of NIS 7 million in the corresponding quarter last year. The loss in the corresponding quarter last year includes an impairment of NIS 22 million for the mutual fund activity. After adjustment for this impairment, pre-tax profit in the capital market and financial services segment in the corresponding quarter last year was NIS 15 million before tax, similar to profit in the current quarter.

2.12 Income tax

Taxes on income in the Reporting Period amounted to expenses of about NIS 42 million, compared with income tax expenses of NIS 99 million in the corresponding period last year.

Taxes on income amounted to an expense of NIS 72 million in Q3 2016, compared with a tax benefit of NIS 126 million in the corresponding quarter last year.

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 in the Reporting Period by NIS 32 million and increased comprehensive income and shareholders' equity accordingly.

2.13 Liquidity and sources of finance

2.13.1 Cash flow

Total net cash flows provided by current activity were NIS 1,987 million in the Reporting Period. Net cash flows provided by investment activity amounted to NIS 36 million. Net cash flows used for financing activity and exchange rate fluctuations amounted to NIS 1,230 million. The result of all the aforesaid activity increased the cash balances by NIS 793 million.

2.13.2 Financing of operations

The Company and its subsidiaries generally finance their on-going operations from their own sources. Likewise, 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 tier-3 capital.

On the issuance of Series 12-13 bonds of Harel Financing and Issuing, see Note 9(8) to the Financial Statements.

3 Market risks - exposure and management

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

4 Corporate governance

4.1 Company officers

4.1.1 Termination of service and the appointment of company officers

4.1.1.1 On July 17, 2016, Mr. Amir Hessel, who holds the position of Chief Investment Officer in the Company and is also manager of the investment division of Harel Insurance, announced that he would be terminating his service for the Company. Mr. Hessel is expected to step down at the end of November 2016.

4.1.1.2 On July 19, 2016, the Company announced the appointment of Mr. Sami Babecov as Chief Investment Officer of the Company and director of the investment division of Harel Insurance. Mr. Babecov is expected to take up office on December 1, 2016.

4.1.1.3 On November 22, 2016, the Company announced the appointment of Mr. Tal Kedem as CEO of Harel Finance. The appointment will enter into force on March 1, 2017.

4.2 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, they must be discussed and approved by 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, Chair (External Director), Prof. Israel Gilad (External Director), Hava Friedman Shapira (External Director), and Doron Cohen. For information about the members of the Committee for the Review of the Financial Statements, see Regulation 26 in Chapter 5 – "Additional Information about the Company".

The Committee is a special-purpose committee appointed to approve the financial statements. The Audit Committee does not serve as the Committee for the approval of the financial statements.

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

Procedure for approval of the financial statements:

To approve the financial statements at September 30, 2016, the Committee convened on November 23, 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 key findings, if there are any, that emerged during the course of the audit or the review. The meeting is 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 November 23, 2016 was attended by Avraham Fruchtman, CPA, 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 Committee, including material transactions that are not part of 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, 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 proper 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 reliability 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. 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 November 23, 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 November 28, 2016, the Board was advised regarding the Committee's recommendations, the CEO (who also serves as the CFO) reviewed the main points of the attached consolidated financial statements according to the different operating segments, and the relevant significant issues were discussed.

5 Disclosure relating to the IQIS5 exercise

Based on the IQIS5 exercise performed by the Group's insurance companies, in accordance with the new Solvency II regime that the Ministry of Finance intends to apply, and taking the transition provisions into account, Harel Insurance, ICIC and EMI all have significant capital surpluses.

The capital surplus of Harel Insurance at December 31, 2015, on a consolidated basis, and taking into account the transition provisions, is similar to the results submitted in the previous exercise and amounts to more than one billion shekels. It is emphasized that in its present format, the model is extremely sensitive to changes in market and other variables, so that the capital requirements and capital surpluses arising from the model may be different on the actual date of application.

The IQIS5 exercise reflects a solvency ratio of 122% for Harel Insurance at December 31, 2015, as calculated including transition provisions. Excluding the transition provisions, the solvency ratio is 113%.

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

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

November 28, 2016

For your peace of mind | HAREL Insurance & Finance

HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at September 30, 2016

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

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

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

Introduction

We reviewed the 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 September 30, 2016 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine and three months ended on that date. The Board of Directors and management are responsible for the preparation and presentation of the financial information for these interim periods in accordance with international accounting standard IAS 34 "Financial reporting for interim periods", and they are also responsible for the preparation of financial information for these interim periods under Chapter D of the Securities (Periodic and Immediate Reports) Regulations, 1970, to the extent that these regulations apply to companies that consolidate insurance companies and subject to the disclosure requirements issued by the Commissioner of 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 financial information for the interim periods of consolidated companies whose assets included in the consolidation comprise 15.34% of all the consolidated assets as at September 30, 2016 and whose revenues included in the consolidation comprise 2.85% and 1.03% of all the consolidated revenues for the nine and three-month periods ended on that date, respectively. Furthermore, we did not review the condensed financial information for the interim period of equity accounted investees, in which the investment is NIS 114,881 thousand as at September 30, 2016, and the Group's share of their profits is NIS 9,000 thousand and NIS 4,353 thousand for the nine and three-month periods ended on that date, respectively. 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 International Accounting Standard IAS34.

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)

November 28, 2016

Condensed consolidated interim statements of financial position at

	September 30		December 31
	2016	2015	2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand
Assets			
Intangible assets	**1,491,099**	1,571,785	1,531,775
Deferred tax assets	**15,258**	10,699	14,426
Deferred Acquisition Costs	**2,140,774**	1,964,935	2,004,227
Fixed assets	**1,199,372**	1,118,390	1,140,078
Investments in equity accounted investees	**1,274,240**	1,534,486	1,424,871
Investment property for yield-dependent policies	**1,378,345**	1,373,276	1,368,958
Other investment property	**1,573,352**	1,536,066	1,555,403
Reinsurance assets	**4,821,800**	5,264,221	4,928,714
Current tax assets	**44,485**	296,711	86,125
Trade and other receivables	**1,325,588**	828,833	1,086,301
Premium due	**1,254,394**	1,144,760	1,167,521
Financial investments for yield-dependent policies	**38,927,387**	36,320,271	37,167,751
Financial investments for holders of ETNs and deposit certificates	**7,043,943**	10,401,104	7,110,998
Other financial investments			
Marketable debt assets	**7,364,928**	7,581,301	7,507,496
Non-marketable debt assets	**11,521,286**	10,514,193	10,790,084
Shares	**768,706**	736,179	818,192
Other	**2,466,022**	2,083,290	2,186,658
Total other financial investments	**22,120,942**	20,914,963	21,302,430
Cash, cash equivalents and deposits pledged for bearers of ETNs and deposit certificates	**6,412,879**	4,114,342	7,362,060
Cash and cash equivalents for yield-dependent contracts	**1,423,617**	804,385	966,875
Other cash and cash equivalents	**1,603,333**	1,444,124	1,266,638
Total assets	**94,050,808**	90,643,351	91,485,151
Total assets for yield-dependent contracts	**42,397,701**	38,868,626	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.)

	September 30		December 31
	2016	2015	2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand
Equity and liabilities			
Equity			
Share capital and share premium	**346,574**	335,098	341,832
Treasury shares	**(159,274)**	(159,762)	(161,077)
Capital reserves	**405,584**	376,465	364,340
Retained earnings	**4,351,115**	4,192,893	4,361,663
Total equity attributed to shareholders of the Company	**4,943,999**	4,744,694	4,906,758
Non-controlling interests	**6,030**	5,504	5,702
Total equity	**4,950,029**	4,750,198	4,912,460
Liabilities			
Liabilities for non- yield-dependent insurance policies and investment contracts	**25,615,051**	25,166,404	25,034,210
Liabilities for yield-dependent insurance policies and investment contracts	**42,235,297**	38,203,997	39,331,335
Deferred tax liabilities	**807,190**	835,161	788,433
Liabilities for employee benefits, net	**280,272**	275,407	270,877
Current tax liabilities	**13,345**	35,273	42,991
Trade and other payables	**2,641,143**	2,645,224	2,723,052
Liabilities for ETNs and deposit certificates	**13,223,534**	14,142,288	14,097,353
Financial liabilities	**4,284,947**	4,589,399	4,284,440
Total liabilities	**89,100,779**	85,893,153	86,572,691
Total equity and liabilities	**94,050,808**	90,643,351	91,485,151

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

Date of approval of the financial statements: November 28, 2016

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

Condensed consolidated interim statements of income

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Premiums earned, gross	**8,590,200**	8,617,626	**2,954,930**	2,853,206	11,530,684
Premiums earned by reinsurers	**1,094,296**	1,302,007	**345,247**	434,149	1,738,653
Earned premiums in retention	**7,495,904**	7,315,619	**2,609,683**	2,419,057	9,792,031
Profit (loss) from investments, net and financing income	**2,036,552**	1,040,480	**1,244,045**	(835,285)	2,042,523
Income from management fees	**781,778**	775,635	**294,471**	171,269	1,097,167
Income from commissions	**222,503**	279,529	**67,921**	89,596	366,303
Total income	**10,536,737**	9,411,263	**4,216,120**	1,844,637	13,298,024
Payments and changes in liabilities for insurance policies and investment contracts, gross	**8,767,391**	7,691,065	**3,375,196**	1,602,463	10,772,379
Reinsurers' share of payments and change in liabilities for insurance policies	**974,251**	1,007,907	**256,559**	307,104	1,304,861
Payments and changes in liabilities for insurance policies and investment contracts in retention	**7,793,140**	6,683,158	**3,118,637**	1,295,359	9,467,518
Commissions, marketing expenses and other purchasing expenses	**1,606,998**	1,522,386	**540,207**	514,300	2,020,774
General and administrative expenses	**897,950**	872,031	**305,318**	307,994	1,155,097
Other expenses	**59,732**	61,844	**11,985**	35,661	120,598
Financing expenses, net	**87,598**	99,192	**34,297**	56,012	109,337
Total expenses	**10,445,418**	9,238,611	**4,010,444**	2,209,326	12,873,324
Company's share of profits of equity accounted investees	**110,082**	148,708	**29,947**	42,085	258,562
Profit (loss) before taxes on income	**201,401**	321,360	**235,623**	(322,604)	683,262
Taxes on income (tax benefits)	**41,627**	99,071	**72,295**	(125,683)	227,516
Profit (loss) for period	**159,774**	222,289	**163,328**	(196,921)	455,746
Attributed to:					
Shareholders of the Company	**159,527**	222,281	**163,596**	(196,801)	455,586
Non-controlling interests	**247**	8	**(268)**	(120)	160
Profit (loss) for period	**159,774**	222,289	**163,328**	(196,921)	455,746
Basic earnings (losses) per share attributed to the Company's shareholders (in NIS)	**0.76**	1.06	**0.78**	(0.93)	2.16
Diluted earnings (losses) per share attributed to the Company's shareholders (in NIS)	**0.76**	1.05	**0.78**	(0.93)	2.15

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

Condensed consolidated interim statements of comprehensive income

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Profit (loss) for period	**159,774**	222,289	**163,328**	(196,921)	455,746
Other items of comprehensive income (loss) that after initial recognition as part of comprehensive income were or will be transferred to profit or loss					
Net change in fair value of financial assets classified as available-for-sale	**124,889**	(77,379)	**28,664**	(81,793)	(47,894)
Net change in fair value of financial assets classified as available-for-sale carried over to income statement	**(109,830)**	(198,342)	**(29,545)**	(48,664)	(229,454)
Loss from impairment of available-for-sale financial assets carried over to income statement	**65,513**	42,663	**18,202**	36,553	50,897
Foreign currency translation differences for foreign activity	**(35,889)**	(35,983)	**(22,982)**	33,704	(62,535)
Tax benefits (taxes on income) for other items of comprehensive income that after initial recognition as part of comprehensive income were or will be transferred to profit or loss	**(12,651)**	90,046	**(151)**	24,200	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	**32,032**	(178,995)	**(5,812)**	(36,000)	(190,124)
Other items of comprehensive income that will not be transferred to profit or loss					
Capital reserve for revaluation of fixed assets	**13,151**	169,852	**593**	169,852	170,132
Remeasurement of a defined benefit plan	**979**	(2,348)	**7,510**	(8,836)	9,413
Tax benefits (taxes on income) for other items of comprehensive income that will not be transferred to profit or loss	**(601)**	(60,642)	**(2,534)**	(58,278)	(64,031)
Total other comprehensive income for period that will not be transferred to profit or loss, net of tax	**13,529**	106,862	**5,569**	102,738	115,514
Total other comprehensive income (loss) for period	**45,561**	(72,133)	**(243)**	66,738	(74,610)
Total comprehensive income (loss) for period	**205,335**	150,156	**163,085**	(130,183)	381,136
Attributed to:					
Shareholders of the Company	**205,007**	150,373	**163,369**	(129,908)	381,155
Non-controlling interests	**328**	(217)	**(284)**	(275)	(19)
Total profit (loss) for period	**205,335**	150,156	**163,085**	(130,183)	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 nine months ended September 30 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	-	-	-	-	-	-	-	159,527	159,527	247	159,774
Total other comprehensive income (loss)	-	58,213	(26,262)	-	-	-	12,518	1,011	45,480	81	45,561
Total comprehensive income (loss) for period	-	58,213	(26,262)	-	-	-	12,518	160,538	205,007	328	205,335
Transactions with owners credited directly to equity											
Dividend paid	-	-	-	-	-	-	-	(171,086)	(171,086)	-	(171,086)
Share based payment	-	-	-	84	-	-	-	-	84	-	84
Purchase of treasury stock	-	-	-	-	(4,582)	-	-	-	(4,582)	-	(4,582)
Reissuing of treasury stock	1,433	-	-	-	6,385	-	-	-	7,818	-	7,818
Exercising of stock options	3,309	-	-	(3,309)	-	-	-	-	-	-	-
Balance as at September 30 2016	346,574	354,168	(70,734)	9,807	(159,274)	(48,908)	161,251	4,351,115	4,943,999	6,030	4,950,029

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 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 September 30, 2016 (Unaudited)											
Balance as at July 1, 2016	346,802	342,840	(53,607)	9,807	(161,141)	(48,908)	160,807	4,246,576	4,843,176	6,314	4,849,490
Total comprehensive income (loss) for period											
Profit (loss) for period	-	-	-	-	-	-	-	163,596	163,596	(268)	163,328
Total other comprehensive income (loss)	-	11,328	(17,127)	-	-	-	444	5,128	(227)	(16)	(243)
Total comprehensive income (loss) for period	-	11,328	(17,127)	-	-	-	444	168,724	163,369	(284)	163,085
Transactions with owners credited directly to equity											
Dividend paid	-	-	-	-	-	-	-	(64,185)	(64,185)	-	(64,185)
Purchase of treasury stock	-	-	-	-	(1,366)	-	-	-	(1,366)	-	(1,366)
Reissuing of treasury stock	(228)	-	-	-	3,233	-	-	-	3,005	-	3,005
Balance as at September 30 2016	346,574	354,168	(70,734)	9,807	(159,274)	(48,908)	161,251	4,351,115	4,943,999	6,030	4,950,029

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 nine months ended September 30, 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 for period	-	-	-	-	-	-	-	222,281	222,281	8	222,289
Total other comprehensive income (loss)	-	(149,781)	(28,989)	-	-	-	108,439	(1,577)	(71,908)	(225)	(72,133)
Total comprehensive income (loss) for period	-	(149,781)	(28,989)	-	-	-	108,439	220,704	150,373	(217)	150,156
Transactions with owners credited directly to equity											
Dividend paid	-	-	-	-	-	-	-	(128,182)	(128,182)	-	(128,182)
Share based payment	-	-	-	(20)	-	-	-	-	(20)	-	(20)
Issue of shares	109	-	-	-	-	-	-	-	109		109
Purchase of treasury stock	-	-	-	-	(7,317)	-	-	-	(7,317)	-	(7,317)
Reissuing of treasury stock	(8,915)	-	-	-	20,786	-	-	-	11,871	-	11,871
Exercising of stock options	5,055	-	-	(5,055)	-	-	-	-	-	-	-
Balance as at September 30 2015	335,098	288,170	(25,514)	14,965	(159,762)	(48,908)	147,752	4,192,893	4,744,694	5,504	4,750,198

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 September 30, 2015 (Unaudited)											
Balance as at July 1, 2015	335,866	347,296	(48,795)	15,861	(161,615)	(48,908)	39,313	4,395,395	4,874,413	5,779	4,880,192
Total comprehensive income (loss) for the period											
Loss for period	-	-	-	-	-	-	-	(196,801)	(196,801)	(120)	(196,921)
Total other comprehensive income (loss)	-	(59,126)	23,281	-	-	-	108,439	(5,701)	66,893	(155)	66,738
Total comprehensive income (loss) for period	-	(59,126)	23,281	-	-	-	108,439	(202,502)	(129,908)	(275)	(130,183)
Transactions with owners credited directly to equity											
Share based payment	-	-	-	87	-	-	-	-	87	-	87
Purchase of treasury stock	-	-	-	-	(1,930)	-	-	-	(1,930)	-	(1,930)
Reissuing of treasury stock	(1,751)	-	-	-	3,783	-	-	-	2,032	-	2,032
Exercising of stock options	983	-	-	(983)	-	-	-	-	-	-	-
Balance as at September 30, 2015	335,098	288,170	(25,514)	14,965	(159,762)	(48,908)	147,752	4,192,893	4,744,694	5,504	4,750,198

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 period	-	(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

	Annex	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
		2016	2015	2016	2015	2015
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
		NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Cash flows from operating activity						
Before taxes on income	A	**2,016,524**	1,003,871	**123,703**	1,175,609	1,202,522
Income tax paid		**(29,563)**	(226,031)	**(36,592)**	(157,883)	(169,071)
Net cash from current operations		**1,986,961**	777,840	**87,111**	1,017,726	1,033,451
Cash flows from investing activity						
Investment in investees, net		**(20,056)**	(155,946)	**(3,282)**	(17,924)	(196,162)
Proceeds from the sale of an investment in an equity accounted investee		**231,515**	38,140	**395**	1,014	161,055
Investment in fixed assets		**(100,544)**	(129,307)	**(21,984)**	(29,668)	(173,988)
Investment in intangible assets		**(93,063)**	(112,631)	**(30,526)**	(38,660)	(156,465)
Dividend received from an investee		**17,086**	51,675	**4,862**	33,399	162,935
Proceeds from sale of fixed assets		**1,099**	-	**461**	-	216
Net cash from (used for) investment activity		**36,037**	(308,069)	**(50,074)**	(51,839)	(202,409)
Cash flows from financing activities						
Proceeds from issuance of promissory notes		**207,413**	294,453	**-**	295,553	294,453
Purchase of Treasury shares, net		**3,236**	4,663	**1,639**	102	8,061
Payment for purchase of ETNs and covered warrants, net		**(962,640)**	(828,340)	**(138,331)**	(594,272)	(1,274,738)
Short-term credit from banks, net		**(221,557)**	(118,202)	**(90,199)**	(380,079)	60,656
Loans received from interested parties		**-**	10,384	**-**	(12,500)	10,384
Repayment of loans from banks and others		**(52,367)**	(50,961)	**-**	-	(105,697)
Dividend paid to the Company's shareholders		**(171,086)**	(128,182)	**(64,185)**	-	(235,083)
Net cash used for financing activity		**(1,197,001)**	(816,185)	**(291,076)**	(691,196)	(1,241,964)
Effect of exchange rate fluctuations on cash balances and cash equivalents		**(32,560)**	(3,613)	**(19,375)**	3,839	45,899
Increase (decrease) in cash and cash equivalents		**793,437**	(350,027)	**(273,414)**	278,530	(365,023)
Retained cash and cash equivalents at beginning of period	B	**2,233,513**	2,598,536	**3,300,364**	1,969,979	2,598,536
Retained cash and cash equivalents at end of period	C	**3,026,950**	2,248,509	**3,026,950**	2,248,509	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 nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Appendix A - Cash flows from operating activities before taxes on income (1), (2), (3)					
Profit (loss) for period	**159,774**	222,289	**163,328**	(196,921)	455,746
Items not involving cash flows:					
Company's share of profit of investee companies recorded on the equity basis	**(110,082)**	(148,708)	**(29,947)**	(42,085)	(258,562)
Net losses (profits) from financial investments for yield-dependent insurance policies and investment contracts	**(679,813)**	369,627	**(684,815)**	1,041,196	(190,570)
Losses (profits) net, from other financial investments					
Marketable debt assets	**27,689**	(43,530)	**41,023**	(77,379)	(2,367)
Non-marketable debt assets	**28,759**	(13,529)	**(12,438)**	(37,499)	7,940
Shares	**(23,028)**	(23,318)	**(10,064)**	13,225	(45,232)
Other investments	**(161,473)**	(9,863)	**(131,935)**	283,974	(98,056)
Financing expenses (incomes) for financial liabilities	**428,635**	(444,933)	**726,017**	(613,583)	(102,093)
Change in fair value of investment property for yield-dependent contracts	**15,046**	(27,795)	**(1,343)**	(14,107)	(18,893)
Change in fair value of other investment property	**4,023**	* (17,793)	**(5,976)**	* (11,622)	(32,238)
Depreciation and amortization					
Fixed assets	**53,158**	45,024	**17,068**	15,468	63,786
Intangible assets	**133,335**	129,851	**37,200**	58,301	213,624
Change in liabilities for non yield-dependent insurance policies and investment contracts	**593,551**	153,811	**(170,951)**	(133,755)	24,690
Change in liabilities for yield-dependent insurance policies and investment contracts	**2,903,962**	2,488,633	**1,653,372**	(183,685)	3,615,971
Change in reinsurance assets	**102,200**	218,578	**61,042**	202,401	532,698
Change in DAC	**(137,811)**	(158,188)	**(25,803)**	(39,014)	(197,433)
Payroll expenses (incomes) for share-based payment	**84**	(20)	**-**	87	68
Income tax expenses (incomes)	**41,627**	99,071	**72,295**	(125,683)	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	**(24,433)**	(14,299)	**(7,978)**	(5,116)	(18,883)
Net acquisitions of financial investments	**(1,269,644)**	(3,108,764)	**(1,026,519)**	(810,021)	(3,785,048)
Other financial investments and investment property					
Purchase of investment property	**(23,124)**	(27,073)	**(7,893)**	(8,368)	(32,008)
Proceeds from the sale of investment property	**1,152**	*2,099	**-**	*2,099	2,143
Net sales (acquisitions) of financial investments	**(746,942)**	339,711	**(379,232)**	341,646	(68,574)
Premiums due	**(91,673)**	45,512	**59,710**	(23,139)	24,720
Trade and other receivables	**(159,811)**	64,636	**328,978**	63,167	(115,319)
Financial investments for holders of ETNs	**67,055**	840,040	**(293,085)**	487,689	4,130,146
Cash and cash equivalents pledged for holders of ETNs	**949,181**	311,745	**25,351**	1,022,610	(2,935,973)
Trade and other payables	**(75,368)**	(301,038)	**(274,600)**	(41,892)	(213,872)
Liabilities for employee benefits, net	**10,495**	12,095	**898**	7,615	18,595
Total adjustments required to present cash flows from operating activity	**1,856,750**	781,582	**(39,625)**	1,372,530	746,776
Total cash flows from operating activity before taxes on income	**2,016,524**	1,003,871	**123,703**	1,175,609	1,202,522

* Reclassified

(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 964 million (for the nine months ended September 30, 2015 an amount of NIS 986 million and for 2015 annual an amount of NIS 1,428 million) and interest was paid in the amount of NIS 60 million (for the nine months ended September 30, 2015 an amount of NIS 72 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 150 million (for the nine months ended September 30, 2015 an amount of NIS 191 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 nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Annex B - Cash and cash equivalents at beginning of period					
Cash and cash equivalents for yield-dependent contracts	**966,875**	1,153,223	**1,541,499**	770,245	1,153,223
Other cash and cash equivalents	**1,266,638**	1,445,313	**1,758,865**	1,199,734	1,445,313
Retained cash and cash equivalents at beginning of the period	**2,233,513**	2,598,536	**3,300,364**	1,969,979	2,598,536
Annex C - Cash and cash equivalents at end of period					
Cash and cash equivalents for yield-dependent contracts	**1,423,617**	804,385	**1,423,617**	804,385	966,875
Other cash and cash equivalents	**1,603,333**	1,444,124	**1,603,333**	1,444,124	1,266,638
Retained cash and cash equivalents at end of the period	**3,026,950**	2,248,509	**3,026,950**	2,248,509	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 September 30, 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 November 28, 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 - clarification to generally accepted amortization methods (“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.

Commencing January 1, 2016, the Group applies the amendment to IAS 38 prospectively. The amendment has not affected the Group's financial statements.

B. New standards and interpretations not yet adopted

Amendment to IFRS 4 - Insurance Contracts, application of IFRS 9 - Financial Instruments, together with IFRS 4 ("the Amendment")

The Amendment presents two possible forms of relief for insurers regarding the anticipated application of IFRS 9:

- Commencement of IFRS 9 will be deferred to January 1, 2021 (or earlier if the commencement date of the new standard expected to be published in connection with insurance contracts is earlier) for companies whose principal activity is the issuing of insurance contracts within the scope of IFRS 4 and that have not yet adopted an earlier version of IFRS 9. During the deferral period, the Company will continue to apply the provisions of IAS 39, Financial Instruments: Recognition and Measurement. Furthermore, companies that apply the deferment option will be required to include various disclosures in their financial statements. These disclosures include, inter alia, disclosure of fair value and changes in fair value for different groups of financial assets, based on their classification under IFRS 9, as well as disclosure concerning exposure to credit risks.
- Adjusting the results of applying IFRS 9 in respect of financial assets that relate to insurance contracts and are measured at fair value through profit or loss according to IFRS 9.

The relief in the amendment may be applied from the commencement date of IFRS 9 and it is voluntary for companies that meet the criteria defined in the amendment. The Group is reviewing the repercussions of the amendment on the financial statements and particularly whether it is in compliance with the criteria that enable deferment of the commencement date of IFRS 9.

C. Seasonality

1.<u>Life assurance, health insurance and financial services</u>

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.<u>Non-life insurance</u>

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: 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 nine months ended September 30 2016 (Unaudited)							
	Life Assurance and Long-Term Savings	Health Insurance	Non-life Insurance	Insurance companies overseas	Financial Services	Not Allocated To Any Specific Segment	Adjustments and Offsets	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
Premiums earned, gross	3,085,570	3,103,972	2,193,297	211,028	-	-	(3,667)	8,590,200
Premiums earned by reinsurers	97,337	119,828	810,306	70,492	-	-	(3,667)	1,094,296
Premiums earned in retention	2,988,233	2,984,144	1,382,991	140,536	-	-	-	7,495,904
Net profit from investments and financial income	1,515,145	195,970	129,546	10,513	67,867	114,944	2,567	2,036,552
Income from management fees	639,852	2,232	-	-	127,384	24,632	(12,322)	781,778
Income from commissions	12,770	42,108	134,532	17,436	1,003	136,880	(122,226)	222,503
Total income	5,156,000	3,224,454	1,647,069	168,485	196,254	276,456	(131,981)	10,536,737
Payments and changes in liabilities for insurance and investment contracts, gross	4,287,712	2,390,569	1,955,992	133,779	-	-	(661)	8,767,391
Reinsurers' share in payments and changes for insurance contracts liabilities	69,950	82,270	777,454	45,238	-	-	(661)	974,251
Payments and changes in liabilities for insurance and investment contracts, in retention	4,217,762	2,308,299	1,178,538	88,541	-	-	-	7,793,140
Commission, marketing and other acquisition expenses	615,135	608,827	440,169	60,152	-	4,941	(122,226)	1,606,998
Management and general expenses	380,419	194,581	26,024	10,015	129,205	170,028	(12,322)	897,950
Other expenses	25,774	-	-	671	31,506	1,781	-	59,732
Financing expenses (incomes), net	4,336	4,151	(10,364)	-	1,030	88,359	86	87,598
Total expenses	5,243,426	3,115,858	1,634,367	159,379	161,741	265,109	(134,462)	10,445,418
Company's share of profits of investee companies recorded by the equity method	27,555	16,595	37,475	-	-	28,457	-	110,082
Profit (loss) before income taxes	(59,871)	125,191	50,177	9,106	34,513	39,804	2,481	201,401
Other comprehensive income (loss) before income tax	39,547	2,629	(15,121)	(2,073)	138	33,693	-	58,813
Total comprehensive income (loss) before income tax	(20,324)	127,820	35,056	7,033	34,651	73,497	2,481	260,214
Liabilities in respect of non-yield dependent insurance and investment contracts	11,686,440	4,083,844	9,479,298	369,520	-	-	(4,051)	25,615,051
Liabilities in respect of yield dependent insurance and investment contracts	37,997,371	4,237,926	-	-	-	-	-	42,235,297

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Contd.)

	For the three months ended September 30 2016 (Unaudited)							
	Life Assurance and Long-term Savings	Health Insurance	Non-life Insurance	Insurance companies overseas	Financial Services	Not Allocated To Any Specific Segment	Adjustments and Offsets	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
Premiums earned, gross	1,048,320	1,084,889	741,592	81,334	-	-	(1,205)	2,954,930
Premiums earned by reinsurers	26,287	29,667	266,773	23,725	-	-	(1,205)	345,247
Premiums earned in retention	1,022,033	1,055,222	474,819	57,609	-	-	-	2,609,683
Net profit from investments and financial income	995,366	110,350	55,439	5,947	21,325	55,752	(134)	1,244,045
Income from management fees	249,173	798	-	-	40,144	8,789	(4,433)	294,471
Income from commissions	5,012	9,942	42,031	5,882	336	48,595	(43,877)	67,921
Total income	2,271,584	1,176,312	572,289	69,438	61,805	113,136	(48,444)	4,216,120
Payments and changes in liabilities for insurance and investment contracts, gross	1,867,316	893,433	553,061	60,455	-	-	931	3,375,196
Reinsurers' share in payments and changes for insurance contracts liabilities	23,218	27,949	182,723	21,738	-	-	931	256,559
Payments and changes in liabilities for insurance and investment contracts, in retention	1,844,098	865,484	370,338	38,717	-	-	-	3,118,637
Commission, marketing and other acquisition expenses	202,830	204,082	154,671	21,265	-	1,235	(43,876)	540,207
Management and general expenses	126,609	69,906	9,127	3,325	41,685	59,099	(4,433)	305,318
Other expenses	8,907	-	-	334	2,288	456	-	11,985
Financing expenses (incomes), net	2,379	2,571	(8,173)	-	558	37,038	(76)	34,297
Total expenses	2,184,823	1,142,043	525,963	63,641	44,531	97,828	(48,385)	4,010,444
Company’s share of profits of investee companies recorded by the equity method	207	2,471	8,358	-	-	18,911	-	29,947
Profit before income taxes	86,968	36,740	54,684	5,797	17,274	34,219	(59)	235,623
Other comprehensive income (loss) before income tax	2,089	(3,962)	(16,345)	(3,715)	8	24,367	-	2,442
Total comprehensive income before income tax	89,057	32,778	38,339	2,082	17,282	58,586	(59)	238,065
Liabilities in respect of non-yield dependent insurance and investment contracts	11,686,440	4,083,844	9,479,298	369,520	-	-	(4,051)	25,615,051
Liabilities in respect of yield dependent insurance and investment contracts	37,997,371	4,237,926	-	-	-	-	-	42,235,297

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Contd.)

	For the nine months ended September 30 2015 (Unaudited)							
	Life Assurance and Long-term Savings	Health Insurance	Non-life Insurance	Insurance companies overseas	Financial Services	Not Allocated To Any Specific Segment	Adjustments and Offsets	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
Premiums earned, gross	3,186,140	2,955,915	2,289,348	193,487	-	-	(7,264)	8,617,626
Premiums earned by reinsurers	106,301	156,473	974,675	71,822	-	-	(7,264)	1,302,007
Premiums earned in retention	3,079,839	2,799,442	1,314,673	121,665	-	-	-	7,315,619
Net profit from investments and financial income	619,911	108,768	131,644	11,562	55,771	108,565	4,259	1,040,480
Income from management fees	591,275	6,968	-	-	173,531	4,174	(313)	775,635
Income from commissions	18,500	45,963	166,655	17,395	1,147	103,404	(73,535)	279,529
Total income	4,309,525	2,961,141	1,612,972	150,622	230,449	216,143	(69,589)	9,411,263
Payments and changes in liabilities for insurance and investment contracts, gross	3,371,216	2,362,583	1,865,380	91,823	-	-	63	7,691,065
Reinsurers' share in payments and changes for insurance contracts liabilities	66,477	120,817	795,577	24,973	-	-	63	1,007,907
Payments and changes in liabilities for insurance and investment contracts, in retention	3,304,739	2,241,766	1,069,803	66,850	-	-	-	6,683,158
Commission, marketing and other acquisition expenses	545,535	546,393	437,248	61,290	-	5,455	(73,535)	1,522,386
Management and general expenses	360,144	191,195	27,011	9,693	161,610	122,691	(313)	872,031
Other expenses (incomes)	27,933	(49)	-	379	31,244	2,337	-	61,844
Financing expenses, net	8,432	5,327	6,015	-	1,642	77,062	714	99,192
Total expenses	4,246,783	2,984,632	1,540,077	138,212	194,496	207,545	(73,134)	9,238,611
Company’s share of profits (losses) of investee companies recorded by the equity method	44,186	19,645	60,284	-	(10)	24,603	-	148,708
Profit before income taxes	106,928	(3,846)	133,179	12,410	35,943	33,201	3,545	321,360
Other comprehensive income (loss) before income tax	10,216	(33,674)	(77,355)	(18,164)	(56)	17,496	-	(101,537)
Total comprehensive income (loss) before income tax	117,144	(37,520)	55,824	(5,754)	35,887	50,697	3,545	219,823
Liabilities in respect of non-yield dependent insurance and investment contracts	11,235,859	3,921,204	9,758,055	256,294	-	-	(5,008)	25,166,404
Liabilities in respect of yield dependent insurance and investment contracts	34,535,210	3,668,787	-	-	-	-	-	38,203,997

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Contd.)

	For the three months ended September 30 2015 (Unaudited)							
	Life Assurance and Long-term Savings	Health Insurance	Non-life Insurance	Insurance companies overseas	Financial Services	Not Allocated To Any Specific Segment	Adjustments and Offsets	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
Premiums earned, gross	992,564	1,029,837	769,840	64,971	-	-	(4,006)	2,853,206
Premiums earned by reinsurers	36,843	51,806	326,211	23,295	-	-	(4,006)	434,149
Premiums earned in retention	955,721	978,031	443,629	41,676	-	-	-	2,419,057
Net profit (loss) from investments and financial income	(781,700)	(37,288)	(2,982)	(329)	15,262	(30,135)	1,887	(835,285)
Income from management fees	113,086	2,613	-	-	55,093	543	(66)	171,269
Income from commissions	12,012	11,982	50,229	5,683	356	37,048	(27,714)	89,596
Total income	299,119	955,338	490,876	47,030	70,711	7,456	(25,893)	1,844,637
Payments and changes in liabilities for insurance and investment contracts, gross	209,049	767,413	591,671	33,044	-	-	1,286	1,602,463
Reinsurers' share in payments and changes for insurance contracts liabilities	14,692	41,460	239,872	9,794	-	-	1,286	307,104
Payments and changes in liabilities for insurance and investment contracts, in retention	194,357	725,953	351,799	23,250	-	-	-	1,295,359
Commission, marketing and other acquisition expenses	178,115	191,991	150,171	20,633	-	1,104	(27,714)	514,300
Management and general expenses	130,674	68,581	10,174	3,143	52,030	43,458	(66)	307,994
Other expenses (income)	9,280	(49)	-	125	25,662	643	-	35,661
Financing expenses, net	5,600	3,276	12,471	-	424	34,357	(116)	56,012
Total expenses	518,026	989,752	524,615	47,151	78,116	79,562	(27,896)	2,209,326
Company's share of profits (losses) of investee companies recorded by the equity method	16,034	4,803	10,618	-	(1)	10,631	-	42,085
Loss before income taxes	(202,873)	(29,611)	(23,121)	(121)	(7,406)	(61,475)	2,003	(322,604)
Other comprehensive income (loss) before income tax	96,434	(7,650)	(16,415)	(4,182)	1	32,628	-	100,816
Total comprehensive loss before income tax	(106,439)	(37,261)	(39,536)	(4,303)	(7,405)	(28,847)	2,003	(221,788)
Liabilities in respect of non-yield dependent insurance and investment contracts	11,235,859	3,921,204	9,758,055	256,294	-	-	(5,008)	25,166,404
Liabilities in respect of yield dependent insurance and investment contracts	34,535,210	3,668,787	-	-	-	-	-	38,203,997

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Contd.)

	For the year ended December 31 2015 (Audited)							
	Life Assurance and Long-term Savings	Health Insurance	Non-life Insurance	Insurance companies overseas	Financial Services	Not Allocated To Any Specific Segment	Adjustments and Offsets	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
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 nine months ended September 30 2016 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	Mortgage insurance	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS Thousand	NIS Thousand
Premiums gross	378,845	587,161	751,698	585,057	(14,606)	2,288,155
Premiums by reinsurers	2,178	15,208	557,927	203,498	-	778,811
Retention premiums	376,667	571,953	193,771	381,559	(14,606)	1,509,344
Changes in premium balances that have not yet been earned, retention	59,036	89,761	22,492	(11,881)	(33,055)	126,353
Retention premiums earned	317,631	482,192	171,279	393,440	18,449	1,382,991
Profits from investments, net, and financing income	48,276	10,713	4,520	52,245	13,792	129,546
Commission income	1,494	9,731	91,828	31,479	-	134,532
Total income	367,401	502,636	267,627	477,164	32,241	1,647,069
Payments and changes in liabilities for insurance contracts, gross	366,503	394,317	386,924	824,376	(16,128)	1,955,992
Reinsurer's share of payments and changes in liabilities for insurance contracts	22,803	23,079	327,196	404,376	-	777,454
Payments and changes in liabilities for insurance contracts, retention	343,700	371,238	59,728	420,000	(16,128)	1,178,538
Commission, marketing expenses and other acquisition costs	58,743	118,638	150,891	111,897	-	440,169
Management and general expenses	5,855	7,889	5,537	3,514	3,229	26,024
Financing expenses (incomes), net	(4,341)	(963)	(406)	(4,698)	44	(10,364)
Total expenses (incomes)	403,957	496,802	215,750	530,713	(12,855)	1,634,367
Company’s share of profits of investee companies recorded by the equity method	15,624	3,467	1,463	16,908	13	37,475
Profit (loss) before income taxes	(20,932)	9,301	53,340	(36,641)	45,109	50,177
Other comprehensive loss before income tax	(6,229)	(1,383)	(583)	(6,742)	(184)	(15,121)
Total comprehensive income (loss) before income tax	(27,161)	7,918	52,757	(43,383)	44,925	35,056
Liabilities for insurance policies, gross, as at September 30 2016	2,368,548	578,604	847,967	5,252,050	432,129	9,479,298
Liabilities for insurance policies, Retention as at September 30 2016	2,064,517	538,857	199,813	2,318,146	432,129	5,553,462

* 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 76% of total premiums in these branches.

Note 4 - Operating segments (Contd.)

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

	For the three months ended September 30 2016 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	Mortgage insurance	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS Thousand	NIS Thousand
Premiums gross	104,743	165,343	230,534	131,681	(4,073)	628,228
Premiums by reinsurers	1,519	4,107	170,753	79,714	-	256,093
Retention premiums	103,224	161,236	59,781	51,967	(4,073)	372,135
Changes in premium balances that have not yet been earned, retention	(6,883)	(4,439)	(984)	(81,328)	(9,050)	(102,684)
Retention premiums earned	110,107	165,675	60,765	133,295	4,977	474,819
Profits from investments, net, and financing income	20,293	4,454	2,010	21,863	6,819	55,439
Commission income	278	2,295	29,433	10,025	-	42,031
Total income	130,678	172,424	92,208	165,183	11,796	572,289
Payments and changes in liabilities for insurance contracts, gross	107,783	128,423	119,392	201,992	(4,529)	553,061
Reinsurer's share of payments and changes in liabilities for insurance contracts	2,578	7,046	98,111	74,988	-	182,723
Payments and changes in liabilities for insurance contracts, retention	105,205	121,377	21,281	127,004	(4,529)	370,338
Commission, marketing expenses and other acquisition costs	21,538	46,640	47,808	38,685	-	154,671
Management and general expenses	2,214	2,794	2,217	821	1,081	9,127
Financing expenses (incomes), net	(3,425)	(758)	(324)	(3,704)	38	(8,173)
Total expenses	125,532	170,053	70,982	162,806	(3,410)	525,963
Company's share of profits of investee companies recorded by the equity method	3,465	747	372	3,707	67	8,358
Profit before income taxes	8,611	3,118	21,598	6,084	15,273	54,684
Other comprehensive income (loss) before income tax	(6,777)	(1,505)	(633)	(7,337)	(93)	(16,345)
Total comprehensive income (loss) before income tax	1,834	1,613	20,965	(1,253)	15,180	38,339
Liabilities for insurance policies, gross, as at September 30 2016	2,368,548	578,604	847,967	5,252,050	432,129	9,479,298
Liabilities for insurance policies, Retention as at September 30 2016	2,064,517	538,857	199,813	2,318,146	432,129	5,553,462

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

** Other liabilities branches include mainly results from third-party insurance and professional liability which account for 66% of total premiums in these branches.

Note 4 - Operating segments (Contd.)

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

	For the nine months ended September 30 2015 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	Mortgage insurance	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS Thousand	NIS Thousand
Premiums gross	405,283	670,076	634,649	571,461	(23,421)	2,258,048
Premiums by reinsurers	42,510	76,434	476,237	308,604	-	903,785
Retention premiums	362,773	593,642	158,412	262,857	(23,421)	1,354,263
Changes in premium balances that have not yet been earned, retention	62,264	83,306	(16,717)	(35,975)	(53,288)	39,590
Retention premiums earned	300,509	510,336	175,129	298,832	29,867	1,314,673
Profits from investments, net, and financing income	53,057	11,003	4,467	47,566	15,551	131,644
Commission income	8,930	23,809	88,724	45,192	-	166,655
Total income	362,496	545,148	268,320	391,590	45,418	1,612,972
Payments and changes in liabilities for insurance contracts, gross	291,713	476,941	308,852	790,833	(2,959)	1,865,380
Reinsurer's share of payments and changes in liabilities for insurance contracts	41,630	62,299	237,276	454,372	-	795,577
Payments and changes in liabilities for insurance contracts, retention	250,083	414,642	71,576	336,461	(2,959)	1,069,803
Commission, marketing expenses and other acquisition costs	56,528	124,360	147,708	108,652	-	437,248
Management and general expenses	6,279	8,890	4,717	3,914	3,211	27,011
Financing expenses, net	2,738	568	230	2,454	25	6,015
Total expenses (incomes)	315,628	548,460	224,231	451,481	277	1,540,077
Company’s share of profits of investee companies recorded by the equity method	27,166	5,632	2,287	24,349	850	60,284
Profit (loss) before income taxes	74,034	2,320	46,376	(35,542)	45,991	133,179
Other comprehensive loss, before income tax	(30,966)	(6,420)	(2,606)	(27,754)	(9,609)	(77,355)
Total comprehensive income (loss) before income tax	43,068	(4,100)	43,770	(63,296)	36,382	55,824
Liabilities for insurance policies, gross, As at September 30 2015	2,495,529	640,863	881,356	5,239,411	500,896	9,758,055
Liabilities for insurance policies, Retention As at September 30 2015	2,121,021	554,666	169,802	1,989,656	500,896	5,336,041

* 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 76% of total premiums in these branches.

Note 4 - Operating segments (Contd.)

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

	For the three months ended September 30 2015 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	Mortgage insurance	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS Thousand	NIS Thousand
Premiums gross	94,799	151,259	219,241	139,565	(8,980)	595,884
Premiums by reinsurers	10,633	17,140	168,151	84,572	-	280,496
Retention premiums	84,166	134,119	51,090	54,993	(8,980)	315,388
Changes in premium balances that have not yet been earned, retention	(18,549)	(40,498)	(4,221)	(47,142)	(17,831)	(128,241)
Retention premiums earned	102,715	174,617	55,311	102,135	8,851	443,629
Profits (losses) from investments, net, and financing income	(482)	(346)	174	(1,803)	(525)	(2,982)
Commission income	3,127	6,740	27,356	13,006	-	50,229
Total income	105,360	181,011	82,841	113,338	8,326	490,876
Payments and changes in liabilities for insurance contracts, gross	109,140	154,934	99,827	227,904	(134)	591,671
Reinsurer's share of payments and changes in liabilities for insurance contracts	12,622	17,151	78,289	131,810	-	239,872
Payments and changes in liabilities for insurance contracts, retention	96,518	137,783	21,538	96,094	(134)	351,799
Commission, marketing expenses and other acquisition costs	22,865	47,278	44,825	35,203	-	150,171
Management and general expenses	2,278	3,293	1,907	1,502	1,194	10,174
Financing expenses, net	5,653	1,186	467	5,142	23	12,471
Total expenses	127,314	189,540	68,737	137,941	1,083	524,615
Company's share of profits of investee companies recorded by the equity method	4,766	884	491	3,694	783	10,618
Profit (loss) before income taxes	(17,188)	(7,645)	14,595	(20,909)	8,026	(23,121)
Other comprehensive loss before income tax	(4,537)	(818)	(487)	(3,383)	(7,190)	(16,415)
Total comprehensive income (loss) before income tax	(21,725)	(8,463)	14,108	(24,292)	836	(39,536)
Liabilities for insurance policies, gross, As at September 30 2015	2,495,529	640,863	881,356	5,239,411	500,896	9,758,055
Liabilities for insurance policies, Retention As at September 30 2015	2,121,021	554,666	169,802	1,989,656	500,896	5,336,041

* 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 68% of total premiums in these branches.

Note 4 - Operating segments (Contd.)

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

	For the year ended December 31 2015 (Audited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	Mortgage insurance	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS Thousand	NIS Thousand
Premiums gross	484,763	798,997	872,789	826,913	(29,067)	2,954,395
Premiums by reinsurers	51,066	92,205	665,012	391,241	-	1,199,524
Retention premiums	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 profits of investee companies recorded by the equity method	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, 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 nine months ended September 30, 2016 (Unaudited)				For the nine months ended September 30, 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	-	-	3,085,570	3,085,570	-	-	3,186,140	3,186,140
Premiums earned by reinsurers	-	-	97,337	97,337	-	-	106,301	106,301
Premiums in retention	-	-	2,988,233	2,988,233	-	-	3,079,839	3,079,839
Profit from investments, net, and financing income	419	1,623	1,513,103	1,515,145	313	279	619,319	619,911
Income from management fees	143,370	206,304	290,178	639,852	162,217	196,912	232,146	591,275
Income from commissions	-	148	12,622	12,770	-	202	18,298	18,500
Total income	143,789	208,075	4,804,136	5,156,000	162,530	197,393	3,949,602	4,309,525
Payments and changes in liabilities for insurance policies and investment contracts, gross	1,522	6,918	4,279,272	4,287,712	1,479	8,830	3,360,907	3,371,216
Reinsurers' share of payments and change in liabilities for insurance policies	-	-	69,950	69,950	-	-	66,477	66,477
Payments and changes in liabilities for insurance policies and investment contracts in retention	1,522	6,918	4,209,322	4,217,762	1,479	8,830	3,294,430	3,304,739
Commissions, marketing expenses and other purchasing expenses	61,306	92,483	461,346	615,135	57,540	78,759	409,236	545,535
General and administrative expenses	60,200	68,146	252,073	380,419	59,728	51,112	249,304	360,144
Other expenses	8,725	1,108	15,941	25,774	10,015	1,977	15,941	27,933
Financing expenses (income), net	3	(140)	4,473	4,336	72	3,859	4,501	8,432
Total expenses	131,756	168,515	4,943,155	5,243,426	128,834	144,537	3,973,412	4,246,783
Company's share of profits of equity accounted investees	-	-	27,555	27,555	-	-	44,186	44,186
Profit (loss) before taxes on income	12,033	39,560	(111,464)	(59,871)	33,696	52,856	20,376	106,928
Other comprehensive income (loss) before taxes on income	835	(576)	39,288	39,547	(426)	96	10,546	10,216
Total comprehensive income (loss) before taxes on income	12,868	38,984	(72,176)	(20,324)	33,270	52,952	30,922	117,144

Note 4 - Operating segments (Contd.)

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

	For the three months ended September 30, 2016 (Unaudited)				For the three months ended September 30, 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	-	-	1,048,320	1,048,320	-	-	992,564	992,564
Premiums earned by reinsurers	-	-	26,287	26,287	-	-	36,843	36,843
Premiums in retention	-	-	1,022,033	1,022,033	-	-	955,721	955,721
Profit (loss) from investments, net, and financing income	379	494	994,493	995,366	223	(90)	(781,833)	(781,700)
Income (expenses) from management fees	52,619	70,762	125,792	249,173	53,146	68,042	(8,102)	113,086
Income from commissions	-	(1)	5,013	5,012	-	202	11,810	12,012
Total income	52,998	71,255	2,147,331	2,271,584	53,369	68,154	177,596	299,119
Payments and changes in liabilities for insurance policies and investment contracts, gross	473	2,316	1,864,527	1,867,316	515	3,364	205,170	209,049
Reinsurers' share of payments and change in liabilities for insurance policies	-	-	23,218	23,218	-	-	14,692	14,692
Payments and changes in liabilities for insurance policies and investment contracts in retention	473	2,316	1,841,309	1,844,098	515	3,364	190,478	194,357
Commissions, marketing expenses and other purchasing expenses	20,352	29,680	152,798	202,830	19,617	28,037	130,461	178,115
General and administrative expenses	19,435	23,588	83,586	126,609	21,204	17,471	91,999	130,674
Other expenses	3,083	511	5,313	8,907	3,328	639	5,313	9,280
Financing expenses (income), net	(1)	(4)	2,384	2,379	(8)	3,863	1,745	5,600
Total expenses	43,342	56,091	2,085,390	2,184,823	44,656	53,374	419,996	518,026
Company's share of profits of equity accounted investees	-	-	207	207	-	-	16,034	16,034
Profit (loss) before taxes on income	9,656	15,164	62,148	86,968	8,713	14,780	(226,366)	(202,873)
Other comprehensive income (loss) before taxes on income	(523)	(752)	3,364	2,089	(256)	266	96,424	96,434
Total comprehensive income (loss) before taxes on income	9,133	14,412	65,512	89,057	8,457	15,046	(129,942)	(106,439)

Note 4 - Operating segments (Contd.)

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

	For year ended December 31, 2015			
	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 earned 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

	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		
For the nine months ended September 30, 2016 (Unaudited)	Until 1990 (1)	Up to 2003	Not yield-dependent	Yield dependent	Personal lines	Group	Total
				NIS thousand			
Gross premiums	93,041	690,555	19	1,481,246	690,715	151,633	3,107,209
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(21,639)
Total							3,085,570
Amounts received for investment contracts recognized directly in insurance reserves	-	-	-	1,405,763	-	-	1,405,763
Financial margin including management fees - in terms of comprehensive income (2)	97,069	160,728	(70,236)	129,450	-	-	317,011
Payments and changes in liabilities for insurance policies gross	477,759	1,275,908	111,559	1,638,678	355,324	151,359	4,010,587
Payments and change in liabilities for investment contracts	-	-	384	268,301	-	-	268,685
For the three months ended September 30 2016 (Unaudited)							
Gross premiums	30,832	233,277	14	510,514	239,073	47,757	1,061,467
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(13,147)
Total							1,048,320
Amounts received for investment contracts recognized directly in insurance reserves	-	-	-	539,445	-	-	539,445
Financial margin including management fees - in terms of comprehensive income (2)	22,005	80,660	8,782	45,131	-	-	156,578
Payments and changes in liabilities for insurance policies gross	152,824	683,208	(1,128)	738,604	147,216	44,800	1,765,524
Payments and change in liabilities for investment contracts	-	-	309	98,694	-	-	99,003

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

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

Note 4 - Operating segments (Contd.)

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

Results by policy category (contd.)

	Policies which include a savings component (incl. riders) by date of policy issue				Policies with no savings component		
			from 2004		Risk that was sold as a stand-alone policy		
For the year ended December 31 2015 (Audited)	**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 nine months ended September 30 2016 (Unaudited)	Long-term care (LTC)		Other *		
	Personal lines	Group	long-term **	short-term **	Total
	NIS thousand				
Gross premiums	397,035	871,470	1,496,815	346,402	3,111,722
Payments and changes in liabilities for insurance policies gross	282,071	938,742	980,962	188,794	2,390,569

For the three months ended September 30 2016 (Unaudited)	Long-term care (LTC)		Other *		
	Personal lines	Group	long-term **	short-term **	Total
	NIS thousand				
Gross premiums	133,887	304,597	504,593	146,643	1,089,720
Payments and changes in liabilities for insurance policies gross	104,760	356,336	372,461	59,876	893,433

For the year ended December 31 2015 (Audited)	Long-term care (LTC)		Other *		
	Personal lines	Group	long-term **	short-term **	Total
	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 1,188,339 thousand and NIS 439,608 thousand for the nine and three months ended September 30, 2016, respectively (for the year ended December 31, 2015, an amount of NIS 1,444,892 thousand) and group premiums in the amount of NIS 654,878 thousand and NIS 211,628 thousand for the nine and three months ended September 30, 2016, respectively (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) On July 4, 2016 approval was received from the Tax Authority, effective retrospectively from December 31, 2015, for a 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. Approval was also given to transfer 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. As part of the Tax Authority's approval, provisions were prescribed under Sections 103, 104 and 105 of the Income Tax Ordinance in connection with the manner of performing the restructuring.

(2) On June 15, 2016, approval was received from the Tax Authority, effective retrospectively from December 31, 2015, to 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. Approval was also given to 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. As part of the Tax Authority's approval, provisions were prescribed under Sections 103 and 104 of the Income Tax Ordinance in connection with the manner of performing the restructuring.

(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. The approval was received on November 17, 2016.

D. Tax assessments in dispute

Harel Insurance has a dispute with the tax authorities regarding the real-estate segment for the period 2009-2014 which is currently in legal proceedings with Income Tax. The subject of the dispute is that the tax filings of Harel Insurance for this period included certain revenues in the real-estate segment on which profit tax was not paid.

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:

	September 30		December 31
	2016	2015	2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand
Investment property	**1,378,345**	1,373,276	1,368,958
Financial investments			
Marketable debt assets	**16,331,694**	17,181,268	17,043,861
Non-marketable debt assets (*)	**8,080,371**	5,806,409	6,400,091
Shares	**6,700,650**	6,536,312	6,804,453
Other financial investments	**7,814,672**	6,796,282	6,919,346
Total financial investments	**38,927,387**	36,320,271	37,167,751
Cash and cash equivalents	**1,423,617**	804,385	966,875
Other	**668,352**	370,694	532,702
Total assets for yield-dependent contracts **	**42,397,701**	38,868,626	40,036,286
Payables	**9,982**	11,585	21,110
Financial liabilities ***	**121,270**	369,840	163,135
Financial liabilities for yield-dependent contracts	**131,252**	381,425	184,245
(*) Assets measured at adjusted cost	**633,745**	489,311	548,126
Fair value of debt assets measured at adjusted cost	**674,785**	524,046	586,900

** Including assets in the amount of NIS 3,605,203 thousand, NIS 3,301,449 thousand and NIS 3,371,174 thousand as at September 30, 2016 and 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 hierarchy of financial assets

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

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

	As at September 30, 2016 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
Marketable debt assets	**12,640,991**	**3,690,703**	**-**	**16,331,694**
Non-marketable debt assets	**-**	**7,109,356**	**337,270**	**7,446,626**
Shares	**5,203,189**	**24,084**	**1,473,377**	**6,700,650**
Other	**4,733,939**	**184,016**	**2,896,717**	**7,814,672**
Total	**22,578,119**	**11,008,159**	**4,707,364**	**38,293,642**

	As at September 30, 2015 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
Marketable debt assets	14,022,155*	3,155,003*	4,110	17,181,268
Non-marketable debt assets	-	5,050,900	266,198	5,317,098
Shares	5,070,730	14,757	1,450,825	6,536,312
Other	4,138,313	93,826	2,564,143	6,796,282
Total	23,231,198	8,314,486	4,285,276	35,830,960

	As at December 31 2015 (Audited)			
	Level 1	Level 2	Level 3	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
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 nine and three-month periods ended September 30, 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 (*)	33,155	137,000	104,380	274,535
Interest and dividend receipts	(18,406)	(47,448)	(94,400)	(160,254)
Purchases	85,988	50,185	538,850	675,023
Sales	(42,257)	(213,763)	(218,605)	(474,625)
Redemptions	(73,848)	(41,651)	(31,993)	(147,492)
Transfers to Level 3 **	46,475	-	-	46,475
Transfers from Level 3 ***	(58,503)	-	-	(58,503)
Balance as at September 30 2016	337,270	1,473,377	2,896,717	4,707,364
(*) Of which totalunexercised profit for the period for financial assets held correct to September 30 2016	25,927	56,548	105,717	188,192

	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 July 1, 2016	298,204	1,504,589	2,832,256	4,635,049
Total profits that were recognized in profit and loss (*)	25,962	(3,776)	49,366	71,552
Interest and dividend receipts	(7,440)	(22,244)	(28,655)	(58,339)
Purchases	12,473	8,003	134,789	155,265
Sales	-	(1,713)	(83,865)	(85,578)
Redemptions	(606)	(11,482)	(7,174)	(19,262)
Transfers to Level 3 **	8,677	-	-	8,677
Balance as at September 30 2016	337,270	1,473,377	2,896,717	4,707,364
(*) Of which total unexercised profit for the period for financial assets held correct to September 30 2016	21,900	(3,776)	49,363	67,487

** For securities whose marketability changed.

Note 6 – Financial instruments (contd.)

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

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

For the nine and three-month periods September 30, 2015

	Fair-value measurement on report date			
	Financial assets at fair value through profit or loss			
	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 (*)	17,343	136,369	137,451	291,163
Interest and dividend receipts	(6,791)	(55,566)	(95,438)	(157,795)
Purchases	94,392	445,445	810,474	1,350,311
Sales	(5,412)	(27,688)	(155,616)	(188,716)
Redemptions	(28,390)	(15,569)	(5,470)	(49,429)
Transfers to Level 3 **	69,905	-	-	69,905
Transfers from Level 3 ***	(1,638)	(14,757)	-	(16,395)
Classification of balances	-	92,290	(92,290)	-
Balance as at September 30 2015	270,308	1,450,825	2,564,143	4,285,276
(*) Of which total unexercised profit for the period for financial assets held correct to September 30, 2015	15,824	134,417	142,182	292,423

	Fair-value measurement on report date			
	Financial assets at fair value through profit or loss			
	Debt assets	Shares	Other	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Balance as at July 1, 2015	192,999	1,257,632	2,245,756	3,696,387
Total profits that were recognized in profit and loss (*)	10,267	107,234	83,127	200,628
Interest and dividend receipts	(2,678)	(11,086)	(24,102)	(37,866)
Purchases	24,964	117,119	309,397	451,480
Sales	(5,330)	(2,008)	(46,979)	(54,317)
Redemptions	(13,850)	(3,309)	(3,056)	(20,215)
Transfers to Level 3 **	63,936	-	-	63,936
Transfers from Level 3 ***	-	(14,757)	-	(14,757)
Balance as at September 30 2015	270,308	1,450,825	2,564,143	4,285,276
(*) Of which total unexercised profit for the period for financial assets held correct to September 30, 2015	9,709	106,654	83,117	199,480

** For securities whose rating changed.

*** For securities whose marketability changed.

Note 6 – Financial instruments (contd.)

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

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

For the year ended December 31, 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 unexercised profit for the period 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

	September 30 (Unaudited)		December 31 (Audited)	September 30 (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	**4,842,902**	4,654,500	4,579,010	**6,418,062**	5,939,301	5,898,915
Non-marketable, non-convertible debt assets, excluding bank deposits	**5,780,039**	4,995,200	5,298,631	**6,443,538**	5,551,885	5,903,981
Bank deposits	**898,033**	864,167	912,132	**964,484**	950,875	989,116
Non-marketable, convertible debt assets	**312**	326	311	**312**	326	311
Total non-marketable debt assets	**11,521,286**	10,514,193	10,790,084	**13,826,396**	12,442,387	12,792,323
Investments held to maturity:						
Marketable non-convertible debt assets	**290,044**	320,078	307,199	**301,680**	335,111	320,839
Total Investments held to maturity	**290,044**	320,078	307,199	**301,680**	335,111	320,839
Total	**11,811,330**	10,834,271	11,097,283	**14,128,076**	12,777,498	13,113,162
Impairments recognized in profit and loss (in aggregate)	**16,474**	7,409	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 September 30 2016 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
Marketable debt assets	5,440,552	1,634,332	-	7,074,884
Non-marketable debt assets	-	-	312	312
Shares	696,943	-	71,763	768,706
Other	1,036,083	112,584	1,317,355	2,466,022
Total	7,173,578	1,746,916	1,389,430	10,309,924

	As at September 30 2015 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Marketable debt assets	5,852,539*	1,408,684*	-	7,261,223
Non-marketable debt assets	-	-	326	326
Shares	656,269	-	79,910	736,179
Other	782,914	55,219	1,245,157	2,083,290
Total	7,291,722	1,463,903	1,325,393	10,081,018

	As at December 31 2015 (Audited)			
	Level 1	Level 2	Level 3	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
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 nine and three-month periods ended September 30, 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	917	20,942	21,860
In other comprehensive income	-	(2,351)	13,606	11,255
Interest and dividend receipts	-	(2,445)	(36,393)	(38,838)
Purchases	-	-	186,260	186,260
Sales	-	(1,364)	(81,879)	(83,243)
Redemptions	-	-	(14,119)	(14,119)
Balance as at September 30 2016	312	71,763	1,317,355	1,389,430
(*) Of which total unexercised profit for the period for financial assets held correct to September 30 2016	1	917	20,898	21,816

	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 July 1, 2016	312	78,227	1,307,797	1,386,336
Total profits (losses) that were recognized:				
In profit and loss (*)	-	826	6,796	7,622
In other comprehensive income	-	(3,955)	10,057	6,102
Interest and dividend receipts	-	(2,363)	(12,792)	(15,155)
Purchases	-	-	39,021	39,021
Sales	-	(972)	(30,403)	(31,375)
Redemptions	-	-	(3,121)	(3,121)
Balance as at September 30 2016	312	71,763	1,317,355	1,389,430
(*) Of which total unexercised profit for the period for financial assets held correct to September 30 2016	-	826	6,796	7,622

Note 6 – Financial instruments (contd.)

B. Other financial investments (contd.)

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

For the nine and three-month periods ended September 30, 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)	17,314	46,137	63,303
In other comprehensive income	-	(16,251)	(8,709)	(24,960)
Interest and dividend receipts	-	(3,737)	(39,401)	(43,138)
Purchases	-	-	383,558	383,558
Sales	(302)	(1,352)	(86,983)	(88,637)
Redemptions	-	-	(3,477)	(3,477)
Transfers from Level 3 **	-	(32,018)	(112,307)	(144,325)
Balance as at September 30 2015	326	79,910	1,245,157	1,325,393
(*) Of which total profit (loss) for the period that has not yet been exercised for financial assets held correct to September 30 2015	(148)	3,037	12,701	15,590

	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 July 1, 2015	326	80,352	1,141,143	1,221,821
Total profits (losses) that were recognized:				
In profit and loss (*)	-	(309)	(13,077)	(13,386)
In other comprehensive income	-	389	38,998	39,387
Interest and dividend receipts	-	(92)	(9,335)	(9,427)
Purchases	-	-	128,542	128,542
Sales	-	(430)	(39,356)	(39,786)
Redemptions	-	-	(1,758)	(1,758)
Balance as at September 30 2015	326	79,910	1,245,157	1,325,393
(*) Of which total profit (loss) for the period that has not yet been exercised for financial assets held correct to September 30 2015	-	(299)	(13,084)	(13,383)

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 unexercised profit (loss) for the period 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

	September 30 (Unaudited)		December 31 (Audited)	September 30 (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 from banks (1)	**422,026**	516,242	481,415	**439,232**	523,573	491,962
Loans from non-bank corporations (1)	**90,653**	94,614	93,966	**90,589**	94,380	93,609
Loans from interested parties	**10,697**	11,395	11,484	**10,697**	11,395	11,484
Short-term credit from banks and other corporations	**-**	401	-	**-**	401	-
Subordinated promissory notes	**2,818,616**	2,676,371	2,633,965	**3,089,185**	2,898,781	2,903,004
Total financial liabilities presented at amortized cost	**3,341,992**	3,299,023	3,220,830	**3,629,703**	3,528,530	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 September 30		As at December 31
	2016	2015	2015
In percent			
Loans	**2.62%**	2.90%	2.90%
Subordinated liability notes	**2.17%**	2.10%	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).

	As at September 30 2016 (Unaudited)		
	Level 1	Level 2	Total
	NIS Thousand	NIS Thousand	NIS Thousand
Loans from banks (1)	-	27,440	27,440
Derivatives (2)	12,872	804,133	817,005
Short sales (3)	98,510	-	98,510
Total financial liabilities	111,382	831,573	942,955

	As at September 30 2015 (Unaudited)		
	Level 1	Level 2	Total
	NIS Thousand	NIS Thousand	NIS Thousand
Loans from banks (1)	-	51,239	51,239
Derivatives (2)	138,664	1,087,149	1,225,813
Short sales (3)	13,324	-	13,324
Total financial liabilities	151,988	1,138,388	1,290,376

	As at December 31 2015 (Audited)		
	Level 1	Level 2	Total
	NIS Thousand	NIS Thousand	NIS Thousand
Loans from banks (1)	-	206,232	206,232
Derivatives (2)	28,257	801,680	829,937
Short sales (3)	27,441	-	27,441
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 September 30, 2016, there is no financial liability for this activity.

(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 616 million as at September 30, 2016, NIS 642 million as at September 30, 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 by means of derivatives to foreign currency and to the CPI. Against these liabilities, the financial institutions deposited collateral in accordance with the conditions prescribed in the contract. The Group’s financial institutions have approved credit facilities for its derivative activity. Furthermore, the Group’s financial institutions deposited NIS 806 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 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 and its subsidiaries took from banks and non-bank companies, see Note 25 to the annual financial statements. On the early repayment of a bank loan by a Company subsidiary, see Note 9. As at September 30, 2016 the Company is in compliance with the financial covenants that were determined.

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. Affirmation of a Maalot rating

   On July 4, 2016, Maalot affirmed the 'ilAA-' rating for the expansion of Series 12 bonds and Series 13 bonds of hybrid tier-2 capital, in the total amount of up to NIS 320 million par value that were issued by Harel Insurance, Financing and Issuing Ltd.

4. On the exchange of Series 2 and 3 liability notes, see Note 9.

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

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

The fair value of non-marketable debt assets measured at fair value by way of profit or loss and of non-marketable 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, in 2011, the Commissioner published a circular concerning data optimization of the rights of members of financial institutions. The circular details the activity framework that a financial institution must carry out to ensure that members' rights are reliably, and fully recorded in the information systems, and that they are available and retrievable. The circular 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. In accordance with the provisions of the circular, the optimization project is scheduled for completion on June 30, 2016. At this date, the Company has completed the optimization activity for most of the issues that were included in the work plan. Nevertheless, several issues are outstanding which due to their complexity continued after the date scheduled for completion of the project and which is due to be completed by the end of 2016. The Company informed the Commissioner that the handling of these issues is underway and the anticipated time frame for their completion.

On August 16, 2016, Harel Insurance was informed by the Commissioner of the imposition of a financial penalty in the total amount of NIS 1,225 thousand. The financial penalty was imposed due to the failure to send annual reports to certain groups of customers who have life assurance policies that incorporate savings and had reached the end of the policy period. In a decision relating to the imposition of the financial penalties, the Commissioner exercised the powers conferred on him by law, and reduced the amount of the penalty by 30%, in part after determining that the facts constituting the breach are of minor importance and that Harel Insurance had taken action to prevent the breach and reduce the damage.

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.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

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.

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 in pensions, actuarial practice in life assurance and long-term care, location of members and beneficiaries, customer service, reinsurance, long-term care insurance and life assurance 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 is information about 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 39, 40, 41, 42, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, and 55 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 an 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. On July 19, 2016, the Tel Aviv District Court approved the claim as a class action in connection with the collection of a sub-annual factor on the premium component which is known as the policy factor and on the savings component in combined savings and life assurance policies, and in connection with the collection of a sub-annual policy factor in health, disability, critical illness, work disability and long-term care policies.
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 for his opinion.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

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. In October 2016, a compromise settlement in the action was submitted for the court’s approval. Accordingly, among other things, Harel Insurance will pay eligible members of the group, as they are defined in the compromise settlement, a sum equal to fifty per cent (50%) of the cost of the relevant safety devices (as defined in the compromise settlement), net of depreciation and plus interest differences and CPI linkage, from the date of payment of the insurance benefits and up to the date on which payment is transferred. This amount will be paid to relevant members of the group who apply to Harel Insurance following contact to be made with the members of the approved group. Insofar as it transpires that the total amount payable is less than the minimum amount to be determined by a court-appointed expert, the sum to be received by each member of the group who applied to Harel will be increased, and where necessary an additional mechanism will be used for locating insureds. Any outstanding amount of the minimum compensation that is not paid to the group members will be donated to charity as per the provisions of the compromise settlement. The compromise settlement also regulates future conduct with respect to safety devices in the event of total loss, as it is defined in the compromise settlement. Validity of the compromise settlement is contingent on the court’s approval.
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. In September 2016, a compromise settlement was submitted for the court’s approval. Accordingly, it was agreed, inter alia, that Harel Insurance will donate 60% of its total refund in relation to the first cause, as defined in the compromise settlement and as per report of the reviewer to be appointed to review the compromise settlement, and 80% of the total refund amount in respect of the second cause, as defined in the compromise settlement and as per the report of the reviewer to be appointed, as noted. Furthermore, the compromise settlement prescribes provisions with respect to future conduct in cases of the cancellation of policies which are the subject of the claim. Validity of the compromise settlement is contingent on the court’s approval.

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. In his decision from November 21, 2016, the court dismissed the compromise settlement and approved litigation of part of the claim as a class action on the grounds of a breach of the insurance policy on account of collection of the policy factor fee with no legal basis in a manner that compromises the insured’s accrued savings, starting from seven years prior to the date of filing the claim. The relief to be claimed as part of the class action will be a remedy of the breach by way of revising the insured’s accrued savings by the additional amount of savings that would have been accrued if the policy factor had not been collected or by compensating the insured by the aforesaid amount. In addition, from now on, the policy factor will no longer be collected. The group in whose name the class action is litigated is insureds of the defendants who have combined life assurance and savings policies that were drawn up between 1992-2003, where the savings accrued by the insureds was compromised on account of the collection of the policy factor. Harel Insurance intends to appeal the court’s decision to dismiss the compromise settlement and to approve litigation of part of the claim as a class action.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

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 litigation of 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. In October 2016, a compromise agreement on the action was submitted for the court’s approval. Among other things, the compromise settlement stipulates that Harel Insurance will pay financial compensation in the amount of NIS 2.6 million to members of the group for the past. This amount will be paid to relevant members of the group who apply to Harel Insurance as a result of advertising to the insured public as per the provisions of the compromise settlement. Any outstanding amount of the total compensation that is not paid to the group members will be donated to charity as per the provisions of the compromise settlement. Furthermore, the compromise settlement regulates future mechanisms for revaluing insurance benefits the transfer of which was withheld due to foreclosure. Validity of the compromise settlement is contingent on the court’s approval.
7. 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.
8. 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.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

9. 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.
10. In May 2013, an action was filed in the Tel Aviv District Court together with an application for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel ostensibly refrains from paying insurance benefits to its policyholders together with linkage differences and interest, from the date of occurrence of the insured event up to the payment date of the insurance benefits. The total loss claimed for all members of the group amounts to sums varying from NIS 168 million to NIS 807 million. The mediation process conducted by the parties was unsuccessful and litigation of the action was returned to the court. On August 30, 2015, the Tel Aviv District Court partially accepted the motion for certification, such that conducting of the claim as a class action was approved with respect to the argument concerning non-payment of interest as required under Section 28(A) of the Insurance Contract Law (“the Law”), and the motion was dismissed insofar as it relates to the argument that Harel Insurance does not link the insurance benefits in accordance with the provisions of Section 28(A) of the Law. The plaintiffs estimate that the overall loss claimed for all members of the group in relation to the Company according to the amended statement of claim amounts to NIS 120 million. In October 2015, an application was filed for permission to appeal the decision to certify the application as a class action. In accordance with the court’s recommendation, in August 2016 the Defendants withdrew the application to appeal.
11. 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 complete information on its website in connection with the sums insured payable as compensation to policyholders when the surgery is paid for by another entity who is not the insurer, and this ostensibly in contravention of the provisions of a circular issued by the Commissioner 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. In June 2016, an amended compromise agreement was submitted for the court’s approval, consistent with the court’s comments. In September 2016, the Attorney General’s position was submitted to the court whereby he does not oppose the compromise settlement and leaves approval of the decision in the court’s hands. As part of his position, the Attorney General made several remarks relating to the wording of the arrangement.
12. In October 2013, an action was filed in the Lod District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action is an allegation that Harel Insurance ostensibly refrains from paying compensation to insureds who performed surgery that was fully or partially paid for by their healthcare providers, at a rate of half the amount that it saved from the full cost of the surgery, due to the participation of the health funds. The total loss claimed for all members of the group amounts to NIS 14 million. In March 2016, a compromise settlement was submitted for the court’s approval. In June 2016, an amended compromise agreement was submitted for the court’s approval, in accordance with the court’s comments. In September 2016, the Attorney General’s position was submitted to the court whereby he does not oppose the compromise settlement and he leaves approval of the decision in the court’s hands. As part of his position, the Attorney General made several remarks relating to the wording of the arrangement.
13. 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).

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

14. 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.
15. 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.
16. 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.
17. 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. The parties are conducting a mediation process.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

18. 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.
19. 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.
20. 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.
21. 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.
22. 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.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

23. 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.
24. 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.
25. In September 2015, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against Harel Pension Funds Management Ltd. and against four other companies ("hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants were ostensibly in breach of their fiduciary duties towards the members of the provident funds they manage by paying commissions to the insurance agents at a rate derived from the management fees they collect from the members, thereby compensating the agents by an amount that increases in line with the increase in the management fees. Their argument is that the Defendants ostensibly practiced unjust enrichment by creating a mechanism aimed at increasing the management fees in favor of the agents and management companies. The Plaintiffs estimate the loss for all members of the group they wish to represent in the amount of NIS 300 million per annum since 2008 and in total by approximately NIS 2 billion.
26. 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.)

27. 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.
28. 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. In November 2016, the court announced its intention to appoint a reviewer for the court to examine whether the defendants' operating profit in professional liability insurance for the medical and para-medical professionals in the relevant years (2009-2015) is exceptional.
29. 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.
30. 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.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

31. In December 2015, a motion to certify a claim as a class action was filed in the Tel Aviv District Labor Court against Standard Insurance Ltd. ("Standard"), together with an application 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 motion for certification, an application 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. In October 2016, the opinion of the Attorney General was submitted to the court in connection with the compromise settlement in which context the Attorney General recommended several amendments to the compromise settlement.

Actions filed during the Reporting Period

32. 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.
33. 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.
34. 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.
35. 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.)

36. 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.
37. 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 approximately NIS 8 million.
38. 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 during the Reporting Period (contd.)

39. 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.
40. In June 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 is in breach of its obligation to pay linkage differences by law for the insurance benefits that it pays in the health insurance segment, in respect of the period between the date on which the insured event occurs and the date of payment of the insurance benefits. The Plaintiff argues that Harel Insurance is therefore in breach of the statutory provisions, in breach of contract, acts negligently and practices unjust enrichment. The Plaintiff estimates the amount of the loss caused to the members of the group it seeks to represent in the amount of approximately NIS 4 million.
41. In June 2016, a claim was filed in the Central Region Lod District Court, together 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 charge travel insurance policyholders a premium for whole days, despite the fact that on part of those days the Plaintiffs argue that there is no insurance risk in view of the fact that the insured is in Israel. The Plaintiffs argue that these provisions are discriminatory conditions in a standard contract and that such conduct is a breach of the provisions of the Contracts (Insurance) Law on the part of the Defendants and constitutes unjust enrichment. The Plaintiffs estimate the loss caused to the members of the group they wish to represent to be tens or even hundreds of millions of shekels.
42. In June 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 ostensibly collects premiums that include a sub-annual supplement on life assurance policies, without explicitly specifying this supplement in the policy. The Plaintiffs argue that Harel Insurance is therefore in breach of the policy provisions, the instructions of the Commissioner of Insurance, the provisions of the Regulation of Non-banking Loans Law and the duty of disclosure and fairness. The Plaintiff also argues that such conduct is a breach of good faith by Harel Insurance, misleads its insureds and compromises their autonomy. The Plaintiff estimates the loss caused to all members of the group it seeks to represent in the amount of NIS 294 million.
43. In June 2016, a claim was filed in the Central Region Lod District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance ("Harel Insurance") and against SHR Group Ltd. ("Shahar") (hereinafter together: "the Defendants"). The subject of the action is the allegation that in policies that provide structural insurance for buildings and cover for damage caused by water (plumbing), Harel Insurance allegedly collects the full deductible from its insureds even when the actual cost of the repair is less than the amount of the deductible. The Plaintiffs argue that the Defendants are therefore in breach of the provisions of the Contracts (Insurance) Law, 1981, act in bad faith, practice unjust enrichment. and are in breach of a statutory obligation. The Plaintiff estimates the loss caused to all members of the group it seeks to represent in the amount of NIS 8.57 million.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

Actions filed during the Reporting Period (contd.)

44. In June 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"), against the Commissioner of the Capital Market, Insurance and Savings in Ministry of Finance Capital Market Division ("Commissioner of the Capital Market") and against two other insurance companies (hereinafter together: "the Defendants"). The subject of the action is the allegation that the group long-term care policies sold by the Defendants, which include a condition allowing them to be terminated unilaterally, were ostensibly a flawed product that the Defendants knew or should have known were flawed, and that as a result of the cancellation of these policies, the insureds have been left without long-term care insurance. The Plaintiffs therefore argue that the Defendants are ostensibly in breach of statutory provisions, acted in bad faith, misled their insureds, were in breach of the duty of disclosure to consumers and in breach of the duty of caution. The Plaintiffs further argue that the Commissioner of the Capital Market allowed the Defendants to sell these policies and refrained from cancelling them, thus acting negligently and without performing his duties. The Plaintiffs estimate the total loss caused to all members of the group they wish to represent at approximately NIS 7 billion.
45. In August 2016, an action was filed in the Central Region Lod District Court, together with an application for its certification as a class action, against Harel Pension Funds Management Ltd. ("Harel Pension"). The subject of the action is the allegation that in addition to management fees, Harel Pension ostensibly collects payment from its members for a component relating to investment management expenses (a component of direct expenses for performing transactions), which is permissible by law, although in this case Harel neglected to include provision in the contract allowing it do so. The Plaintiff argues that Harel Pension is therefore in breach of the provisions of the pension fund articles and the onerous fiduciary obligations and duty of disclosure that apply to it, it negotiates in bad faith and gives its customers a misleading description. The Plaintiff estimates the total loss claimed for all members of the group that it wishes to represent amounts to approximately NIS 132 million.
46. In August 2016, an action was filed in the Central District Court together with an application for its certification as a class action against the subsidiary Harel Insurance ("Harel Insurance") and against Kagam – Central Pension Fund of Histradrut Employees Ltd.), Amitim Pension ("Amitim" - old pension funds), and Israel Shahar (MIA) - Pension Insurance Agency (2010) Ltd., (hereinafter together: "the Defendants"). The subject of the action is the allegation that insureds in a group life assurance policy for organization members who receive an annuity from Kagam are charged an excess premium in relation to the insurance policy, a premium which provides no insurance cover and is tens of percent more expensive than other life assurance policies. This, while the fund's articles make no mention of the collection of insurance premiums for a widow/er and the Defendants refuse to present the original insurance policy signed by the Plaintiff. The Plaintiff argues that the Defendants are therefore ostensibly in breach of a statutory obligation, are in breach of the onerous duty of disclosure that applies to them, practice unjust enrichment and have misled their insureds. The Plaintiff estimates the total loss sustained by all members of the group it wishes to represent at approximately NIS 33 million.
47. In August 2016, an action was filed in the Tel Aviv Magistrates 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 policyholders who purchased insurable travel insurance cover which gives them an option to purchase travel insurance without the need to submit a new health declaration, are ostensibly required to make a declaration about their medical condition when the travel insurance policy is activated. The Plaintiff argues that Harel Insurance therefore misleads its insureds, takes advantage of the consumer's anxiety, is in breach of the disclosure obligation and its obligation to uphold contracts in good faith, practices unjust enrichment, is in breach of the Contracts (Insurance) Law, 1981, in breach of a statutory obligation, compromises the autonomy of free will, and acts negligently and fraudulently. The Plaintiff estimates the loss claimed for all members of the group that it wishes to represent at NIS 2.5 million - the limit of the Magistrate Court's jurisdiction.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

Actions filed during the Reporting Period (contd.)

48. In September 2016, an action was filed in the Central Region 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 ostensibly collects payment from the holders of the Harel savings policy “Harel Varied Personal Investments” for a component relating to investment management expenses which may be collected by law, but without contractual agreement in the policy conditions allowing it to collect this component. According to the Plaintiff, Harel Insurance is therefore fundamentally in breach of the policy provisions, in breach of the fiduciary obligation applicable to it and misleads its policyholders. The Plaintiff estimates the overall loss caused to all members of the group it seeks to represent in the amount of NIS 27.8 million.
49. In September 2016, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the consolidated subsidiary Harel Insurance Company Ltd. (“Harel Insurance”) and against three other insurance companies (hereinafter together: “the Defendants”). The subject of the action is the allegation that the Defendants ostensibly collect high premiums from the insureds for health insurance policies that include cover that the insureds ostensibly do not need as they have supplementary health insurance from the HMOs to which they belong. The Plaintiffs also argue that the Defendants do not disclose to the insureds that this cover is in fact superfluous and/or they make one type of service conditional on another as they do not allow the insureds to purchase a limited version of the policy which includes only coverage that is not included in the HMO supplementary health insurance, thus creating a situation of double insurance. The Plaintiffs argue that the Defendants are therefore in breach of the duty of utmost good faith which applies to them, are in breach of a statutory obligation, in breach of the provisions of the law, in breach of an agreement, mislead their policyholders and practice unjust enrichment. The Plaintiffs estimate that the total loss claimed for all members of the Group that they wish to represent against Harel Insurance amounts to NIS 2.2 billion, and NIS 4.45 billion against all the Defendants.
50. In September 2016, an action was filed in the Lod-Central District Court, together with an application for its certification as a class action, against the consolidated subsidiary Harel Insurance Company Ltd. (“Harel Insurance”). The subject of the action is the allegation that Harel Insurance ostensibly fails to disclose on its website complete and accurate information about the maximum amounts of indemnification to which health insurance policyholders are entitled for surgery-related expenses which are covered in the health insurance policies that it sells. This, according to the Plaintiff, with the purpose of reducing the amounts of indemnification owed to its insureds. The Plaintiff argues that Harel is therefore in breach of contract, in breach of the instructions of the Commissioner of Insurance, it refrains from providing proper disclosure of the amounts of indemnity to which insureds are entitled and acts fraudulently. The Plaintiff estimates the total loss claimed by all members of the group it wishes to represent to be at least NIS 20 million.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

Actions filed after the Reporting Period

51. In October 2016, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action against the consolidated subsidiary Harel Insurance Company Ltd. ("Harel Insurance"). The subject of the action is the allegation that until the annual report for 2015, Harel Insurance ostensibly neglected to disclose to its policyholders, who purchased long-term care insurance with a variable premium, what premium they will be charged from the age of 65, despite the fact that, according to the Plaintiff, the premium on this policy increases by hundreds of percent at the age of 65. The Plaintiff argues that Harel Insurance is therefore in breach of a statutory obligation and in breach of the obligation to provide disclosure, in breach of agreement, acts in bad faith, practices unjust enrichment and acts negligently. The Plaintiff further argues that charging insureds for future premiums based on tariffs that are unknown to them is a discriminatory condition in a standard contract. The Plaintiff has not quantified the total loss claimed for all members of the group that she wishes to represent against Harel Insurance, although she estimates it to be millions of shekels.
52. In October 2016, an action was filed in the Central District Court, together with an application for its certification as a class action, against the consolidated subsidiary Harel Insurance Company Ltd. ("Harel Insurance"), against another insurance company and against SHR Group Ltd. ("Shachar Plumbing") (hereinafter together: "the Defendants"). The subject of the action is the allegation that when an insured event such as damage due to a leak occurs, the insurance companies ostensibly unlawfully collect a deductible from their insureds at a rate higher than the maximum rate prescribed in their insurance policies. The Plaintiffs argue that the Defendants are therefore in breach of the policy provisions, practice unjust enrichment, act negligently and mislead their insureds. The Plaintiffs estimate the loss caused to the members of the group they wish to represent with respect to Harel Insurance at approximately NIS 39.8 million.
53. In October 2016, an action was filed in the Jerusalem District Labor Court together with an application for its certification as a class action against the second-tier subsidiary, Tzva Hakeva (Regular Army) Saving Fund – Provident Funds Management Company Ltd. ("Tzva Hakeva"). The subject of the action is the allegation that Tzva Hakeva ostensibly collects investment management expenses from fund members which is permissible by law, but without contractual agreement in the policy conditions allowing it to collect these expenses. The Plaintiff argues that Tzva Hakeva therefore acts in contravention of the provisions of law and the special fiduciary obligation that applies to it. The Plaintiff estimates the overall loss caused to all members of the group it seeks to represent in the amount of NIS 30.1 million.
54. In November 2016, an amended application was produced for the Company for certification of an action as a class action against the consolidated subsidiary Harel Insurance ("Harel Insurance"), against Clal Insurance Company Ltd. ("Clal Insurance"), and against Amitim's Nativ Pension Fund (South and Center) ("Nativ Pension Association"). The amended application was filed in the Central District Court as part of an application to certify an action as a class action, which was first filed against Clal Insurance and Nativ Pension Association in May 2015. The subject of the action is the allegation that Clal Insurance unilaterally and unlawfully cancelled the group life assurance policy for pensioners who are members of the Nativ Pension Fund (South and Central), on the grounds that the policy is not profitable. According to the Plaintiff, the inclusion of Harel Insurance in the application for certification is necessary in view of the role of Harel Pension Funds Management Ltd. ("Harel Pension") together with the Nativ Pension Association, in collecting the monthly premiums from the association's members and in view of Harel Pension's position that it did not receive permission from the association's members to collect higher amounts from their allowances. The Plaintiff estimates the amount of the loss caused to members of the group it seeks to represent in the amount of approximately NIS 90 million.
55. In November 2016, an action was filed in the Central District Court, together with an application for its certification as a class action, against the consolidated subsidiary Harel Insurance ("Harel Insurance") and against four other insurance companies (hereinafter together: "the Defendants"). The subject of the action is the allegation that in mortgage-related life assurance policies, where the loan track is such that the principal is repaid at the end of the period, the Defendants ostensibly do not pay the full amount of the outstanding mortgage when an insured event occurs, but only part of it. The Plaintiffs argue that the Defendants are therefore in breach of the applicable disclosure obligation, mislead their insureds, are in breach of the Insurance (Contracts) Law, in breach of a statutory obligation, act negligently, are in breach of the policy provisions and act in bad faith. The Plaintiffs estimate the loss caused to the members of the group they wish to represent with respect to each of the Defendants at NIS 15 million, and the total loss claimed in the context of this action at NIS 75 million.

Note 7 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

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	5	930,365
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	30	4,482,932
Claim relates to several companies and no specific amount was attributed to the Company and/ or subsidiaries	9	10,719,789
Claim amount is not specified	9	
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 67 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 in 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 (hereinafter: “the Defendants”), 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 for Atidit Pension Fund Ltd. (hereinafter: "Atidit"), a pension fund managed by LeAtid, for the use of Atidit’s various resources, such as: the use of the operating infrastructure and goodwill, the use of Adidit’s property, for taking a continuing pension fund and loss of profits. In addition, the plaintiffs claim royalties of NIS 3,177 thousand as part of their personal claim. On July 29, 2010, after investigations had been conducted and written summaries had been submitted as part of the motion to approve the derivative claim, the Court accepted and granted the Plaintiffs the option of suing the Defendants in Leatid's name in respect of rights which they claim LeAtid is entitled to. On August 24, 2015, the court dismissed the Plaintiffs’ arguments in the matter of the derivative claim and it ruled that they are precluded from making any claim regarding rights stemming from the establishment of the new pension fund and that LeAtid is not entitled to compensation for the use of Atidit’s resources for the purpose of setting up the new fund. The court accepted the Plaintiffs’ personal claim for royalties. 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. At a meeting held with the appointed expert, additional disagreements emerged between the parties. Accordingly, a petition was filed in the court on behalf of the Plaintiffs in which they asked that the expert also address the issue of commissions on account of which there is a dispute. Following a hearing on the subject, the parties reached agreement whereby the expert will also review the issue of the commissions, and with respect to the interest, the court was asked to rule on the dispute between the parties. On August 22, 2016, the court handed down its decision accepting the position of the Defendants that the interest according to which the expert will perform the review and will calculate the royalties is the interest in respect of arrears in transferring money from the banking system. 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.

Note 7 - Contingent liabilities and commitments (contd.)

B. Other contingent liabilities (contd.)

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.

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. In January 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.

Note 7 - Contingent liabilities and commitments (contd.)

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

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 in February 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 Plaintiffs.

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.

4. 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.

Note 7 - Contingent liabilities and commitments (contd.)

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

5. 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.
6. 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 was 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. In May 2016, the court validated as a court ruling the agreement between the parties to strike out the application for certification of the action as a class action. In July 2016, 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 was 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. In July 2016, the Tel Aviv District Court approved the agreed motion 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.
7. In May 2012, an action was filed in the Jerusalem District Court together with an application for its recognition as a class action against the subsidiary Dikla and two other insurance companies and against three HMOs (hereinafter together: "the Defendants"). The subject of the action was the allegation that the Defendants refused to insure customers with disabilities, as part of the group long-term care insurance for HMO customers, and this ostensibly in contravention of the statutory provisions prescribed in the Equal Rights for Persons with Disabilities Law, 1998 ("the Law"), while discriminating against and infringing upon the right to dignity and equality. 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. In September 2016, the Tel Aviv District Court approved the Plaintiffs' abandonment of the motion for certification, and it instructed that the application for certification and the Plaintiffs' personal claims should be struck out.

Note 7 - Contingent liabilities and commitments (contd.)

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

8. In May 2012, a claim was filed in the Jerusalem District Court together with an application for its recognition as a class action against the subsidiary Harel Insurance, the subsidiary Dikla Insurance, and against four other insurance companies and one insurance agency (hereinafter together: "the Defendants"). The subject of the claim was the allegation that the Respondents allegedly refused to insure customers with disabilities in personal lines policies, for example - health insurance, travel insurance, pension, personal accident insurance, life assurance, long-term care and work disability insurance ("the personal lines policies"), and this ostensibly in contravention of the provisions of law prescribed in the Equal Rights for Persons with Disabilities Law, 1998 ("the Law"), while discriminating against and infringing upon the right to dignity and equality. 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. In September 2016, the Tel Aviv District Court approved the Plaintiffs' abandonment of the motion for certification, and it instructed that the application for certification and the Plaintiffs' personal claims should be struck out.
9. 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 was the allegation that Harel Insurance allegedly and illegally discriminates on the basis of gender and sexual orientation between men who do not live 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. In August 2016, an agreed motion was filed in the court for the Applicant to abandon the application for certification and to dismiss his personal claim. In September 2016, the court approved the agreed motion for the applicant to abandon the motion for certification, and ordered the dismissal of his personal claim.
10. 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 was 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 significantly changing and 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 obligation of good faith. 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. In September 2016, the court approved the agreed motion for the Plaintiffs to abandon the motion for certification.
11. In May 2014, an action was filed in the Central District Court in Lod, together with an application for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action was the allegation that Harel Insurance pays insurance benefits to insureds in policies that include cover for accidental disability, for insured events relating to disability of an organ that is not expressly mentioned in the policy, based on a calculation mechanism that allegedly is not included in the policy, thus ostensibly operating in contravention of the provisions of the law. In September 2016, the Lod-Central District Court approved the Plaintiffs' notice of abandonment which was given during a hearing in the court, it dismissed their personal claims and instructed that the motion for certification be struck out.

Note 7 - Contingent liabilities and commitments (contd.)

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

12. 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: "the Defendants"). The subject of the action was 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 on account of index linkage as well as a change of age in life and health insurance policies with 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. In its judgment from September 2016, the Lod-Central District Court dismissed the application for certification of the action as a class action, given that there is no reasonable possibility that a ruling will be given in the group's favor for one of the causes in the action.

13. 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: "the Defendants"). The subject of the action was the allegation that where Harel Insurance sells a service note that includes a temporary substitute vehicle together with motor property insurance that includes cover for young drivers, the young drivers are unable to benefit from the service note as the service provider does not allow young drivers to drive substitute vehicles. The Plaintiffs argue that the policy does not contain a satisfactory exclusion which disallows young drivers from driving temporary substitute vehicles. According to the Plaintiffs, the Defendants thus mislead their policyholders, and act in contravention of the law with respect to the insurer's obligation to highlight the limitations that apply to the insurance cover. 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 policy exclusions and service notes in the schedule. In September 2016, the court approved the agreed motion for the Plaintiff to abandon the motion for certification against Harel Insurance under the conditions specified in the application for abandonment, and it ordered the dismissal of his personal claim against Harel.

Claims settled after the Reporting Period

14. In April 2014, an action was filed in the Central District Court - Lod against the subsidiary Harel Insurance, together with an application for its certification as a class action. 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 is 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 pays the compulsory insurance certificate in arrears, 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. In June 2016, the Plaintiffs filed an appeal in the Supreme Court against the ruling of the District Court, in which context the application for certification was dismissed. In October 2016, the Plaintiffs accepted the recommendation of the Supreme Court, retracted their appeal, and the appeal was struck out by the Supreme Court.

15. 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 was 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 compensation when the entitling event occurs. The Plaintiffs argue that the Defendants are therefore in breach of the statutory provisions and that they prejudice the interest of certainty and reliance of the group's members. In November 2016, the court issued an instruction striking out t the action.

Note 8 - Capital requirements and management

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

	September 30, 2016		December 31, 2015		
	Harel Insurance	EMI	Harel Insurance	Dikla	EMI
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Amount required according to regulations and Commissioner's directives (A)	**5,566,311**	**83,366**	5,537,624	578,390	101,327
The present amount calculated in accordance with the Capital Regulations:					
Tier-1 capital					
Basic Tier-1 capital	**3,837,220**	**435,226**	3,953,922	673,681	446,037
Hybrid tier-1 capital	**350,483**	**-**	350,517	-	-
Total tier-1 capital	**4,187,703**	**435,226**	4,304,439	673,681	446,037
Tier-2 capital					
Subordinated tier-2 capital (B)	**145,490**	**-**	200,543	-	-
Hybrid tier-2 capital (C)	**1,828,710**	**-**	1,517,606	99,902	-
Total tier-2 capital	**1,974,200**	**-**	1,718,149	99,902	-
Hybrid tier-3 capital	**743,537**	**-**	745,097	-	-
	2,717,737	**-**	2,463,246	99,902	-
Total present amount calculated in accordance with the Capital Regulations	**6,905,441**	**435,226**	6,767,685	773,583	446,037
Surplus at report date	**1,339,129**	**351,860**	1,230,061	195,193	344,710
Events after the balance sheet date					
Obsolescence of tier-2 capital	**-**	**-**	(30,274)	-	-
Dividend distribution (for additional information see section 9, 10)	**-**	**-**	(210,000)	-	(18,000)
Dikla merger (for additional information see Note 9(13))	**-**	**-**	180,000	(195,193)	-
Amount retained taking into account events after the reporting date*	**1,339,129**	**351,860**	1,169,787	-	326,710

Note 8 - Capital requirements and management (contd.)

	September 30 2016		December 31 2015		
	Harel Insurance	EMI	Harel Insurance	Dikla	EMI
a. The required amount includes, inter alia, capital requirements for:	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Activity in non-life insurance	**722,163**	**83,366**	655,218	89,375	98,852
Activity in long-term care insurance [LTC]	**333,198**	**-**	92,477	239,908	-
Capital requirements for yield-guaranteed plans	**43,989**	**-**	43,125	-	-
Investment assets and other assets (D)	**1,375,768**	**-**	1,257,335	45,155	-
Catastrophe risks in non-life insurance	**81,458**	**-**	79,728	-	-
Operating risks	**308,736**	**-**	293,531	52,061	-
Deferred acquisition costs in life assurance and insurance against illness and hospitalization	**1,609,250**	**-**	1,389,550	137,197	-
Investment in consolidated management companies and insurers and in Broadgate	**842,985**	**-**	1,501,916	-	-
Relief in capital requirements for cost of acquiring provident funds	**(195,223)**	**-**	(198,295)	-	-
Extraordinary risks in life assurance (E)	**399,874**	**-**	363,577	12,635	-
Unrecognized assets as defined in the Capital Regulations (F)	**44,113**	**-**	59,462	2,059	2,475
Total amount required under the amended Capital Regulations	**5,566,311**	**83,366**	5,537,624	578,390	101,327

* The supplement, which is included in the calculation of 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 97 million at September 30, 2016.

** Amount required by Harel Insurance at September 30, 2016 under the amended Capital Regulations is calculated in a manner that includes the Dikla merger. See also Note 9(13).

b. Including subordinated promissory notes in the amount of NIS 262,059 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 9.
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 October 10, 2016, a law memorandum amending the Joint Investment Trust Law was published. According to the proposed amendment, ETNs will cease to exist as a committed asset and will become closed, tracker mutual funds, namely - traded tracker funds. The provisions of the Joint Investment Trust Law, 1994 will apply to these funds, mutatis mutandis, due to the unique nature of these funds together with special arrangements to be prescribed in the regulations or instructions of the Israel Securities Authority with respect to ETFs. The law will take effect when the regulations promulgated by virtue of the law enter into force, or on October 1, 2017, whichever is later.

   The effect of this move on the financial results and position of Harel Sal cannot be quantified at this stage.

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 September 30, 2016, the subsidiaries are in compliance with these requirements.

7. On November 27, 2016, the Board of Directors of Harel Pension and Provident Ltd. approved the distribution of a dividend in the amount of NIS 50 million. The Board’s decision was made after taking the financial results and distributable surpluses into account, and reviewing the capital surpluses and compliance with the supervisory regulations with respect to the minimum capital required of Harel Pension and Provident Ltd. in view of the restructuring detailed in Note 9(12).

8. On August 16, 2016, the Board of Directors of EMI approved the distribution of a dividend in the amount of NIS 14 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 at June 30, 2016; the distributable surplus of EMI at June 30, 2016 was presented, and the capital surpluses and equity requirements of EMI were tested, based on the equity management policy of EMI. The Board of Directors of EMI reviewed EMI's compliance with the profit test and solvency test prescribed in Section 203(a) of the Companies Law. Subsequent to this review, the Board of Directors confirmed that EMI was in compliance with the distribution test. The dividend was paid on August 18, 2016.

9. 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.

Note 8 - Capital requirements and management (contd.)

10. 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.

11. 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.

12. 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, Harel Pension repaid both the aforementioned loans plus the interest accrued on them.

13. 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.

14. Information about progress in the preparation for implementing Solvency II

    In July 2015, the Commissioner published a letter to insurance company executives concerning transition provisions for the implementation of Solvency II. The provisions are based on the European Directive which allows an adjustment period during which the insurers may work to cover any capital shortfall, from January 1, 2017, the initial date of application, through December 31, 2018. Furthermore, the transition provisions prescribe a rescheduling of some of the capital requirements for holding shares over a period of seven years from the initial date of application.

    These directives, insofar as they are formulated as final instructions, are expected to affect the capital surpluses required for computing the capital requirements of the Group's financial institutions. The Company continues to make the necessary preparations for the second pillar of the Directive, which focuses on upgrading the risk management system, controls and corporate governance.

    On April 21, 2016, the Commissioner's office published an instruction to perform an IQIS exercise for 2015 (IQIS5), which is based on the revised directives from Europe, with adjustments for the local market. In the instruction, the Commissioner wrote that the IQIS5 calculation, which is the last quantitative study before implementation of the new solvency regime based on Solvency II, will contribute to the insurance companies preparations and the formulation of the final directives.

Note 8 - Capital requirements and management (contd.)

14. Information about progress in the preparation for implementing Solvency II (contd.)

Based on the results of the IQIS5 exercise and taking into account the aforementioned transition provisions, Harel Insurance, ICIC and EMI have significant capital surpluses. The capital surplus of Harel at December 31, 2015, on a consolidated basis, and taking into account the transition provisions, is similar to the results submitted in the previous exercise and amounts to more than one billion shekels. It is emphasized that in its present format, the model is extremely sensitive to changes in market and other variables, so that the capital requirements and capital surpluses arising from the model may be different on the actual date of application.

The results of the revised exercise were submitted to the Board of Directors on August 23, 2016 were submitted to the Commissioner on that date.

In September 2016, the Commissioner revised the timetable for compliance with the new solvency regime, as follows:

(a) On January 1, 2017, the solvency capital requirement for insurance companies will be 60% of the solvency capital requirement under the directives for application of the new solvency regime (“SCR”).

(b) On December 31, 2017, the solvency capital requirement for insurance companies will be 80% of the SCR.

(c) On December 31, 2018, the solvency capital requirement for insurance companies will be the SCR.

Furthermore, the Commissioner published an outline for implementation of the Solvency II-based solvency regime which addresses the following issues:

(a) Insurance companies will be required to provide disclosure about the economic capital and the capital requirements at December 31, 2016 in the financial statements for the first quarter of 2017.

(b) Insurance companies will be required to report to the regulator regarding calculation of the solvency ratio on designated reporting files, from the reporting for 2017.

(c) The MCR will equal the amount required under the Supervision of Financial Services Regulations, however:

    1. If the amount required under the present capital regulations is more than 60% of the SCR, the MCR will equal 60% of the SCR.

    2. If the amount required under the present capital regulations is less than 40% of the SCR, the MCR will equal 40% of the SCR

Note 8 - Capital requirements and management (contd.)

15. 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%.

    Insurers that have 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).

    The specified documents to be submitted to the Commissioner will include 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.

    In August 2016, the Commissioner published a letter to insurance company executives ("the Letter') advising them of his position in relation to dividend distributions as part of the deployment to implement the Solvency II solvency regime. According to the letter, insurance companies will not be allowed to distribute a dividend unless they satisfy the following two conditions:

    (a) After the dividend has been distributed, the ratio of the company's recognized equity to required equity must be at least 115%, according to the existing capital regulations. When calculating the required equity, the write-down of the minimum equity required on account of the balance of the original difference attributed to the management companies and provident funds will be added (hereinafter - "supplement to the required equity").

    (b) After the dividend has been distributed, the Company's solvency ratio in accordance with the provisions of Solvency II must be the following at least:

Period	Solvency ratio
Up to and including the financial statements for December 31, 2017	115%
Up to and including the financial statements for December 31, 2018	120%
From the financial statements at March 31, 2019	130%

    The solvency ratio in accordance with Solvency II is tested on the basis of the revised quantitative evaluation exercise for implementing a new solvency regime (IQIS5), or in accordance with the instructions for implementation of the first pillar of the new solvency regime, as applicable, calculated without the transition provisions.

    Furthermore, among the documents listed in the lettern, insurers must submit a capital management plan which includes broad reference to the manner of preparation by the insurer for the new solvency regime.

    The IQIS5 exercise reflects a solvency ratio of 122% for Harel Insurance at December 31, 2015, as calculated including transition provisions. Excluding the transition provisions, the solvency ratio is 113%.

Note 9 – Material events in the Reporting Period

1. Transactions with related parties

   A. Transaction with Noble Energy Mediterranean Ltd.

   Harel Insurance and other financial institutions that it owns, together with a partnership from the Israel Infrastructure Fund ("IIF") Group, entered into agreement with Noble Energy Mediterranean Ltd. ("Noble") to acquire three percent of the rights in the Tamar gas field, including an option to acquire up to an additional percent in the gas holding. The basic consideration was set at USD 369 million at January 1, 2016, where this amount is subject to adjustment (reduction) for a settlement of accounts from January 1 until the closing date. Consideration for the option is USD 123 million, subject to the aforementioned adjustments. The agreement also stipulates that to the extent that agreements are signed to export the gas to or via Egypt by the end of 2016, Noble will be entitled to royalties from the proceeds received by the buyers. The purchase was made through a limited partnership established for the purpose of the transaction, in which Harel Group holds 62% of the rights and IIF holds the remainder (38%). Half of the consideration for the purchase will be financed from an investment by the limited partners, based on their above-mentioned share, and the other half by a loan to be provided to the partnership by entities in Harel Group. At the publication date of the report, approval in principle was received from the Petroleum Commissioner in the Ministry of National Infrastructures, Energy and Water Resources, as well as the required third-party agreements. The parties are working to meet the conditions precedent required for completion of the transaction.

   B. Approval to invest in and establish the IIF 3 partnership

   In July 2016, subsidiaries of the Company that are financial institutions ("the Subsidiaries") entered into a transaction to invest in IIF 3, a third infrastructure fund which is in the final stage of raising funds. The structure of the investment will be similar to the structure of the existing investment in IIF 1 and IIF 2, where Harel Investments holds 40% of the General Partnership and Harel Insurance and the Group's financial institutions will hold a percentage of the fund.

   C. Approval for the provision of credit - Azrieli Group

   In May 2016, subsidiaries of the Company that are financial institutions entered into a transaction to provide bridging loans in the amount of NIS 395 million to Azrieli Group, for a period of six months, and this after ensuring that the terms of the loans comply with market conditions. Mr. Yosef Ciechanover is a director in the Company and is also a director in Azrieli Group.

   D. 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.

2. Early repayment of a bank loan by a Company subsidiary

   In August 2016, Harel-Pia, a wholly owned subsidiary of the Company, made early repayment of a bank loan it had taken on June 17, 2013. The outstanding amount of the loan, at the date of the early repayment, is NIS 25.2 million. This early repayment was made from Harel Finance's independent sources.

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

3. Exchange of Series 2 -3 liability notes

On July 25, 2016, some of the Series 2-3 liability notes that were issued in May 2010 by Harel Insurance Financing and Issuing, a wholly owned subsidiary of Harel Insurance ("the Liability Notes"), were exchanged for two series of marketable liability notes, Series 12 and 13. In July 2016, these series received a rating of 'ilAA-' from Standard & Poor's Maalot ("Maalot") in the total amount of up to NIS 320 million par value, where their value in the Company's books is NIS 261 million, and this after obtaining the Commissioner's approval for the proceeds of the issuance to be used as hybrid tier-2 capital by Harel Insurance.

The exchange was performed by way of a complete exchange purchase offer based on a shelf offering report of Harel Financing and Issuing dated July 6, 2016, which was amended on July 11, 2016, and by virtue of a shelf prospectus of Harel Financing and Issuing dated February 12, 2014 as amended on December 22, 2014, whose validity was extended on December 31, 2015 until February 11, 2017.

As part of this exchange, an amount of NIS 126,695 thousand par value Series 2 bonds accounting for 84.4% of the total Series 2 bonds in circulation was exchanged for NIS 65,248 thousand par value Series 12 bonds and NIS 65,248 thousand par value Series 13 bonds. The new series will serve as hybrid tier-2 capital for Harel Insurance. In addition, an amount of NIS 134,588 thousand par value Series 3 bonds, accounting for 89.7% of the total Series 3 bonds in circulation was exchanged for an amount of NIS 69,649 thousand par value Series 12 bonds and NIS 69,649 thousand par value Series 13 bonds. The new series will serve as hybrid tier-2 capital for Harel Insurance.

Series 12: is not linked to the CPI or to any currency and it 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: is not linked to the CPI or to any currency and it 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.

The exchange ratio determined is: for each NIS 1 par value Series 2 bonds, the Company issued NIS 0.515 par value Series 12 bonds and NI 0.515 par value Series 13 bonds. For each NIS 1 par value Series 3 bonds, the Company issued NIS 0.5175 par value Series 12 bonds and NI 0.5175 par value Series 13 bonds.

The exchange described above was accounted for as an exchange of debt instruments with conditions that are not substantially different, and it therefore did not affect profit or loss. The effective interest for Harel Insurance for the Series 12 and 13 liability notes is 4.4% and 4.3% respectively.

The bonds include a condition whereby three years before the final maturity date of each series, the Company may perform early redemption of the series, or part thereof. This right be exercised subject to obtaining the Commissioner's approval. Furthermore, without giving the holders of the bonds or the trustee any choice, the Company is entitled to perform early redemption of the bonds fifteen years after their date of issue, as specified in the terms of the prospectus

4. Bonus for Mssrs. Yair Hamburger, Gideon Hamburger and Yoav Manor for 2015

On June 22, 2016, the Board of Directors of Harel Investments approved (in a resolution in which the senior officers who are the controlling shareholders did not participate) the results of the calculation of the bonus for 2015. According to the calculation, Yair Hamburger received a bonus in the amount of NIS 676,000; and Gideon Hamburger and Yoav Manor each received a bonus in the amount of NIS 402,000.

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

5. Bonus for other senior officers for 2015

On June 22, 2016, the final bonuses were approved for officers of the Company and officers who are included in the compensation plan, as specified in Note 38 in the annual financial statements, based on the final figures published by the companies in the benchmark group. There were no significant changes between the amounts included as an estimate published in the financial statements for 2015 and the final amounts that were approved.

6. Financial impairment

Further to the falling share prices in the capital market and to the large volume of redemptions in the mutual funds sector in recent months, that led to a decline in the volume of assets under management in the mutual funds managed by Harel-Pia, a company owned by Harel Finance, Harel Finance and the Company assessed the value of the intangible asset recorded in the Company's books for mutual fund activity.

Based on the valuation prepared by an external appraiser at June 30, 2016 to examine the recoverable amount for the mutual fund activity, the Company reduced the value of the mutual fund activity by NIS 25 million before tax and NIS 18 million after tax. Accordingly, the outstanding value of the goodwill for the mutual fund activity recorded in the books of Harel Finance was reduced by the aforementioned amounts. As a result of the decline in the risk-free interest rate, the Company revised the real discounting rate after tax used for discounting the cash flows in calculating the recoverable amount, from 10.8% to 10.2%. The other assumptions used in the calculation remain unchanged with respect to the evaluation prepared in December 2015.

7. 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, Mr. Yosef Ciechanover, and Mr. 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. On revised employment conditions for Mr. Ronen Agassi, the Company's CEO, in the context of the general meeting that took place on October 31, 2016, see Section 25 below.

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

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.

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

9. 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.

The cooperation between the parties entered into force in June 2016, after the conditions precedent were satisfied. Under the agreement, subject to Harel Group's percentage participation in each loan, as noted above, its share is expected to be NIS 1.2 billion in 2016 and NIS 2.5 billion in 2017, where most of the amount will be provided by assets of the members of Harel Insurance Group.

10. 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.

11. 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.

12. Pursuant to the approval of the boards of directors of Harel Provident Funds and Education Funds Ltd. and Harel Pension Funds Management Ltd. from March 22, 2016, and after obtaining all the necessary approvals, including the Commissioner's approval, commencing in October Harel Provident Funds and Education Funds Ltd. was merged into Harel Pension and Provident Ltd. (formerly Harel Pension Funds Management Ltd.) and it was dissolved without liquidation. (The merger was approved on October 5, 2016, which is the first business day in October.) The provident funds managed by Harel Provident Funds & Education Funds Ltd. were transferred to the management of Harel. Pension and Provident Ltd. In July 2016, an application was submitted to the Tax Authority for approval of the merger pursuant to the provisions of Section 103 of the Income Tax Ordinance, effective retroactively from September 30, 2016. Approval was received on November 17, 2016.

13. Merging of the insurance activity of Dikla

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.

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

14. 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.

15. D&O liability insurance

Further to the information in Note 38(13) in the Company's financial statements at December 31, 2015 concerning directors and officers liability insurance (D&O), on July 20, 2016 and September 22, 2016, the Compensation Committee and Board of Directors of the Company, respectively, approved the renewal of an agreement with Harel Insurance regarding a D&O liability insurance policy. The policy commences October 1, 2016, for one year and it covers directors and officers of the Company and other companies in Harel Group, including individuals who may be considered controlling shareholders. The sum insured will be USD 180 million and the premium will not exceed USD 1 million.

16. Group LTC policy for members of Clalit Health Services

Harel Insurance and Clalit signed an agreement to extend the period of the group long-term care policy until June 30, 2017 ("the First Extension Period"). At the end of the First Extension Period, subject to receiving a permit from the Commissioner of Insurance, the agreement period will automatically be extended for an additional period until December 31, 2018, unless either party gives notice 60 days before the end of the First Extension Period that it wishes to terminate the agreement. On May 22, 2016, the Commissioner of Insurance granted permission to run the long-term care plan until June 30, 2017.

17. Dividend distribution by Harel Investments

On August 23, 2016, the Company's Board of Directors approved the distribution of a cash dividend in the amount of NIS 64 million (NIS 0.3 per share). The Board of Directors passed the decision after taking into account the Company's financial results for the first half of 2016. The Board of Directors was presented with information on 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 September 8, 2016.

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.

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

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

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

Due to 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 149 million before tax, and NIS 96 million after tax, thus reducing pre-tax profit and comprehensive income by the aforesaid amount for the nine-month period ended September 30, 2016. In the three-month period ended September 30, 2016, Harel Insurance increased the insurance liabilities in the life assurance and long-term savings segment by NIS 3 million before tax, and NIS 2 million after tax, thus reducing pre-tax profit and comprehensive income by the aforesaid amount.

20. Changes in Company officers

On July 17, 2016, Mr. Amir Hessel, the Company's Chief Investment Officer and head of the investment division of the Group's financial institutions, announced that he would be resigning from his positions in Harel Group. Mr. Hessel is expected to formally step down at the end of November 2016.

On July 19, 2016, the Company announced that Mr. Sami Babecov, who is CEO of Harel Finance and Harel-Pia, would be appointed to replace Mr. Amir Hessel as the Company's Chief Investment Officer and head of the investment division of the Group's financial institutions. Mr. Babecov is expected to take up his position on December 1, 2016.

On November 22, 2016, the Company announced the appointment of Mr. Tal Kedem as CEO of Harel Finance. The appointment will enter into force on March 1, 2017.

21. 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-recognition of an Expense for Tax Purposes on account of Extraordinary Compensation) Law, 2016 was published "Compensation for Senior Officers of Financial Institutions Law"). The Law prescribes that an agreement between a financial institution (financial entity, manager of a joint investment trust fund, a company that issues 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 these benefits are 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 anticipated expense on compensation and the expense for 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 to the extent that 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 statutory provisions apply to agreements that are approved from the date of publication of the law, and with respect to agreements that were approved before the date of publication, the statutory provisions will apply from six months after the publication date of the law.

The Company took action to adapt the employment agreements that require adjustment in view of the statutory provisions, and also to revise the compensation policy of the Company and the financial institutions. For additional information, see Sections 22, 23, 24, 25, 26 below in this note.

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

22. Compensation policy of Harel Investments

Further to the convening of a general meeting on September 22, 2016 (ref.:2016-01-127792), as updated on October 20, 2016 (ref.: 2016-01-066243), on October 31, 2016, after the subject was approved by the Board of Directors and Compensation Committee of the Company, the general meeting approved the revised compensation policy of Harel Investments in accordance with the provisions of the Companies Law which requires the compensation policy to be re-approved every three years.

The principal changes made in the revised compensation policy of Harel Investments, compared with the previous compensation policy, are as follows:

(a) Establishing a ceiling for the projected annual cost of employment of Company executives.

Pursuant to the Compensation of Company Executives Law, the compensation policy defines a maximum projected annual cost of employment for key functionaries:

Regarding the CEO of Harel Investments, the annual projected cost of employment (based on the performance-linked bonus) will not exceed the lower of the following: (a) cost of employment for which the projected annual expense, based on a full-time position, is 35 times the projected annual expense for the lowest compensation paid to a full-time Company employee in the calendar year preceding the year for which the projected annual cost of employment for the CEO is calculated; (b) NIS 3.5 million (the cost includes statutory severance pay and employer benefit contributions).

It is stipulated that the limit to the maximum cost of employment of the CEO of Harel Investments will apply only if the projected annual cost of his employment, based on a full-time position, is expected to exceed NIS 2.5 million.

Insofar as, according to his employment conditions as specified below in Section 25, and based on the limit to the maximum cost of employment of the CEO of Harel Investments, the CEO of Harel Investments is entitled to an annual cost of employment (including statutory severance pay and employer benefit contributions) which exceeds the amounts specified in the general meeting report and up to a ceiling of NIS 3.5 million (including determining that part of the annual bonus payable to the CEO of Harel Investments in accordance with the cut-off mechanism noted below), any such supplement must be approved by the compensation committee of Harel Investments and Harel Insurance.

Harel Insurance will bear the tax expense arising from the “surplus cost” over and above an annual payroll expense of NIS 2.5 million (i.e. the “surplus cost” will not be tax deductible for the Company) as noted in Section 4 of the Compensation of Company Executives Law.

With respect to the Chairman of the Board, in accordance with the waiver notice that Mr. Yair Hamburger submitted to the Company (as noted in Section 26 below), the projected annual cost of employment of the Chairman of the Board does not exceed NIS 2.5 million, where this cost does not include statutory severance pay and employer benefit contributions.

Regarding the Group’s other executives and employees, the compensation policy stipulates that the projected annual cost of their employment will not exceed NIS 2.5 million unless it is approved by the Compensation Committee and Board of Directors for extraordinary reasons. The Group will bear the tax expense arising from the surplus cost (to the extent that the projected annual cost of employment, including statutory severance pay and employer benefit contributions exceeds NIS 2.5 million).

(b) The option to update the CEO’s salary by 3% per annum was eliminated.

(c) A cut-off mechanism was set for the CEO’s annual bonus, as specified below in Section 25.

(d) Provisions were prescribed in relation to the manner of computing the annual bonus in the event that employment by the Group begins or ends during a particular calendar year.

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

23. Revised compensation policy for the Group’s financial institutions

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 revisions were included in the Company’s compensation policy, as follows: (1) the addition of comments relating to the parameters of the compensation for key officeholders 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 executives in financial institutions; (3) revised indices for the variable compensation paid to key officeholders in the investment division.

Furthermore, on September 22, after approval by the compensation committees of the Group’s financial institutions, the boards of directors of the Group’s financial institutions approved the revised compensation policy for these financial institutions in the wake of the provisions of the Compensation of Executives of Financial Corporations Law and in parallel with the compensation policy for company executives that was adopted by Harel Investments.

The principal changes in the compensation policy of the financial institutions, compared with the policy that was previously in force, are: (a) the addition of reference to a limit to the maximum cost of employment of the officers of the Group’s financial institutions, based on the provisions of the Compensation of Officers of Financial Corporations Law; (b) a change in the structure of the salary of the CEO of Harel Insurance so that his salary will consist of fixed components only; (c) cut-off mechanism for the bonus paid to the CEO of Harel Investments insofar as this is necessary based on the limit to the maximum cost of employment, as noted above.

The limit to the maximum cost includes the following:

(1) Limit to the maximum cost of employment of the CEO of Harel Insurance

(a) The annual projected cost of the employment of the CEO of Harel Insurance will not exceed the cost of employment for which the projected annual expense, based on a full-time position, is 35 times the projected annual expense for the lowest compensation paid to a full-time Group employee in the calendar year preceding the year for which the cost of employment of the CEO of Harel Insurance is calculated (“limit to the maximum cost of employment of the CEO of Harel Insurance”). It is stipulated that the limit to the maximum cost of employment of the CEO of Harel Insurance will apply only if the projected annual cost of his employment, based on a full-time position, is expected to exceed NIS 2.5 million.

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

23. Revised compensation policy for the Group's financial institutions (contd.)

(1) Limit to the maximum cost of employment of the CEO of Harel Insurance (contd.)

(b) Due to the increase in the minimum wage for Harel employees (including manpower company employees) to a monthly wage of NIS 6,000, effective as of September 2016, the projected annual cost of employment of the CEO of Harel Insurance, based on a full-time position, is NIS 3 million for 2017 (NIS 3.3 million including statutory severance pay and employer benefit contributions) and NIS 3.5 million for 2018 (NIS 4.3 million including statutory severance pay and employer benefit contributions). These costs include a seniority supplement.

(c) Insofar as, according to his employment conditions and based on the limit to the maximum cost of employment of the CEO of Harel Insurance, the CEO of Harel Insurance is entitled to an annual cost of employment (including statutory severance pay and employer benefit contributions) which exceeds the aforementioned amounts, any such supplement must be approved by the Company's compensation committee.

Harel Insurance will bear the tax expense arising from the surplus cost (to the extent that the projected annual cost of employment, including statutory severance pay and employer benefit contributions exceeds NIS 2.5 million).

(2) Limit to the maximum cost of employment of the CEO of Harel Investments (who is also a key executive in Harel Insurance) – as specified in Section 22(a) above.

(3) Cost of employment of the Chairman of the Board of Harel Investments and Harel Insurance

In accordance with the waiver notice that Mr. Yair Hamburger submitted to the Company, as noted in Section 26 below, the projected annual cost of employment of the Chairman of the Board is not more than NIS 2.5 million per annum, excluding statutory severance pay and employer benefit contributions. Accordingly, the projected annual cost, including statutory severance pay and employer benefit contributions, is approximately NIS 2.8 million. The Company will bear the tax expense arising from the "surplus cost" (i.e. the "surplus cost" will not be tax deductible for the Company) as noted in Section 4 of the Compensation of Company Executives Law.

(4) Cost of the employment of the Group's other officers and employees

The projected annual cost of employment of the other officers and employees in the Group will not exceed NIS 2.5 million per annum, unless this is approved by the compensation committee and Board of Directors for extraordinary reasons. The employment agreements of the Company officers were adjusted to this limitation.

(5) Insofar as the Compensation of Company Executives Law is amended, directly or indirectly, or a judicial decision is passed whereby company executives may be paid compensation which is higher than that currently permitted in the Compensation of Company Executives Law, it will then be possible to approve compensation for the aforementioned functionaries (CEO of Harel Insurance, CEO of Harel Investments and Chairman of the Board) which exceeds the limit to the maximum cost of the compensation prescribed in the compensation policy of the financial institutions (in relation to each executive or employee, as applicable), and this will not be considered a deviation from the compensation policy.

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

24. Revised employment agreement for the CEO of Harel Insurance following approval of the revised compensation policy for the Group's financial institutions

Following revision of the compensation policy for the Group's financial institutions, the employment agreement of the CEO of Harel Insurance, dated August 25, 2013 ("the Original Agreement"), was updated so as to conform with the revised compensation policy of the financial institutions and the provisions of the Compensation of Officers of Financial Corporations Law. The revised employment agreement applies as of October 12, 2016 ("the Revision Date").

As part of this revision, effective from October 12, 2016, the entitlement of the CEO of Harel Insurance to a variable bonus and to fixed compensation that does not entitle him to social benefits, as defined in the Original Agreement, was eliminated. From the date of the revision, the CEO's monthly salary is NIS 203,000 and it will be updated from January 2017 to NIS 216,000, and from January 2018 to NIS 248,000 (all the above-mentioned amounts are CPI linked).

The entitlement of the CEO of Harel Insurance to social and other generally accepted fringe benefits, remains as it was in the Original Agreement although from October 12, 2016, contributions to an education fund will be limited to the maximum prescribed in the statutory provisions. The CEO of Harel Insurance is entitled to 35 vacation days a year (instead of 24 days in the Original Agreement). The CEO of Harel Insurance is entitled, at any time, to receive a company car, as generally accepted for the CEO of Harel Insurance. Should the CEO of Harel Insurance decide to take a company car, the tax value will be recognized as part of his ongoing salary wand it will constitute part of the basis for provisions under the provisions of the employment agreement.

As part of the aforementioned revision, from the date of the revision the entitlement of the CEO of Harel Insurance to severance pay of an amount that exceeds 100% of his last ongoing salary was eliminated. The rights of the CEO of Harel Insurance to receive 200% severance pay (double the statutory severance pay) on his last ongoing salary, as defined in the original agreement, for the period commencing August 1, 2009 and up to the revision date, and to receive 150% severance pay (i.e. 50% more than the statutory severance pay), as defined in the Original Agreement, for the period commencing from the start of his employment by the Company and up to July 31, 2009, remain in place. The advance notice period for termination of his employment was set at six months (instead of three months in the Original Agreement. Furthermore, the entitlement of the CEO of Harel Insurance to continue to receive a salary and related fringe benefits as if he continues to be an employee of Harel Insurance, for a period of eight months from the end of his advance notice period remains in place, in accordance with his employment conditions prior to the revision date ("adjustment fee").

The other employment conditions of the CEO of Harel Insurance, including his commitment to a non-competition period, for consideration as defined in the Original Agreement, remain unchanged.

Past rights accumulated by the CEO of Harel Insurance and for which provision was made in the past in the financial statements of Harel Insurance, in respect of the increased severance pay to which the CEO is entitled up to the revision date as well as the adjustment fees, were deposited in trust in a savings policy in favor of the CEO of Harel Insurance, and they will be released when his entitlement to receive this money is satisfied, upon termination of his employment by Harel Insurance. Upon making this deposit, Harel Insurance was exempted from all its obligations towards the CEO of Harel Insurance in connection with these amounts, when the date of termination of his employment is reached.

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

25. Employment conditions 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”) apply from January 1, 2016, for an undefined period. Both parties may terminate the agreement at any time, by giving six 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 is 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 is 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.

Mr. Agassi is entitled to severance pay of 125% of his current salary (25% more than the statutory rate of severance pay), 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). 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 December 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 Harel Insurance; 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.

Mr. 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.

Further to the passing of the Compensation of Senior Executives Law by the Knesset, on September 22, 2016 the Company published a report on the convening of a general meeting (“Report on the Convening of a General Meeting”) at which an amendment to Mr. Agassi’s employment agreement that had been approved by the general meeting in April 2016, was submitted for approval. The main points of the amended agreement determine the maximum cost of employment of Mr. Agassi (as specified in Section 22(a) above and in accordance with the provisions of the Compensation of Senior Executives Law) and for the purpose of determining a cutoff mechanism for the annual bonus to which Mr. Agassi is entitled (as specified in Section (b) below), all in accordance with and subject to the information in the Report on the Convening of a General Meeting (“the adjusted employment conditions”).

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

25. Employment conditions of Mr. Ronen Agassi (contd.)

In this context, the adjusted employment conditions prescribe the following key changes compared with the previous employment conditions:

(a) Limit to the maximum cost of employment

(1) Provisions were prescribed concerning the projected maximum cost of employment, as specified in Section 22(a) above.

(2) Due to the increase in the minimum wage for Harel employees (including manpower company employees) effective as of September 2016, the projected annual cost of employment, excluding statutory severance pay and employer benefit contributions for Mr. Agassi, based on the cost of a full-time position (including the cutoff mechanism in the annual bonus, as noted in Section (b) below), is NIS 2.7 million for 2017 (about NIS 2.9 million, including statutory severance pay and employer benefit contributions) and approximately NIS 3 million for 2018 (NIS 3.3 million including statutory severance pay and employer benefit contributions). This cost does not exceed the ratio of 35 times the lowest annual payroll expense that the Company expects to pay a Company employee (during the course of the last calendar year), for a full-time position.

(3) Insofar as, according to his employment conditions detailed in this report, and based on the limit to the maximum cost of employment of the CEO of Harel Investments, Mr. Agassi is entitled to an annual cost of employment in annualized terms (including statutory severance pay and employer benefit contributions) which exceeds NIS 2.8 / 2.9 / 3.3 million (as applicable for the relevant calendar year) and up to a ceiling of NIS 3.5 million (including determining that part of the annual bonus payable to Mr. Agassi in accordance with the cutoff mechanism), any such supplement must be approved by the Company’s compensation committee.

(4) Harel Insurance will bear the tax expense arising from the “surplus cost” (i.e. the “surplus cost” will not be tax deductible for Harel Insurance) as noted in Section 4 of the Compensation of Company Executives Law.

(b) Cutoff mechanism for the annual bonus

(1) Insofar as the projected annual cost of Mr. Agassi’s employment exceeds the limit to the maximum cost of employment, a cutoff mechanism will be applied to the annual bonus relating the “surplus cost” so that after this cutoff mechanism, the projected annual cost of Mr. Agassi’s contract, including the annual bonus which is not cut off, does not exceed the limit to the maximum cost of employment. In applying the cutoff mechanism, first that part of the annual bonus which is a performance-linked bonus will be cut off, and then, if and insofar as is necessary, the part that forms the guaranteed bonus will be cut off (accordingly, the annual bonus after the aforementioned cutoff mechanism, in the amount of up to 2.5 times the current salary will be deemed a guaranteed bonus).

(2) This cutoff mechanism will be applied by the compensation committee with respect to the annual compensation for that bonus year.

(3) Mr. Agassi’s annual bonus for 2017 is expected to be cut to 2.4 monthly salaries (which is considered the guaranteed bonus). It is stipulated that the final cut of the annual bonus for 2017 will be in March 2017 and it may differ from the aforementioned. Mr. Agassi’s annual bonus for 2018 is expected to be cut to 5 monthly salaries (of which 2.5 salaries are considered the guaranteed bonus, as noted in Section 1 above). It is stipulated that the final cut of the annual bonus for 2018 will be in March 2018, and it may differ from the aforementioned.

On October 31, 2016, the Company’s general meeting approved the adjusted employment conditions of Mr. Agassi.

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

26. Notice given by the Company's controlling shareholders concerning a waiver of wage components

On September 22, 2016, the Company received waiver notices from the controlling shareholders, Mr. Yair Hamburger, Mr. Gideon Hamburger and Mr. Yoav Manor stating that in view of the Compensation for Executives of Financial Corporations Law, they are waiving the annual bonus to which they are entitled under their employment conditions, as well their entitlement to a full grossing-up of the cost of car maintenance, commencing October 12, 2016 ("the Effective Date"). Consequently, as of the Effective Date, the projected annual cost of employment for Mr. Yair Hamburger will not exceed NIS 2.5 million per annum (excluding statutory severance pay and employer benefit contributions), and the projected annual cost of employment each for Mssrs. Gideon Hamburger and Yoav Manor will not be more than 80% of the projected annual cost of employment of Mr. Yair Hamburger.

27. 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.

28. Change 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, stepped down as CEO of ICIC, effective from March 31, 2016, in accordance with his notice to ICIC, after serving as the company's CEO for 13 years. From that date, Mr. Milgrom also stepped down from his position as chairman of the board of Dikla General Insurance Agency Ltd. (which until December 31, 2015 was Dikla Insurance Company Ltd.).

(b) Mrs. 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, ended her term of office effective from March 31, 2016, and was appointed as CEO of ICIC commencing April 1, 2016.

(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.)

29. 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.

30. 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 the General Meeting from January 30, 2013.

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

31. 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.

32. 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.

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.

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

33. 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 of which are 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.

34. 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, it was determined that the rate of interest will be 2% instead of the present rate of 3%, and that the mortality tables and rates for discounting the annuities will be revised again on January 2020 and every four years after this date. Accordingly, Harel Insurance increased its insurance liabilities at March 31, 2016 by NIS 150 million and by a further NIS 25 million at June 30, 2016 (and in total by NIS 175 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.

In September 2016, an announcement was published in the Knesset Official Gazette that the regulations would not be repealed but their implementation would be postponed by a year. In view of the expected future effect when the regulations enter into force, the Company did not change the estimate of these insurance liabilities in the Financial Statements.

Note 10 – Material events after the Reporting Period

1. In the days immediately prior to publication of the report, a wave of wildfires ravaged various parts of the country, particularly in Haifa, Zichron Yaakov and Jerusalem, causing heavy loss to property.

   To the extent that the government determines that these fires are the result of terror activity, these losses are not covered by the Company's insurance policies and the compensation, if and when it is forthcoming, will be paid by the State through the Tax Authority's property tax division.
2. In October 2016, subsidiaries of the Company that are financial institutions entered into a transaction to provide a loan in the amount of up to NIS 100 million to Caesarea Medical Electronics Holdings (2000) Ltd., against a pledge of shares in Derech Eretz, Dalia Power Energies and preference shares in Dalia Power Energies, and this after ensuring that the terms of the loan meet market conditions. Harel Insurance and IIF (Israel Infrastructure Fund) (held by Harel Insurance and the Group's financial institutions) hold shares in the companies whose shares are to be pledged and Harel Insurance is the lender of the senior debt to these companies.
3. On a dividend distribution by Harel Pension and Provident Ltd. after the Reporting Period, see Note 8.
4. On approval by the general meeting of the Company's compensation policy after the Reporting Period, see Note 9(22).
5. On approval by the general meeting of the employment conditions of the Company's CEO after the Reporting Period, see Note 9(25).

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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

	As at September 30, 2016 (Unaudited)				
	Presented at fair value through profit or loss	Available for sale	Held to maturity	Loans and Receivables	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
Negotiable debt assets (a1)	458,153	6,594,099	290,044	-	7,342,296
Non-negotiable debt assets (*)	312	-	-	11,517,942	11,518,254
Shares (a2)	-	766,903	-	-	766,903
Other (a3)	200,927	1,853,019	-	-	2,053,946
Total other financial investments	659,392	9,214,021	290,044	11,517,942	21,681,399

	As at September 30, 2015 (Unaudited)				
	Presented at fair value through profit or loss	Available for sale	Held to maturity	Loans and Receivables	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
Negotiable debt assets (a1)	647,103	6,582,936	320,078	-	7,550,117
Non-negotiable debt assets (*)	326	-	-	10,490,647	10,490,973
Shares (a2)	-	736,171	-	-	736,171
Other (a3)	193,792	1,614,460	-	-	1,808,252
Total other financial investments	841,221	8,933,567	320,078	10,490,647	20,585,513

	As at December 31, 2015 (Audited)				
	Presented at fair value through profit or loss	Available for sale	Held to maturity	Loans and Receivables	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
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 September 30		As at December 31	As at September 30		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	**2,130,642**	2,025,287	2,081,721	**2,052,727**	1,950,538	2,009,282
<u>Other debt assets:</u>						
Other non-convertible debt assets	**5,208,413**	5,519,144	5,392,548	**5,052,720**	5,417,930	5,290,189
Other convertible debt assets	**3,241**	5,686	4,074	**3,008**	4,750	3,703
Total marketable debt assets	**7,342,296**	7,550,117	7,478,343	**7,108,455**	7,373,218	7,303,174
Impairments recognized in profit and loss (in aggregate)	**1,710**	2,063	2,357			

A2. Shares

	Book value			Amortized cost		
	As at September 30		As at December 31	As at September 30		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	**695,140**	656,269	741,186	**611,107**	558,068	637,021
Non-marketable shares	**71,763**	79,902	76,998	**54,274**	58,060	57,158
Total shares	**766,903**	736,171	818,184	**665,381**	616,128	694,179
Impairments recognized in profit and loss (in aggregate)	**69,016**	53,572	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 September 30		As at December 31	As at September 30		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	**627,244**	516,189	538,540	**573,781**	500,991	509,326
Non-marketable financial investments	**1,426,702**	1,292,063	1,289,329	**1,099,366**	1,023,401	1,021,882
Total other financial investments	**2,053,946**	1,808,252	1,827,869	**1,673,147**	1,524,392	1,531,208
Impairments recognized in profit and loss (in aggregate)	**121,072**	93,534	107,458			
Derivative financial instruments presented in financial liabilities	**615,566**	639,022	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.

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

As at September 30, 2016

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

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

To:

The shareholders of Harel Insurance Investments and Financial Services Ltd.

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

Introduction

We reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities (Periodic and Immediate Reports) Regulations, 1970, of Harel Insurance Investments and Financial Services Ltd. (hereinafter: "the Company") as at September 30, 2016 and for the nine and three-month periods 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 725,462 thousand as at September 30, 2016, and where the Company's profit from these investee companies amounts to NIS 37,685 thousand and NIS 23,331 thousand for the nine and three-month periods ended on that date, respectively. 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

November 28, 2016

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

	September 30		December 31
	2016	2015	2015
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand
Assets			
Deferred tax assets	**1,365**	2,846	2,639
Fixed assets	**1,666**	1,640	1,574
Investments in investee companies	**4,762,671**	4,691,459	4,823,099
Loans to investee companies	**350,483**	350,681	350,517
Real estate for investment	**19,758**	19,310	19,310
Other receivables	**11,390**	24,076	5,212
Other financial investments			
Non marketable debt assets	**3,032**	23,220	8,157
Other	**301,418**	166,948	256,812
Total financial investments and others	**304,450**	190,168	264,969
Cash and cash equivalents	**59,123**	83,628	41,827
Total assets	**5,510,906**	5,363,808	5,509,147
Capital			
Share capital and premium on shares	**346,574**	335,098	341,832
Treasury stock	**(159,274)**	(159,762)	(161,077)
Capital reserves	**405,584**	376,465	364,340
Retained earnings	**4,351,115**	4,192,893	4,361,663
Total capital	**4,943,999**	4,744,694	4,906,758
Liabilities			
Liabilities for benefits to employees, Net	**16,484**	23,072	22,293
Other payables	**33,961**	22,747	33,232
Liabilities for current taxes	**2,074**	6,636	4,287
Financial liabilities	**514,388**	566,659	542,577
Total liabilities	**566,907**	619,114	602,389
Total liabilities and capital	**5,510,906**	5,363,808	5,509,147

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

Date of approval of the financial statements: November 28, 2016

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

Financial information from the condensed consolidated interim statements of income

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Profits from investments, net, and financing revenues	**12,079**	20,176	**4,913**	2,138	27,291
Revenues from management fees	**68,494**	65,711	**23,617**	21,501	88,062
Total revenues	**80,573**	85,887	**28,530**	23,639	115,353
General and administrative expenses	**14,234**	18,129	**4,971**	5,078	24,085
Financing expenses	**14,408**	15,262	**5,107**	5,411	19,656
Total expenses	**28,642**	33,391	**10,078**	10,489	43,741
Company's shares in profits (losses) of investee companies	**118,600**	183,713	**147,765**	(205,916)	403,283
Income (loss) before taxes on income	**170,531**	236,209	**166,217**	(192,766)	474,895
Taxes on income	**11,004**	13,928	**2,621**	4,035	19,309
Income (loss) for period ended relating to the Company's shareholders	**159,527**	222,281	**163,596**	(196,801)	455,586

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

Financial information from the condensed consolidated interim statements of comprehensive income

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Profit (loss) for the period	**159,527**	222,281	**163,596**	(196,801)	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	**(1,650)**	132	**(29)**	135	(1,263)
Net changes in fair value of financial assets available for sale transferred to statement of income	**(20)**	(2,171)	**3**	-	(2,171)
Loss from the impairment of assets classified as available-for-sale carried over to the income statement	**808**	-	**-**	-	-
Foreign currency transaction's difference in respect of overseas operations	**(3,932)**	(14,127)	**(3,702)**	(1,612)	(15,732)
The Group share in the comprehensive income (loss) of investee companies	**49,152**	(56,203)	**3,067**	68,974	(57,143)
Tax benefits (taxes on income) for items of other comprehensive income which after initial recognition under comprehensive income were or will be transferred to profit or loss	**233**	540	**11**	(36)	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	**44,591**	(71,829)	**(650)**	67,461	(75,399)
Other items of comprehensive income which will not be transferred to profit or loss					
Remeasurement of a defined benefit plan	**1,185**	(108)	**564**	(774)	1,317
Tax benefits (taxes on income) for other items of comprehensive income which will not be transferred to profit or loss	**(296)**	29	**(141)**	206	(349)
Other comprehensive income (loss) for the period which will not be transferred to profit or loss, net of tax	**889**	(79)	**423**	(568)	968
Other comprehensive income (loss) for the period	**45,480**	(71,908)	**(227)**	66,893	(74,431)
Total income (loss) for the period Attributed to the company's owners	**205,007**	150,373	**163,369**	(129,908)	381,155

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

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 thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
For the nine months ended September 30 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	-	-	-	-	-	-	-	159,527	159,527
Other comprehensive income (loss)	-	58,213	(26,262)	-	-	-	12,518	1,011	45,480
Total comprehensive income (loss) for the period	-	58,213	(26,262)	-	-	-	12,518	160,538	205,007
Transactions with owners credited directly to equity									
Dividend paid	-	-	-	-	-	-	-	(171,086)	(171,086)
Share-based payments	-	-	-	84	-	-	-	-	84
Purchase of Treasury shares	-	-	-	-	(4,582)	-	-	-	(4,582)
Re-issuance of Treasury shares	1,433	-	-	-	6,385	-	-	-	7,818
Exercising of options	3,309	-	-	(3,309)	-	-	-	-	-
Balance as at September 30, 2016	346,574	354,168	(70,734)	9,807	(159,274)	(48,908)	161,251	4,351,115	4,943,999

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

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

	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 thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
For the three months ended September 30 2016 (Unaudited)									
Balance as at July 1, 2016	346,802	342,840	(53,607)	9,807	(161,141)	(48,908)	160,807	4,246,576	4,843,176
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	-	-	163,596	163,596
Other comprehensive income (loss)	-	11,328	(17,127)	-	-	-	444	5,128	(227)
Total comprehensive income (loss) for the period	-	11,328	(17,127)	-	-	-	444	168,724	163,369
Transactions with owners credited directly to equity									
Dividend paid	-	-	-	-	-	-	-	(64,185)	(64,185)
Purchase of Treasury shares	-	-	-	-	(1,366)	-	-	-	(1,366)
Re-issuance of Treasury shares	(228)	-	-	-	3,233	-	-	-	3,005
Balance as at September 30, 2016	346,574	354,168	(70,734)	9,807	(159,274)	(48,908)	161,251	4,351,115	4,943,999

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

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

	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 nine months ended September 30 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	-	-	-	-	-	-	-	222,281	222,281
Other comprehensive income (loss)	-	(149,781)	(28,989)	-	-	-	108,439	(1,577)	(71,908)
Total comprehensive income (loss) for the period	-	(149,781)	(28,989)	-	-	-	108,439	220,704	150,373
Transactions with owners credited directly to equity									
Dividend paid	-	-	-	-	-	-	-	(128,182)	(128,182)
Share-based payment	-	-	-	(20)	-	-	-	-	(20)
Issue of shares	109	-	-	-	-	-	-	-	109
Purchase of Treasury shares	-	-	-	-	(7,317)	-	-	-	(7,317)
Re-issuance of Treasury shares	(8,915)	-	-	-	20,786	-	-	-	11,871
Exercising of options	5,055	-	-	(5,055)	-	-	-	-	-
Balance as at September 30, 2015	335,098	288,170	(25,514)	14,965	(159,762)	(48,908)	147,752	4,192,893	4,744,694

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

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

	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 September 30 2015 (Unaudited)									
Balance as at July 1, 2015	335,866	347,296	(48,795)	15,861	(161,615)	(48,908)	39,313	4,395,395	4,874,413
Total comprehensive income (loss) for the period									
Loss for the period	-	-	-	-	-	-	-	(196,801)	(196,801)
Other comprehensive income (loss)	-	(59,126)	23,281	-	-	-	108,439	(5,701)	66,893
Total comprehensive income (loss) for the period	-	(59,126)	23,281	-	-	-	108,439	(202,502)	(129,908)
Transactions with owners credited directly to equity									
Share-based payment	-	-	-	87	-	-	-	-	87
Purchase of Treasury shares	-	-	-	-	(1,930)	-	-	-	(1,930)
Re-issuance of Treasury shares	(1,751)	-	-	-	3,783	-	-	-	2,032
Exercising of options	983	-	-	(983)	-	-	-	-	-
Balance as at September 30, 2015	335,098	288,170	(25,514)	14,965	(159,762)	(48,908)	147,752	4,192,893	4,744,694

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

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

	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

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

Financial information from the condensed consolidated interim statement of cash flows

	Annex	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
		2016	2015	2016	2015	2015
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
		NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Cash flows from operating activities						
Before taxes on income	A	**40,096**	27,777	**26,062**	9,240	71,609
Income tax paid		**(9,500)**	(12,574)	**(2,993)**	(4,671)	(19,550)
Net cash provided by current operations		**30,596**	15,203	**23,069**	4,569	52,059
Cash flow from investing activities						
Investment in investees		**-**	-	**-**	-	(11,467) *
Proceeds from sale of investments in investee companies		**-**	210	**-**	-	413 *
Investment in fixed assets		**(707)**	(146)	**(700)**	(49)	(44)
Proceeds from sale of fixed assets		**380**	286	**380**	286	104
Dividends from investees		**211,812**	116,381	**-**	16,381	246,180
Investment in financial investments, net		**(40,383)**	53,256	**50,074**	(1,939)	(19,378)
Repayment of loans and capital notes provided to investees		**14,436**	22,845	**1,903**	5,745	29,730
Net cash provided by investment activity		**185,538**	192,832	**51,657**	20,424	245,538
Cash flows from financing activities						
Dividends paid		**(171,086)**	(128,182)	**(64,185)**	-	(235,083)
Repayment of loans from banks and others		**(27,752)**	(26,296)	**-**	-	(50,758)
Net cash used for financing activity		**(198,838)**	(154,478)	**(64,185)**	-	(285,841)
Net increase in cash and cash equivalents		**17,296**	53,557	**10,541**	24,993	11,756
Cash and cash equivalents at beginning of the period		**41,827**	30,071	**48,582**	58,635	30,071
Cash and cash equivalents at end of the period		**59,123**	83,628	**59,123**	83,628	41,827

* Reclassified.

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

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

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Annex A - Cash flows from operating activities before taxes on income					
Profit (loss) for the period	**159,527**	222,281	**163,596**	(196,801)	455,586
Items which are not connected with cash flows					
Company's shares in (revenues) losses of investee companies	**(118,600)**	(183,713)	**(147,765)**	205,916	(403,283)
Net losses (profits) from financing activities	**39**	(6,769)	**(1,112)**	2,431	(10,331)
Loss (profit) from sale of fixed assets	**(40)**	-	**(40)**	-	15
Change in fair value of investment property	**(448)**	(1,035)	**-**	-	(1,035)
Financing income, net	**(5,688)**	(5,846)	**(4,089)**	(3,463)	(1,647)
Taxes on income	**11,004**	13,928	**2,621**	4,035	19,309
Depreciation and amortization	**275**	292	**88**	68	421
Share-based payment	**34**	(20)	**-**	87	181
Changes in other balance sheet items					
Other receivables	**(6,178)**	(3,855)	**687**	(13,294)	13,883
Other payables	**5,980**	(8,430)	**14,552**	9,380	(1,655)
Liabilities for benefits to employees, net	**(5,809)**	944	**(2,476)**	881	165
Total adjustments required to present cash flows from operating activities	**(119,431)**	(194,504)	**(137,534)**	206,041	(383,977)
Total cash flows from operating activities, before taxes on income	**40,096**	27,777	**26,062**	9,240	71,609

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

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 September 30, 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 ("Schedule 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, 2015, 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 and companies, 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 Company's separate annual financial statements.

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 Harel Insurance by Harel Pension and Provident Ltd., see Note 8 to the consolidated financial statements.
6. On the distribution of a dividend to Harel Insurance by EMI, see Note 8 to the consolidated financial statements.

Note 3 - Significant events during 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. Dividend distribution

   On August 23, 2016, the Company's Board of Directors approved the distribution of a cash dividend in the amount of NIS 64 million (NIS 0.3 per share). The Board of Directors passed the decision after taking into account the Company's financial results for the first half of 2016. The Board of Directors was presented with information on the distributable profits, capital surpluses of the Company's subsidiaries and the Group's cash requirements. 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 September 8, 2016.

   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.

3. On a bonus for Mssrs. Yair Hamburger, Gideon Hamburger and Yoav Manor for 2015, see Note 9 to the Consolidated Financial Statements.

4. On a bonus for other senior officers, see Note 9 to the consolidated financial statements.

5. On a general meeting that took place on April 12, 2016, see Note 9 to the consolidated financial statements.

6. On a law governing the compensation of officers in financial institutions, see Note 9 to the consolidated financial statements.

7. On the Company’s compensation policy, see Note 9 to the consolidated financial statements.

8. On the revised compensation policy for the financial institutions, see Note 9 to the consolidated financial statements.

9. On the termination of the service of the Co-CEOs of Harel Investments, see Note 9 to the consolidated financial statements.

10. On the approval of the employment conditions of the CEO of Harel Investments, see Note 9 to the consolidated financial statements.

11. On notice of a waiver of salary components by the Company’s controlling shareholders, see Note 9 to the consolidated financial statements.

12. On an agreement with an architect, see Note 9 to the consolidated financial statements.

13. On a revised employment agreement for the CEO of Harel Insurance, see Note 9 to the consolidated financial statements.

Harel Insurance Investments and Financial Services Ltd.

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

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

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

In this instance, management consists of:

1. Mr. Ronen Agassi - the Company's CEO, VP Finance, director in 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 Babecov - CEO of Harel Finance Holdings and CEO of Harel-Pia Mutual Funds Ltd.
4. Ms. Nataly Mishan-Zakai, General Counsel to the Company 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 financial reporting and disclosure includes the Company's existing controls and procedures that were planned by the general manager and the most senior financial officer or are monitored by them or by the person who actually performs these duties, under the oversight of the Company's board of directors. The purpose of these controls and procedures is to provide a reasonable measure of assurance as to the reliability of financial reporting and the preparation of the financial statements pursuant to the provisions of the law, and to ensure that the information that the Company is required to disclose in its published reports in accordance with the provisions of the law, is collected, processed, summarized and reported on the dates and in the format prescribed by law.

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

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

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

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

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

In the quarterly report on the effectiveness of internal control over the financial reporting and disclosure that was included in the Periodic Report for the Period ended June 30, 2016 (hereinafter – the last quarterly report on internal control), the internal control was found to be 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 Company Ltd. ("the Insurance Company") for the third quarter of 2016 ("the Reports");
2. Based on my knowledge, the Reports contains no misstatement of a material fact nor do they omit any statement of a material fact necessary to ensure that the statements that they contain, in light of the circumstances under which such statements were included, shall not be misleading with respect to the period covered in the Reports;
3. Based on my knowledge, the 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 Corporation at the dates and periods covered in the Reports;
4. Based on my most recent evaluation of the internal control over financial reporting and disclosure, I disclosed to the Corporation's auditors, to the Board of Directors and the Audit Committee and Financial Reports Committee:

   (a) Any significant deficiencies and material weaknesses in the determination or application of the internal control over financial reporting and disclosure that might reasonably compromise the Insurance Company's ability to record, process, summarize and report financial information in a manner that may cast doubt on the reliability of the financial reporting and preparation of the financial reports in accordance with the statutory provisions; and –

   (b) Any fraud, whether material or immaterial, that involves the General Manager (CEO) or any person directly accountable to him or other employees who hold a significant role in the internal control over financial reporting and disclosure;

5. I, myself or together with others in the Corporation:

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

   (b) Determined controls and procedures, or ensured that such controls and procedures are determined and in place under our oversight, for the purpose of providing a reasonable measure of certainty as to the reliability of the financial reporting and to ensure that the financial reports are prepared in accordance with the statutory provisions, including in accordance with generally accepted accounting standards;

   (c) No event or matter which took place during the period between the date of the last report (quarterly or periodic, as applicable) and the date of this report was brought to my attention, that might change the conclusion of the Board of Directors and Management in relation to the effectiveness of the Corporation's internal control over financial reporting and disclosure.

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

November 28, 2016

Ronen Agassi
CEO

Certification

I, Ronen Agassi, hereby certify that:

1. I have reviewed the interim financial statements and the other financial information contained in the interim financial statements of Harel Insurance Investments and Financial Services Ltd. ("the Corporation") for the third quarter of 2016 ("the Reports" or "the Interim Reports");
2. Based on my knowledge, the interim financial statements and other financial information contained in the Interim Reports contain no misstatement of a material fact nor do they omit any statement of a material fact necessary to ensure that the statements they contain, in light of the circumstances under which such statements were included, shall not be misleading with respect to the period covered in the Reports;
3. Based on my knowledge, the Interim Reports and other financial information contained in the Interim Reports reasonably reflect, in all material respects, the financial position, results of operations, and cash flows of the Corporation at the dates and for the periods covered in the Reports;
4. Based on my most recent evaluation of the internal control over financial reporting and disclosure, I disclosed to the Corporation's auditors, to the Board of Directors and the Audit Committee and Financial Reports Committee:

   (a) Any significant deficiencies and material weaknesses in the determination or application of the internal control over financial reporting and disclosure to the extent that it relates to the interim financial statements and to any other information contained in the Interim Reports, that might reasonably compromise the Corporation's ability to record, process, summarize or report financial information in a manner that might cast doubt on the reliability of the financial reporting and preparation of the financial reports in accordance with the statutory provisions; and -

   (b) Any fraud, whether material or immaterial, that involves the General Manager (CEO) or any person directly accountable to him or other employees who hold a significant role in the internal control over financial reporting and disclosure;

5. I, myself or together with others in the Corporation:

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

   (b) Determined controls and procedures, or ensured that such controls and procedures are determined and in place under our oversight, for the purpose of providing a reasonable measure of certainty as to the reliability of the financial reporting and to ensure that the financial reports are prepared in accordance with the statutory provisions, including in accordance with generally accepted accounting standards;

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

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

November 28, 2016

Ronen Agassi
CFO