# Harel Insurance Investments and Financial Services Ltd.

**Interim Report as at**

**March 31, 2017**

# Contents

# Board of Directors Report

# Harel Insurance Investments and Financial Services Ltd.

## Board of Directors Report

### for the three months ended March 31, 2017

The Board of Directors Report for the three months ended March 31, 2017 ("the Reporting Period"), reflects the principal changes in the state of the business of Harel Insurance Investments and 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 2016 which was published on March 22, 2017 ("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 various sectors of insurance, the Company operates through the following subsidiaries: Harel Insurance Company Ltd. (fully controlled) ("Harel Insurance"); Interasco Societe Anonyme General Insurance Company S.A.G.I (in which the Company holds 94%) operating in non-life insurance in Greece; Turk Nippon Sigorta A.S. (fully controlled) (“Turk Nippon”), operating in Turkey; ICIC. – The Israeli Credit Insurance Company Ltd. (in which the Company holds 50%) ("ICIC") and E.M.I. - Ezer Mortgage Insurance Company Ltd. (fully controlled) ("EMI").

B. Commencing 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.

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

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

Pension Funds Management Ltd., which, on October 1, 2016, merged with Harel Provident Funds and Education Funds Ltd., which managed provident and education funds).

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

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

D. In the financial services and capital market sector - the Company operates through Harel Finance Ltd. ("Harel Finance") (fully controlled by the Company) and its subsidiaries: Harel Pia Mutual Funds Ltd. ("Harel-Pia"), Harel Finance Investments Management Ltd. ("Harel Finance Investments"), Harel Financial Products Ltd. ("Harel Products") (which engages in financial products such as: ETNs, covered warrants and more). The products are offered to the public through the subsidiary Harel Sal Ltd. ("Harel Sal") which is a reporting corporation under the Securities Law and issues index products (covered warrants and ETNs) and through the subsidiary, Harel Sal Currencies Ltd. ("Harel Currencies"), which is a reporting company 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 date of publication of the report, Yair Hamburger, Gideon Hamburger and Nurit Manor (in this section: "the Shareholders"), hold 49.79% of the voting rights in the Company and 49.51% of the Company's issued share capital.

The Shareholders' holding in the Company is principally through G.Y.N. Economic Consulting and Management Ltd., a company fully owned and controlled by them (which, at the date of this report, they hold, through private companies fully owned by each of the Shareholders). For additional information about the Shareholders holding in the Company, see Note 10(4) to the Financial Statements.

## 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 Decision to distribute a dividend

On a decision from March 22, 2017, concerning the distribution of a dividend, that was distributed on April 9, 2017, see Note 9(3) to the Financial Statements.

2.1.2 Revision of the compensation policy - subsidiaries that are financial institutions

On the revised compensation policy of the subsidiaries that are financial institutions, see Note 9(7) to the Financial Statements.

2.1.3 Purchase of another layer of insurance for a Directors and Officers liability policy

On the purchase of another layer of insurance for a Directors and Officers liability policy, see Note 9(11) to the Financial Statements.

2.1.4 Annual and Special General Meeting

On an annual and special general meeting of the Company, which took place on March 28, 2017, see Note 9(13) to the Financial Statements.

2.1.5 Special General Meeting

On a special general meeting of the Company held on January 17, 2017 to approve the appointment of Ben Hamburger as a Company director, see Note 9(14) to the Financial Statements.

2.1.6 Issuance of Series 9 and 10 bonds of Harel Financing and Issuing

On the expansion of Series 9 and 10 bonds of Harel Financing & Issuing, see Note 6(C)(4)(3) to the Financial Statements.

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

Establishment of a new business division

In May 2017, the Company announced the establishment of a new business division in Harel Insurance that will incorporate the industry and business insurance division, the general insurance division and all the general insurance reinsurance activity of Harel Insurance ("the New General Insurance Division").

Additionally, the Exercising of Rights (Claims) Division of Harel Insurance will be split into the following business-professional units: the handling of non-life claims will be transferred to the New Non-life Insurance Division, and the handling of health and long-term care claims will be transferred to the Health Insurance Division.

## 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

Growth in Q1 2017 in key parts of the world was mostly positive and consistent. Key stock markets around the world were positive in this quarter and the Global Purchasing Manager's Index continued to rise. For the first time in two years, the world's main financial institutions revised their growth forecasts upwards for the coming years.

In the US, market sentiment in the financial markets has remained positive since the end of 2016 when Donald Trump was elected as president, as reflected in the increase in the leading share indices. In March 2017, the Federal Reserve raised the interest rate for the first time in 2017. The unemployment rate continued to decline in the first quarter, although private consumption slowed. According to initial estimates, first quarter growth was only 0.7% in annual terms.

Data from the Eurozone were mostly positive and indicated further economic improvement, lower unemployment, improved market sentiment among companies and households and higher consumer spending. According to initial estimates, Q1 growth was 1.8% at an annual rate.

Performance in the emerging markets also improved in relative terms, with stability alongside moderate price increases in most raw materials around the world. In China, first quarter growth accelerated slightly reaching 6.9% in the last four quarters.

2.3.2 Developments in the Israeli economy

Initial indicators for Q1 2017 point to further improvement in industry, trade, tourism and the export of services. Labor market data remained positive with the unemployment rate falling to 4.2%. According to initial estimates, first quarter growth was just 1.4%. Nevertheless, the main reason for the slowdown is a sharp reduction in expenditure on transportation vehicles (that was extremely high in the previous quarter), which negatively affected private consumption, investments and imports.

2.3.3 Stock market

In the first quarter of 2017, the global stock markets recorded price increases. The MSCI World Index rose by 7% and the MSCI Emerging Markets Index rose by 11%.

In Israel, the TA-125 Index (which replaced the TA-100 Index on February 9, 2017) was down 2% in the first quarter, influenced by ongoing declines in the pharmaceuticals sector. In contrast, the TA-90 Index (which replaced the TA-75 Index on February 9, 2017) rose by 8%, led by the insurance and real estate sectors.

The daily turnover of trade in shares and convertible instruments was NIS 1.6 billion in the first quarter, a 30% increase compared with the average for 2016. Nevertheless, the significant change in the composition of the key stock exchange share indices at the beginning of February 2017, was also an important contributing factor to the increased turnover.

2.3.4 Bond market

The general bond index rose by 0.6% in Q1 2017, as part of a 1.5% increase in the Corporate Bond Index. The Government Bond Index rose by 0.1% in the first quarter while the 0.6% increase in the Shekel Government Index was partially offset by a 0.6% decline in the Linked Government Bond Index.

The daily turnover of trade in bonds was NIS 4 billion in Q1 2017, a 6% increase compared with the average for 2016, but an 8% decrease compared with the average daily turnover in the corresponding quarter last year.

2.3.5 Mutual funds

The mutual funds raised net amounts of NIS 3.2 billion in Q1 2017, after redemptions of NIS 19.5 billion in 2016. The amounts raised by mutual funds specializing in shares (NIS 1.9 billion) and the funds specializing in bonds (NIS 4.8 billion) were particularly noteworthy. In contrast, activity in the shekel funds and money-market funds was extremely negative, with redemptions of NIS 1.6 billion and NIS 1.7 billion respectively.

2.3.6 Index products

According to the Association of ETFs, at the end of Q1 2017, total assets under management amounted to NIS 92.4 billion, 3% lower than at the end of 2016 (NIS 95.3 billion). The decline in this quarter was greatest for ETNs on Israeli shares where redemptions of NIS 2.9 billion were recorded.

2.3.7 Foreign exchange market

In Q1 2017, the shekel was 4.2% stronger against the Bank of Israel's nominal basket of currencies. The stronger shekel was supported by the high ongoing surplus in the balance of payments current account, an increase in foreign investments and by the high real interest rate relative to abroad, despite a relative acceleration in the purchase of foreign currency by the Bank of Israel during the quarter.

During this quarter, the shekel appreciated by 4.0% against the euro (to NIS 3.8822 / euro) and by 5.5% against the dollar (to NIS 3.632 / dollar).

2.3.8 Inflation

According to the last known index, inflation for the last 12 indices (until February 2017) amounted to 0.4%, after dropping 0.2% in Q1 2017. Transportation and communications, and clothing were the key factors that contributed to the lower index during the quarter (known index), and they were partially offset by higher prices for fruit and vegetables and home maintenance.

2.3.9 Bank of Israel interest

The Bank of Israel interest rate remained unchanged at 0.1% in Q1 2017 and in practice has not changed since the February 2015 interest rate cut. Despite more rapid growth and stronger private consumption, the reasons for leaving the interest rate unchanged were inflation, that continued to be lower than the Bank of Israel target, and the stronger shekel.

## 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 March 19, 2017, the Knesset Constitution, Law and Justice Committee approved the Prohibition on Money Laundering Order (Obligations of Identification, Reporting and Keeping Records by Insurers, Insurance Agents and Management Companies, to Prevent Money Laundering and Terror Financing), 2017. The Order prescribes provisions concerning the duty to become acquainted with the customer when drawing up a life assurance contract and when opening a provident fund account; provisions concerning recording the identifying particulars of a beneficiary and of a company; provisions concerning on-going monitoring of the necessary procedures and transactions of the service recipient; additional reports on activity in life assurance contracts or in accounts or in connection with a loan; the duty to check details against the central list of known terror organizations; the obligations of a financial institutions to establish a policy on risk management and tools concerning the prohibition on money laundering and terror financing, and provisions concerning the keeping and saving of records. The order will become applicable, if and insofar it is published as binding, a year from its date of publication and it will also apply to existing accounts and life assurance contracts that are in force on the commencement date, except for the exclusions specified in the order.

2.4.1.1.2 On January 25, 2017, the Bank of Israel Bill (Amendment no. 4) (the Committee for Financial Stability), 2017 was published which proposes establishing a Committee for Financial Stability to be headed by the Governor of the Bank of Israel. The Committee will operate with the purpose of supporting the stability and proper function of the financial system. To this end, it will promote coordination and cooperation between the financial supervision authorities - Banking Supervision, Commissioner of the Capital Market, Insurance and Savings in the Ministry of Finance ("the Commissioner"), supervision of the provision of financial services, supervision of payments and securities systems, as well as between these authorities and the Bank of Israel and Ministry of Finance so as to encourage cooperation between them in order to support the stability of the financial system and ensure its proper function. The Bill sets out the functions and composition of the Committee and it proposes establishing a decision-making mechanism.

2.4.1.2 Circulars

2.4.1.2.1 On March 1, 2017, a circular was published concerning provisions for the wording of insurance plans which prescribes additional provisions that should or should not be included in an insurance plan. The provisions of the circular will enter into force as follows: for long-term care plans, motor property insurance (self-owned and third-party), personal accidents, dental insurance, travel insurance and life-savings insurance, on August 1, 2017; for insurance plans for medical expenses, on October 1, 2017, and for the other insurance plans, on December 1, 2017.

2.4.1.2.2 On February 1, 2017, the Commissioner published a circular concerning the cancellation of insurance policies which prescribes that insureds are entitled to request cancellation of insurance policies by email, personal online account, call to a call center, fax and other methods chosen by the insurer, as well as additional provisions relating to the cancellation process. The provisions of the circular become applicable on July 1, 2017.

2.4.1.2.3 On January 1, 2017, the Commissioner published a circular concerning project finance which sets out rules that will apply to financial institutions financing construction projects by means of the project finance method. The circular prescribes provisions concerning the issuing of payment voucher booklets for each apartment in the project to be used for any payment that the buyer makes for the price of the apartment; the issuing of bank guarantees by the financial institution for the amount paid by means of the original payment voucher or providing some other form of collateral, and information that must be included in the loan agreement. The circular also prescribes that in transactions where a financial institution undertakes part of the project financing using the project financing method, by cooperating with a third party, the financial institution is entitled not to perform the actions listed in the circular, provided that it ensures that these actions were carried out in full by the third party. The provisions of the circular apply from its date of publication.

Pursuant to the circular, on March 30, 2017, the Sale Law (Apartments) (Guaranteeing the Investments of Apartments Buyers) (Amendment no. 9), 2017, was published. The law stipulates that loans for the purchase of an apartment and project finance may also be provided by an insurer, and it also stipulates, *inter alia*, that the surety given by sellers to buyers upon receiving payment for the apartment will not include VAT, and that if the surety is exercised, the VAT amount will be returned to the buyer through the bank or the insurer by a designated fund to be established for this purpose.

2.4.1.2.4 On January 1, 2017 the Commissioner published a circular amending the circular on the involvement of entities that are not license holders in the marketing and sale of insurance products that are not group insurance. The amendment stipulates that when marketing insurance such as travel insurance that does not include exclusions on account of medical underwriting and where the policy period is not more than 30 days, the existing restrictions will not apply when referring potential customers to a supervised entity. The restrictions mainly deal with limiting the information about the customer that the external entity may submit to the supervised entity and the prohibition on submitting information about the conditions and quality of the insurance product to the customer. The circular on the marketing of travel insurance becomes applicable on November 1, 2017.

2.4.1.3 Draft circulars

2.4.1.3.1 On April 6, 2017, the Commissioner published a draft amendment to the circular on investment rules that apply to financial institutions. The draft amendment proposes expanding the investment options available to financial institutions and allowing the institutional investors to enter the field of retail loans for households by investing in companies that are related parties, that engage in providing credit to households. The institutional investor’s share of the value of the loans to be provided by the credit company will be 49%, and the financial institution’s share will not be less than 20%, while the amount of a loan will be limited to NIS 50,000.

On April 23, 2017, a draft document of principles was published for public comment on the subject of providing government assistance to increase competition in the retail credit market. Accordingly, it is proposed that a committee will be formed to provide government assistance to controlling shareholders in companies that will engage in providing retail credit, which will be given by way of a loan of NIS 15 million, that will become a grant when the conditions prescribed in the document are met. These include the provision of retail loans of the amounts and on the dates set out in the document, including providing loans in the total amount of NIS 600 million within two years, and loans of NIS 1 billion within 3 years.

2.4.1.3.2 On March 1, 2017, the Commissioner published a draft circular concerning the involvement of sales support personnel in the marketing and sale of insurance products. According to the draft, sales support personnel are people who do not have a license as defined in the Insurance Supervision Law and perform activity directly or indirectly relating to the sale of insurance products on behalf of insurers or insurance agents. The draft circular proposes that sales support activity will take place only on the business premises from which the insurer or agent operates; information about the product being sold must be sent to the customer following the sales call for enrolling the customer in the insurance, and the draft circular also relates to the need to obtain the customer's voluntary confirmation for purchase of the insurance; conditions for accepting insureds who are enrolled in the insurance by an agent or sales support person, including an obligation to include a recording of the sales conversation and obtaining the insured's voluntary confirmation that he wishes to enroll in the insurance, as well as provisions concerning the compensation paid to the sales support person and monitoring of their activity.

2.4.1.3.3 On February 7, 2017, the Commissioner published an amended version of the draft circular on the provisions of the directive known as Solvency II, with adjustments for Israel. The draft, which has been submitted for the approval of the Knesset Finance Committee, discusses the first pillar of the directive which deals with the calculation of economic capital and risk-based capital requirements. According to the draft, insurance companies must maintain an economic solvency regime, without derogating from their obligation to satisfy the provisions of the Supervision of Financial Services Regulations (Insurance) (Minimum Equity Required of Insurers), 1998, and any subsequent Commissioner's instructions that were issued. According to the draft circular, the solvency regime based on Solvency II will become applicable on June 30, 2017. In the period commencing June 30, 2017 and ending December 31, 2021, the provisions relating to the capital required to maintain solvency will apply gradually so that the required capital at June 30, 2017 will not be less than 60% of the solvency capital requirement ("SCR") under the provisions of the appendix, and the required capital to be calculated on data at December 31, 2017 will not be less than 65% of the SCR; the required capital to be calculated on data at December 31, 2018 and data at June 30, 2019 will not be less than 70% of the SCR; the required capital to be calculated on data at December 31, 2019 and on data at June 30, 2020 will not be less than 80% of the SCR, the required capital to be calculated on data at December 31, 2020 and the capital requirement to be calculated at June 30, 2021, will not be less than 90% of the SCR, and the required capital to be calculated on data at December 31, 2021 and thereafter, will not be less than the SCR.

2.4.1.4 Commissioner's position

On February 1, 2017, the Commissioner published a position paper clarifying the issue of a review of entitlement. The position proposes that before an approved period for the payment of insurance benefits, which is shorter than the maximum period of entitlement, comes to an end, the insurance company must initiate a review of the entitlement in order to clarify whether the claimant is still eligible for the insurance benefits. This review will be 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.

2.4.2 Life assurance and long-term savings

2.4.2.1 Provisions of law

2.4.2.1.1 On March 28, 2017, the Supervision of Financial Services Regulations (Provident Funds) (Recognition of Yields in New Comprehensive Pension Funds), 2017, were published. The regulations prescribe provisions for calculating yields on the fund's assets and for changing the allocation of earmarked bonds in the pension fund by groups - annuity recipients, members aged 50 or above, and other members so that from the issuance of designated bonds for the new pension funds, at a rate of 30% of all the pension fund's assets, the earmarked bonds will be allocated as follows: 60% of the assets held against liabilities to pensioners (not including those already eligible), 30% of the assets of the pension fund savers who are aged 50 to the age of retirement, and the balance to the other fund members. The regulations also stipulate that 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 half a percent higher and that this difference could upset the demographic balance 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. The regulations will take effect on July 1, 2017.

2.4.2.1.2 On March 20, 2017, a draft amendment was published to the Supervision of Financial Services Regulations (Provident Funds) (Individually Managed Provident Fund), 2009. The draft amendment proposes that at least eight bidders must participate in any tender held and that the 20% limit on the payment of commissions to related parties will be cancelled, and that institutional investors will be able to buy or sell securities through a related party, provided that the commission payable for such transactions does not exceed the commission payable to the winner of the tender that is not a related party. The draft amendment also proposes that the commission paid to the related party, will be the lowest commission offered by the winner of the tender for all the transactions, unrelated to the nature of the transaction and that securities may be bought and sold by the entity chosen by the member for this purpose, even if it did not participate in or win the tender process, provided that the member is presented with all the conditions according to which the management company entered into agreement with the winners of the aforesaid tender.

2.4.2.1.3 On March 1, 2017, a second draft of the Supervision of Financial Services Regulations (Provident Funds) (Distribution Fees) (Amendment), 2017 was published. The draft regulations propose determining that the definition of a provident fund will include all categories of pension products as they appear in the Supervision of Financial Services Law (Advice, Marketing and Pension Clearing System), 2005, including provident funds that are insurance funds, excluding old pension funds, yield-guaranteed insurance funds and yield-guaranteed provident funds, in a manner that facilitates the payment of distribution fees for them to pension advisors, and that the distribution fees paid by the financial institution to the license holder for the provident fund will be a monetary payment only, and not by way of any other benefits. Furthermore, the draft also proposes the possibility of allowing advisors to sign distribution agreements with management companies under different conditions for different groups of products (annuity provident fund, benefits provident fund, personal several pay provident fund, education fund, investment provident fund).

2.4.2.1.4 On February 20, 2017, the Knesset Finance Committee approved the Supervision of Financial Services Regulations (Provident Funds) (Individually Managed Provident Fund) (Amendment), 2016, which stipulate that those saving for pension will be given the option to manage their savings individually and to choose the best investment channels for them by themselves, up to a maximum of NIS 5.2 million. The regulations broaden the categories of money that can be managed in an individually managed provident fund, and among other things they regulate the manner of investing the money, management fees and expenses that may be collected from the assets of an individually managed provident fund. Furthermore, the regulations prescribe that management companies will be entitled to continue to manage money that was deposited before the onset of these regulations, as prescribed in the key regulations.

2.4.2.1.5 On January 29, 2017, the Supervision of Financial Services Law (Insurance) (Amendment no. 33), 2017, was published. The purpose of the law is to provide government assistance to old pension funds that are not part of the arrangement by transferring money from the state budget (security cushion), so as to moderate the effect of changes in the interest rate curve on the rights of members in these funds, subject to making changes in the rights and obligations of their members.

2.4.2.1.6 On January 16, 2017, the Supervision of Financial Services Law (Provident Funds) (Amendment no. 20), 2017, was published which prohibits any connection between the calculation of distribution fees and the percentage management fees collected from members, and it also prescribes the penalty for violating this prohibition. The law became applicable on April 1, 2017.

2.4.2.1.7 On January 1, 2017, the Economic Efficiency Law (Legislative Amendments to Achieve Budget Targets for Fiscal Years 2017 and 2018), 2016, Chapter 12: Tax on the ownership of multiple apartments, was published. The Law stipulates that fund members who are liable for tax on the ownership of multiple apartments will be entitled to deposit payments above the limit of NIS 70,000 in an Investment

Provident Fund up to December 31, 2017 if they have sold an apartment in their possession before December 16, 2016 to a buyer who is an Israeli resident who does not own more than one apartment, and the limit on the amount that can be deposited in the provident fund will be up to NIS 2.5 million or up to the consideration received on the sale of the apartment - whichever is lower.

2.4.2.1.8 On January 1, 2017, the Economic Efficiency Law (Legislative Amendments to Achieve Budget Targets for Fiscal Years 2017 and 2018), 2016, Chapter 3: Severance Pay was published. The Law stipulates that amounts deposited in an annuity provident fund on account of the severance pay component that exceed the severance pay ceiling, or that were deposited on account of the supplementary component for severance pay and exceed the severance pay supplement ceiling, will be treated as the employee’s income from work on the date on which they were paid into the provident fund. Amounts that do not exceed these limits will be treated as the employee’s income on the date he received them. Furthermore, employees who retire and have an amount of up to NIS 360,000 to their credit or up to the severance pay ceiling - whichever is higher, in the severance pay component in all their annuity provident funds, on account of working for the same employer, will be considered to have informed the manager, upon retirement, of their wish to continue to leave the severance pay for the purpose of annuity payments.

2.4.2.1.9 On January 1, 2017, the Economic Efficiency Law (Legislative Amendments to Achieve Budget Targets for Fiscal Years 2017 and 2018), 2016, Chapter 2: Savings and assistance for the self-employed, was published. The Law prescribes the dates and rates whereby self-employed persons will deposit payments in annuity provident funds for pensionable income, the mechanism for sending a warning if deposits are not paid in and the amount of the fine if such payments are not deposited.

2.4.2.2 Circulars

2.4.2.2.1 On May 3, 2017, circulars were published regarding provisions for financial reporting for new pension funds and provisions for the management of a new fund, which replace previous circulars on the same subject. The circulars prescribe provisions on the method of calculating the liabilities to pensioners so that the liabilities will be measured against the yield actually obtained with respect to the interest rate stipulated in the circular; provisions were also prescribed on the manner of updating the pension payable to those entitled to an annuity according to the rate of actuarial surplus or deficit attributable to demographic factors, the rate of the actuarial surplus or deficit attributed to the yield and changes in the discounting interest rates, and changes in the CPI (for pensioners and existing annuity recipients). The circulars become applicable on January 1, 2018.

Furthermore, on that date a circular was published regarding provisions for the management of new general funds, which amends a previous circular of the same name. The new circular prescribes provisions on management fees charged by new general pension funds and on pensions that the survivors of insureds who chose a basic pension track will receive. The circular also prescribes provisions on updating the pension paid to those entitled to an annuity. The provisions of the circular are applicable from January 1, 2018.

2.4.2.2.2 On May 3, 2017, a circular was published amending the previous circular on the subject of withdrawing money from the account of a deceased member in which there is a small balance. The circular expands the applicability to include insurance companies and pension funds, and it defines those cases in which financial institutions will allow money to be withdrawn without producing an inheritance order or probate of the will. The provisions of the circular apply from its date of publication.

2.4.2.2.3 On May 1, 2017, an amendment was published to the circular on guidelines for work disability insurance plans which prescribes provisions for P.H.I. policies, postponing the commencement date to August 1, 2017.

2.4.2.2.4 On February 1, 2017, the Commissioner published an amendment to the circular on the explanatory document setting out various instructions about the commencement date, including that the obligation applicable to financial institutions to submit to pension agents every year, by April 15, information about the amount of compensation to which they are entitled for marketing the financial institution’s products will apply from the date of publication of the amendment, postponement of the commencement date of the provisions relating to investment provident funds to July 1, 2017, and also detailed provisions about proceedings pertaining to investment provident funds in the period between January 1, 2017 and July 1, 2017.

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 provisions of the circular become applicable on June 1, 2017.

On January 1, 2017, the Commissioner published another amendment to the circular on enrollment in a pension or provident fund. The circular stipulates that if, after notification is sent to him on this matter, the member does not inform the fund that he does not wish to move to the recipient pension fund money credited to him in pension funds in which he is a non-contributing member, the recipient fund’s management company will submit a request to transfer the money to the relevant funds. The amendment further stipulates that the management company may not condition the member’s enrollment on receiving additional documents or information that are not listed in the enrollment form and that are not part of the medical underwriting process. Application of the provisions of the circular remains unchanged at June 1, 2017.

2.4.2.2.6 On September 29, 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, and also applies the provisions of the circular to investment provident funds. The circular becomes applicable on its date of publication.

On February 1, 2017, an amendment was published to a circular on annual and quarterly reports to be sent to members and insureds in financial institutions. The amendment changes the format of the abridged annual reports to be sent to insureds with life assurance and work disability insurance that does not include a savings component (in connection with the transition provisions for 2015) and it also makes changes in the confirmation of tax which is attached to the abridged annual reports. The circular applies to pension savings and life assurance products that were in force during all or part of the period for which the report is issued and it becomes applicable from the annual report sent to members for 2016.

2.4.2.2.7 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.

On January 1, 2017, the Commissioner published a further amendment to the circular on rules for the operation of pension products, deferring the date for submitting the report on the clearance fees paid to agents for the period January-December 2016 to July 1, 2017, and the date for reducing the clearance fees so reported to August 15, 2017. The circular also stipulates that reports to members in respect of a refund of the reduced amount will be sent in a letter attached to the report for the third quarter of 2017, and that on July 15, 2017, agents will submit a report on clearance fees that were paid to them for the period January-June 2017.

2.4.2.2.8 On March 13, 2016, the Commissioner published a circular concerning the choice of a default option fund and the conditions that provident fund management companies enrolling members in accordance with the provisions of Section 20(B) of the Provident Funds Law must comply with. 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 option arrangements will remain in force until March 2019 at the latest. A draft amendment to the circular on transferring money to provident funds, dated February 1, 2017, stipulates that the transition provisions relating to the existing default option arrangements will only be upheld if the rate of management fees defined in the agreement or collected by virtue of the agreement are not the maximum management fee rates prescribed in the statutory provisions.

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. 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 chosen 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.

Application of the circular could affect the management fees collected from members. At this stage, the Company is unable to estimate the overall effect of the implementation of this circular.

On February 1, 2017, the Commissioner published an amendment to the circular on provisions concerning the choice of a provident fund. The amendment proposes that payments deposited in a management company's account for employees who have not filled out an enrollment form and for whom payments were not made by virtue of a default option agreement as defined in the circular, will be returned to the employer immediately. Furthermore, it is proposed that excluding the provisions of the draft circular with respect to the default option agreement that was in force on the date of publication of the circular and up to the end of the agreement period but no later than March 31, 2019, will only apply if the management fee rates set out in or collected by virtue of such an agreement for a particular employee, are not the maximum management fee rates prescribed in the statutory provisions.

2.4.2.3 Draft circulars

2.4.2.3.1 On April 2, 2017, the Commissioner published a draft amendment to the circular on management fees in pension savings instruments. The draft amendment proposes that financial institutions will be permitted to offer management fees that are lower than the rate or amount of the maximum management fees prescribed by law only if such proposal is valid for at least seven years and it also proposes changing the possibility of raising management fees before the end of the discounted management fees period and the manner and date of giving notice of such an increase.

2.4.2.3.2 On April 2, 2017, the Commissioner published a draft circular concerning mortgage-related life assurance plans. The draft circular sets out conditions that will be included in mortgage-related life assurance plans so that throughout the loan term the purchased insurance cover corresponds with the loan that the insurance cover is intended to secure. The draft circular therefore proposes establishing a computerized reporting interface between the insurance companies and the banks through which current data will be transferred regarding the outstanding amount of the loan.

2.4.2.3.3 On March 1, 2017, a draft circular was published concerning the withdrawal of money from provident funds. The circular prescribes provisions relating to the process of handling a request to withdraw money that is not by way of an annuity, including with respect to the forms and documents that members must fill in, the time for handling such a request (including handling a non-standard request), and with respect to the manner of submitting an application to withdraw money.

2.4.2.4 Draft Commissioner's position

On January 1, 2017, the Commissioner published a draft Commissioner's opinion on the collection of management fees on loans. The opinion proposes clarifying that the collection of handling fees from a specific borrower, in connection with expenses incurred from setting up or handling a loan, are prohibited under the Supervision of Financial Services Law (Provident Funds), 2005, given that they constitute receipt of a benefit in connection with managing savers' monies over and above the expenses and handling fees prescribed by law. This includes those instances when a borrower pays money himself directly to a third party that renders services to the financial institution. Consequently, the instruction in the draft opinion is that financial institutions must stop collecting money for providing or handling loans of any type and such money must also not be collected by a third party.

2.4.3 Health insurance

2.4.3.1 Provisions of law

2.4.3.1.1 On March 28, 2017, the Contracts Law (Insurance) (Amendment no. 9), 2017, was published in the Official Gazette. The Bill proposes that for claims relating to long-term care insurance where the insurer has not paid undisputed insurance benefits, in good faith, on the dates specified in the law, the courts must rule special, minimum interest at a rate of ten times the interest prescribed in the

Adjudication of Interest and Linkage Law, 1961, except if the court decides to reduce the interest rate for special reasons that must be recorded. The provisions of the amendment will apply to claims filed in the courts on or after the publication date.

2.4.3.1.2 On March 20, 2017, the Commissioner published draft Supervision of Financial Services Provision (Insurance) (Group Long-term Care Insurance for HMO members) (Amendment), 2017, which proposes amending the Supervision of Financial Services Regulations (Insurance) (Group Long-term Care Insurance for HMO members), 2015. Among other things, the amendment stipulates that the date until which insureds will be entitled to enroll in the group long-term care plan for HMO members without an examination of their medical condition will be extended through December 31, 2017 and that to provide regular and "Keva" soldiers with continuity of insurance while they are in service, HMO members who cancelled their registration with the HMO from July 2016 and did not register with another HMO, will be able to re-enroll in the long-term care insurance for HMO members in which they were registered without re-examination of a pre-existing medical condition. The draft regulations also propose broadening the definition of mobility in ADLs so that insureds who are unable to move around without a wheelchair will be considered unable to move independently, and that cover will also be given for an insured event that occurred for the first time in the first 36 months of the insured's life.

2.4.3.2 Circulars

2.4.3.2.1 On May 2017, an amendment was published to the provisions of the Consolidated Circular on long-term care insurance. The purpose of the amendment is to establish conditions for the renewal of group long-term care policies, taking a long-term view so as to ensure that life-long insurance cover is available. The conditions include that the policy period must be between five and eight years, the premium will be fixed or enlarged, and the paid-up values will accumulate for each insured based on his original enrollment date in the insurance or from when he reaches the age of 40, as the insurance company chooses (except if the insured is 70 years old or more when the policy is first sold or renewed.) Furthermore, if the policy is cancelled or the insured leaves the group, he will have the right to move with continuity of insurance to a whole life personal lines long-term care policy, and for insureds who are at least 40 years old at the time of the move to the personal lines policy, the premium will not be higher than the last premium paid in the group policy (on this, transition provisions were prescribed to apply until the end of 2027 as well as separate provisions for those aged 70 or more), and that when a policy is renewed with another company, the previous insurance company will transfer to the new insurance company the reserve accumulated for each insured from that part of the premium designated to cover the prepaid future risk.

2.4.3.2.2 On January 1, 2017, a circular was published concerning an amendment to the provisions of the consolidated circular - travel insurance. The circular prescribes provisions relating to the text of a travel insurance plan and how to market it, including provisions on adjusting the sums insured to the destination of the trip, structure of the policy (basic insurance layer and extensions); minimum cover conditions, as well as the insurance company's obligation to inform the insurance candidate that the basic layer does not cover medical expenses abroad arising from a pre-existing medical condition, and offering the insured to purchase an extension for the deterioration of such medical condition. The circular also stipulates that the policy conditions and exclusions must not include conditions that the company could have investigated during the sale process and the company must extend the policy period for insureds who drew up an insurance contract for a period that is shorter than the maximum policy period. The circular will apply to travel insurance policies that are sold or renewed as of August 1, 2017.

2.4.3.3 Draft circulars

2.4.3.3.1 On April 2, 2017, the Commissioner published a draft amendment to the Consolidated Circular - Section 6, Part 3, Chapter 5 - Long-term Care Insurance, which sets out provisions for the settlement of long-term care claims, including the obligation to settle long-term care claims in good faith, practically, professionally, transparently, fairly and in a manner that maintains the insured's dignity. Among other things, the draft amendment proposes that insurance companies will not ask insureds for information if the company is able obtain the relevant information through the waiver of medical confidentiality form; a personal service representative will be appointed to serve as the insured's contact person who will also inform the insured if the claims forms have received in full, as the draft amendment also sets out time frames for handling claims and obtaining the information required to settle the claims. The draft amendment also sets out provisions concerning the carrying out and documenting of a functional assessment of the insured (to be performed by an assessor who will be chosen at random from a list of assessors), or relying on a functional assessment performed by another entity, the procedure for insurance companies to appeal a functional assessment and appoint a service provider to make the final decision , entering into agreement with functional assessment providers including with respect to the manner of compiling the list of functional assessment providers in insurance companies, the minimum number of such providers and the prohibition to influence their discretion, etc.

2.4.3.3.2 On April 2, 2017, the Commissioner published a draft amendment to the Consolidated Circular - Section 6, Part 3 - Long-term Care Insurance. The draft amendment proposes that the agreement period between insurance companies and HMOs with respect to the drawing up of long-term care plans for HMO members can be longer than 8 years or may be prepared under conditions other than those set out in the circular if so approved by the Commissioner; it also postpones the date of entering into force of the provision whereby during the policy period, insurance companies will bear at least 20% of the insurance risk inherent in the plan to January 1, 2019.

2.4.4 Non-life insurance

2.4.4.1 Proposed legislation

On January 30, 2017, the amended Motor Vehicle Insurance Ordinance Bill [New Version] (no. 22), 2017, was published. The proposed amendment prescribes that insurers will be able to issue insurance certificates by electronic means, a copy of the insurance certificate can be presented to a policeman by electronic means and that an insured will be entitled to issue more than one insurance certificate for the same vehicle. The amendment also proposes eliminating the obligation to return a cancelled insurance certificate to the insurer and to expand those instances in which motorized vehicle can be used without a valid policy.

2.4.4.2 Circulars

On November 30, 2016, the Commissioner published a circular on an amendment to the provisions of the consolidated circular - homeowners insurance, which regulates the provisions relating to plumbers and dealing with damage caused by water. The circular stipulates that when enrolling in the policy, insureds will be allowed to choose between receiving the service through an arrangement plumber and receiving the service through any plumber; provisions relating to managing the list of plumbers and the number of plumbers in each district; the insurance company's responsibility for the quality of repairs and service, provisions concerning availability of the service from arrangement plumbers and provisions that must be included in agreements with a plumber.
On April 2, 2017, the Commissioner published a circular amending this circular and postponed the commencement date from June 1, 2017 to September 3, 2017.

2.4.5 Financial services and capital market activity

On January 9, 2017, the proposed Joint Investment Trust Bill (Amendment No. 27) (Exchange Traded Funds), 2016, passed its first reading. 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 (NIS thousand):

| | For the three months ended March 31 | | | For year ended December 31 |
|---|---|---|---|---|
| | 2017 | 2016 | % change | 2016 |
| **Life assurance and long-term savings segment** | | | | |
| Premiums earned, gross | 1,248,227 | 1,017,965 | 23 | 4,299,943 |
| Income from management fees | 257,700 | 189,872 | 36 | 888,326 |
| Profit (loss) from life assurance business | 206,592 | (47,646) | - | 11,489 |
| Profit (loss) from the management of provident funds | 8,891 | (3,828) | - | 20,048 |
| Profit from the management of pension funds | 11,300 | 8,728 | 29 | 56,013 |
| **Total profit (loss) from life assurance and long-term savings segment** | 226,783 | (42,746) | - | 87,550 |
| **Total comprehensive income (loss) from life assurance and long-term savings segment** | 207,797 | (36,649) | - | 127,493 |
| **Non-life insurance segment** | | | | |
| Premiums earned, gross | 753,027 | 716,050 | 5 | 2,949,193 |
| Premiums earned, in retention | 513,307 | 434,657 | 18 | 1,881,880 |
| **Total profit (loss) from non-life insurance segment** | 84,967 | (44,081) | - | 110,691 |
| **Total comprehensive income (loss) from non-life insurance segment** | 62,000 | (50,714) | - | 74,208 |
| **Health insurance segment** | | | | |
| Premiums earned, gross | 1,077,471 | 996,156 | 8 | 4,163,232 |
| Premiums earned, in retention | 1,036,045 | 952,303 | 9 | 3,998,631 |
| **Total profit from health insurance segment** | 34,269 | 28,122 | 22 | 161,567 |
| **Total comprehensive income from health insurance segment** | 22,995 | 26,896 | (15) | 157,864 |
| **Insurance companies overseas segment** | | | | |
| Premiums earned, gross | 96,397 | 59,528 | 62 | 300,688 |
| Premiums earned, in retention | 75,303 | 36,994 | - | 206,703 |
| **Total profit (loss) from insurance companies overseas segment** | 7,940 | (595) | - | 15,427 |
| **Total comprehensive income from insurance companies overseas segment** | 2,101 | 566 | - | 4,640 |
| **Capital market and financial services segment** | | | | |
| Income from the capital market and financial services | 49,801 | 64,532 | (23) | 253,436 |
| Total expenses from the capital market and financial services | 42,226 | 46,583 | (9) | 256,196 |
| **Total profit (loss) from the capital market and financial services segment** | 7,575 | 17,938 | (58) | (2,760) |
| **Total comprehensive income (loss) from the capital market and financial services segment** | 7,602 | 17,994 | (58) | (2,654) |
| **Items not included in the operating segments** | | | | |
| Profit from investments, net, and financing income | 99,638 | 29,494 | - | 150,706 |
| Income from commissions | 53,422 | 48,801 | 9 | 197,878 |

| | For the three months ended March 31 | | | For year ended December 31 |
|---|---|---|---|---|
| | 2017 | 2016 | % change | 2016 |
| General and administrative expenses not recognized in the statements of operating segments | 35,057 | 32,632 | 7 | 118,698 |
| Financing expenses, net | 29,678 | 14,861 | - | 113,404 |
| **Pre-tax profit (loss)** | 431,093 | (22,685) | - | 440,555 |
| **Net profit for the period** | 290,988 | 9,063 | - | 396,948 |
| **Other comprehensive income (loss) for the period, net of tax** | (37,902) | 5,217 | - | 25,793 |
| **Total profit for the period** | 253,086 | 14,280 | - | 422,741 |
| Profit for the period attributable to shareholders of the Company | 290,993 | 8,599 | - | 396,599 |
| Net profit (loss) attributable to non-controlling interests | (5) | 464 | - | 349 |
| **Return on equity in annual terms, in percent** | 19% | 1% | - | 9% |

Condensed data from the consolidated statements of financial position of Harel Investments (NIS million):

| | As at March 31 | | | As at December 31 |
|---|---|---|---|---|
| | 2017 | 2016 | % change | 2016 |
| **Total statement of financial position** | 98,769 | 91,115 | 8.4 | 96,170 |
| **Assets for yield-dependent contracts** | 46,035 | 40,177 | 14.6 | 44,058 |
| **Other financial investments** | 23,217 | 21,516 | 7.9 | 22,238 |
| **Intangible assets** | 1,454 | 1,522 | (4.5) | 1,442 |
| **Reinsurance assets** | 4,635 | 4,946 | (6.3) | 4,728 |
| **Insurance liabilities (insurance reserves and outstanding claims) in life assurance** | | | | |
| For yield-dependent insurance policies and investment contracts | 41,175 | 35,930 | 14.6 | 39,488 |
| For non yield-dependent insurance policies | 11,541 | 11,434 | 0.9 | 11,626 |
| **In non-life insurance** | 9,715 | 9,725 | (0.1) | 9,528 |
| **(yield-dependent and non yield-dependent) in health insurance** | 8,757 | 7,883 | 11.1 | 8,541 |
| **(Yield-dependent and non yield-dependent) in insurance companies overseas** | 413 | 284 | 45.7 | 389 |
| **Inter-segment adjustments and offsets** | (3) | (4) | (25.5) | (3) |
| **Total insurance liabilities** | 71,597 | 65,250 | 9.7 | 69,569 |
| **Equity attributable to holders of the Company's equity** | 5,316 | 4,814 | 10.4 | 5,161 |

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

| | As at March 31 | | | As at December 31 |
|---|---|---|---|---|
| | 2017 | 2016 | % change | |
| For yield-dependent insurance policies and investment contracts | 46,035 | 40,177 | 14.6 | 44,058 |
| For members of provident funds and pension funds* | 79,111 | 67,885 | 16.5 | 76,022 |
| For mutual fund customers* | 16,722 | 22,128 | (24.4) | 17,801 |
| For customer portfolios* | 8,273 | 8,720 | (5.1) | 8,423 |
| ETNs | 13,182 | 13,200 | (0.1) | 13,208 |
| **Total managed assets for the Group's policyholders and members** | 163,323 | 152,110 | 7.4 | 159,513 |

* 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 premiums earned from insurance business in the Reporting Period increased by 14% to NIS 3,174 million, compared with NIS 2,788 million in the corresponding period last year. The increase is mainly attributable to lump-sum deposits for savings.

Comprehensive income, which consists of profit after tax in 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, amounted to NIS 253 million in the Reporting Period, compared with NIS 14 million in the corresponding period last year.

The increase in comprehensive income is mainly attributable to the following:

A. An increase in the variable management fees collected in the Reporting Period to NIS 55 million, compared with NIS 15 million collected in the corresponding period last year.

B. Revised interest rates in the corresponding quarter last year in the non-life segment in accordance with the recommendations of the Winograd inter-ministerial committee on the subject of the interest rate used for capitalizing annuities relating to work injuries under the National Insurance Institute Regulations (Capitalization), 1978, (“Winograd Committee”), in the amount of NIS 150 million before tax and NIS 96 million after tax.

C. An increase in the risk-free interest rate in the Reporting Period, as a result of which Harel Insurance revised the discounting interest rates that are used to calculate some of the insurance liabilities. Accordingly, the insurance liabilities decreased in the Reporting Period by NIS 46 million before tax and NIS 30 million after tax, as against with an increase in the insurance liabilities in the corresponding quarter last year of NIS 54 million before tax and NIS 35 million after tax (for additional information, see Note 9 to the Financial Statements).

D. These factors were partially offset by income from taxes recorded in the corresponding period last year in the amount of NIS 32 million, due to a cut in the corporate tax rate.

Net profit was NIS 291 million in the Reporting Period, compared with a profit of NIS 9 million in the corresponding period last year.

Pre-tax profit before was NIS 431 million in the Reporting Period, compared with a pre-tax loss of NIS 23 million in the corresponding period last year.

Net income from investments and financing income totaled NIS 1,108 million in the Reporting Period, compared with NIS 59 million in the corresponding period last year. The increase is mainly attributable to higher yields on the assets held against yield-dependent liabilities.

Financing expenses, that were not attributed to the Company's operating segments, amounted to NIS 30 million in the Reporting Period, compared with NIS 15 million in the corresponding period last year. The increase in financing expenses compared to the corresponding period last year was mainly the result of inflation which was 0.2% in the Reporting Period, compared to negative inflation of -0.9% in the corresponding period last year.

Equity relating to the Company's shareholders at March 31, 2017, was NIS 5,316 million, compared with equity of NIS 5,161 million at December 31, 2016. The change in shareholders' equity is attributable to: (a) comprehensive income attributed to the Company's shareholders in the amount of NIS 253 million; (b) the distribution of a dividend in the amount of NIS 107 million; (c) insignificant amounts in respect of 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.

## 2.7 Life assurance and long-term savings

Comprehensive income in life assurance and long-term savings was NIS 208 million in the Reporting Period, compared with NIS 37 million in the corresponding period last year. The shift from comprehensive loss to comprehensive income is mainly attributable to the following:

A. An increase in the risk-free interest rate in the Reporting Period, as a result of which Harel Insurance revised the discounting interest rates that are used to calculate some of the insurance liabilities. Accordingly, the insurance liabilities decreased in the Reporting Period by NIS 46 million before tax compared with an increase of NIS 54 million before tax in the insurance liabilities in the corresponding quarter last year (for additional information, see Note 9 to the Financial Statements).

B. An increase in the variable management fees collected in the Reporting Period to NIS 55 million, compared with NIS 15 million collected in the corresponding period last year.

C. An increase in comprehensive income from the activity of the pension and provident funds, from NIS 6 million in the corresponding period last year, to approximately NIS 20 million in the Reporting Period, which is mainly attributable to a one-time provision recorded in the corresponding quarter last year for the restitution of management fees to members as part of the optimization project.

Pre-tax profit in the life assurance and long-term savings segment was NIS 227 million in the Reporting Period, compared with a pre-tax loss of NIS 43 million in the corresponding period last year.

## Life assurance

2.7.1 Total premiums earned in the Reporting Period increased by 23% to NIS 1,248 million, compared with NIS 1,018 million in the corresponding period last year. The increase is mainly attributable to lump-sum deposits for savings. Premiums earned in the Reporting Period accounted for 39% of all premiums earned by the Group during the Reporting Period.

Comprehensive income in life assurance was NIS 188 million in the Reporting Period, compared with a comprehensive loss of NIS 43 million in the corresponding period last year. The shift from comprehensive loss to comprehensive income is mainly attributable to the following:

(a) An increase in the risk-free interest rate in the Reporting Period, as a result of which Harel Insurance revised the discounting interest rates that are used to calculate some of the insurance liabilities. Accordingly, the insurance liabilities decreased in the Reporting Period by NIS 46 million before tax as against an increase of NIS 54 million before tax in the insurance liabilities in the corresponding quarter last year (for additional information, see Note 9 to the Financial Statements).

(b) An increase in the variable management fees collected in the Reporting Period to NIS 55 million, compared with NIS 15 million collected in the corresponding period last year.

(c) An increase in the financial margin for the corresponding quarter last year.

Pre-tax profit in life assurance was NIS 207 million in the Reporting Period, compared with a pre-tax loss of NIS 48 million in the corresponding period last year.

Profits from investments held against insurance liabilities in life assurance amounted to NIS 832 million in the Reporting Period, compared with investment losses of NIS 24 million 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. The increase is mainly attributable to higher yields on the assets held against yield-dependent liabilities.

Redemptions in the Reporting Period amounted to NIS 303 million, accounting for 2.7% of the average life assurance reserve, compared with redemptions of NIS 251 million in the corresponding period last year, which accounted for 2.4% of the average reserve last year.

Total life assurance reserves at March 31, 2017 amounted to NIS 52.7 billion.

Yield-dependent policies:

| | Policies issued 1991-2003 | |
|---|---|---|
| | 1-3.2017 (in percent) | 1-3.2016 (in percent) |
| Real yield before payment of management fees | 2.05 | 0.67 |
| Real yield after payment of management fees | 1.63 | 0.46 |
| Nominal yield before payment of management fees | 1.84 | (0.24) |
| Nominal yield after payment of management fees | 1.43 | (0.46) |

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

| | Policies issued from 2004 | |
|---|---|---|
| | 1-3.2017 (in percent) | 1-3.2016 (in percent) |
| Real yield before payment of management fees | 1.96 | 0.36 |
| Real yield after payment of management fees | 1.70 | 0.09 |
| Nominal yield before payment of management fees | 1.75 | (0.55) |
| Nominal yield after payment of management fees | 1.49 | (0.81) |

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 (in NIS million):

| | 1-3.2017 | 1-3.2016 |
|---|---|---|
| Profit (loss) after management fees | 539 | (182) |
| Total management fees | 132 | 84 |

## Pension funds

2.7.2 Assets managed by the pension funds increased by 22% to NIS 46.6 billion at March 31, 2017 compared with NIS 38.1 billion at March 31, 2016, and by 5% compared with assets of NIS 44.3 billion at December 31, 2016. The increase relative to the previous year is mainly attributable to ongoing deposits.

Benefit contributions collected by the Group's pension funds increased by 14% to NIS 1,607 million in the Reporting Period, compared with NIS 1,403 billion in the corresponding period last year.

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 11% to NIS 73 million in the Reporting Period, compared with NIS 65 million in the corresponding period last year.

Expenses for management of the pension funds amounted to NIS 61 million, compared with NIS 57 million in the corresponding period last year.

Comprehensive income before tax from the management of pension funds and operation of an old pension fund amounted to NIS 11 million in the Reporting Period, compared with NIS 9 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 11 million in the Reporting Period, compared with NIS 9 million in the corresponding period last year.

For information about the termination of an agreement to provide operating services between Harel Pension Funds Management Services and Nativ Pension Fund of the Histradrut Industries Workers and Employees Ltd., see Note 9 to the Financial Statements.

Positive yields were recorded in most investment channels in the capital market during the Reporting Period. The new pension fund "Harel Pension" attained a nominal yield of 1.83% in the Reporting Period.

### Provident funds

2.7.3 At the date of the report, the Group's provident fund management companies manage 10 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 which members can choose from. In all, at March 31, 2017, the Group operates 45 tracks in its provident funds.

Assets under management held by the provident funds managed by the Group increased by 9% to NIS 32.5 billion, as against NIS 29.8 billion at March 31, 2016 and NIS 31.7 billion at December 31, 2016.

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, increased by 29% to NIS 53 million in the Reporting Period, compared with NIS 41 million in the corresponding period last year. The increase in management fees is mainly attributable to a one-time provision recorded in the corresponding period last year to reimburse management fees to members as part of the optimization project. This was partially offset by the erosion of management fees rate.

Provident fund expenses amounted to NIS 45 million, similar to the amount in the corresponding period 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 9 million in the Reporting Period, compared with a comprehensive loss of NIS 3 million in the corresponding period last year. The shift from loss to profit compared with the corresponding period last year is mainly attributable to a one-time provision recorded in the corresponding period last year to reimburse management fees to members as part of the optimization project. This was partially offset by the erosion of management fees rate.

Total 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 9 million in the Reporting Period, as against a pre-tax loss of NIS 4 million in the corresponding period last year.

The provident funds accrued a net, positive amount (excluding investment profit) of NIS 360 million in the Reporting Period, compared with an accrual of NIS 199 million in the corresponding period last year.

### 2.8 Health insurance

Total premiums earned in the health insurance segment increased by 8% to NIS 1,077 million in the Reporting Period, compared with NIS 996 million in the corresponding period last year. Total premiums earned in the health insurance segment account for 34% of all premiums earned by the Group in the Reporting Period.

Comprehensive income in the health insurance segment was NIS 23 million in the Reporting Period, compared with NIS 27 million in the corresponding period last year.

Pre-tax profit in the health insurance segment was NIS 34 million in the Reporting Period, compared with NIS 28 million in the corresponding period last year.

Total payments and changes in liabilities, gross, in respect of insurance contracts in the health insurance segment increased by 22% to NIS 857 million in the Reporting Period, compared with NIS 705 million in the corresponding period last year. The change in the insurance liabilities includes the investment profits recognized in the group long-term care insurance plan, in which most of the risk is allocated to the actual plan, in the amount of NIS 40 million in the Reporting Period, compared with NIS 0.4 million 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 | | | |
|---|---|---|---|---|
| | 1-3.2017 | 1-3.2016 | % change | 2016 |
| **Compulsory motor** | 213,935 | 184,731 | 15.8 | 491,079 |
| **Motor property** | 217,631 | 251,637 | (13.5) | 780,015 |
| **Property & other branches** | 255,681 | 239,177 | 6.9 | 945,618 |
| **Other liabilities branches** | 305,560 | 290,658 | 5.1 | 849,897 |
| **Credit & mortgage insurance*** | (2,484) | (5,486) | (54.7) | (17,504) |
| **Total** | 990,323 | 960,717 | 3.1 | 3,049,105 |

* net of settlements

| | Comprehensive income (loss) before tax | | | |
|---|---|---|---|---|
| | 1-3.2017 | 1-3.2016 | % change | 2016 |
| **Compulsory motor** | 15,092 | (31,470) | - | (23,616) |
| **Motor property** | 7,076 | 1,564 | - | 13,667 |
| **Property & other branches** | 23,843 | 9,376 | - | 77,437 |
| **Other liabilities branches** | 1,870 | (49,211) | - | (48,886) |
| **Credit & mortgage insurance*** | 14,119 | 19,027 | (25.8) | 55,606 |
| **Total** | 62,000 | (50,714) | - | 74,208 |

Change in the quantity of policies in terms of exposure*:

| | 1-3.2017 | 1-3.2016 |
|---|---|---|
| **Compulsory motor** | 13% | (6%) |
| **Motor property** | 3% | (19%) |
| **Property & other branches** | 9% | 7% |
| **Other liabilities branches** | 2% | 4% |

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

Gross premiums increased by 3% to NIS 990 million in the Reporting Period, compared with NIS 961 million in the corresponding period last year.

Gross premiums in the non-life segment for the state employees transaction amounted to NIS 17 million in the current quarter, compared with NIS 74 million in the corresponding period last year. After adjustment for these premiums, premiums increased by 10% in the Reporting Period compared with the corresponding period last year. The increase is mainly attributable to several large transactions.

Premiums in retention increased by 2% to NIS 727 million in the Reporting Period, compared with NIS 716 million in the corresponding period last year.

Comprehensive income in non-life insurance amounted to NIS 62 million in the Reporting Period, compared with a comprehensive loss of NIS 51 million in the corresponding period last year. The shift from comprehensive loss to comprehensive income is mainly attributable to the effect of the publication of the Winograd Committee recommendations so that the rate of interest was revised downwards to 2%, and in the future will be revised in accordance with the average interest rate on government bonds as defined in the Regulations, instead of 3%. As a result, Harel Insurance increased its insurance liabilities in retention by NIS 150 million before tax in the corresponding quarter last year so as to reflect an up-to-date estimate of the repayments that Harel Insurance will be expected to pay for claims in compulsory motor and liabilities insurance (including the NII).

Pre-tax profit in non-life insurance was NIS 85 million in the Reporting Period, compared with a loss of NIS 44 million in the corresponding period last year.

2.9.1 Motor property

Gross premiums in motor property insurance decreased by 14% to NIS 218 million in the Reporting Period, compared with NIS 252 million in the corresponding period last year. The decline in premiums is mainly attributable to the fact that the renewal date for the state employees’ transaction was brought forward to December 2016 and that gross premiums for 2017 were included in 2016.

Premiums in retention decreased by 15% to NIS 210 million in the Reporting Period, compared with NIS 246 million in the corresponding period last year, as explained above.

Comprehensive income in motor property insurance was NIS 7 million in the Reporting Period, compared with NIS 2 million in the corresponding period last year. The increased comprehensive income is mainly due to improved underwriting performance.

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.

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. The results of the tender are not expected to significantly affect the financial results of Harel Insurance.

2.9.2 Compulsory motor

Gross premiums in compulsory motor insurance increased by 16% to NIS 214 million in the Reporting Period, compared with NIS 185 million in the corresponding period last year. The increase is mainly attributable to an increase in tariffs and to increased premiums for several groups, and in contrast, a decline in the premiums for the state employees transaction, due to the fact that the renewal date for the state employees’ transaction was brought forward to December 2016 and the gross premium for 2017 was included in 2016.

Premiums in retention amounted to NIS 213 million in the Reporting Period, compared with NIS 184 million in the corresponding period last year, as explained above.

Comprehensive income in compulsory motor insurance amounted to NIS 15 million for the Reporting Period, compared with a comprehensive loss of NIS 31 million in the corresponding period last year. The shift from comprehensive loss to comprehensive income is mainly attributable to the effect of the Winograd Committee recommendations in the corresponding period last year, as a result of which Harel Insurance increased its insurance liabilities by NIS 100 million to reflect a current estimate of the amounts that it will be expected to pay for compulsory motor insurance claims (including the NII). This was partially offset by a positive development in the corresponding quarter last year in the estimate of outstanding claims for previous years.

Pre-tax profit in compulsory motor insurance was NIS 25 million in the Reporting Period, compared with a pre-tax loss of NIS 29 million in the corresponding period last year.

Given that car owners must insure their vehicles in accordance with the Motor Vehicle Insurance Ordinance, the owners of vehicles (usually motorcycles) who were rejected by the insurance companies may purchase insurance through "the Pool" (the Israeli pool for car insurance). The Pool operates as an insurance company to all intents and purposes. All the insurance companies which operate in the compulsory motor sector are partners in the Pool, and each company bears a pro rata share of the Pool's losses in the compulsory motor insurance market for the previous year.

A letter from the Pool’s CEO defined the temporary share of Harel Insurance in the net premiums for 2017 at 9.7% (as against 10.1% which was the share of Harel Insurance in 2016).

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. The results of the tender are 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 increased by 5% to NIS 306 million in the Reporting Period, compared with NIS 291 million in the corresponding period last year.

Premiums in retention increased by 7% to NIS 234 million in the Reporting Period, compared with NIS 218 million in the corresponding period last year.

Comprehensive income in liabilities and other insurance was NIS 2 million in the Reporting Period, compared with a comprehensive loss of NIS 49 million in the corresponding period last year. The shift from comprehensive loss to comprehensive income is mainly attributable to the effect of the Winograd Committee recommendations in the corresponding period last year, as a result of which Harel Insurance increased its insurance liabilities by NIS 50 million to reflect a current estimate of the amounts that it will be expected to pay for liabilities insurance claims (including the NII).

Pre-tax profit in liabilities and other insurance was NIS 13 million in the Reporting Period, compared with a pre-tax loss of NIS 46 million in the corresponding period last year.

2.9.4 Property and other branches

Gross premiums in property and other insurance increased by 7% to NIS 256 million in the Reporting Period, compared with NIS 239 million in the corresponding period last year.

Premiums in retention increased by 1% to NIS 73 million in the Reporting Period, compared with NIS 72 million in the corresponding period last year.

Comprehensive income in property and other insurance was NIS 24 million in the Reporting Period, compared with NIS 9 million in the corresponding quarter last year. The increased comprehensive income is mainly attributable to improved underwriting performance, following exceptional damage from winter weather in the corresponding period last year and to increased profit from activity in Sale Law guarantees.

Pre-tax profit in property and other insurance was NIS 25 million in the Reporting Period, compared with NIS 10 million in the corresponding period last year.

2.9.5 Credit insurance for mortgages

Premiums earned in retention from credit insurance for residential mortgages amounted to NIS 5 million in the Reporting Period, compared with NIS 8 million in the corresponding period last year.

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

Comprehensive income in credit insurance for mortgages amounted to NIS 14 million in the Reporting Period, compared with NIS 19 million in the corresponding period last year. The decline in comprehensive income is mainly attributable to negative inflation in the Reporting Period that was lower than in the corresponding period last year.

Pre-tax profit on credit insurance for mortgage-guaranteed residential property amounted to NIS 13 million in the Reporting Period, compared with NIS 19 million in the corresponding period last year.

## 2.10 Insurance companies overseas

The Company is the controlling shareholder of Interasco (with a 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 62% to NIS 96 million in the Reporting Period, compared with NIS 60 million in the corresponding period last year. Premiums earned in the insurance companies overseas segment in the Reporting Period account for 3% of all premiums earned by the Group.

Comprehensive income in the insurance companies overseas segment was NIS 2 million in the Reporting Period, similar to the corresponding period last year.

Pre-tax profit in the insurance companies overseas segment was NIS 8 million in the Reporting Period, compared with a pre-tax loss of NIS 1 million in the corresponding period last year.

On the approval of a capital injection for Turk Nippon, see Note 8 to the Financial Statements.

## 2.11 Capital market and financial services

Revenues in the capital market and financial services segment decreased by 23% to NIS 50 million in the Reporting Period, as against NIS 65 million in the corresponding period 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.

Management fees from the mutual funds and managed portfolios amounted to NIS 37 million in the Reporting Period, compared with NIS 45 million in the corresponding period last year.

Activity in ETNs and deposit certificates and related activity connected with financial products carried out by Harel Sal and Harel Financial Products generated revenues of NIS 13 million in the Reporting Period, compared with NIS 19 million in the corresponding period last year.

The volume of assets under management in the capital market and financial services segment amounted to NIS 38.2 billion at March 31, 2017, compared with NIS 44 billion at March 31, 2016, and NIS 39.4 billion at December 31, 2016.

These amounts include mutual fund assets of NIS 16.7 billion at March 31, 2017, compared with NIS 22.1 billion at March 31, 2016, and NIS 17.8 billion at December 31, 2016, as well as ETN and deposit certificate assets, which amounted to NIS 13.2 billion at March 31, 2017, similar to March 31, 2016, and similar to December 31, 2016. 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.

Profitability in the capital market and financial services segments is mainly attributable to ETN and deposit certificate activity as well as to management of the mutual funds. Profitability in respect of portfolio management is negligible.

The capital market and financial services segment recorded pre-tax profit and comprehensive income of NIS 8 million in the Reporting Period, compared with NIS 18 million in the corresponding period last year. This decrease is attributable to a decline in the total assets under management in the mutual funds and investment portfolios, as well as to a decline in income from ETN activity.

## 2.12 Taxes on income

Taxes on income in the Reporting Period amounted to an expense of about NIS 140 million, compared with income tax revenues of NIS 32 million in the corresponding period last year. Due to a cut in the corporate tax rate, tax revenues of NIS 32 million were included in the corresponding period last year.

### 2.13 Liquidity and sources of finance

2.13.1 Cash flows

Total net cash flows provided by current activity were NIS 280 million in the Reporting Period. Net cash flows used for investment activity amounted to NIS 54 million. Net cash flows used for financing activity and exchange rate fluctuations amounted to NIS 155 million. The result of all the aforesaid activity is expressed in an increase of NIS 71 million in the cash balances.

2.13.2 Financing of operations

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

On the issuance of Series 9 and 10 bonds of Harel Financing and Issuing, by way of an expansion of the series, the proceeds of which were recognized as hybrid tier-2 capital for Harel Insurance, see Note 6(C)(4)(3) 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 On January 12, 2017, Mr. Ronen Agassi, who served, *inter alia*, as CEO of the Company and head of the Finance and Resources Division of Harel Insurance, announced that he would be stepping down from his positions in the Group.

4.1.2 On January 22, 2017, the Company’s Board of Directors approved that Mr. Michel Siboni, who was Co-CEO of the Company until December 31, 2015 and is currently the CEO of Harel Insurance, will replace Mr. Ronen Agassi as CEO of the Company effective from the date on which Mr. Agassi steps down. Mr. Siboni took up his position as CEO of the Company on April 15, 2017.

4.1.3 On January 22, 2017, the Company’s Board of Directors approved the appointment of Mr. Arik Peretz as head of the Finance and Resources Division of Harel Insurance, replacing Mr. Ronen Agassi who announced that he will be stepping down. Mr. Peretz took up his position on April 15, 2017.

4.1.4 Mr. Tal Kedem was appointed CEO of Harel Finance, commencing March 1, 2017.

### 4.2 Board of Directors

4.2.1 Mr. David Granot, who was due to end a nine-year term as an external director of the Company at the beginning of 2018, stepped down on March 22, 2017, following his announcement to the Company that due to the fact that the final date is approaching after which he will no longer be able to serve as an external director of the Company, he is being appointed as a director in other companies.

4.2.2 On April 1, 2017, Mr. Udi Nisan began to serve as an external director in the Company.

4.2.3 On January 17, 2017, Mr. Ben Hamburger began to serve as Deputy Chairman of the Company's Board of Directors.

## 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 solvency 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 as at December 31, 2015, on a consolidated basis and before the transition provisions is about NIS 1 billion, and taking the transition provisions into account, the capital surplus is about NIS 1.7 billion. 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%.

On February 7, 2017, the Capital Market, Insurance and Savings Authority published a revised version of the provisions for implementation of a new solvency regime based on the European directive known as Solvency II, with adjustments for Israel ("the Revised Provisions"). The revised provisions were approved by the Knesset Finance Committee on May 22, 2017 (subject to a possible further discussion by the Finance Committee) with the transition period for satisfying the equity required for solvency extended by a further three years, namely the transition period will end on December 31, 2024, instead of December 31, 2021. The Revised Provisions contain the following three annexes: (a) provisions relating to an economic balance; (b) provisions relating to the equity of insurance companies; and (c) provisions relating to a solvency capital requirement (SCR) and to a minimum capital requirement (MCR). Harel Insurance prepared an initial and approximate estimate of the effect of the key changes in the Revised Provisions with respect to the calculation prepared as part of IQIS5 at the date of the calculation, without preparing the calculation in full, in accordance with the revised document. Harel Insurance believes that implementation of these key changes would have improved its capital surplus ratio at the date of the calculation by about 17% including the transition provisions, and by 15% if the calculation does not include the transition provisions. The ratio based on a full calculation would therefore have been 139% (instead of 122%) and the ratio calculated without the transition provisions would be 128% (instead of 113% as noted above). Namely, implementation of these key changes will result in an overall capital surplus at

December 31, 2015, on a consolidated basis and after the transition provisions, of about NIS 2.7 billion.

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

| | |
|---|---|
| Yair Hamburger | Michel Siboni |
| Chairman of the Board of Directors | CEO |

May 24, 2017

For your peace of mind | HAREL Insurance & Finance

# HAREL INSURANCE INVESTMENTS AND FINANCIAL SERVICES LTD

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## As at March 31, 2017

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

**Introduction**

We reviewed the attached financial information of Harel Investments in Insurance and Financial Services Ltd. and its subsidiaries (hereinafter: "the Group") which include the condensed consolidated interim statement of financial position as at March 31, 2017 and the condensed consolidated interim statements of income, comprehensive income, changes in capital and cash flows for the three months ended on that date. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with International Accounting Standard IAS 34 "Financial reporting for interim periods", and they are also responsible for the preparation of financial information for this interim period under Chapter D of the Securities (Periodic and Immediate Reports) Regulations, 1970, to the extent that these regulations apply to companies that consolidate insurance companies and subject to the disclosure requirements issued by the Commissioner of the Capital Market, Insurance and Savings, in accordance with Supervision of Financial Services (Insurance) Law, 1981. Our responsibility is to express a conclusion on the financial information for this interim period, based on our review.

We did not review the condensed financial information for the interim period of consolidated companies whose assets included in the consolidation comprise 14.84% of all the consolidated assets as at March 31, 2017 and whose revenues included in the consolidation comprise 2.62% of all the consolidated revenues for the three months ended on that date. Furthermore, we did not review the condensed financial information for the interim period of equity accounted investees, in which the investment is NIS 119,945 thousand as at March 31, 2017, and the Group's share of their profits is NIS 2,983 thousand for the three months ended on that date. The condensed financial information for the interim periods for those companies was reviewed by other auditors whose review reports were furnished to us and our conclusions, to the extent that they relate to financial information for those companies, are based on the review reports of the other auditors.

**Scope of the review**

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

**Conclusion**

Based on our review, and on the review report of the other auditors, nothing came to our notice that might cause us to believe that the above financial information is not prepared, in all significant respects, in accordance with IAS 34.

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

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

Somekh Chaikin
Certified Public Accountants (Isr)

May 24, 2017

## Condensed consolidated interim statements of financial position at

| | March 31 | | December 31 |
|---|---|---|---|
| | 2017 | 2016 | 2016 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousand | NIS thousand | NIS thousand |
| **Assets** | | | |
| Intangible assets | **1,453,581** | 1,521,696 | 1,442,467 |
| Deferred tax assets | **14,284** | 10,192 | 16,017 |
| Deferred Acquisition Costs | **2,260,143** | 2,081,851 | 2,183,149 |
| Fixed assets | **1,224,951** | 1,162,501 | 1,214,715 |
| Investments in equity accounted investees | **1,366,296** | 1,336,516 | 1,413,346 |
| Investment property for yield-dependent policies | **1,408,452** | 1,367,422 | 1,411,903 |
| Other investment property | **1,676,808** | 1,552,431 | 1,608,786 |
| Reinsurance assets | **4,634,700** | 4,946,455 | 4,728,124 |
| Current tax assets | **23,279** | 73,262 | 26,652 |
| Trade and other receivables | **1,226,896** | 1,146,726 | 1,299,652 |
| Premium due | **1,405,201** | 1,280,708 | 1,407,083 |
| Financial investments for yield-dependent policies | **41,696,260** | 37,252,864 | 40,181,076 |
| Financial investments for holders of ETNs and deposit certificates | **6,629,943** | 6,741,634 | 6,888,838 |
| **Other financial investments** | | | |
| Marketable debt assets | **7,355,408** | 7,460,299 | 7,133,596 |
| Non-marketable debt assets | **12,504,183** | 10,913,619 | 11,929,996 |
| Shares | **822,689** | 786,848 | 805,528 |
| Other | **2,535,121** | 2,355,579 | 2,368,525 |
| **Total other financial investments** | **23,217,401** | 21,516,345 | 22,237,645 |
| Cash, cash equivalents and deposits pledged for bearers of ETNs and deposit certificates | **6,858,621** | 6,719,793 | 6,509,508 |
| Cash and cash equivalents for yield-dependent contracts | **2,330,659** | 1,064,160 | 1,847,772 |
| Other cash and cash equivalents | **1,341,965** | 1,340,095 | 1,753,680 |
| **Total assets** | **98,769,440** | 91,114,651 | 96,170,413 |
| **Total assets for yield-dependent contracts** | **46,034,724** | 40,177,378 | 44,057,841 |

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

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

| | March 31 | | December 31 |
|---|---|---|---|
| | 2017 | 2016 | 2016 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousand | NIS thousand | NIS thousand |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital and share premium | **351,013** | 341,783 | 351,425 |
| Treasury shares | **(148,579)** | (160,473) | (158,035) |
| Capital reserves | **330,584** | 373,162 | 368,742 |
| Retained earnings | **4,782,979** | 4,259,695 | 4,599,099 |
| **Total equity attributed to shareholders of the Company** | **5,315,997** | 4,814,167 | 5,161,231 |
| Non-controlling interests | **6,127** | 6,213 | 6,090 |
| **Total equity** | **5,322,124** | 4,820,380 | 5,167,321 |
| **Liabilities** | | | |
| Liabilities for non yield-dependent insurance policies and investment contracts | **26,258,293** | 25,538,752 | 26,013,727 |
| Liabilities for yield-dependent insurance policies and investment contracts | **45,338,776** | 39,711,593 | 43,555,153 |
| Deferred tax liabilities | **787,211** | 750,329 | 794,688 |
| Liabilities for employee benefits, net | **255,383** | 277,771 | 252,613 |
| Current tax liabilities | **21,123** | 24,507 | 19,291 |
| Trade and other payables | **3,064,292** | 2,677,064 | 2,870,938 |
| Liabilities for ETNs and deposit certificates | **13,166,629** | 13,181,642 | 13,191,057 |
| Financial liabilities | **4,555,609** | 4,132,613 | 4,305,625 |
| **Total liabilities** | **93,447,316** | 86,294,271 | 91,003,092 |
| **Total equity and liabilities** | **98,769,440** | 91,114,651 | 96,170,413 |

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

Date of approval of the financial statements: May 24, 2017

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

## Condensed consolidated interim statements of income

| | For the three months ended March 31 | | For the year ended December 31 |
|---|---|---|---|
| | 2017 | 2016 | 2016 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousand | NIS thousand | NIS thousand |
| Premiums earned, gross | **3,173,992** | 2,788,461 | 11,708,169 |
| Premiums earned by reinsurers | **333,464** | 379,572 | 1,456,026 |
| **Earned premiums in retention** | **2,840,528** | 2,408,889 | 10,252,143 |
| Profit from investments, net, and financing income | **1,108,303** | 59,365 | 2,882,049 |
| Income from management fees | **297,671** | 240,650 * | 1,075,572 * |
| Income from commissions | **85,484** | 80,661 * | 298,888 * |
| **Total income** | **4,331,986** | 2,789,565 | 14,508,652 |
| Payments and changes in liabilities for insurance policies and investment contracts, gross | **3,208,083** | 2,388,624 | 11,904,084 |
| Reinsurers' share of payments and change in liabilities for insurance policies | **186,488** | 395,574 | 1,229,856 |
| Payments and changes in liabilities for insurance policies and investment contracts in retention | **3,021,595** | 1,993,050 | 10,674,228 |
| Commissions, marketing expenses and other purchasing expenses | **581,792** | 544,854 * | 2,246,502 * |
| General and administrative expenses | **287,590** | 280,285 * | 1,095,942 * |
| Other expenses | **10,468** | 11,956 | 123,140 |
| Financing expenses, net | **13,820** | 2,872 | 124,456 |
| **Total expenses** | **3,915,265** | 2,833,017 | 14,264,268 |
| Company's share of profits of equity accounted investees | **14,372** | 20,767 | 196,171 |
| **Profit (loss) before taxes on income** | **431,093** | (22,685) | 440,555 |
| Taxes on income (tax benefits) | **140,105** | (31,748) | 43,607 |
| **Profit for period** | **290,988** | 9,063 | 396,948 |
| **Attributed to:** | | | |
| Shareholders of the Company | **290,993** | 8,599 | 396,599 |
| Non-controlling interests | **(5)** | 464 | 349 |
| **Profit for period** | **290,988** | 9,063 | 396,948 |
| **Basic earnings per share attributed to the Company's shareholders (in NIS)** | **1.38** | 0.04 | 1.88 |
| **Diluted earnings per share attributed to the Company's shareholders (in NIS)** | **1.38** | 0.04 | 1.88 |

* On reclassification, see Note 2C.

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

## Condensed consolidated interim statements of comprehensive income

| | For the three months ended March 31 | | For the year ended December 31 |
|---|---|---|---|
| | 2017 | 2016 | 2016 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousand | NIS thousand | NIS thousand |
| **Profit for period** | **290,988** | 9,063 | 396,948 |
| **Other items of comprehensive income that after initial recognition as part of comprehensive income were or will be transferred to profit or loss** | | | |
| Net change in fair value of financial assets classified as available-for-sale | **19,960** | 38,883 | 101,884 |
| Net change in fair value of financial assets classified as available-for-sale carried over to income statement | **(39,216)** | (42,323) | (147,503) |
| Loss from impairment of available-for-sale financial assets carried over to income statement | **8,245** | 19,623 | 81,241 |
| Foreign currency translation differences for foreign activity | **(52,191)** | (21,975) | (44,705) |
| Tax benefits (taxes on income) attributable for available-for-sale financial assets | **8,866** | 264* | (1,918) |
| Tax benefits for other items of comprehensive income that after initial recognition as part of comprehensive income were or will be transferred to profit or loss | **13,128** | 6,382* | 9,297 |
| **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** | **(41,208)** | 854 | (1,704) |
| **Other items of comprehensive income that will not be transferred to profit or loss** | | | |
| Capital reserve for revaluation of fixed assets | **2,963** | 6,891 | 13,151 |
| Remeasurement of a defined benefit plan | **1** | (5,626) | 18,129 |
| Tax benefits (taxes on income) for other items of comprehensive income that will not be transferred to profit or loss | **342** | 3,098 | (3,783) |
| **Total other comprehensive income for period that will not be transferred to profit or loss, net of tax** | **3,306** | 4,363 | 27,497 |
| **Total other comprehensive income (loss) for period** | **(37,902)** | 5,217 | 25,793 |
| **Total comprehensive income for period** | **253,086** | 14,280 | 422,741 |
| **Attributed to:** | | | |
| Shareholders of the Company | **253,049** | 13,769 | 422,353 |
| Non-controlling interests | **37** | 511 | 388 |
| **Total profit for period** | **253,086** | 14,280 | 422,741 |

* On reclassification, see Note 2C.

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

## Condensed consolidated interim statements of changes in equity

| | Attributed to shareholders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital and premium | Capital reserve for available-for-sale assets | Translation reserve for foreign activity | Capital reserve for share-based payment | Treasury shares | Capital reserve for transactions with non-controlling shareholders | Capital reserve for revaluation of fixed assets | Retained earnings | Total | Non-controlling interests | Total equity |
| | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand |
| **For the three months ended March 31, 2017 (Unaudited)** | | | | | | | | | | | |
| **Balance as at January 1, 2017** | 351,425 | 329,623 | (79,881) | 3,603 | (158,035) | (48,908) | 164,305 | 4,599,099 | 5,161,231 | 6,090 | 5,167,321 |
| **Total comprehensive income (loss) for period** | | | | | | | | | | | |
| Profit (loss) for period | - | - | - | - | - | - | - | 290,993 | 290,993 | (5) | 290,988 |
| Total other comprehensive income (loss) | - | (2,187) | (39,063) | - | - | - | 3,305 | 1 | (37,944) | 42 | (37,902) |
| **Total comprehensive income (loss) for period** | - | (2,187) | (39,063) | - | - | - | 3,305 | 290,994 | 253,049 | 37 | 253,086 |
| **Transactions with owners credited directly to equity** | | | | | | | | | | | |
| Dividend announced | - | - | - | - | - | - | - | (107,114) | (107,114) | - | (107,114) |
| Purchase of treasury stock | - | - | - | - | (12,384) | - | - | - | (12,384) | - | (12,384) |
| Reissuing of treasury stock | (625) | - | - | - | 21,840 | - | - | - | 21,215 | - | 21,215 |
| Exercising of stock options | 213 | - | - | (213) | - | - | - | - | - | - | - |
| **Balance as at March 31, 2017** | 351,013 | 327,436 | (118,944) | 3,390 | (148,579) | (48,908) | 167,610 | 4,782,979 | 5,315,997 | 6,127 | 5,322,124 |

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

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

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

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

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

| | Attributed to shareholders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital and premium | Capital reserve for available-for-sale assets | Translation reserve for foreign activity | Capital reserve for share-based payment | Treasury shares | Capital reserve for transactions with non-controlling interests | Capital reserve for revaluation of fixed assets | Retained earnings | Total | Non-controlling interests | Total equity |
| | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand |
| **For the year ended December 31, 2016 (Audited)** | | | | | | | | | | | |
| **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 year** | | | | | | | | | | | |
| Profit for year | - | - | - | - | - | - | - | 396,599 | 396,599 | 349 | 396,948 |
| Total other comprehensive income (loss) | - | 33,668 | (35,409) | - | - | - | 15,572 | 11,923 | 25,754 | 39 | 25,793 |
| **Total comprehensive income (loss) for period** | - | 33,668 | (35,409) | - | - | - | 15,572 | 408,522 | 422,353 | 388 | 422,741 |
| **Transactions with owners credited directly to equity** | | | | | | | | | | | |
| Dividend paid | - | - | - | - | - | - | - | (171,086) | (171,086) | - | (171,086) |
| Share-based payment | - | - | - | (1,093) | - | - | - | - | (1,093) | - | (1,093) |
| Purchase of Treasury shares | - | - | - | - | (5,465) | - | - | - | (5,465) | - | (5,465) |
| Reissuing of treasury stock | 1,257 | - | - | - | 8,507 | - | - | - | 9,764 | - | 9,764 |
| Exercising of options | 8,336 | - | - | (8,336) | - | - | - | - | - | - | - |
| **Balance as at December 31, 2016** | 351,425 | 329,623 | (79,881) | 3,603 | (158,035) | (48,908) | 164,305 | 4,599,099 | 5,161,231 | 6,090 | 5,167,321 |

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

## Condensed consolidated interim statements of cash flows

| | Annex | For the three months ended March 31 2017 (Unaudited) NIS thousand | For the three months ended March 31 2016 (Unaudited) NIS thousand | For the year ended December 31 2016 (Audited) NIS thousand |
|---|---|---|---|---|
| **Cash flows from operating activity** | | | | |
| Before taxes on income | A | **410,277** | 929,144 | 3,401,705 |
| Income tax received paid | | **(130,659)** | (12,379) | (14,507) |
| **Net cash from current operations** | | **279,618** | 916,765 | 3,387,198 |
| **Cash flows from investing activity** | | | | |
| Investment in investees, net | | **(12,542)** | (4,719) | (73,502) |
| Proceeds from the sale of an investment in an equity accounted investee | | **23,390** | 83,427 | 216,552 |
| Investment in fixed assets | | **(27,857)** | (33,401) | (134,744) |
| Investment in intangible assets | | **(42,318)** | (25,207) | (131,713) |
| Dividend and interest received from an investee | | **4,754** | 9,267 | 24,992 |
| Proceeds from sale of fixed assets | | **937** | 301 | 1,423 |
| **Net cash from (used for) investment activity** | | **(53,636)** | 29,668 | (96,992) |
| **Cash flows from financing activities** | | | | |
| Proceeds from issuance of promissory notes | | **247,052** | - | 207,413 |
| Purchase of Treasury shares, net | | **8,831** | 457 | 4,299 |
| Proceeds from redemption of ETNs and covered warrants, net | | **(290,227)** | (562,020) | (1,614,553) |
| Short-term credit from banks, net | | **(746)** | (146,921) | (220,969) |
| Repayment of loans from banks and others | | **(51,751)** | (25,167) | (106,981) |
| Dividend paid to the Company's shareholders | | **-** | - | (171,086) |
| **Net cash used for financing activity** | | **(86,841)** | (733,651) | (1,901,877) |
| **Effect of exchange rate fluctuations on cash balances and cash equivalents** | | **(67,969)** | (42,040) | (20,390) |
| **Increase in cash and cash equivalents** | | **71,172** | 170,742 | 1,367,939 |
| **Retained cash and cash equivalents at beginning of period** | B | **3,601,452** | 2,233,513 | 2,233,513 |
| **Retained cash and cash equivalents at end of period** | C | **3,672,624** | 2,404,255 | 3,601,452 |

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

## Condensed consolidated interim statements of cash flows (contd.)

| | For the three months ended March 31 | | For the year ended December 31 |
|---|---|---|---|
| | 2017 | 2016 | 2016 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousand | NIS thousand | NIS thousand |
| **(Annex A - Cash flows from operating activities before taxes on income (1), (2), (3** | | | |
| Profit for the period | 290,988 | 9,063 | 396,948 |
| **Items not involving cash flows:** | | | |
| Company's share of profit of investee companies recorded on the equity basis | (14,372) | (20,767) | (196,171) |
| Net losses (profits) from financial investments for yield-dependent insurance policies and investment contracts | (540,846) | 263,964 | (1,065,599) |
| Losses (profits) net, from other financial investments | | | |
| Marketable debt assets | 80,448 | 63,340 | 58,905 |
| Non-marketable debt assets | 30,766 | 78,797 | 48,692 |
| Shares | (5,682) | (15,565) | (35,217) |
| Other investments | (211,050) | (65,514) | (223,154) |
| Financing expenses (incomes) for financial liabilities | 56,973 | (198,022) | 990,608 |
| Change in fair value of investment property for yield-dependent contracts | 5,772 | 10,087 | (7,805) |
| Change in fair value of other investment property | (66,336) | 9,288 | (18,930) |
| Depreciation and amortization | | | |
| Fixed assets | 19,360 | 20,758 | 71,255 |
| Intangible assets | 38,087 | 42,107 | 220,879 |
| Change in liabilities for non yield-dependent insurance policies and investment contracts | 270,985 | 503,354 | 1,033,162 |
| Change in liabilities for yield-dependent insurance policies and investment contracts | 1,783,623 | 380,258 | 4,223,818 |
| Change in reinsurance assets | 86,703 | (17,444) | 185,353 |
| Change in DAC | (79,430) | (77,546) | (184,050) |
| Payroll expenses (incomes) for share-based payment | - | 84 | (1,093) |
| Income tax expenses (benefits) | 140,105 | (31,748) | 43,607 |
| **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 | (2,321) | (8,551) | (35,140) |
| Net acquisitions of financial investments | (793,728) | (353,478) | (2,062,723) |
| Other financial investments and investment property | | | |
| Purchase of investment property | (1,687) | (7,468) | (35,606) |
| Proceeds from the sale of investment property | - | 1,152 | 1,153 |
| Net sales (acquisitions) of financial investments | (582,508) | (369,576) | (825,081) |
| Premiums due | (7,846) | (113,155) | (261,590) |
| Trade and other receivables | (90,134) | (39,396) | (154,927) |
| Financial investments for holders of ETNs | 258,895 | 369,364 | 222,160 |
| Cash and cash equivalents pledged for holders of ETNs | (349,113) | 642,267 | 852,552 |
| Trade and other payables | 89,670 | (147,764) | 159,419 |
| Liabilities for employee benefits, net | 2,955 | 1,255 | 280 |
| **Total adjustments required to present cash flows from operating activity** | 119,289 | 920,081 | 3,004,757 |
| **Total cash flows from operating activity before taxes on income** | 410,277 | 929,144 | 3,401,705 |

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

(2) As part of the operating activities, interest received was presented at NIS 340 million (for the three months ended March 31, 2016 an amount of NIS 309 million and for 2016 an amount of NIS 1,375 million) and interest was paid in the amount of NIS 1 million (for the three months ended March 31, 2016 an amount of NIS 7 million and for 2016 an amount of NIS 94 million).

(3) As part of the ongoing activity, a dividend received from other financial investments was presented in the amount of NIS 53 million (for the three months ended March 31, 2016, an amount of NIS 33 million and for 2015 an amount of NIS 191 million).

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

## Condensed consolidated interim statements of cash flows (contd.)

| | For the three months ended March 31 | | For the year ended December 31 |
|---|---|---|---|
| | 2017 | 2016 | 2016 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousand | NIS thousand | NIS thousand |
| **Annex B - Cash and cash equivalents at beginning of period** | | | |
| Cash and cash equivalents for yield-dependent contracts | **1,847,772** | 966,875 | 966,875 |
| Other cash and cash equivalents | **1,753,680** | 1,266,638 | 1,266,638 |
| Retained cash and cash equivalents at beginning of the period | **3,601,452** | 2,233,513 | 2,233,513 |
| **Annex C - Cash and cash equivalents at end of period** | | | |
| Cash and cash equivalents for yield-dependent contracts | **2,330,659** | 1,064,160 | 1,847,772 |
| Other cash and cash equivalents | **1,341,965** | 1,340,095 | 1,753,680 |
| Retained cash and cash equivalents at end of the period | **3,672,624** | 2,404,255 | 3,601,452 |

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

# Note 1 - General

**The reporting entity**

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

The Company is a holding company whose main holdings are in subsidiaries comprising insurance and finance companies. The condensed consolidated interim financial statements, as at March 31, 2017, 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, 2016 ("the Annual Financial Statements"). Moreover, these statements were prepared in accordance with the provisions of Chapter D of the Securities (Periodic and Immediate Reports) Regulations, 1970, insofar as these regulations apply to a company that consolidates insurance companies.

The condensed consolidated interim financial statements were approved for publication by the Company's Board of Directors on May 24, 2017.

**B. Use of estimates and discretion**

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

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

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

The assessments and discretion that management uses to apply the accounting policy in preparing the condensed consolidated interim financial statements are mainly consistent with those used in the preparation of the consolidated financial statements as at December 31, 2016, and except for the information below, there was no change in the actuarial assumptions that significantly affect the reserves. In connection with the revised discounting interest rates used for calculating the insurance liabilities and with the Liability Adequacy Test (LAT), see also Note 9.

# Note 2 - Basis of preparation (contd.)

**C. Reclassification**

In the Notes to these interim consolidated financial statements, comparison numbers were reclassified for the sake of consistency and to reflect the provisions of the circular published by the Commissioner of the Capital Market, Insurance and Savings on January 1, 2017, in the matter of "Revised instructions relating to the format of the disclosure required in the insurance companies' financial statements in accordance with International Financial Reporting Standards (IFRS)". Furthermore, comparison figures were reclassified from income from management fees to commissions for previous periods in insignificant amounts, and comparison figures were reclassified from general and administrative expenses to commissions, marketing expenses and other purchasing expenses for previous periods in insignificant amounts. These reclassifications did not have any effect on the Group's equity and/or on profit or loss.

# Note 3 - Significant accounting principles

The Group's accounting principles in these condensed consolidated interim financial statements are the policy applied in the annual financial statements.

**A. New standards and interpretations not yet adopted**

**IFRS 17 - *Insurance Contracts* ("IFRS 17")**

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts (including reinsurance contracts), replacing the existing instructions on this subject. This new standard could result in significant changes in the financial reporting of insurance companies.

Under the new standard, an entity will recognize and measure liability for future cover in respect of groups of insurance contracts according to the present risk-adjusted value of the future cash flows from these contracts, reflecting all the information available about the cash flows in a manner that is consistent with market observations; plus (in the case of a liability) or net of (in the case of an asset) the amount that represents the unearned profit from the group of contracts (the contractual service margin). For each reporting period, revenues for insurance contracts are derived from changes in the liability for future cover relating to the different components of the payment that the insurance company wishes to receive for the contract (e.g. insurance acquisition costs, risk adjustment, allocating the contractual service margin to a given period, claims and expenses forecast for the period).

Nevertheless, entities will be able to simplify measurement of the liability for certain types of contract (e.g. contracts with insurance cover of up to one year) so that the amount allocated to services not yet provided will be measured using the premium allocation approach (PAA).

IFRS 17 will be applied to annual periods beginning on January 1, 2021, with an option for early application. IFRS 17 will be applied retrospectively with some relief if full retrospective application is impractical.

The Company has not yet begun to examine the implications of adopting IFRS 17 on the Financial Statements.

**B. Seasonality**

1. Life assurance, health insurance and financial services

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

2. Non-life insurance

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

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

## Note 4 - Operating segments

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

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

**1. Life assurance and long-term savings**

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

**2. Health insurance**

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

**3. Non-life insurance**

This segment comprises five sub-segments:

**Motor property:** 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 and other**

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

# Note 4 - Operating segments (contd.)

## A. Information about reportable segments

| | For the three months ended March 31, 2017 (Unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Life Insurance and Long-Term Savings | Health Insurance | General Insurance | Insurance companies overseas | Financial Services | Not Allocated To Any Specific Segment | Adjustments and Offsets | Total |
| | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand |
| Premiums earned, gross | 1,248,227 | 1,077,471 | 753,027 | 96,397 | - | - | (1,130) | 3,173,992 |
| Premiums earned by reinsurers | 32,354 | 41,426 | 239,720 | 21,094 | - | - | (1,130) | 333,464 |
| **Premiums earned in retention** | 1,215,873 | 1,036,045 | 513,307 | 75,303 | - | - | - | 2,840,528 |
| Net profit from investments and financial income | 832,877 | 91,823 | 66,375 | 6,883 | 13,116 | 99,638* | (2,409) | 1,108,303 |
| Income from management fees | 257,700 | 533 | - | - | 36,396 | 3,096 | (54) | 297,671 |
| Income from commissions | 8,658 | 19,984 | 46,303 | 5,064 | 289 | 53,422** | (48,236) | 85,484 |
| **Total income** | 2,315,108 | 1,148,385 | 625,985 | 87,250 | 49,801 | 156,156 | (50,699) | 4,331,986 |
| Payments and changes in liabilities for insurance and investment contracts, gross | 1,742,093 | 857,414 | 549,320 | 59,833 | - | - | (577) | 3,208,083 |
| Reinsurers' share in payments and changes for insurance contracts liabilities | 12,417 | 20,873 | 146,400 | 7,375 | - | - | (577) | 186,488 |
| Payments and changes in liabilities for insurance and investment contracts, in retention | 1,729,676 | 836,541 | 402,920 | 52,458 | - | - | - | 3,021,595 |
| Commission, marketing and other acquisition expenses | 218,023 | 212,676 | 150,476 | 22,644 | - | 26,210*** | (48,237) | 581,792 |
| General and administrative expenses | 134,797 | 64,722 | 8,457 | 3,577 | 41,033 | 35,057**** | (53) | 287,590 |
| Other expenses | 8,148 | - | - | 631 | 1,148 | 541*** | - | 10,468 |
| Financing expenses (incomes), net | 1,410 | 1,584 | (18,856) | - | 45 | 29,678 | (41) | 13,820 |
| **Total expenses** | 2,092,054 | 1,115,523 | 542,997 | 79,310 | 42,226 | 91,486 | (48,331) | 3,915,265 |
| Company’s share of profits of equity accounted investees | 3,729 | 1,407 | 1,979 | - | - | 7,257 | - | 14,372 |
| **Profit before income taxes** | 226,783 | 34,269 | 84,967 | 7,940 | 7,575 | 71,927 | (2,368) | 431,093 |
| Other comprehensive income (loss), before income tax | (18,986) | (11,274) | (22,967) | (5,839) | 27 | (1,199) | - | (60,238) |
| **Total comprehensive income before income tax** | 207,797 | 22,995 | 62,000 | 2,101 | 7,602 | 70,728***** | (2,368) | 370,855 |
| Liabilities in respect of non-yield dependent insurance and investment contracts | 11,540,653 | 4,593,250 | 9,714,519 | 413,199 | - | - | (3,328) | 26,258,293 |
| Liabilities in respect of yield dependent insurance and investment contracts | 41,174,717 | 4,164,059 | - | - | - | - | - | 45,338,776 |

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

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

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

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

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

# Note 4 - Operating segments (Contd.)

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

| | For the three months ended March 31, 2016 (Unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Life Insurance and Long-Term Savings | Health Insurance | General Insurance | Insurance companies overseas | Financial Services | Not Allocated To Any Specific Segment | Adjustments and Offsets | Total |
| | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand |
| Premiums earned, gross | 1,017,965 | 996,156 | 716,050 | 59,528 | - | - | (1,238) | 2,788,461 |
| Premiums earned by reinsurers | 33,030 | 43,853 | 281,393 | 22,534 | - | - | (1,238) | 379,572 |
| **Premiums earned in retention** | 984,935 | 952,303 | 434,657 | 36,994 | - | - | - | 2,408,889 |
| Net profit (loss) from investments and financial income | (23,733) | 13,599 | 18,034 | 1,727 | 19,240 | 29,494* | 1,004 | 59,365 |
| Income from management fees | 189,872 | 1,015 | - | - | 44,950 | 4,867 [1] | (54) [1] | 240,650 |
| Income from commissions | 1,424 | 19,206 | 49,343 | 5,567 | 342 | 48,801 **[1] | (44,022) [1] | 80,661 |
| **Total income** | 1,152,498 | 986,123 | 502,034 | 44,288 | 64,532 | 83,162 | (43,072) | 2,789,565 |
| Payments and changes in liabilities for insurance and investment contracts, gross | 883,800 | 704,667 | 768,955 | 32,048 | - | - | (846) | 2,388,624 |
| Reinsurers' share in payments and changes for insurance contracts liabilities | 26,564 | 5,980 | 354,353 | 9,523 | - | - | (846) | 395,574 |
| Payments and changes in liabilities for insurance and investment contracts, in retention | 857,236 | 698,687 | 414,602 | 22,525 | - | - | - | 1,993,050 |
| Commission, marketing and other acquisition expenses | 210,593 | 198,828 | 136,652 | 18,862 | - | 23,942 ***[1] | (44,023) [1] | 544,854 |
| General and administrative expenses | 126,709 | 64,319 | 9,231 | 3,384 | 44,064 | 32,632 ****[1] | (54) [1] | 280,285 |
| Other expenses | 8,890 | - | - | 112 | 2,257 | 697*** | - | 11,956 |
| Financing expenses (incomes), net | (683) | (1,511) | (9,999) | - | 262 | 14,861 | (58) | 2,872 |
| **Total expenses** | 1,202,745 | 960,323 | 550,486 | 44,883 | 46,583 | 72,132 | (44,135) | 2,833,017 |
| Company’s share of profits (losses) of equity accounted investees | 7,501 | 2,322 | 4,371 | - | (11) | 6,584 | - | 20,767 |
| **Profit (loss) before income taxes** | (42,746) | 28,122 | (44,081) | (595) | 17,938 | 17,614 | 1,063 | (22,685) |
| Other comprehensive income (loss), before income tax | 6,097 | (1,226) | (6,633) | 1,161 | 56 | (3,982) | - | (4,527) |
| **Total comprehensive income (loss) before income tax** | (36,649) | 26,896 | (50,714) | 566 | 17,994 | 13,632***** | 1,063 | (27,212) |
| Liabilities in respect of non-yield dependent insurance and investment contracts | 11,433,932 | 4,100,605 | 9,725,019 | 283,666 | - | - | (4,470) | 25,538,752 |
| Liabilities in respect of yield dependent insurance and investment contracts | 35,929,527 | 3,782,066 | - | - | - | - | - | 39,711,593 |

1. On reclassification, see Note 2C.

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

** Income from commissions includes commissions paid to insurance agencies owned by the Group. About NIS 39 million thereof are commissions paid to these agents from the Group’s financial institutions.

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

**** Of the total general and administrative expenses, NIS 22 million is for expenses of the activity of the Group’s insurance agencies.

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

# Note 4 - Operating segments (Contd.)

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

| | For the year ended December 31, 2016 (Audited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Life Insurance and Long-Term Savings | Health Insurance | General Insurance | Insurance companies overseas | Financial Services | Not Allocated To Any Specific Segment | Adjustments and Offsets | Total |
| | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand |
| Premiums earned, gross | 4,299,943 | 4,163,232 | 2,949,193 | 300,688 | - | - | (4,887) | 11,708,169 |
| Premiums earned by reinsurers | 135,014 | 164,601 | 1,067,313 | 93,985 | - | - | (4,887) | 1,456,026 |
| **Premiums earned in retention** | 4,164,929 | 3,998,631 | 1,881,880 | 206,703 | - | - | - | 10,252,143 |
| Net profit from investments and financial income | 2,170,825 | 273,052 | 188,953 | 16,231 | 86,618 | 150,706* | (4,336) | 2,882,049 |
| Income from management fees | 888,326 | 2,701 | - | - | 165,493 | 19,285 [1] | (233) [1] | 1,075,572 |
| Income from commissions | 20,987 | 55,416 | 177,964 | 23,103 | 1,325 | 197,878 **[1] | (177,785) [1] | 298,888 |
| **Total income** | 7,245,067 | 4,329,800 | 2,248,797 | 246,037 | 253,436 | 367,869 | (182,354) | 14,508,652 |
| Payments and changes in liabilities for insurance and investment contracts, gross | 5,934,285 | 3,255,839 | 2,532,215 | 184,766 | - | - | (3,021) | 11,904,084 |
| Reinsurers' share in payments and changes for insurance contracts liabilities | 104,059 | 126,835 | 949,432 | 52,551 | - | - | (3,021) | 1,229,856 |
| Payments and changes in liabilities for insurance and investment contracts, in retention | 5,830,226 | 3,129,004 | 1,582,783 | 132,215 | - | - | - | 10,674,228 |
| Commission, marketing and other acquisition expenses | 824,943 | 823,641 | 594,938 | 83,311 | - | 114,180*** | (194,511) [1] | 2,246,502 |
| General and administrative expenses | 502,730 | 237,664 | 35,004 | 13,942 | 171,413 | 118,698**** | 16,491 [1] | 1,095,942 |
| Other expenses | 35,193 | - | - | 1,142 | 83,741 | 2,976*** | 88 | 123,140 |
| Financing expenses (incomes), net | 4,781 | 7,745 | (2,615) | - | 1,042 | 113,404 | 99 | 124,456 |
| **Total expenses** | 7,197,873 | 4,198,054 | 2,210,110 | 230,610 | 256,196 | 349,258 | (177,833) | 14,264,268 |
| Company's share of profits of equity accounted investees | 40,356 | 29,821 | 72,004 | - | - | 53,990 | - | 196,171 |
| **Profit (loss) before income taxes** | 87,550 | 161,567 | 110,691 | 15,427 | (2,760) | 72,601 | (4,521) | 440,555 |
| Other comprehensive income (loss), before income tax | 39,943 | (3,703) | (36,483) | (10,787) | 106 | 33,121 | - | 22,197 |
| **Total comprehensive income (loss) before income tax** | 127,493 | 157,864 | 74,208 | 4,640 | (2,654) | 105,722***** | (4,521) | 462,752 |
| Liabilities in respect of non-yield dependent insurance and investment contracts | 11,626,151 | 4,473,284 | 9,528,198 | 389,482 | - | - | (3,388) | 26,013,727 |
| Liabilities in respect of yield dependent insurance and investment contracts | 39,487,558 | 4,067,595 | - | - | - | - | - | 43,555,153 |

1. On reclassification, see Note 2C.

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

** Income from commissions includes commissions paid to insurance agencies owned by the Group. About NIS 159 million thereof are commissions paid to these agents from the Group's financial institutions.

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

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

***** Total comprehensive income before income tax for the activity of the Group's insurance agencies was NIS 19 million.

# Note 4 - Operating segments (Contd.)

**B. Additional information about the non-life insurance segment**

| | For the three months ended March 31, 2017 (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Compulsory Motor | Motor Property | Property and Other Segments* | Other Liability Segments** | insurance Mortgage | Total |
| | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand |
| Premiums earned, gross | 213,935 | 217,631 | 255,681 | 305,560 | (2,484) | 990,323 |
| Premiums earned by reinsurers | 622 | 7,538 | 182,782 | 71,998 | - | 262,940 |
| **Retention premiums earned** | 213,313 | 210,093 | 72,899 | 233,562 | (2,484) | 727,383 |
| Changes in premium balances that have not yet been earned, retention | 89,587 | 33,701 | 13,470 | 84,541 | (7,223) | 214,076 |
| Retention premiums earned | 123,726 | 176,392 | 59,429 | 149,021 | 4,739 | 513,307 |
| Profits from investments, net, and financing income | 24,009 | 5,756 | 4,227 | 28,514 | 3,869 | 66,375 |
| Commission income | - | 1,554 | 37,472 | 7,277 | - | 46,303 |
| **Total income** | 147,735 | 183,702 | 101,128 | 184,812 | 8,608 | 625,985 |
| Payments and changes in liabilities for insurance policies and investment contracts, gross | 111,517 | 133,737 | 114,692 | 194,361 | (4,987) | 549,320 |
| Reinsurers' share of payments and change in liabilities for insurance policies | (907) | 2,458 | 97,152 | 47,697 | - | 146,400 |
| Payments and changes in liabilities for insurance policies and investment contracts in retention | 112,424 | 131,279 | 17,540 | 146,664 | (4,987) | 402,920 |
| Commissions, marketing expenses and other purchasing expenses | 16,751 | 42,397 | 57,861 | 33,467 | - | 150,476 |
| General and administrative expenses | 2,033 | 2,606 | 1,768 | 1,109 | 941 | 8,457 |
| Financing income, net | (7,517) | (1,802) | (605) | (8,930) | (2) | (18,856) |
| **Total expenses (incomes)** | 123,691 | 174,480 | 76,564 | 172,310 | (4,048) | 542,997 |
| Company's share of profits of equity accounted investees | 747 | 179 | 60 | 888 | 105 | 1,979 |
| **Profit before income taxes** | 24,791 | 9,401 | 24,624 | 13,390 | 12,761 | 84,967 |
| Other comprehensive income(loss), before income tax | (9,699) | (2,325) | (781) | (11,520) | 1,358 | (22,967) |
| **Total comprehensive income before income tax** | 15,092 | 7,076 | 23,843 | 1,870 | 14,119 | 62,000 |
| **Liabilities for insurance policies, gross, as at March 31, 2017** | 2,420,848 | 628,112 | 846,472 | 5,412,307 | 406,780 | 9,714,519 |
| **Liabilities for insurance policies, Retention as at March 31, 2017** | 2,156,886 | 598,489 | 199,329 | 2,623,009 | 406,780 | 5,984,493 |

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

** Other liabilities branches include mainly results from third-party insurance and professional liability which account for 79% of total premiums in these branches.

# Note 4 - Operating segments (Contd.)

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

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

* Property and other branches primarily include results of property loss insurance and comprehensive homeowners insurance, operations of which account for 82% of total premiums earned from these branches.

** Other liabilities branches include mainly results from third-party insurance and professional liability which account for 80% of total premiums in these branches.

## Note 4 - Operating segments (Contd.)

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

| | For year ended December 31, 2016 (Audited) | | | | | |
|---|---|---|---|---|---|---|
| | Compulsory Motor | Motor Property | Property and Other Segments* | Other Liability Segments** | insurance Mortgage | Total |
| | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand |
| Premiums earned, gross | 491,079 | 780,015 | 945,618 | 849,897 | (17,504) | 3,049,105 |
| Premiums earned by reinsurers | 2,523 | 18,024 | 701,532 | 258,864 | - | 980,943 |
| **Retention premiums earned** | 488,556 | 761,991 | 244,086 | 591,033 | (17,504) | 2,068,162 |
| Changes in premium balances that have not yet been earned, retention | 55,322 | 108,820 | 11,792 | 51,504 | (41,156) | 186,282 |
| Retention premiums earned | 433,234 | 653,171 | 232,294 | 539,529 | 23,652 | 1,881,880 |
| Profits from investments, net, and financing income | 68,908 | 15,783 | 11,695 | 76,749 | 15,818 | 188,953 |
| Commission income | 1,628 | 11,271 | 124,519 | 40,546 | - | 177,964 |
| **Total income** | 503,770 | 680,225 | 368,508 | 656,824 | 39,470 | 2,248,797 |
| Payments and changes in liabilities for insurance contracts, gross | 479,812 | 521,014 | 491,081 | 1,061,251 | (20,943) | 2,532,215 |
| Reinsurer's share of payments and changes in liabilities for insurance contracts | 23,696 | 24,273 | 413,911 | 487,552 | - | 949,432 |
| Payments and changes in liabilities for insurance contracts, retention | 456,116 | 496,741 | 77,170 | 573,699 | (20,943) | 1,582,783 |
| Commission, marketing expenses and other acquisition costs | 79,286 | 162,900 | 207,765 | 144,987 | - | 594,938 |
| General and administrative expenses | 7,825 | 10,545 | 7,635 | 4,669 | 4,330 | 35,004 |
| Financing expenses (incomes), Net | (1,088) | (249) | (103) | (1,211) | 36 | (2,615) |
| **Total expenses (incomes)** | 542,139 | 669,937 | 292,467 | 722,144 | (16,577) | 2,210,110 |
| Company's share of the profits of equity accounted investees | 29,436 | 6,742 | 2,785 | 32,785 | 256 | 72,004 |
| **Profit (loss) before taxes on income** | (8,933) | 17,030 | 78,826 | (32,535) | 56,303 | 110,691 |
| Other comprehensive loss before taxes on income | (14,683) | (3,363) | (1,389) | (16,351) | (697) | (36,483) |
| **Total comprehensive income (loss) before taxes on income** | (23,616) | 13,667 | 77,437 | (48,886) | 55,606 | 74,208 |
| **Liabilities for insurance policies, gross, as at December 31, 2016** | 2,361,603 | 595,199 | 806,320 | 5,345,962 | 419,114 | 9,528,198 |
| **Liabilities for insurance policies, in retention, as at December 31, 2016** | 2,075,066 | 563,497 | 184,523 | 2,471,189 | 419,114 | 5,713,389 |

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

** Other liabilities branches include mainly results from third-party insurance and professional liability which account for 79% of total premiums in these branches.

## Note 4 - Operating segments (Contd.)

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

| | For the Three-month period ended March 31, 2017 (Unaudited) | | | | For the Three-month period ended March 31, 2016 (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 | - | - | 1,248,227 | 1,248,227 | - | - | 1,017,965 | 1,017,965 |
| Premiums earned by reinsurers | - | - | 32,354 | 32,354 | - | - | 33,030 | 33,030 |
| **Premiums in retention** | - | - | 1,215,873 | 1,215,873 | - | - | 984,935 | 984,935 |
| Profit (loss) from investments, net, and financing income | 739 | 138 | 832,000 | 832,877 | (334) | 180 | (23,579) | (23,733) |
| Income from management fees | 52,905 | 72,623 | 132,172 | 257,700 | 40,988 | 65,384 | 83,500 | 189,872 |
| Income from commissions | - | - | 8,658 | 8,658 | - | 76 | 1,348 | 1,424 |
| **Total income** | 53,644 | 72,761 | 2,188,703 | 2,315,108 | 40,654 | 65,640 | 1,046,204 | 1,152,498 |
| Payments and changes in liabilities for insurance policies and investment contracts, gross | 522 | 2,530 | 1,739,041 | 1,742,093 | 532 | 2,338 | 880,930 | 883,800 |
| Reinsurers' share of payments and change in liabilities for insurance policies | - | - | 12,417 | 12,417 | - | - | 26,564 | 26,564 |
| Payments and changes in liabilities for insurance policies and investment contracts in retention | 522 | 2,530 | 1,726,624 | 1,729,676 | 532 | 2,338 | 854,366 | 857,236 |
| Commissions, marketing expenses and other purchasing expenses | 18,744 | 35,001 | 164,278 | 218,023 | 20,727 | 30,885 | 158,981 | 210,593 |
| General and administrative expenses | 22,895 | 23,615 | 88,287 | 134,797 | 20,412 | 22,919 | 83,378 | 126,709 |
| Other expenses | 2,522 | 312 | 5,314 | 8,148 | 2,806 | 770 | 5,314 | 8,890 |
| Financing expenses (income), net | 70 | 3 | 1,337 | 1,410 | 5 | - | (688) | (683) |
| **Total expenses** | 44,753 | 61,461 | 1,985,840 | 2,092,054 | 44,482 | 56,912 | 1,101,351 | 1,202,745 |
| Company's share of profits of equity accounted investees | - | - | 3,729 | 3,729 | - | - | 7,501 | 7,501 |
| **Profit (loss) before taxes on income** | 8,891 | 11,300 | 206,592 | 226,783 | (3,828) | 8,728 | (47,646) | (42,746) |
| Other comprehensive income (loss) before taxes on income | (45) | (176) | (18,765) | (18,986) | 873 | 468 | 4,756 | 6,097 |
| **Total comprehensive income (loss) before taxes on income** | 8,846 | 11,124 | 187,827 | 207,797 | (2,955) | 9,196 | (42,890) | (36,649) |

# Note 4 - Operating segments (Contd.)

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

| | For year ended December 31, 2016 (Audited) | | | |
|---|---|---|---|---|
| | Provident | Pension | Life assurance | Total |
| | NIS thousand | NIS thousand | NIS thousand | NIS thousand |
| Premiums earned, gross | - | - | 4,299,943 | 4,299,943 |
| Premiums earned by reinsurers | - | - | 135,014 | 135,014 |
| **Premiums in retention** | - | - | 4,164,929 | 4,164,929 |
| Profit from investments, net, and financing income | 1,064 | 2,064 | 2,167,697 | 2,170,825 |
| Income from management fees | 194,004 | 279,455 | 414,867 | 888,326 |
| Income from commissions | 522 | 148 | 20,317 | 20,987 |
| **Total income** | 195,590 | 281,667 | 6,767,810 | 7,245,067 |
| Payments and changes in liabilities for insurance policies and investment contracts, gross | 2,028 | 9,169 | 5,923,088 | 5,934,285 |
| Reinsurers' share of payments and change in liabilities for insurance policies | - | - | 104,059 | 104,059 |
| Payments and changes in liabilities for insurance policies and investment contracts in retention | 2,028 | 9,169 | 5,819,029 | 5,830,226 |
| Commissions, marketing expenses and other purchasing expenses | 81,346 | 125,202 | 618,395 | 824,943 |
| General and administrative expenses | 79,812 | 89,821 | 333,097 | 502,730 |
| Other expenses | 12,327 | 1,611 | 21,255 | 35,193 |
| Financing expenses (incomes), net | 29 | (149) | 4,901 | 4,781 |
| **Total expenses** | 175,542 | 225,654 | 6,796,677 | 7,197,873 |
| Company's share of profits of equity accounted investees | - | - | 40,356 | 40,356 |
| **Profit before taxes on income** | 20,048 | 56,013 | 11,489 | 87,550 |
| Other comprehensive income (loss) before taxes on income | 411 | (1,601) | 41,133 | 39,943 |
| **Total comprehensive income before taxes on income** | 20,459 | 54,412 | 52,622 | 127,493 |

# Note 4 - Operating segments (Contd.)

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

### Results by policy category

| For the three months ended March 31, 2017 (Unaudited) | Policies which include a savings component (incl. riders) by date of policy issue | | | | Policies with no savings component | | |
|---|---|---|---|---|---|---|---|
| | | | from 2004 | | Risk that was sold as a stand-alone policy | | |
| | Until 1990 (1) | Up to 2003 | Not yield-dependent | Yield dependent | Personal lines | Group | Total |
| | NIS thousand | | | | | | |
| Gross premiums | 28,991 | 237,513 | - | 695,159 | 242,970 | 46,962 | 1,251,595 |
| Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees | | | | | | | (3,368) |
| Total | | | | | | | 1,248,227 |
| Amounts received for investment contracts recognized directly in insurance reserves | - | - | - | 921,958 | - | - | 921,958 |
| Financial margin including management fees - in terms of comprehensive income (2) | 48,466 | 84,208 | 18,476 | 47,964 | - | - | 199,114 |
| Payments and changes in liabilities for insurance policies gross | 60,172 | 579,587 | (9,697) | 806,224 | 110,381 | 44,066 | 1,590,733 |
| Payments and change in liabilities for investment contracts | - | - | 31 | 148,277 | - | - | 148,308 |

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

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

# Note 4 - Operating segments (Contd.)

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

**Results by policy category (contd.)**

| For the three months ended March 31, 2016 (Unaudited) | Policies which include a savings component (incl. riders) by date of policy issue | | | | Policies with no savings component | | |
|---|---|---|---|---|---|---|---|
| | | | from 2004 | | Risk that was sold as a stand-alone policy | | |
| | Until 1990 (1) | Up to 2003 | Not yield-dependent | Yield dependent | Personal lines | Group | Total |
| | NIS thousand | | | | | | |
| Gross premiums | 31,773 | 230,308 | - | 483,942 | 222,247 | 52,101 | 1,020,371 |
| Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees | | | | | | | (2,406) |
| Total | | | | | | | 1,017,965 |
| Amounts received for investment contracts recognized directly in insurance reserves | - | - | - | 442,751 | - | - | 442,751 |
| Financial margin including management fees - in terms of comprehensive income (2) | 55,494 | 41,810 | (49,642) | 41,690 | - | - | 89,352 |
| Payments and changes in liabilities for insurance policies gross | 83,214 | 182,395 | 66,215 | 296,397 | 82,484 | 59,201 | 769,906 |
| Payments and change in liabilities for investment contracts | - | - | (287) | 111,311 | - | - | 111,024 |

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

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

# Note 4 - Operating segments (Contd.)

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

**Results by policy category (contd.)**

| For the year ended December 31, 2016 (Audited) | Policies which include a savings component (incl. riders) by date of policy issue | | | | Policies with no savings component | | |
|---|---|---|---|---|---|---|---|
| | | | from 2004 | | Risk that was sold as a stand-alone policy | | |
| | Until 1990 (1) | Up to 2003 | Not yield-dependent | Yield dependent | Personal lines | Group | Total |
| | NIS thousand | | | | | | |
| Gross premiums | 124,886 | 930,471 | 19 | 2,134,637 | 939,063 | 202,103 | 4,331,179 |
| Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees | | | | | | | (31,236) |
| Total | | | | | | | 4,299,943 |
| Amounts received for investment contracts recognized directly in insurance reserves | - | - | - | 2,084,828 | - | - | 2,084,828 |
| Financial margin including management fees - in terms of comprehensive income (2) | 146,427 | 239,552 | (10,153) | 175,314 | - | - | 551,140 |
| Payments and changes in liabilities for insurance policies gross | 652,146 | 1,821,374 | 62,484 | 2,418,314 | 417,257 | 205,249 | 5,576,824 |
| Payments and change in liabilities for investment contracts | - | - | 387 | 345,877 | - | - | 346,264 |

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

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

## Note 4 – Operating segments (contd.)

### D. Additional information about the health insurance segment

### Results by policy category

| **For the three months ended March 31, 2017 (Unaudited)** | **Long-term care (LTC)** | | **Other *** | | **Total** |
|---|---|---|---|---|---|
| | **Personal lines** | **Group** | **long-term **** | **short-term **** | |
| | | | **NIS thousand** | | |
| Gross premiums | 150,837 | 306,294 | 522,441 | 114,120 | 1,093,692 |
| Payments and changes in liabilities for insurance policies gross | 146,971 | 311,893 | 327,596 | 70,954 | 857,414 |

| **For the three months ended March 31, 2016 (Unaudited)** | **Long-term care (LTC)** | | **Other *** | | **Total** |
|---|---|---|---|---|---|
| | **Personal lines** | **Group** | **long-term **** | **short-term **** | |
| | | | **NIS thousand** | | |
| Gross premiums | 131,662 | 282,171 | 491,895 | 97,775 | 1,003,503 |
| Payments and changes in liabilities for insurance policies gross | 69,083 | 277,901 | 294,954 | 62,729 | 704,667 |

| **For the year ended December 31, 2016 (Audited)** | **Long-term care (LTC)** | | **Other *** | | **Total** |
|---|---|---|---|---|---|
| | **Personal lines** | **Group** | **long-term **** | **short-term **** | |
| | | | **NIS thousand** | | |
| Gross premiums | 535,483 | 1,179,383 | 2,009,226 | 447,455 | 4,171,547 |
| Payments and changes in liabilities for insurance policies gross | 360,384 | 1,266,775 | 1,375,960 | 252,720 | 3,255,839 |

* Of this, personal lines premiums in the amount of NIS 415,661 thousand (for the three-months ended March 31, 2016, an amount of NIS 370,975 thousand, and for 2016 an amount of NIS 1,588,920 thousand) and group premiums in the amount of NIS 220,900 thousand (for the three-months ended March 31, 2016, an amount of NIS 218,695 thousand and for 2016, an amount of NIS 867,761 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. 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%.

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

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

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

| Year | Corporate tax rate | Profit tax rate | Tax rate for financial institutions |
|---|---|---|---|
| 2016 | 25% | 17% | 35.9% |
| 2017 | 24% | 17% | 35% |
| 2018 and thereafter | 23% | 17% | 34.2% |

## B. Approved pre-rulings

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

## C. Tax assessments in dispute

Further to the dispute between Harel Insurance and the tax authorities regarding the real estate segment for the period 2009-2014, in respect of including certain revenues in the real estate segment and the fact that tax was not paid on these revenues, on January 30, 2017, the Tel Aviv District Court handed down a judgment on the appeal filed by Harel Insurance on the assessments that were issued by the Tax Assessment Officer for the 2009 and 2010 tax years. In the judgment, Harel Insurance’s argument was accepted, whereby amounts for direct expenses (including partnership revenues) originating in investments in real estate abroad should not be added, but the arguments of Harel Insurance that indirect expenses should not be added were not accepted. The conclusions of the judgment were implemented in a compromise settlement relating to the period 2011-2014 which was validated as a court ruling by the District Court.

The District Court’s judgment is a peremptory ruling given that it cannot be appealed. Accordingly, the Company recognized tax revenues in the amount of NIS 50 million in its financial statements at December 31, 2016.

# Note 6 – Financial instruments

## A. Assets for Yield-dependent contracts

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

| | March 31 | | December 31 |
|---|---|---|---|
| | 2017 | 2016 | 2016 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousand | NIS thousand | NIS thousand |
| Investment property | **1,408,452** | 1,367,422 | 1,411,903 |
| **Financial investments** | | | |
| Marketable debt assets | **15,628,364** | 16,591,109 | 15,441,195 |
| Non-marketable debt assets (*) | **10,098,452** | 6,797,947 | 9,597,966 |
| Shares | **7,602,813** | 6,646,512 | 7,433,050 |
| Other financial investments | **8,366,631** | 7,217,296 | 7,708,865 |
| **Total financial investments** | **41,696,260** | 37,252,864 | 40,181,076 |
| Cash and cash equivalents | **2,330,659** | 1,064,160 | 1,847,772 |
| Other | **599,353** | 492,932 | 617,090 |
| **Total assets for yield-dependent contracts ** ** | **46,034,724** | 40,177,378 | 44,057,841 |
| Payables | **188,005** | 11,960 | 10,570 |
| Financial liabilities *** | **99,594** | 135,054 | 145,562 |
| **Financial liabilities for yield-dependent contracts** | **287,599** | 147,014 | 156,132 |
| (* ) Assets measured at adjusted cost | **700,993** | 590,331 | 700,749 |
| Fair value of debt assets measured at adjusted cost | **743,347** | 635,555 | 739,088 |

** Including assets in the amount of NIS 3,797,640 thousand, NIS 3,418,173 thousand, NIS 3,686,521 thousand as at March 31, 2017 and 2016 and December 31, 2016 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 (contd.)

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

### 2. Fair value hierarchy of financial assets

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

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

| | As at March 31, 2017 (Unaudited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand |
| Marketable debt assets | 12,563,865 | 3,064,499 | - | 15,628,364 |
| Non-marketable debt assets | - | 8,555,693 | 841,766 | 9,397,459 |
| Shares | 5,687,813 | 8,718 | 1,906,282 | 7,602,813 |
| Other | 4,856,716 | 452,899 | 3,057,016 | 8,366,631 |
| **Total** | 23,108,394 | 12,081,809 | 5,805,064 | 40,995,267 |

| | As at March 31, 2016 (Unaudited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | NIS thousand | NIS thousand | NIS thousand | NIS thousand |
| Marketable debt assets | 13,057,630 | 3,533,479 | - | 16,591,109 |
| Non-marketable debt assets | - | 5,876,929 | 330,687 | 6,207,616 |
| Shares | 5,054,289 | 22,260 | 1,569,963 | 6,646,512 |
| Other | 4,253,639 | 262,007 | 2,701,650 | 7,217,296 |
| **Total** | 22,365,558 | 9,694,675 | 4,602,300 | 36,662,533 |

| | As at December 31, 2016 (Audited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | NIS thousand | NIS thousand | NIS thousand | NIS thousand |
| Marketable debt assets | 12,028,082 | 3,413,113 | - | 15,441,195 |
| Non-marketable debt assets | - | 8,090,436 | 806,781 | 8,897,217 |
| Shares | 5,452,966 | 24,016 | 1,956,068 | 7,433,050 |
| Other | 4,499,183 | 162,841 | 3,046,841 | 7,708,865 |
| **Total** | 21,980,231 | 11,690,406 | 5,809,690 | 39,480,327 |

# Note 6 – Financial instruments (contd.)

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

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

**For three months ended March 31, 2017**

| | 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, 2017** | 806,781 | 1,956,068 | 3,046,841 | 5,809,690 |
| Total profits (losses) that were recognized: | | | | |
| In profit and loss (*) | 34 | (50,372) | 4,651 | (45,687) |
| Interest and dividend receipts | (4,099) | (10,216) | (48,224) | (62,539) |
| Purchases | 160,441 | 12,291 | 140,035 | 312,767 |
| Sales | (8,822) | (776) | (80,912) | (90,510) |
| Redemptions | (113,883) | (713) | (5,375) | (119,971) |
| Transfers to Level 3 * | 1,402 | - | - | 1,402 |
| Transfers from Level 3 ** | (88) | - | - | (88) |
| **Balance as at March 31, 2017** | 841,766 | 1,906,282 | 3,057,016 | 5,805,064 |
| **(*) Of which total profits (losses) for the period that has not yet been exercised for financial assets held correct to March 31, 2017** | (2,572) | (51,298) | 5,252 | (48,618) |

* For securities whose marketability changed
** For securities in which the instrument changed from non-marketable debts assets to receivables for overdue investments

**For the three months ended March 31, 2016**.

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

** For securities whose rating changed.

# 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, 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 (losses) that were recognized: | | | | |
| In profit and loss (*) | 54,122 | 220,334 | 180,647 | 455,103 |
| Interest and dividend receipts | (22,606) | (72,354) | (157,564) | (252,524) |
| Purchases | 621,477 | 493,431 | 766,036 | 1,880,944 |
| Sales | (42,505) | (215,763) | (305,684) | (563,952) |
| Redemptions | (145,372) | (58,634) | (35,079) | (239,085) |
| Transfers to Level 3 ** | 46,475 | - | - | 46,475 |
| Transfers from Level 3 *** | (69,476) | - | - | (69,476) |
| **Balance as at December 31, 2016** | 806,781 | 1,956,068 | 3,046,841 | 5,809,690 |
| **(*) Of which total profit for the period that has not yet been exercised for financial assets held correct to December 31, 2016** | 43,843 | 139,882 | 182,014 | 365,739 |

** Mainly for securities whose rating changed.

*** For securities whose rating changed.

# Note 6 – Financial instruments (contd.)

## B. Other financial investments

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

| | March 31 | | December 31 | March 31 | | December 31 |
|---|---|---|---|---|---|---|
| | (Unaudited) | | (Audited) | (Unaudited) | | (Audited) |
| | Book Value | | | Fair Value | | |
| | 2017 | 2016 | 2016 | 2017 | 2016 | 2016 |
| | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand |
| **Loans and receivables:** | | | | | | |
| Earmarked bonds | **4,921,332** | 4,744,456 | 4,783,994 | **6,361,783** | 6,174,789 | 6,238,108 |
| Non-marketable, non-convertible debt assets, excluding bank deposits | **6,572,711** | 5,265,040 | 6,191,104 | **7,192,128** | 5,973,395 | 6,800,005 |
| Bank deposits | **1,010,140** | 903,811 | 954,886 | **1,077,419** | 984,533 | 1,021,699 |
| Non-marketable, convertible debt assets | **-** | 312 | 12 | **-** | 312 | 12 |
| **Total non-marketable debt assets** | **12,504,183** | 10,913,619 | 11,929,996 | **14,631,330** | 13,133,029 | 14,059,824 |
| **Investments held to maturity:** | | | | | | |
| Marketable non-convertible debt assets | **242,717** | 293,034 | 272,133 | **253,696** | 309,775 | 283,114 |
| **Total Investments held to maturity** | **242,717** | 293,034 | 272,133 | **253,696** | 309,775 | 283,114 |
| **Total** | **12,746,900** | 11,206,653 | 12,202,129 | **14,885,026** | 13,442,804 | 14,342,938 |
| **Impairments recognized in profit and loss (in aggregate)** | **12,712** | 13,802 | 13,956 | | | |

# Note 6 – Financial instruments (contd.)

## B. Other financial investments (contd.)

### 2. Fair value hierarchy of financial assets

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

| | As at March 31, 2017 (Unaudited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand |
| Marketable debt assets | 5,769,450 | 1,343,241 | - | 7,112,691 |
| Shares | 759,664 | - | 63,025 | 822,689 |
| Other | 893,434 | 274,284 | 1,367,403 | 2,535,121 |
| **Total** | 7,422,548 | 1,617,525 | 1,430,428 | 10,470,501 |

| | As at March 31, 2016 (Unaudited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | NIS Thousand | NIS Thousand | NIS Thousand | NIS Thousand |
| Marketable debt assets | 5,572,268 | 1,594,997 | - | 7,167,265 |
| Non-marketable debt assets | - | - | 312 | 312 |
| Shares | 710,461 | - | 76,387 | 786,848 |
| Other | 947,805 | 146,331 | 1,261,443 | 2,355,579 |
| **Total** | 7,230,534 | 1,741,328 | 1,338,142 | 10,310,004 |

| | As at December 31, 2016 (Audited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | NIS Thousands | NIS Thousands | NIS thousand | NIS thousand |
| Marketable debt assets | 5,437,142 | 1,424,321 | - | 6,861,463 |
| Non-marketable debt assets | - | - | 12 | 12 |
| Shares | 758,167 | - | 47,361 | 805,528 |
| Other | 877,067 | 101,708 | 1,389,750 | 2,368,525 |
| **Total** | 7,072,376 | 1,526,029 | 1,437,123 | 10,035,528 |

# Note 6 – Financial instruments (contd.)

## B. Other financial investments (contd.)

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

**For the three months ended March 31, 2017**

| | Fair-value measurement on reporting date<br>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, 2017** | 12 | 47,361 | 1,389,750 | 1,437,123 |
| Total profits (losses) that were recognized: | | | | |
| In profit and loss (*) | - | 1,943 | 2,089 | 4,032 |
| In other comprehensive income | - | (2,695) | (26,606) | (29,301) |
| Interest and dividend receipts | - | (2,004) | (14,728) | (16,732) |
| Purchases | - | 18,420 | 47,348 | 65,768 |
| Sales | - | - | (27,322) | (27,322) |
| Redemptions | - | - | (3,128) | (3,128) |
| Transfers from Level 3 * | (12) | - | - | (12) |
| **Balance as at March 31, 2017** | - | 63,025 | 1,367,403 | 1,430,428 |
| **(*) Of which total profits for the period that has not yet been exercised for financial assets held correct to March 31, 2017** | - | 1,942 | 2,014 | 3,956 |

* For securities in which the instrument changed from non-marketable debts assets to receivables for overdue investments

**For the three months ended March 31, 2016**

| | Fair-value measurement on reporting date<br>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 (losses) that were recognized: | | | | |
| In profit and loss (*) | 1 | 97 | 9,547 | 9,645 |
| In other comprehensive income | - | (242) | (11,762) | (12,004) |
| Interest and dividend receipts | - | (81) | (14,057) | (14,138) |
| Purchases | - | - | 71,447 | 71,447 |
| Sales | - | (393) | (19,008) | (19,401) |
| Redemptions | - | - | (3,662) | (3,662) |
| **Balance as at March 31, 2016** | 312 | 76,387 | 1,261,443 | 1,338,142 |
| **(*) Of which total profits for the period that has not yet been exercised for financial assets held correct to March 31, 2016** | 1 | 97 | 9,074 | 9,172 |

# 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, 2016**

| | Fair-value measurement on reporting date<br>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 (losses) that were recognized: | | | | |
| In profit and loss (*) | (299) | 11,661 | 53,433 | 64,795 |
| In other comprehensive income | - | (14,654) | 49,320 | 34,666 |
| Interest and dividend receipts | - | (2,445) | (64,885) | (67,330) |
| Purchases | - | - | 258,067 | 258,067 |
| Sales | - | (24,207) | (119,893) | (144,100) |
| Redemptions | - | - | (15,230) | (15,230) |
| **Balance as at December 31, 2016** | 12 | 47,361 | 1,389,750 | 1,437,123 |
| **(*) Of which total profits (losses) for the period that has not yet been exercised for financial assets held correct to December 31, 2016** | (299) | (2,448) | 45,175 | 42,428 |

# Note 6 – Financial instruments (contd.)

## C. Financial liabilities

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

| | March 31 | | December 31 | March 31 | | December 31 |
|---|---|---|---|---|---|---|
| | (Unaudited) | | (Audited) | (Unaudited) | | (Audited) |
| | Book Value | | | Fair Value | | |
| | 2017 | 2016 | 2016 | 2017 | 2016 | 2016 |
| | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand |
| Loans from banks (1) | **397,596** | 477,655 | 397,620 | **413,621** | 489,955 | 408,403 |
| Loans from non-bank corporations (1) | **60,151** | 89,833 | 90,394 | **61,417** | 90,544 | 91,728 |
| Loans from interested parties | **10,831** | 11,559 | 10,765 | **10,831** | 11,559 | 10,765 |
| Subordinated promissory notes | **3,000,583** | 2,597,692 | 2,780,623 | **3,266,264** | 2,877,354 | 2,994,599 |
| **Total financial liabilities presented at amortized cost** | **3,469,161** | 3,176,739 | 3,279,402 | **3,752,133** | 3,469,412 | 3,505,495 |

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

### 2. Interest rates used to determine the fair value

| | As at March 31 | | As at December 31 |
|---|---|---|---|
| | 2017 | 2016 | 2016 |
| **In percent** | | | |
| Loans | **2.66%** | 2.61% | 2.81% |
| Subordinated liability notes | **2.12%** | 1.70% | 2.36% |

# Note 6 – Financial instruments (contd.)

## C. Financial liabilities (contd.)

### 3. Financial liabilities measured at fair value hierarchy

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

| | March 31, 2017 (Unaudited) | | |
|---|---|---|---|
| | Level 1 | Level 2 | Total |
| | NIS thousand | NIS thousand | NIS thousand |
| Loans from banks (1) | - | 30,282 | 30,282 |
| Derivatives (2) | 55,429 | 807,101 | 862,530 |
| Short sales (3) | 193,636 | - | 193,636 |
| Total financial liabilities | 249,065 | 837,383 | 1,086,448 |

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

| | December 31, 2016 (Audited) | | |
|---|---|---|---|
| | Level 1 | Level 2 | Total |
| | NIS thousand | NIS thousand | NIS thousand |
| Loans from banks (1) | - | 27,993 | 27,993 |
| Derivatives (2) | 70,239 | 789,738 | 859,977 |
| Short sales (3) | 138,253 | - | 138,253 |
| Total financial liabilities | 208,492 | 817,731 | 1,026,223 |

(3) Harel Financial Products has arbitrage activity which is performed as part of the ETN assets. This activity includes the acquisition of contracts in lieu of the sale of underlying assets as well as the acquisition of underlying assets and the sale of contracts on those assets. The funding for the purchase of the underlying assets comes from bank credit. Harel Financial Products' policy with respect to this arbitrage is to fully hedge the transactions so that there is no exposure to the underlying assets. At March 31, 2017, there is no financial liability for this activity.

(4) 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 588 million as at March 31, 2017, NIS 600 million as at March 31, 2016, and NIS 644 million as at December 31, 2016, are included in the non-yield-dependent liabilities, and the balance is included in the Group’s yield-dependent liabilities. Most of the amount is attributable to management of exposure by means of derivatives to foreign currency and to the CPI. Against these liabilities, the financial institutions deposited collateral in accordance with the conditions prescribed in the contract. The Group’s financial institutions have approved credit facilities for their derivative activity. Furthermore, the Group’s financial institutions deposited NIS 763 million as collateral to cover the liabilities arising from this activity.

(5) As part of an OTC transaction, a subsidiary issued to a third party, in several transactions, non-marketable liability notes that inversely track changes in certain shares. The value of the transaction in terms of underlying asset at March 31, 2017 is NIS 48 million. The transactions are to be completed one year from their execution date. During the course of 2016, a Company subsidiary entered into agreement with a bank to perform several short-sale transactions of Israel government bonds against bank deposits, whereby the subsidiary will deposit NIS 100 million with the bank until the bonds mature. During the Reporting Period, the subsidiary deposited an additional NIS 50 million.

## Note 6 – Financial instruments (contd.)

**C. Financial liabilities (contd.)**

**4. Additional information**

1. Financial covenants

For information relating to the financial covenants in respect of significant loans that the Company took from banks and non-bank companies, see Note 25 to the annual financial statements. As at March, 2017 the Company is in compliance with the financial covenants that were determined.

2. Maalot Rating

On January 15, 2017, Maalot set a rating of 'ilAA-' for the issuance of hybrid tier-2 capital by means of two existing series of bonds, in the total amount of up to NIS 300 million. The Series 9-10 bonds were issued by Harel Insurance, Financing and Issuing Ltd.

3. Expansion of hybrid tier-2 capital (Series 9-10) through Harel Financing & Issuing

On January 18, 2017, Harel Financing & Issuing published a shelf offering based on a shelf prospectus dated February 12, 2014, as amended on December 22, 2014. According to the shelf offering report, Harel Financing & Issuing offered the public up to NIS 150,000,000 par value (Series 9) registered bonds, each of NIS 1 par value, which are traded on the Tel Aviv Stock Exchange ("TASE") by way of an expansion of series, and up to NIS 150,000,000 par value (Series 10) registered bonds, each of NIS 1 par value, which are traded on the TASE by way of an expansion of series.

In total, NIS 125,050,000 par value Series 9 bonds and NIS 125,050,000 par value Series 10 bonds, were issued. The Additional Bonds were issued at a price of NIS 1001.2 for every NIS 1000 par value Series 9-10 bonds and for total consideration (gross) of NIS 250.1 million;

The effective interest rate, after costs of the issuance, of the additional Series 9 liability notes is 2.572% and of the additional Series 10 liability notes is 2.557%.

The Series 9 bonds will be repaid in one payment on December 31, 2028, and the Series 10 Bonds will be repaid in one payment on December 31, 2029, unless before this date the Company exercises its right to perform early redemption of the Series 9-10 bonds. The interest on the Series 9 and 10 bonds will be paid in June and December each year.

For the purpose of this issuance, on January 15, 2017, Maalot published an affirmation of the ilAA- rating for the Series 9-10 bonds.

4. In February 2017, a shelf prospectus of Harel Financing & Issuing was published. By virtue of this shelf prospectus, Harel Financing & Issuing will be able to issue different categories of securities in accordance with the statutory provisions - non-convertible bonds (including by way of an expansion of existing series of non-convertible bonds, as they may be from time to time), and options that can be exercised for bonds of the Company. This shelf prospectus replaced the Company's previous shelf prospectus dated February 14, 2014, as amended on December 22, 2014 and the validity of which was extended on December 31, 2015 until February 11, 2017.

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

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

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

# Note 7 - Contingent liabilities and commitments

## A. Contingent Liabilities

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

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

Among these regulatory changes, in 2011, the Commissioner published a circular concerning data optimization of the rights of members of financial institutions. The circular details the activity framework that a financial institution must carry out to ensure that members' rights are reliably, and fully recorded in the information systems, and that they are available and retrievable. The circular 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 included reference to 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 remain that will continue to be dealt with even after the date scheduled for completion of the project. Furthermore, in accordance with the requirements of the circular, the Company also performs ongoing optimization and preserves the optimization activity conducted as part of the project.

In addition, there is a general exposure due to complaints issued from time to time to the Commissioner of Capital Markets, Insurance and Savings in the Ministry of Finance against institutional bodies in the Group, regarding the rights of insured relating to the insurance policies and/or the law. These complaints are handled on a current basis by the public complaints division within the financial institutions. The decisions of the Capital Market, Insurance and Savings Authority on these complaints, if and to the extent that any decision is made, 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 Capital Market, Insurance and Savings Authority will issue an across-the-board decision on these complaints and/or if class actions will be filed as a result of such processes, and it is impossible to estimate the potential exposure to such complaints. Therefore, no provision for this exposure has been included. Additionally, as part of the policy recently applied by the Capital Market, Insurance and Savings Authority to enhance the controls and audits of financial institutions, from time to time the Authority conducts in-depth audits of a variety of activities of the Group's financial institutions. As a result of these audits, the Ministry of Finance may impose fines and/or financial penalties and it may also order that changes should be made with respect to various operations, both in the past and in the future. Regarding instructions with respect to past activity, the Capital Market, Insurance and Savings Authority might request the restitution of money or a change in conditions vis-à-vis policyholders and/or fund members which may impose financial liabilities on the Company's subsidiaries and/or increase the exposure of the subsidiaries that are insurers to a broader range of insurance events to be covered on account of these instructions, in policies that were issued.

# Note 7 - Contingent liabilities and commitments (contd.)

## A. Contingent Liabilities (contd.)

As part of the audits conducted by the Capital Market, Insurance and Savings Authority, during the Reporting Period several in-depth audits were and are being conducted of the pensions, actuarial practice, life assurance and long-term care, health insurance, the location of members and beneficiaries, customer service, 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 8(2) 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.

For applications to approve actions as class actions under Sections 41, 46, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61 and 62 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. In December 2016, an application was filed for permission to appeal the decision of Tel Aviv District Court. In January 2017, the Supreme Court handed down its ruling stating that the application for permission to appeal the decision to approve the action as a class action would be heard by a panel of judges and that the respondents to the motion for permission to appeal must reply to this motion. In April 2017, the Supreme Court accepted the request for a stay of implementation that was filed by the company and it determined that the hearing would be put on hold until a decision has been made on the application for permission to appeal and on the appeal.
2. In April 2008 an action was filed in the Jerusalem District Labor Court against the subsidiary Harel Insurance and against three other insurance companies (hereinafter together: “the Defendants”), together with an application for its certification as a class action. The subject of the action is the allegation that the Defendants generally credit women policyholders, when they reach the age of retirement, for old managers’ insurance policies that were sold until 2000, with a lower monthly benefit than the benefit received by male insureds with the same data, for the reason that women have a higher life expectancy. In contrast, the Defendants collect the same term (pure life) assurance premiums from the women as they collect from the men, despite the fact that the mortality rate for women, during the risk period, is ostensibly lower. The Plaintiffs argue that this conduct discriminates against female policyholders, in contravention of the statutory provisions. On August 17, 2014, the Jerusalem District Labor Court certified the action as a class action. The group that was certified for the class action consists of women who have or had an insurance policy with the four Defendants, and for whom no distinction was made between the tariff for men and women in the calculation of the risk premium. In December 2014, the Defendants filed an application for permission to appeal this ruling in the Jerusalem National Labor Court. Concurrently, the District Labor Court accepted the Defendants’ application for a stay of proceedings until a decision is made on the application for permission to appeal. In April 2015, the National Labor Court decided to grant the Defendants permission to appeal the decision. As part of a hearing on appeal, the court instructed that the material must be submitted to the Commissioner for his opinion. In December 2016, the Commissioner’s position was submitted to the court, supporting the opinion of the insurance companies whereby the action cannot be heard as a class action since there is no unacceptable discrimination involved.

# Note 7 - Contingent liabilities and commitments (contd.)

**A. Contingent Liabilities (contd.)**

3. In 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 Commissioner's instructions, 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. In May 2017, the Attorney General's position was submitted to the court whereby he does not oppose the compromise settlement. In his position, the Attorney General made several comments

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 Commissioner's opinion was submitted to the court, that the provisions of the policy are binding with respect to the manner of collecting the premium after the death of the insured or in the period following cancellation of the policy, and that the actuarial opinion submitted to the court by the Defendants is insufficient to confirm that the Defendants priced the policy in such a way as provides evidence that they took into account the fact that the premiums would not be returned to the insureds for the period after the death of the insured or after the policy cancellation. On June 23, 2015, the Lod-Central District Court partially certified litigation of the claim as a class action. The court certified the claim against Harel Insurance as a class action, but only with respect to the inclusion of interest and linkage differences at the time of restitution of premiums that were collected in the months after the month in which the insurance contract was cancelled or after the occurrence of the insured event. In September 2016, a compromise settlement was submitted for the court's approval. Accordingly, it was agreed, inter alia, that Harel Insurance will donate 60% of its total refund in relation to the first cause, as defined in the compromise settlement and as per report of the reviewer to be appointed to review the compromise settlement, and 80% of the total refund amount in respect of the second cause, as defined in the compromise settlement and as per the report of the reviewer to be appointed, as noted. Furthermore, the compromise settlement prescribes provisions with respect to future conduct in cases of the cancellation of policies which are the subject of the claim. Validity of the compromise settlement is contingent on the court's approval. In March 2017, the Attorney General submitted his position on the compromise settlement to the government. The opinion includes various comments including, among others, that a reviewer should be appointed to review the compromise settlement before it is approved and he asked to submit a supplementary position after the professional opinion of the reviewer has been received and examined.

## 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 the Capital Market, Insurance and Savings Authority ("the Commissioner"), companies may charge a policy factor under certain conditions; however they also claim that in addition to the Commissioner's authorization, the 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 subtract 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, by an amount to be decided upon by the court.

   Following submission of the reviewer’s expert opinion, on October 18, 2015 the court clarified its original position regarding the compromise settlement that had been given in a previous hearing, whereby it is clearly inclined not to approve the present conditions of the compromise settlement and it recommended that the parties significantly improve the terms of the compromise settlement. In February 2016, the Attorney General submitted his opinion regarding the compromise settlement, whereby he agrees in principle with the conclusions in the reviewer’s opinion relating to the compromise settlement and he left the appropriate compensation under the circumstances to be determined by the court, based on the information available to it.

   Nevertheless, the Attorney General stated that in his opinion, there is some difficulty with the compromise settlement, whereby the Defendants will continue to collect the policy factor in future in a manner that prevents the 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. In May 2017, the Defendants filed an application in the Supreme Court for permission to appeal this decision in which context the compromise settlement was dismissed and the motion to certify the claim as a class action was partially approved.

## 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. In April 2017, the Attorney General’s position was submitted to the court whereby the compromise settlement in its present format cannot be approved and various modifications must be made in it.
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 in the Aviv District Court, together with an application for certification as a class action. The subject of the claim is that Harel ostensibly pays the monthly LTC insurance benefit to customers insured under a group policy of the Israel Teachers Union ("the Policy") according to the CPI known at the beginning of the month, rather than the CPI known at the date of payment. In addition, it is claimed that Harel ostensibly pays the LTC benefit without linking it to the base CPI given in the Policy, but rather to a CPI that was published two months later, and this, ostensibly, in breach of the provisions of the Policy. The plaintiff does not mention the total sum that it claims for all members of the group. The parties are conducting a mediation process.

## Note 7 - Contingent liabilities and commitments (contd.)

### A. Contingent Liabilities (contd.)

9. In May 2013, an action was filed in the Tel Aviv District Court together with an application for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel ostensibly refrains from paying insurance benefits to its policyholders together with linkage differences and interest, from the date of occurrence of the insured event up to the payment date of the insurance benefits. The total loss claimed for all members of the group amounts to sums varying from NIS 168 million to NIS 807 million. The mediation process conducted by the parties was unsuccessful and litigation of the action was returned to the court. On August 30, 2015, the Tel Aviv District Court partially accepted the motion for certification, such that conducting of the claim as a class action was approved with respect to the argument concerning non-payment of interest as required under Section 28(A) of the Insurance Contract Law ("the Law"), and the motion was dismissed insofar as it relates to the argument that Harel Insurance does not link the insurance benefits in accordance with the provisions of Section 28(A) of the Law. The plaintiffs estimate that the overall loss claimed for all members of the group in relation to the Company according to the amended statement of claim amounts to NIS 120 million. In October 2015, an application was filed for permission to appeal the decision to certify the application as a class action. In accordance with the court's recommendation, in August 2016 the Defendants withdrew the application for permission to appeal.
10. 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 - "Details of Insurance Benefits in Health Insurance Plans", and with the purpose, ostensibly, of reducing the amounts of compensation paid to policyholders according to the policies. The overall loss claimed for all members of the group amounts to NIS 35 million. In March 2016, a compromise settlement was submitted for the court's approval. In June 2016, an amended compromise agreement was submitted for the court's approval, consistent with the court's comments. In September 2016, the Attorney General's position was submitted to the court whereby he does not oppose the compromise settlement and leaves approval of the decision in the court's hands. As part of his position, the Attorney General made several remarks relating to the wording of the arrangement. In January 2017, the court appointed a reviewer for the compromise settlement.
11. In October 2013, an action was filed in the Lod District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action is an allegation that Harel Insurance ostensibly refrains from paying compensation to insureds who performed surgery that was fully or partially paid for by their healthcare providers, at a rate of half the amount that it saved from the full cost of the surgery, due to the participation of the health funds. The total loss claimed for all members of the group amounts to NIS 14 million. In March 2016, a compromise settlement was submitted for the court's approval. In June 2016, an amended compromise agreement was submitted for the court's approval, in accordance with the court's comments. In September 2016, the Attorney General's position was submitted to the court whereby he does not oppose the compromise settlement and he leaves approval of the decision in the court's hands. As part of his position, the Attorney General made several remarks relating to the wording of the arrangement. In January 2017, the court appointed a reviewer for the compromise settlement.
12. 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 Agency Ltd. (in its previous name Dikla Insurance Company Ltd. ("Dikla")). The subject of the action is the allegation that Dikla ostensibly pays insurance benefits to insureds in the group health insurance policy "Mushlam for Pensioners" run for pensioners of Clalit Health Services and their families ("the Policy") based on the index known at the beginning of the month, and not according to the index known on the date of payment, in contravention of the provisions of the law ("primary cause"), and that Dikla has allegedly increased the premiums for insureds in the policy without any foundation and ostensibly in contravention of the provisions of the Policy and the law ("secondary cause"). The total loss claimed for all members of the group amounts to NIS 21.5 million (NIS 19 million for the primary cause and NIS 2.5 million for the secondary cause).

## Note 7 - Contingent liabilities and commitments (contd.)

### A. Contingent Liabilities (contd.)

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. 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.
14. 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.
15. In June 2014, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Dikla Insurance Agency Ltd. (in its previous name Dikla Insurance Company Ltd. (“Dikla”)) The subject of the action is the argument that under the provisions of the group long-term care insurance policy for members of Clalit Health Services Supplementary Long-term Care Plus (“the Policy”), Dikla fails to pay insureds who require long-term care insurance benefits for the days in which they were hospitalized in a general or rehabilitation hospital, and that these days are not included in the number of days for calculating the waiting period determined in the policy, and this ostensibly in contravention of the Commissioner’ instructions and the provisions of the law. The Plaintiff estimates the total loss claimed for all members of the Group that it wishes to represent at NIS 35 million. The court passed the motion to accept the Commissioner’s position regarding the disputes that are the subject of the motion for certification of the action as a class action. In January 2016, the Commissioner’s position was submitted which stated that the policy definition of the insured event does not violate the instructions of the Capital Market, Insurance and Savings Authority and that the policy which is the subject of the claim was approved separately by the Capital Market, Insurance and Savings Authority.
16. 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 Commissioner’s position on the questions arising from the application for certification. The Commissioner the court’s questions for the comments of the Supervisor of Banks. On March 23, 2016, the Commissioner’s position 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.)

17. In July 2014, a motion for certification of a claim as a class action was filed in the Central Region Lod District Court against Harel Pension Fund Management Ltd. and against four other pension fund management companies (hereinafter together: “the Defendants”). The subject of the action is the allegation that the Defendants raise the management fees paid by pension fund members from the cumulative savings (accrued balance) to the maximum rate permitted by law on the date on which the members become pensioners, receive their old-age pension and they are no longer able to move their pension savings. In this way, the Defendants ostensibly apply the contractual right to which they are entitled under the provisions of the pension fund articles, in an unacceptable manner, in bad faith and contrary to the provisions of the law. According to the Plaintiffs, the total loss claimed for all members of the group that the Plaintiffs wish to represent, amounts to NIS 48 million against all the Defendants. The court passed the application to the Commissioner for his opinion on the questions arising from the motion for certification.
18. In November 2014, a motion for certification of a claim as a class action was filed against the subsidiary Harel Insurance and Standard Insurance Ltd. and against other insurance companies and insurance agencies (together: “the Defendants”) in the Central District Court in Lod. The subject of the action is the allegation that when the holders of Isracard and CAL credit cards call the sales call centers run by the Defendants in order to activate an overseas travel insurance policy that they are entitled to receive free of charge (“the Basic Policy”), the Defendants ostensibly then sell these customers riders or extensions to the Basic Policy, in practice selling them complete, standard policies that provide cover from the first shekel and include coverages that overlap the cover included in the Basic Policy. This, at full cost and without deducting the value of the Basic Policy. The Plaintiffs argue that the Respondents are therefore misleading the insureds, in breach of the disclosure obligations, operating in contravention of the law and practicing unjust enrichment. According to the action, the total loss claimed for all members of the Group that the Plaintiffs wish to represent is estimated at NIS 270 million. The parties are conducting a mediation process.
19. 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.
20. 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 a motion 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. In its ruling handed down on February 20, 2017, the Lod-Central District Court instructed that the action against Harel Insurance and the four other insurance companies should be struck out. In May 2017, the Plaintiffs filed an appeal in the Supreme Court against the ruling of the District Court.

# Note 7 - Contingent liabilities and commitments (contd.)

## A. Contingent Liabilities (contd.)

21. 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.
22. In August 2015, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Dikla Insurance Agency Ltd. (in its previous name Dikla Insurance Company Ltd. ("Dikla")). The subject of the action is the claim that when settling claims in long-term care, Dikla ostensibly separates the activities of daily living for different parts of the body for the purpose of investigating whether the insured event has occurred, by performing a literal, quantitative review of the insured's ability to perform each of the ADLs. This in a manner that renders the content of the Commissioner's meaningless, whereby their assessment is purely quantitative and contrary to the Commissioner's position on this matter from January 2015. The plaintiffs argue that Dikla is therefore in breach of the provisions of the insurance policy, that it provides a misleading description of the insurance transaction, practices unjust enrichment and is in breach of a statutory obligation. The personal loss claimed by the Plaintiff is estimated at NIS 59,000 while the total loss claimed for all members of the Group that the Plaintiff wishes to represent is estimated at NIS 75.6 million.
23. In September 2015, an action was filed in the Central District Court together with an application for its certification as a class action against the subsidiaries Harel Insurance and Dikla Insurance Agency Ltd. (in its previous name Dikla Insurance Company Ltd. ("Dikla")) and against three other insurance companies (henceforth together: "the Defendants"). The subject of the action is the allegation that the Defendants allegedly adopted an interpretive approach whereby in order to recognize an insured in the investigation of a claim for long-term care as one who suffers from incontinence, this condition must be the outcome of a urological or gastroenterological illness or ailment only. This, ostensibly, in contravention of the provisions of the insurance policy. The Plaintiffs have not quantified the loss claimed for all members of the group they wish to represent, but they estimate it to be hundreds of millions of shekels.
24. 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.
25. In September 2015, an action was filed in the Central District Court together with an application for its certification as a class action against the subsidiaries Harel Insurance and Dikla Insurance Agency Ltd. (in its previous name Dikla Insurance Company Ltd. ("Dikla") and against 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.)**

26. In September 2015, an action was filed against the subsidiary Harel Insurance in the Tel Aviv District Court, together with an application for its certification as a class action. The subject of the action is the argument that Harel Insurance compensates insureds who have had surgery in a public hospital by an amount equal to only 25% of the fee for a surgeon who has an agreement with Harel Insurance, whereas according to the policy conditions it must compensate them by an amount equal to 50% of the agreement surgeon's fee for the relevant operation. The Plaintiff argues that Harel Insurance is therefore in breach of the provisions of the policy, acts negligently, in bad faith and misleads the insureds, and is in breach of the provisions of the Supervision of Financial Services (Insurance) Law, 1981. The Plaintiff estimates the loss for all members of the group it seeks to represent in the amount of NIS 13.1 million.
27. 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 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 December 2016, the court appointed 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.
28. In November 2015, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Dikla Insurance Agency Ltd. (in its previous name Dikla Insurance Company Ltd. ("Dikla"))and against Clalit Health Services ("Clalit") (hereinafter together: "the Defendants"). The subject of the action is the group long-term care insurance policy for members of Clalit Health Services - Supplementary Plus LTC ("the Policy"). The Plaintiff argues that where rights are transferred from one period of entitlement ("the First Entitlement Period") to another entitlement period, in which the insured is eligible for insurance that are less than the benefits in the First Entitlement Period ("the Second Entitlement Period"), and when the transition between the entitlement periods occurs after the first day of a calendar month, insurance benefits are paid according to the reduced amount, for the entire month in which the transfer took place. 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. In November 2016, the plaintiff filed an application for a partial ruling on the motion for certification. In March 2017, the court dismissed the plaintiff's application for a partial ruling on the motion for certification.

# Note 7 - Contingent liabilities and commitments (contd.)

## A. Contingent Liabilities (contd.)

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 Harel Insurance and against an additional insurance company (hereinafter together: “the Defendants”). The subject of the action is the allegation that the Defendants allegedly arbitrarily deduct various amounts from the loss amounts claimed by third parties for the insured’s negligence. This, ostensibly, with the general reason of “contributory negligence” by the third party without explanation, as required in the provisions of the law. The Plaintiffs argue that the Defendants are therefore in breach of the statutory provisions, including the Commissioner’s circulars, they are in breach of a statutory obligation, act in bad faith and practice unjust enrichment. The Plaintiffs estimate the loss caused to all members of the group they wish to represent to be more than NIS 3 million for each of the Defendants.
30. 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.
31. 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.
32. 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.
33. In February 2016, an action was filed in the Lod-Central District Court, together with a motion for its certification as a class action, against the subsidiary Harel. The subject of the action is the allegation that the position of Harel Insurance is that comprehensive insurance for vehicles such as taxis does not cover impairment, including impairment caused as a result of an insured event, this ostensibly in contravention of the policy provisions and that Harel Insurance is therefore in breach of the agreement between itself and its policyholders, it practices unjust enrichment and is in breach of the enhanced obligations that apply to it as an insurance company, including that it misleads its customers. The Plaintiff estimates the amount of the loss caused to all members of the group it seeks to represent in the amount of NIS 10 million. In March 2017, the court approved the plaintiff’s application to amend the definition of the group so as to include insureds who had purchased a policy for a heavy-goods or commercial vehicle weighing more than 3.5 tons (including taxis) and not only insureds who had purchased policies for taxis.

# Note 7 - Contingent liabilities and commitments (contd.)

## A. Contingent Liabilities (contd.)

34. In February 2016, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against Harel Pension Funds Management Ltd. ("Harel Pension"). The subject of the action is the allegation that Harel Pension ostensibly collects money from its members, who make lump-sum deposits in the pension fund, in respect of insurance for disability risks and insurance for death for a period that has already passed on the collection date in the knowledge that the risk for which the money is collected has not and will not materialize. The Plaintiff argues that in this manner, Harel Pension is in breach of the provisions of the Insurance Contact Law, 1981, the provisions of the Supervision of Financial Services (Insurance) Law, 1981, the voluntary disclosure obligation and the Contracts (General Section) Law, 1973, and that according to the Plaintiff, it practices unjust enrichment and exploits the inexperience of its members. The personal loss claimed by the Plaintiff is estimated at NIS 826 while the total loss claimed for all members of the Group that the Plaintiff wishes to represent is estimated at NIS 5.58 million. In March 2017, the court instructed that the hearing should be transferred to the Regional Labor Court.

35. In March 2016, an action was filed in the Tel Aviv District Labor Court against Standard Insurance Ltd. ("Standard"), together with a motion for its certification as a class action ("Application for Approval"). The subject of the action is the argument that Standard allegedly neglected to provide its employees with the rights prescribed in the Extension Order in the import, export and wholesale trade industry ("Extension Order in the Import Industry"), but did so only in accordance with the extension orders and general laws that apply to all workers in the economy, including that it deposited payments for them in a pension in accordance with the general extension order in the economy relating to pensions ("General Extension Order") and not in accordance with the Extension Order in the Import Industry, that it did not pay them vacation differences and payments for the holidays and elective days by virtue of the Extension Order in the Import Industry, and that it did not deposit payments for them in a pension for the holidays, vacation and sick-pay component in accordance with the Extension Order in the Import Industry. This, according to the Plaintiff, in breach of 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.

36. In March 2016, an action was filed in the Central Region District Court against the Company, together with a motion for its certification as a class action against the subsidiary Harel Insurance ("Harel Insurance"). The subject of the action is the allegation that Harel Insurance allegedly pays money to the beneficiaries of life assurance policyholders by virtue of the life assurance policies, where the money is linked to the CPI from the date on which the Company becomes aware of the insured's death and the money is not linked to the relevant investment index for the investment track chosen by the insured. The Plaintiff argues that Harel Insurance is therefore in breach of the agreement between the Company and its policyholders, practices unjust enrichment, is in breach of a statutory obligation and in breach of the obligation to provide disclosure. The personal loss claimed by the Plaintiff is estimated at NIS 33,729 thousand. The Plaintiff has not quantified the total loss claimed for all members of the group that she wishes to represent, although she estimates it to be tens of millions of shekels. In February 2017, the court passed the motion to accept the Commissioner' position on the questions arising from the motion for certification. In May 2017, the Commissioner submitted his position whereby monies in pension savings that are payable to beneficiaries as a result of death during the work period are not insurance benefits and are not covered by Section 28 of the Insurance Contracts Law, and that from now on Harel Insurance must also link the savings to the investment index in the period after the insured's death and until the money is transferred to the beneficiaries. The Commissioner also noted that in his opinion, in this case, unjust enrichment does not apply.

37. 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. The parties are conducting a mediation process.

## Note 7 - Contingent liabilities and commitments (contd.)

### A. Contingent Liabilities (contd.)

38. 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. In March 2017, the parties filed an application in the court to approve a compromise settlement in which context it was agreed, in accordance with a report prepared by a reviewer to be appointed to examine the compromise settlement, inter alia, that Harel Insurance will contribute 70% of the total linkage differences for the first period as they are defined in the compromise settlement, and 100% of the linkage differences for the second period, as they are defined in the compromise settlement. The validity of the compromise settlement is contingent on the court's approval.
39. 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.
40. 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 Commissioner' instructions, 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.
41. In June 2016, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance, against the Commissioner of the Capital Market, Insurance and Savings Authority ("Commissioner of the Capital Market") and against two other insurance companies (hereinafter together: "the Defendants"). The subject of the action is the allegation that the group long-term care policies sold by the Defendants, which include a condition allowing them to be terminated unilaterally, were ostensibly a flawed product that the Defendants knew or should have known were flawed, and that as a result of the cancellation of these policies, the insureds have been left without long-term care insurance. The Plaintiffs therefore argue that the Defendants are ostensibly in breach of statutory provisions, acted in bad faith, misled their insureds, were in breach of the duty of disclosure to consumers and in breach of the duty of caution. The Plaintiffs further argue that the Commissioner of the Capital Market allowed the Defendants to sell these policies and refrained from cancelling them, thus acting negligently and without performing his duties. The Plaintiffs estimate the total loss caused to all members of the group they wish to represent at approximately NIS 7 billion.

## Note 7 - Contingent liabilities and commitments (contd.)

### A. Contingent Liabilities (contd.)

42. 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.
43. In September 2016, an action was filed in the Central Region District Court together with a motion for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly collects payment from the holders of the Harel savings policy "Harel Varied Personal Investments" for a component relating to investment management expenses which may be collected by law, but without contractual agreement in the policy conditions allowing it to collect this component. According to the Plaintiff, Harel Insurance is therefore fundamentally in breach of the policy provisions, in breach of the fiduciary obligation applicable to it and misleads its policyholders. The Plaintiff estimates the overall loss caused to all members of the group it seeks to represent in the amount of NIS 27.8 million.
44. In September 2016, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action, against the consolidated subsidiary Harel Insurance Company Ltd. and against three other insurance companies (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants ostensibly collect high premiums from the insureds for health insurance policies that include cover that the insureds ostensibly do not need as they have supplementary health insurance from the HMOs to which they belong. The Plaintiffs also argue that the Defendants do not disclose to the insureds that this cover is in fact superfluous and/or they make one type of service conditional on another as they do not allow the insureds to purchase a limited version of the policy which includes only coverage that is not included in the HMO supplementary health insurance, thus creating a situation of double insurance. The Plaintiffs argue that the Defendants are therefore in breach of the duty of utmost good faith which applies to them, are in breach of a statutory obligation, in breach of the provisions of the law, in breach of an agreement, mislead their policyholders and practice unjust enrichment. The Plaintiffs estimate that the total loss claimed for all members of the Group that they wish to represent against Harel Insurance amounts to NIS 2.2 billion, and NIS 4.45 billion against all the Defendants.
45. In September 2016, an action was filed in the Lod-Central District Court, together with a motion for its certification as a class action, against the consolidated subsidiary Harel Insurance Company Ltd. The subject of the action is the allegation that Harel Insurance ostensibly fails to disclose on its website complete and accurate information about the maximum amounts of indemnification to which health insurance policyholders are entitled for surgery-related expenses which are covered in the health insurance policies that it sells. This, according to the Plaintiff, with the purpose of reducing the amounts of indemnification owed to its insureds. The Plaintiff argues that Harel is therefore in breach of contract, in breach of the Commissioner's instructions, it refrains from providing proper disclosure of the amounts of indemnity to which insureds are entitled and acts fraudulently. The Plaintiff estimates the total loss claimed by all members of the group it wishes to represent to be at least NIS 20 million.

# Note 7 - Contingent liabilities and commitments (contd.)

## A. Contingent Liabilities (contd.)

46. In October 2016, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action against the consolidated subsidiary Harel Insurance Company Ltd. The subject of the action is the allegation that until the annual report for 2015, Harel Insurance ostensibly neglected to disclose to its policyholders, who purchased long-term care insurance with a variable premium, what premium they will be charged from the age of 65, despite the fact that, according to the Plaintiff, the premium on this policy increases by hundreds of percent at the age of 65. The Plaintiff argues that Harel Insurance is therefore in breach of a statutory obligation and in breach of the obligation to provide disclosure, in breach of agreement, acts in bad faith, practices unjust enrichment and acts negligently. The Plaintiff further argues that charging insureds for future premiums based on tariffs that are unknown to them is a discriminatory condition in a standard contract. The Plaintiff has not quantified the total loss claimed for all members of the group that she wishes to represent against Harel Insurance, although she estimates it to be millions of shekels.

47. In October 2016, an action was filed in the Central District Court, together with a motion for its certification as a class action, against the 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.

48. In October 2016, an action was filed in the Jerusalem District Labor Court together with a motion for its certification as a class action against the second-tier subsidiary, Tzva Hakeva (Regular Army) Saving Fund – Provident Funds Management Company Ltd. ("Tzva Hakeva"). The subject of the action is the allegation that Tzva Hakeva ostensibly collects investment management expenses from fund members which is permissible by law, but without contractual agreement in the policy conditions allowing it to collect these expenses. The Plaintiff argues that Tzva Hakeva therefore acts in contravention of the provisions of law and the special fiduciary obligation that applies to it. The Plaintiff estimates the overall loss caused to all members of the group it seeks to represent in the amount of NIS 30.1 million. In February 2017, a motion for a stay of proceedings was filed on account of pending proceedings that were underway due to the fact that motions to certify class actions on the same subject are pending before the Central District Court.

49. In November 2016, an amended application was produced for the Company for certification of an action as a class action against the consolidated subsidiary Harel Insurance, against Clal Insurance Company Ltd. ("Clal Insurance"), and against Amitim's Nativ Pension Fund (South and Center) ("Nativ Pension Association"). The amended application was filed in the Central District Court as part of an application to certify an action as a class action, which was first filed against Clal Insurance and Nativ Pension Association in May 2015. The subject of the action is the allegation that Clal Insurance unilaterally and unlawfully cancelled the group life assurance policy for pensioners who are members of the Nativ Pension Fund (South and Central), on the grounds that the policy is not profitable. According to the Plaintiff, the inclusion of Harel Insurance in the application for certification 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.

## Note 7 - Contingent liabilities and commitments (contd.)

### A. Contingent Liabilities (contd.)

50. In November 2016, an action was filed in the Central District Court, together with a motion for its certification as a class action, against the consolidated subsidiary 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.
51. In November 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. The subject of the action is the allegation that Harel Insurance ostensibly collects from insureds, who were categorized as smokers when they purchased life (term) assurance and stopped smoking more than two years ago, a premium surcharge and that it does not inform them of their right to a significant reduction of the premiums for having stopped smoking more than two years earlier. The Plaintiff argues that Harel Insurance is therefore in breach of the Contracts (Insurance) Law, 1981 and the policy conditions. The personal loss claimed by the Plaintiff is NIS 800 and he mentions that he is unable to estimate the overall loss claimed for all members of the group that he seeks to represent.
52. In December 2016, an action was filed in the Central Region District Court, together with an application for its certification as a class action, against the second-tier subsidiary Harel Pension and Provident Ltd. The subject of the action is the allegation that Harel Pension and Provident ostensibly increases the management fees collected from its members in the comprehensive pension fund without giving them due notice, and that when their money is deposited in the general pension fund due to cumulative deposits in the comprehensive fund that exceed the limit prescribed by law, it allegedly collects management fees from them at a rate that is higher than the management fees paid in the comprehensive pension fund, without informing them of this. The personal loss claimed by the Plaintiff is estimated at NIS 265 and he mentions that he is unable to estimate the overall loss claimed for all members of the group that he seeks to represent.
53. In December 2016, an action was filed against the subsidiary Harel Insurance in the Tel Aviv District Court, together with an application for its certification as a class action. The subject of the action is the allegation that Harel Insurance ostensibly unlawfully reduces payment of the premiums for insureds in accidental disability policies for insured events relating to disability of the limbs, eyes and ears, based on a table of disability rates that is set out in the policy, which is different from the table of disabilities in the National Insurance Institute Regulations and based on an adjustment formula set out in the policy. The personal loss claimed by the Plaintiff is NIS 12,500 and he estimates the overall loss claimed for all members of the group that he seeks to represent at NIS 100 million.

**Actions filed in the Reporting Period**

54. In January 2017, 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. The subject of the action is the allegation that Harel Insurance does not disclose (itself or through the insurance agents acting on its behalf) to its motor insurance policyholders, who are about to move up into another age or driving experience bracket during the policy period, that they are able to update the age of the driver or the number of years of driving experience and receive a premium refund. As a result these policyholders are overpaying their premiums due to the fact that the premium was not revised during the policy period following the change of age or years of driving experience. The Plaintiffs estimate the loss caused to the members of the group they wish to represent to be at least NIS 12.25 million.

## Note 7 - Contingent liabilities and commitments (contd.)

### A. Contingent Liabilities (contd.)

**Actions filed in the Reporting Period (contd.)**

55. In January 2017, an action was filed in the Tel Aviv District Labor Court, together with an application for its certification as a class action, against the subsidiary Dikla Insurance Agency Ltd. ("Dikla"). The subject of the action is the allegation that Dikla ostensibly deposited for its employees, pension payments in accordance with the general extension order in the economy relating to pensions ("the General Extension Order") and not in accordance with the Extension Order in the import, export and retail trade sector ("Extension Order in the Import Industry"), despite its alleged obligation to follow the provisions of the Extension Order in the Import Industry. The Plaintiff estimates the total loss claimed for all members of the group that it wishes to represent amounts to NIS 1.4 million.
56. In February 2017, an action was filed in the Tel Aviv District Court together with an application for its certification as a class action against the second-tier subsidiary Harel Pension and Provident Ltd. and against the subsidiary Harel Insurance (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants collect various payments for setting up and/or handling loans and this, ostensibly, contrary to the statutory provisions, without legal authorization and in contravention of the regulator's position. The Plaintiff estimates the loss caused to the group members that it wishes to represent at NIS 5.9 million.
57. In February 2017, an action was filed in the Tel Aviv District Court ("the Economic Department") together with an application for its certification as a class action against the second-tier subsidiary Harel Pension and Provident Ltd. and against another management company (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants collect various payments for handling loans from their members who take loans, and this, ostensibly, contrary to the statutory provisions and contrary to the position of the Commissioner of the Capital Market, Insurance and Savings. The Plaintiffs estimate the loss caused to the members of the group they wish to represent at NIS 44.75 million. In its decision from April 2017, the court ruled that the Economic Department does not have the relevant jurisdiction to hear the motions for certification and that the action will be heard as a civil proceeding.
58. In March 2017, an action was filed in the Jerusalem District Labor Court, together with a motion for its certification as a class action, against the second-tier subsidiary Harel Pension and Provident Ltd. (Harel Pension & Provident). The subject of the action is the allegation that until the end of 2015, Harel Pension ostensibly collected from members of Harel Otzma Taoz Provident Fund, investment management expenses which is permissible by law, but without contractual agreement in the policy conditions that allow it to collect these expenses. The Plaintiff estimates the total loss caused to all members of the group it wishes to represent in the amount of NIS 127.1 million.

**Claims filed after the Reporting Period**

59. In April 2017, an action was filed in the Jerusalem District Labor Court together with a motion for its certification as a class action against the subsidiary Harel Insurance and against Harel Pension and Provident Ltd. (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants collect premiums for life assurance policies from their deceased members and insureds after their death, and this in contravention of the Contract (Insurance) Law. The Plaintiffs estimate the loss caused to the members of the group they wish to represent for the period for which they wish to conduct the action at NIS 14 million, plus linkage differences and special interest.

## Note 7 - Contingent liabilities and commitments (contd.)

### A. Contingent Liabilities (contd.)

**Claims filed after the Reporting Period (contd.)**

60. In April 2017, an action was filed in the Central District Court together with a motion for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that when insureds change their cars, Harel Insurance ostensibly credits premiums from its motor property policyholders that are lower than the amounts to which they are supposedly entitled under the provisions of the standard, statutory insurance policy. The personal loss claimed by the Plaintiff is estimated at NIS 1,265 and he mentions that he is unable to estimate the loss caused to all members of the group that he seeks to represent.
61. In May 2017, a claim was filed in the Central Region District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance and two other insurance companies (hereinafter together: “the Defendants”). The subject of the action is the allegation that in the insurance policies marketed by the Defendants as part of a tender for motor insurance for State employees, issued by the Ministry of Finance Accountant General, the Defendants ostensibly ignore the insureds’ insurance history for the purpose of calculating the compulsory motor premiums, and that the insurance premiums paid by the group’s members therefore include a higher risk that is irrelevant to the group’s members. The insurance premiums set for these insureds are therefore higher than the amount they should have paid in light of their insurance history. The Plaintiffs estimate the loss caused to all members of the group they wish to represent at NIS 155 million.
62. In May 2017, 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 is the allegation that Harel Insurance ostensibly rejects claims that are filed against it in group dental insurance policies for periodic diagnosis examinations on the grounds that they are not included in the insurance conditions, despite the fact that in practice these examinations are apparently included in the policy. The Plaintiff estimates the loss caused to all members of the group it seeks to represent in the amount of NIS 42.8 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 | 34 | 4,591,547 |
| Claim relates to several companies and no specific amount was attributed to the Company and/ or subsidiaries | 9 | 10,847,000 |
| Claim amount is not specified | 12 | |
| **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 87 million (at December 31, 2016, an amount of NIS 75 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. In relation to the personal claim, on January 3, 2017, the court-appointed expert submitted a partial opinion on the subject of royalties and on the subject of directors’ fees. Following the expert’s decision on these matters, an amount of NIS 322,356 was paid to the Plaintiffs. The expert has not yet completed his opinion on the subject of the commissions where the parties have agreed that he will also address this matter. 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 hearing on the derivative claim was also delayed by the Supreme Court until the aforementioned scheduled date.

## 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 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 June 2016, a claim was filed in the Central Region Lod District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance ("Harel Insurance") and against SHR Group Ltd. ("Shahar") (hereinafter together: "the Defendants"). The subject of the action was 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. In January 2017, during a hearing before the Lod-Central District Court, the court approved the Plaintiffs' motion to abandon the motion for certification.

2. In August 2016, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance ("Harel Insurance"). The subject of the action was 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.

## Note 7 - Contingent liabilities and commitments (contd.)

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

2. (contd.)

The Plaintiff argues that Harel Insurance therefore misleads its insureds, takes advantage of the consumer's distress, 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 Law (Insurance), 1981, in breach of a statutory obligation, compromises voluntary autonomy, and acts negligently and fraudulently. In February 2017, the court approved the agreed motion for the Plaintiff to abandon the application for certification against Harel Insurance. As part of the motion for abandonment, Harel Insurance undertook to add an option to exercise the insurable extension on its website and to send the relevant insureds information about their entitlement to exercise the insurability in the annual reports sent to customers.

**Claims that were settled after the Reporting Period**

3. In December 2012, an action was filed in the Central District Court together with a motion for its certification as a class action against the subsidiary Harel Insurance and against six other insurance companies (hereinafter together: "the Defendants"). The subject of the action is the allegation that as part of the 2007 Ministry of Transport reform of the vehicle licensing branch, the Transportation Regulations, 1961, were amended, in which context the classification of leisure vehicles/ ATVs and mini-vans ("the vehicles") was changed to private vehicles. The Plaintiffs argue that the Defendants chose to continue to define these vehicles as commercial vehicles, all this ostensibly in contravention of the law. It was further alleged that with respect to vehicles manufactured after the reform entered into force, namely from 2008 onwards, the Defendants changed their practices and these vehicles are insured as private vehicles, so that the Defendants ostensibly create discrimination. The Plaintiffs argue that by classifying the vehicles as commercial vehicles, despite the fact that the Ministry of Transport classifies them as private vehicles (M-1), the Defendants ostensibly collected premiums that are higher than the corresponding premiums for private vehicles. In April 2017, the Central District Court dismissed the motion for certification of the action as a class action.
4. In January 2016, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action was the allegation that 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 the appraiser 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. In March 2017, the parties informed the court that following the court's recommendation, they had agreed to end the proceeding by way of abandoning the motion for certification, in which context a clarification will be added in any future documents issued by Lubit and in future insurance policies that the replacement of parts with new and original parts is contingent on the approval of the assessor for replacing the part. In May 2017, the Tel Aviv District Court approved the Plaintiff's abandonment under the conditions agreed upon by the parties, and it instructed that the motion for certification should be struck out.
5. 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 and against Kagam – Central Pension Fund of Histradrut Employees Ltd., Amitim Pension ("Amitim"), and Israel Shahar (MIA) - Pension Insurance Agency (2010) Ltd., (hereinafter together: "the Defendants"). The subject of the action was 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.

## Note 7 - Contingent liabilities and commitments (contd.)

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

5. (contd.)

The Plaintiff argued 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. In May 2017, the Lod-Central District Court approved the Plaintiffs' notice of abandonment which was given during a hearing in the court, and it instructed that the motion for certification as a class action be struck out.

# Note 8 - Capital requirements and management

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

| | March 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| | Harel Insurance | EMI | Harel Insurance | Dikla |
| | NIS thousand | NIS thousand | NIS thousand | NIS thousand |
| Amount required according to regulations and Commissioner's directives (A) | **5,806,308** | **76,291** | 5,702,567 | 79,652 |
| The present amount calculated in accordance with the Capital Regulations: | | | | |
| Tier-1 capital | | | | |
| Basic Tier-1 capital | **4,299,802** | **417,113** | 4,071,946 | 436,811 |
| Hybrid tier-1 capital | **350,517** | **-** | 350,517 | - |
| Total tier-1 capital | **4,650,319** | **417,113** | 4,422,463 | 436,811 |
| Tier-2 capital | | | | |
| Subordinated tier-2 capital (B) | **114,729** | **-** | 145,145 | - |
| Hybrid tier-2 capital (C) | **2,073,014** | **-** | 1,825,894 | - |
| Total tier-2 capital | **2,187,743** | **-** | 1,971,039 | - |
| Hybrid tier-3 capital | **739,480** | **-** | 741,040 | - |
| | **2,927,223** | **-** | 2,712,079 | - |
| Total present amount calculated in accordance with the Capital Regulations | **7,577,542** | **417,113** | 7,134,542 | 436,811 |
| **Surplus at report date** | **1,771,234** | **340,822** | 1,431,975 | 357,159 |
| **Events after the balance sheet date** | | | | |
| Obsolescence of tier-2 capital | **(24,716)** | **-** | (30,182) | - |
| Issue of hybrid tier-2 capital after balance sheet date | **-** | **-** | 250,100 | - |
| Dividend distribution (for additional information see Note 7) | **-** | **-** | - | (25,000) |
| **Amount retained taking into account events after the balance sheet date*** | **1,746,518** | **340,822** | 1,651,893 | 332,159 |

# Note 8 - Capital requirements and management (contd.)

**A. The amount required includes, inter alia, capital requirements for:**

| | March 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| | Harel Insurance | EMI | Harel Insurance | Dikla |
| The required amount includes, inter alia, capital requirements for: | NIS thousand | NIS thousand | NIS thousand | NIS thousand |
| Activity in non-life insurance | 757,953 | 76,291 | 744,944 | 79,652 |
| Activity in long-term care insurance [LTC] | 357,094 | - | 352,840 | - |
| Capital requirements for yield-guaranteed plans | 39,935 | - | 40,997 | - |
| Investment assets and other assets (D) | 1,422,992 | - | 1,395,557 | - |
| Catastrophe risks in non-life insurance | 86,644 | - | 85,859 | - |
| Operating risks | 316,332 | - | 310,703 | - |
| Deferred acquisition costs in life assurance and insurance against illness and hospitalization | 1,686,164 | - | 1,657,588 | - |
| Investment in consolidated management companies and insurers and in Broadgate | 839,736 | - | 837,109 | - |
| Relief in capital requirements for cost of acquiring provident funds | (193,103) | - | (194,036) | - |
| Extraordinary risks in life assurance (E) | 418,007 | - | 408,834 | - |
| Unrecognized assets as defined in the Capital Regulations (F) | 74,554 | - | 62,172 | - |
| Total amount required under the amended Capital Regulations | 5,806,308 | 76,291 | 5,702,567 | 79,652 |

* 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 94 million and NIS 95 million at March 31, 2017 and December 31, 2016, respectively.

B. Including subordinated promissory notes in the amount of NIS 201,414 thousand that were issued up to December 31, 2006 and constitute subordinated tier-2 capital.

C. On the issuance of bonds, the consideration of which serves as hybrid capital for the Company, see Note 6.

D. On the Commissioner's approval to use an internal credit rating model, see Note 37 G 3 to the annual financial statements.

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. 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 Insurance Agency Ltd., it operates in accordance with an insurance agency license 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 8 – Capital Requirements and Management (contd.)

3. 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.

4. On December 28, 2016, the Joint Investment Trust (Amendment no. 27) (Exchange Traded Funds) Bill, 2016, 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.

5. 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.

6. Subsidiaries that manage mutual funds and investment portfolios are obligated to hold minimum equity in accordance with the directives of the Israel Securities Authority. The companies work continuously to comply with this requirement. At March 31, 2017, the subsidiaries are in compliance with these requirements.

7. On March 20, 2017, the Board of Directors of EMI approved the distribution of a dividend in the amount of NIS 25 million, on the "green track" (distribution which does not require prior approval from the Capital Market, Insurance and Savings Authority, in accordance with the instructions of the Capital Market, Insurance and Savings Authority concerning the distribution of dividends by insurers). The Board of Directors reached its decision after taking into account the financial results of EMI at December 31, 2016; the distributable surplus of EMI at December 31, 2016 was presented, and the capital surpluses and equity requirements of EMI were tested, based on the equity management policy of EMI. The dividend was distributed in kind (through the transfer of securities) on March 29, 2017.

8. To enable Turk Nippon to comply with the capital regulations as an insurer operating in Turkey, on December 26, 2015 the Company’s Board of Directors approved a framework for a capital injection of TRY 10 million (about NIS 13 million) for 2016. On December 5, 2016, TRY 5.8 million of capital was injected (about NIS 6.3 million). On January 25, 2017, the Company’s Board of Directors approved a capital injection facility of TRY 17 million (about NIS 20 million) for 2017. This credit facility was not utilized before the date of publication of the report.

## Note 8 – Capital Requirements and Management (contd.)

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

On April 21, 2016, the Capital Market, Insurance and Savings Authority 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 Capital Market, Insurance and Savings Authority 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.

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.

On February 7, 2017, the Capital Market, Insurance and Savings Authority published a revised version of the provisions for implementation of a new solvency regime based on the European directive known as Solvency II, with adjustments for Israel (“the Revised Provisions”). The revised provisions were approved by the Knesset Finance Committee on May 22, 2017 (subject to a possible further discussion by the Finance Committee) with the transition period for satisfying the equity required for solvency extended by a further three years, namely the transition period will end on December 31, 2024, instead of December 31, 2021. The revised provisions include the following three appendices:: (a) provisions relating to an economic balance; (b) provisions relating to the equity of insurance companies; and (c) provisions relating to a solvency capital requirement (SCR) and to a minimum capital requirement (MCR). According to the Revised Provisions, insurance companies must maintain an economic solvency regime, without derogating from their obligation to satisfy the provisions of the Supervision of Financial Services (Insurance) (Minimum Capital Required of Insurers), Regulations, 1998, and the subsequent Commissioner’s instructions that were issued. This is until confirmation is obtained from the Commissioner that the Company has performed an audit of the implementation of the Solvency II directive according to these provisions in the annual financial statements. According to the Revised Provisions, the solvency regime based on Solvency II will become applicable on June 30, 2017.

In view of the extended transition period, on the commencement date, June 30, 2017, the capital required to ensure the solvency of insurance companies must not be less than 60% of the SCR and it will increase gradually until it meets 100% of the SCR on December 31, 2024. The Capital Market, Insurance and Savings Authority has yet to publish the revised scale for SCR compliance for the longer transition period.

The Revised Provisions also include three key changes in the calculation which relate to: (1) an increase in the real future rate of interest inherent in the long term (UFR - Ultimate Forward Rate); (2) determination of the negative correlation between the longevity sub-component and the risk of cancellations sub-component; and (3) an update of the table of factors in the marginal risk sub-component for domestic ratings.

The overall impact of these changes, to the extent that they enter into force, is a significant increase in the capital surplus relative to the capital surplus included in the exercise submitted to the Capital Market, Insurance and Savings Authority for December 2015.

## Note 8 - Capital requirements and management (contd.)

10. 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 - 'the supplement to 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 - “the supplement to 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% |

    Furthermore, among the documents listed in the letter, 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 discussions between the insurance companies and Capital Market, Insurance and Savings Authority (“the Authority”) also addressed the issue of the regulatory restriction on dividend distributions by insurers. During these discussions, it was announced that the Authority is considering relief on these restrictions so that dividend distributions will be contingent on satisfying a solvency ratio of 100% under the new economic solvency ratio regime, without applying the transition provisions to the capital requirements in respect of shares and without rescheduling, instead of the restrictions included in section (b) of the Letter published on this matter, and on satisfying the capital surplus to be determined by the insurance company’s board of directors. The Authority has not yet published an amended Letter on this matter and at this stage it is impossible to estimate when and whether it will do so.

    According to the above-mentioned revised version published on February 7, 2017, and insofar as this version is accepted, the Company’s capital surpluses and solvency are expected to improve significantly.

## Note 9 – Material events in the Reporting Period

1. 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, 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 granted permission to run the long-term care plan until June 30, 2017. The Company believes that the policy will be extended beyond Jund 30, 2017, probably through December 31, 2018.

2. Termination of an agreement to provide operating services by Harel Pension Funds Management

   In February 2017, the agreement for operating services between Harel Pension Funds Management Services and Nativ Pension Fund of the Histadrut Industries Workers and Employees Ltd. (“Nativ”) came to an end. Under the agreement Nativ had received the operating services in consideration of management fees of NIS 10 million per year. From that date, Harel Management Services will not be entitled to these management fees.

3. Dividend distribution by Harel Investments

   On March 22, 2017, 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 passed the decision after taking into account the Company's financial results for 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 April 9, 2017.

4. On the distribution of a dividend by EMI, see Note 8.
5. Replacement of senior officers

   A. Termination of service of Mr. Ronen Agassi

   On January 12, 2017, Mr. Ronen Agassi, who served as the Company’s CEO and CFO, as well as head of the Finance and Resources Division of the subsidiary Harel Insurance, informed the Company that he wished to step down from his positions in the Group in order to embark on new management challenges. Mr. Agassi stepped on April 15, 2017.

   B. Appointment of Michel Siboni as CEO

   Mr. Michel Siboni, who is currently CEO of Harel Insurance, the key company in Harel Group, was appointed as CEO of Harel Investments to replace Ronen Agassi, in addition to his position as CEO of Harel Insurance.

   It is worth noting that Mr. Siboni has been CEO of Harel Insurance since 2009 and he also served as co-CEO of Harel Investments (in addition to his position as CEO of Harel Insurance) from 2011 until the end of 2015, when he decided to concentrate on his principal role as CEO of Harel Insurance. He also directed a strategic change within the Group as a result of which he stopped serving as CEO of the Company and Mr. Agassi was appointed as Company CEO to replace him (in addition to Mr. Agassi’s other positions in the Group). Now, a year later, and in view of Mr. Agassi’s announcement that he will be resigning as Company CEO (and from his other positions in the Company and in Harel Insurance), Mr. Siboni has agreed, once again, to undertake the position of Company CEO, and this for no additional remuneration for this position.[1]

[1] Accordingly, Mr. Siboni’s compensation will not change if for any reason, he steps down as Company CEO and continues to serves as CEO of Harel Insurance.

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

C. Appointment of Mr. Arik Peretz as CFO of Harel Investments and head of the Finance & Resources Division of Harel Insurance

Mr. Arik Peretz. was appointed as CFO of the Company and head of the Finance & Resources Division of Harel Insurance. For the past three years, Mr. Peretz was deputy CFO and VP of Staff at Meitav Dash Group, and he held a strategic and senior position in this group. Previously, he was a senior VP at Psagot, and before that he was Senior Deputy Commissioner of Insurance and Capital Markets in the Ministry of Finance.

These appointments entered into force when Mr. Agassi stepped down, as noted in subsection A above.

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

Due to an increase in the risk-free interest used to review the adequacy of the reserves, Harel Insurance increased the insurance liabilities in the life assurance and long-term savings segment by NIS 46 million before tax, and NIS 30 million after tax in the three-month period ended March 31, 2017, thus increasing profit and comprehensive income by the aforesaid amounts. In the corresponding period last year, due to the decrease in the risk-free interest rate, Harel Insurance increased the insurance liabilities in the life assurance and long-term savings segment by NIS 54 million before tax, and NIS 35 million after tax in the three-month period ended March 31, 2016, thus reducing profit and comprehensive income by the aforesaid amounts. The effect on the financial results is set out below:

| | For three months ended March 31, | | For year ended December 31, |
|---|---|---|---|
| NIS thousand | 2017 | 2016 | 2016 |
| Increase (decrease) as a result of due diligence of the reserves | (46,188) | 53,997 | 93,230 |
| Total life assurance | (46,188) | 53,997 | 93,230 |
| Total effect of interest before tax | **(46,188)** | **53,997** | **93,230** |
| Change in percentage of annuity TUR | - | - | 69,651 |

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

In March 2017, after approval by the compensation committees of the Group’s financial institutions, the boards of directors of the Group’s financial institutions approved insignificant updates to the compensation policy of the Group’s financial institutions, including the need for special reasons if the annual wage of a key functionary is raised by more than 10% in real terms.

8. Change of senior officers in the subsidiaries

On March 1, 2017, Mr. Tal Kedem began to serve as CEO of Harel Finance.

9. Definition of a negligible transaction

On March 15, 2017 and March 22, 2017, 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 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.

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

9. Definition of a negligible transaction (contd.)

   (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.

10. Bonus for 2016 for other senior officers.

    On March 13, 2017, approval of the bonuses for officers of the Company and officers who were included in the compensation plan was submitted for the approval of the Board of Directors of the Company. The bonuses were calculated on the basis of actual data and based on estimates relating mainly to comparison figures for the results of the operations of other insurance companies included in the comparison group as well as to calculations that the Company did not have in its possession at the time of the calculation. The final calculation of the bonuses will be made by the end of June 2017.

11. D&O liability insurance

    The Directors and Officers (D&O) liability policy applies to incumbent senior officers of the Company and its subsidiaries and officers who may serve the Company and/or the subsidiaries from time to time (including senior officers who are deemed controlling shareholders or their relatives, as well as senior officers where the controlling shareholder in the Company may be deemed to have a personal interest in granting them the letters of indemnity).

    In accordance with the provisions of the Company's compensation policy, the Compensation Committee and Board of Directors approved the renewal of a D&O liability insurance policy commencing October 1, 2016 for one year, so that the sum insured will be USD 180 million and the premium will not exceed USD 1 million. On March 13, 2017, the compensation committee approved the purchase of an additional layer of D&O liability insurance in the amount of USD 20 million over and above the existing, approved sum insured (so that the total sum insured is USD 200 million). The premium, including the additional layer, is not more than USD 1 million.

12. Repayment of a capital note from a subsidiary

    On March 15, 2017, Harel Finance, a wholly owned subsidiary of the Company, repaid a capital note in the amount of NIS 3 million. This repayment was made from Harel Finance's independent sources.

13. Annual General Meeting

    On March 28, 2017, an annual general meeting of the Company was held, with the following items on the agenda: (1) discussion of the Periodic Report for 2016; (2) appointment of external auditors for 2017 and appointing the Company's Board of Directors to determine their fee; (3) reappointment of directors serving the Company, who are not external directors, for a further term of office (Yair Hamburger, Gideon Hamburger, Yoav Manor, Doron Cohen and Yosef Ciechanover); (4) appointment of Ms. Hava Friedman Shapira for a second term as an external director; (5) appointment of Mr. Udi Nissan as an external director in the Company. The general meeting approved all the items on the agenda.

14. On January 17, 2017, the general meeting of the Company approved the appointment of Ben Hamburger as a Company director, and it also approved his terms of office. Ben Hamburger is not entitled to compensation for serving as a director in the Company, but he is entitled to a refund of expenses from the Company for his participation in board meetings, from his residence in London to Israel, and this by an amount that does not exceed the annual compensation and compensation for participation by an amounts equal to the maximum amount, as specified in the Fourth Annex to the Companies (Rules Concerning Compensation and Expenses for an External Director) Regulations, 2000.

15. Mr. David Granot stepped down as an external director in the Company in March 2017, following his announcement to the Company that due to the fact that the final date after which he will no longer be able to serve as an external director of the Company is approaching, he will be appointed as a director in other companies.

16. On the publication of a shelf prospectus of Harel Financing & Issuing, see Note 6.

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

17. On the publication by the Commissioner of a revised version of the provisions for implementation of a solvency regime, see Note 8.
18. On the expansion of Series 9 and 10 liability notes in the Reporting Period, see Note 6.
19. On obtaining Tax Authority approval for the merger of Harel Pension Funds and Education Funds into Harel Pension and Provident Ltd., see Note 5.

## Note 10 – Material events after the Reporting Period

1. At the beginning of Q2 2017, there were further redemptions in the mutual funds of Harel-Pia that are included in the Company's financial services segment. Notwithstanding the foregoing, in May the extent of the redemptions moderated and Harel-Pia shifted to small, net capital raisings. The Company will continue to examine the value of the Company's intangible asset in respect of the mutual fund activity.

2. Revised cyber risk management policy

   Within the context of the implementation of the circular on "Management of Cyber Risks by Financial Institutions", which was published on August 31, 2016, the data security policy was revised and adjusted to the requirements of this circular, and accordingly it was renamed cyber protection policy. The revised policy was approved by the Board of Directors. The Company is preparing to implement the provisions of the circular as part of the time frame set out for its implementation.

3. In May 2017, the Company announced the establishment of a new business division in Harel Insurance that will incorporate the industry and business insurance division, the general insurance division as well as all the general (non-life) insurance reinsurance activity of Harel Insurance ("the New Non-life Insurance Division").

   Additionally, the Claims (exercising of rights) Division of Harel Insurance will be split into the following business-professional units: the handling of non-life claims will be transferred to the New Non-life Insurance Division, and the handling of health and long-term care claims will be transferred to the Health Insurance Division.

4. At the date date of the statement of financial position, the controlling shareholders are Mssrs. Gideon Hamburger, Yair Hamburger, Nurit Manor and G.Y.N Financial Consulting & Management Ltd (a company fully controlled by Gideon Hamburger, Yair Hamburger and Nurit Manor) ("G.Y.N.").

   On December 29, 2016, the Company's controlling shareholders, Mr. Yair Hamburger, Mr. Gideon Hamburger and Ms. Nurit Manor, informed the Company of their decision to perform a restructuring of their holding of the controlling shares in the Company, which they currently hold through a private company fully owned and controlled by them - G.Y.N. Financial Consulting & Management Ltd. ("G.Y.N."), so that instead of holding the Company through G.Y.N., they will hold the Company through a limited partnership which they fully own and control, which they will hold, as limited partners, through private, companies, wholly owned by each of the shareholders ("the Partnership").

   The Company was informed that this change is essentially organizational and technical and that the change will not affect the holding rates or management of the Company. The change will be made in the near future, in accordance with an arrangement formulated with the tax authorities, having obtained all the necessary approvals, including permission from the Commissioner of the Capital Market, Insurance and Savings, and the court's approval to transfer Company shares that are held by G.Y.N. to the Partnership.

   Accordingly, the shares of G.Y.N. were transferred to private companies fully owned by each of the shareholders. Completion of the entire process of transferring the holding through G.Y.N. to holding through the Partnership will take place in the near future, given that the regulatory approvals required for the transfer have been received.

# HAREL INSURANCE INVESTMENTS AND FINANCIAL SERVICES LTD

## ANNEXES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

### A. Information about other financial investments

| | At March 31, 2017 (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) | 387,781 | 6,703,566 | 242,717 | - | 7,334,064 |
| Non-negotiable debt assets (*) | - | - | - | 12,304,763 | 12,304,763 |
| Shares (a2) | - | 821,174 | - | - | 821,174 |
| Other (a3) | 353,320 | 1,784,666 | - | - | 2,137,986 |
| **Total other financial investments** | 741,101 | 9,309,406 | 242,717 | 12,304,763 | 22,597,987 |

| | At March 31, 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) | 556,056 | 6,581,592 | 293,034 | - | 7,430,682 |
| Non-negotiable debt assets (*) | 312 | - | - | 10,905,219 | 10,905,531 |
| Shares (a2) | - | 786,841 | - | - | 786,841 |
| Other (a3) | 259,517 | 1,770,821 | - | - | 2,030,338 |
| **Total other financial investments** | 815,885 | 9,139,254 | 293,034 | 10,905,219 | 21,153,392 |

| | At December 31, 2016 (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) | 432,060 | 6,407,547 | 272,133 | - | 7,111,740 |
| Non-negotiable debt assets (*) | 12 | - | - | 11,788,292 | 11,788,304 |
| Shares (a2) | - | 803,740 | - | - | 803,740 |
| Other (a3) | 181,852 | 1,831,423 | - | - | 2,013,275 |
| **Total other financial investments** | 613,924 | 9,042,710 | 272,133 | 11,788,292 | 21,717,059 |

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

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

### A1. Marketable debt assets

| | Book value | | | Amortized cost | | |
|---|---|---|---|---|---|---|
| | As at March 31 | | As at December 31 | As at March 31 | | As at December 31 |
| | 2017 | 2016 | 2016 | 2017 | 2016 | 2016 |
| | (Unaudited) | (Unaudited) | (Audited) | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand |
| Government bonds | **2,634,143** | 2,074,696 | 2,152,955 | **2,588,260** | 1,971,252 | 2,107,749 |
| **<u>Other debt assets:</u>** | | | | | | |
| Other non-convertible debt assets | **4,696,665** | 5,351,920 | 4,955,530 | **4,575,487** | 5,201,913 | 4,858,242 |
| Other convertible debt assets | **3,256** | 4,066 | 3,255 | **3,008** | 3,703 | 3,076 |
| **Total marketable debt assets** | **7,334,064** | 7,430,682 | 7,111,740 | **7,166,755** | 7,176,868 | 6,969,067 |
| **Impairments recognized in profit and loss (in aggregate)** | **3,028** | 3,464 | 12,170 | | | |

### A2. Shares

| | Book value | | | Amortized cost | | |
|---|---|---|---|---|---|---|
| | As at March 31 | | As at December 31 | As at March 31 | | As at December 31 |
| | 2017 | 2016 | 2016 | 2017 | 2016 | 2016 |
| | (Unaudited) | (Unaudited) | (Audited) | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand |
| Marketable shares | **758,149** | 710,462 | 756,379 | **663,429** | 644,143 | 659,586 |
| Non-marketable shares | **63,025** | 76,379 | 47,361 | **60,533** | 56,781 | 42,175 |
| **Total shares** | **821,174** | 786,841 | 803,740 | **723,962** | 700,924 | 701,761 |
| **Impairments recognized in profit and loss (in aggregate)** | **71,331** | 55,673 | 81,410 | | | |

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

### A3. Other financial investments

| | Book value | | | Amortized cost | | |
|---|---|---|---|---|---|---|
| | As at March 31 | | As at December 31 | As at March 31 | | As at December 31 |
| | 2017 | 2016 | 2016 | 2017 | 2016 | 2016 |
| | (Unaudited) | (Unaudited) | (Audited) | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand | NIS thousand |
| Marketable financial investments | **496,547** | 628,403 | 527,368 | **450,081** | 607,136 | 472,302 |
| Non-marketable financial investments | **1,641,439** | 1,401,935 | 1,485,907 | **1,138,144** | 1,068,237 | 1,132,857 |
| **Total other financial investments** | **2,137,986** | 2,030,338 | 2,013,275 | **1,588,225** | 1,675,373 | 1,605,159 |
| **Impairments recognized in profit and loss (in aggregate)** | **129,667** | 117,134 | 121,956 | | | |
| **Derivative financial instruments presented in financial liabilities** | **586,290** | 595,826 | 642,783 | | | |

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

# HAREL INSURANCE INVESTMENTS AND FINANCIAL SERVICES LTD.

## SEPARATE FINANCIAL INFORMATION FROM THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### As at March 31, 2017

Somekh Chaikin
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17 Ha'arbaa Street, P.O. Box 609
Tel-Aviv 61006
Telephone: 03-684 8000
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**To:**

**The shareholders of Harel Insurance Investments and Financial Services Ltd.**

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

Introduction

We reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970, of Harel Insurance Investments and Financial Services Ltd. (hereinafter: "the Company") as at March 31, 2017 and for the three months ended on that date. The separate interim financial information is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial information for 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 716,778 thousand as at March 31, 2017, and where the Company's profit (loss) from these investee companies amounts to NIS 11,894 thousand for the three months ended on that date. The financial statements of those companies were reviewed by other auditors whose review reports were furnished to us, and our conclusion, to the extent that it relates to amounts included for those companies, is based on the review reports of the other auditors.

Scope of the review

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

Conclusion

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

***Somekh Chaikin***
**Certified Public Accountants**

May 24, 2017

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

| | March 31 | | December 31 |
|---|---|---|---|
| | 2017 | 2016 | 2016 |
| | (Unaudited) | (Unaudited) | (Unaudited) |
| | NIS thousands | NIS thousands | NIS thousands |
| **Assets** | | | |
| Deferred tax assets | **951** | 2,752 | 1,451 |
| Fixed assets | **1,779** | 1,482 | 1,582 |
| Investments in investee companies | **5,207,589** | 4,606,802 | 4,967,435 |
| Loans to investee companies | **350,517** | 350,515 | 350,515 |
| Real estate for investment | **19,758** | 19,310 | 19,758 |
| Other receivables | **11,720** | 222,391 | 16,288 |
| **Other financial investments** | | | |
| Non marketable debt assets | **-** | 8,087 | 2,980 |
| Other | **294,801** | 216,916 | 248,597 |
| **Total financial investments and others** | **294,801** | 225,003 | 251,577 |
| Cash and cash equivalents | **40,677** | 84,137 | 90,062 |
| **Total assets** | **5,927,792** | 5,512,392 | 5,698,668 |
| **Capital** | | | |
| Share capital and premium on shares | **351,013** | 341,783 | 351,425 |
| Treasury stock | **(148,579)** | (160,473) | (158,035) |
| Capital reserves | **330,584** | 373,162 | 368,742 |
| Retained earnings | **4,782,979** | 4,259,695 | 4,599,099 |
| **Total capital** | **5,315,997** | 4,814,167 | 5,161,231 |
| **Liabilities** | | | |
| Liabilities for benefits to employees, Net | **16,864** | 23,058 | 16,627 |
| Other payables | **129,760** | 131,267 | 27,374 |
| Liabilities for current taxes | **5,694** | 5,425 | 3,738 |
| Financial liabilities | **459,477** | 538,475 | 489,698 |
| **Total liabilities** | **611,795** | 698,225 | 537,437 |
| **Total liabilities and capital** | **5,927,792** | 5,512,392 | 5,698,668 |

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

Date of approval of the financial statements: May 24, 2017

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 three months ended March 31 | | For the year ended December 31 |
|---|---|---|---|
| | 2017 | 2016 | 2016 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousands | NIS thousands | NIS thousands |
| Profits from investments, net, and financing revenues | **5,960** | 3,534 | 18,132 |
| Revenues from management fees | **26,341** | 22,913 | 91,307 |
| **Total revenues** | **32,301** | 26,447 | 109,439 |
| General and administrative expenses | **4,824** | 5,473 | 18,750 |
| Financing expenses | **4,295** | 4,070 | 18,819 |
| **Total expenses** | **9,119** | 9,543 | 37,569 |
| Company's shares in profits (losses) of investee companies | **273,269** | (4,093) | 340,274 |
| **Income before taxes on income** | **296,451** | 12,811 | 412,144 |
| Taxes on income | **5,458** | 4,212 | 15,545 |
| **Income for period ended relating to the Company's shareholders** | **290,993** | 8,599 | 396,599 |

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 three months ended March 31 | | For the year ended December 31 |
|---|---|---|---|
| | 2017 | 2016 | 2016 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousands | NIS thousands | NIS thousands |
| **Profit for the period** | **290,993** | 8,599 | 396,599 |
| **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 | **(2)** | (47) | (1,630) |
| Net changes in fair value of financial assets available for sale transferred to statement of income | **-** | (28) | (15) |
| Loss from the impairment of assets classified as available for sale carried over to the income stetment | **-** | - | 808 |
| Foreign currency transaction's difference in respect of overseas operations | **(6,506)** | 504 | (12,060) |
| The Group share in the comprehensive income (loss) of investee companies | **(31,436)** | 5,148 | 37,464 |
| Tax benefits for items of other comprehensive income which after initial recognition under comprehensive income were or will be transferred to profit or loss | **-** | 32 | 218 |
| **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** | **(37,944)** | 5,609 | 24,785 |
| **Other items of comprehensive income which will not be transferred to profit or loss** | | | |
| Remeasurement of a defined benefit plan | **-** | (585) | 1,292 |
| Tax benefits (taxes on income) for other items of comprehensive income which will not be transferred to profit or loss | **-** | 146 | (323) |
| **Other comprehensive income (loss) for the period which will not be transferred to profit or loss, net of tax** | **-** | (439) | 969 |
| **Other comprehensive income (loss) for the period** | **(37,944)** | 5,170 | 25,754 |
| **Total income for the period Attributed to the company's owners** | **253,049** | 13,769 | 422,353 |

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

| | Share capital and premium | Capital reserve for financing assets available for sale | Translation reserve for foreign activity | Capital reserve for share-based payment | Treasury shares | Capital reserve for transactions with non-controlling interests | Capital reserve for revaluation of fixed assets | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|---|
| | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands |
| **For the three months ended March 31, 2017 (Unaudited)** | | | | | | | | | |
| **Balance as at January 1, 2017** | 351,425 | 329,623 | (79,881) | 3,603 | (158,035) | (48,908) | 164,305 | 4,599,099 | 5,161,231 |
| **Total comprehensive income (loss) for the period** | | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | - | 290,993 | 290,993 |
| Other comprehensive income (loss) | - | (2,187) | (39,063) | - | - | - | 3,305 | 1 | (37,944) |
| **Total comprehensive income (loss) for the period** | - | (2,187) | (39,063) | - | - | - | 3,305 | 290,994 | 253,049 |
| **Transactions with owners credited directly to equity** | | | | | | | | | |
| Dividend announced | - | - | - | - | - | - | - | (107,114) | (107,114) |
| Purchase of Treasury shares | - | - | - | - | (12,384) | - | - | - | (12,384) |
| Re-issuance of Treasury shares | (625) | - | - | - | 21,840 | - | - | - | 21,215 |
| Exercising of options | 213 | - | - | (213) | - | - | - | - | - |
| **Balance as at March 31, 2017** | 351,013 | 327,436 | (118,944) | 3,390 | (148,579) | (48,908) | 167,610 | 4,782,979 | 5,315,997 |

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 thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands |
| **For the three months ended March 31, 2016 (Unaudited)** | | | | | | | | | |
| **Balance as at January 1, 2016** | 341,832 | 295,955 | (44,472) | 13,032 | (161,077) | (48,908) | 148,733 | 4,361,663 | 4,906,758 |
| **Total comprehensive income (loss) for the period** | | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | - | 8,599 | 8,599 |
| Other comprehensive income (loss) | - | 16,401 | (15,594) | - | - | - | 8,029 | (3,666) | 5,170 |
| **Total comprehensive income (loss) for the period** | - | 16,401 | (15,594) | - | - | - | 8,029 | 4,933 | 13,769 |
| **Transactions with owners credited directly to equity** | | | | | | | | | |
| Dividend announced | - | - | - | - | - | - | - | (106,901) | (106,901) |
| Share-based payments | - | - | - | 84 | - | - | - | - | 84 |
| Purchase of Treasury shares | - | - | - | - | (1,949) | - | - | - | (1,949) |
| Re-issuance of Treasury shares | (147) | - | - | - | 2,553 | - | - | - | 2,406 |
| Exercising of options | 98 | - | - | (98) | - | - | - | - | - |
| **Balance as at March 31, 2016** | 341,783 | 312,356 | (60,066) | 13,018 | (160,473) | (48,908) | 156,762 | 4,259,695 | 4,814,167 |

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 thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands |
| **For the year ended December 31, 2016 (Audited)** | | | | | | | | | |
| **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 | - | - | - | - | - | - | - | 396,599 | 396,599 |
| Other comprehensive income (loss) | - | 33,668 | (35,409) | - | - | - | 15,572 | 11,923 | 25,754 |
| **Total comprehensive income (loss) for the period** | - | 33,668 | (35,409) | - | - | - | 15,572 | 408,522 | 422,353 |
| **Transactions with owners credited directly to equity** | | | | | | | | | |
| Dividend paid | - | - | - | - | - | - | - | (171,086) | (171,086) |
| Share-based payments | - | - | - | (1,093) | - | - | - | - | (1,093) |
| Purchase of Treasury shares | - | - | - | - | (5,465) | - | - | - | (5,465) |
| Re-issuance of Treasury shares | 1,257 | - | - | - | 8,507 | - | - | - | 9,764 |
| Exercising of options | 8,336 | - | - | (8,336) | - | - | - | - | - |
| **Balance as at December 31, 2016** | 351,425 | 329,623 | (79,881) | 3,603 | (158,035) | (48,908) | 164,305 | 4,599,099 | 5,161,231 |

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.)**

| | Appendix | For the three months ended March 31 | | For the year ended December 31 |
|---|---|---|---|---|
| | | 2017 | 2016 | 2016 |
| | | (Unaudited) NIS thousand | (Unaudited) NIS thousand | (Audited) NIS thousand |
| **Cash flows from operating activities** | | | | |
| Before taxes on income | A | 17,748 | (1,399) | 48,516 |
| Income tax paid | | (2,579) | (3,229) | (14,631) |
| **Net cash provided by (used for) current operations** | | 15,169 | (4,628) | 33,885 |
| **Cash flow from investing activities** | | | | |
| Investment in investees | | - | - | (6,308) |
| Investment in fixed assets | | (665) | (7) | (709) |
| Proceeds from sale of fixed assets | | 444 | - | 380 |
| Dividends from investees | | - | - | 213,964 |
| Investment in financial investments, net | | (40,876) | 39,496 | 14,663 |
| Repayment of loans and capital notes provided to investees | | 3,578 | 8,001 | 15,538 |
| **Net cash provided by (used for) investment activity** | | (37,519) | 47,490 | 237,528 |
| **Cash flows from financing activities** | | | | |
| Dividends paid | | - | - | (171,086) |
| Repayment of loans from banks and others | | (27,035) | (552) | (52,092) |
| **Net cash used for financing activity** | | (27,035) | (552) | (223,178) |
| **Increase (decrease) in cash and cash equivalents** | | (49,385) | 42,310 | 48,235 |
| **Cash and cash equivalents at beginning of the period** | | 90,062 | 41,827 | 41,827 |
| **Cash and cash equivalents at end of the period** | | 40,677 | 84,137 | 90,062 |

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 three months ended March 31 | | For the year ended December 31 |
|---|---|---|---|
| | 2017 | 2016 | 2016 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousand | NIS thousand | NIS thousand |
| **Annex A - Cash flows from operating activities before taxes on income** | | | |
| Profit for the period | **290,993** | 8,599 | 396,599 |
| **Items which are not connected with cash flows** | | | |
| Company's shares in losses (profits) of equity accounted investees | **(273,269)** | 4,093 | (340,274) |
| Net losses (profits) from financing activities | **(2,349)** | 394 | (2,110) |
| Profit from sale of fixed assets | **(61)** | - | (40) |
| Change in fair value of investment property | **-** | - | (448) |
| Financing income, net | **(8,119)** | (9,015) | (287) |
| Taxes on income | **5,458** | 4,212 | 15,545 |
| Depreciation and amortization | **84** | 99 | 361 |
| Share-based payment | **-** | 34 | 34 |
| **Changes in other balance sheet items** | | | |
| Other receivables | **4,568** | (7,179) | (11,076) |
| Other payables | **205** | (3,401) | (4,122) |
| Liabilities for benefits to employees, net | **237** | 765 | (5,666) |
| **Total adjustments required to present cash flows from operating activities** | **(273,245)** | (9,998) | (348,083) |
| **Total cash flows from operating activities, before taxes on income** | **17,748** | (1,399) | 48,516 |

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

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

### A. General

Following is a summary of financial information from the condensed consolidated interim financial statements of the Group as at March 31, 2017 ("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 the condensed separate, interim financial information of the Company. This condensed, separate interim financial information should be read together with the separate financial information as at December 31, 2016, and with the consolidated financial statements.

### B. Definitions

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

### C. Method of preparing the financial information

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

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

1. In accordance with a permit to control and hold the means of control in insurers and management companies, the Company undertook, at all times, to supplement the equity of the insurance companies that are included among the financial institutions it controls, including ICIC, to the amount prescribed in the Supervision of Financial Services (Insurance) (Minimum Equity Required of Insurers) Regulation, 1998, or any other regulation or law that may replace them, and also to supplement at all times the equity of the provident fund and pension fund management companies it controls, to the amount prescribed in the Income Tax (Rules for the Approval and Management of Provident Funds) Regulations, 1965, or any other regulation or law that may replace them. This undertaking is irrevocable and will remain in force as long as the Company controls the financial institutions, directly or indirectly.
2. On March 15, 2017, Harel Finance, a wholly owned subsidiary of the Company, repaid a capital note in the amount of NIS 3 million. This repayment was made from Harel Finance's independent sources.
3. On the distribution of a dividend in kind by EMI, see Note 8 to the consolidated financial statements.

## Note 3 - Significant events during the reporting period

1. <u>Dividend distribution</u>

   On March 22, 2017, 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 2016. The Board of Directors was presented with information about the distributable profits, capital surpluses of the Company's subsidiaries, and the Group's cash requirements, in various scenarios. The Board of Directors reviewed the Company's compliance with the profit test and solvency test prescribed in Section 203(a) of the Companies Law. Following this review, the Board of Directors confirmed that the Company was in compliance with the distribution test. The dividend was paid on April 9, 2017.
2. On a general meeting that took place on March 28, 2017, see Note 9 to the consolidated financial statements.
3. On the approval of the appointment of Mr. Ben Hamburger as a Company director and of his terms of office, at a general meeting of the Company that took place on January 17, 2017, see Note 9 to the consolidated financial statements.
4. On a change of senior officers, see Note 9 to the consolidated financial statements.
5. On the revised compensation policy for the Group's financial institutions, see Note 9 to the consolidated financial statements.
6. On a bonus for other senior officers for 2016, see Note 9 to the consolidated financial statements.
7. On Mr. David Granot terminating his service as an external director in the Company, see Note 9 to the consolidated financial statements.

## Note 4 – Material events after the Reporting Period

1. On a restructuring of the holding of the controlling shares in the Company by the controlling shareholders, see Note 10 to the consolidated financial statements.

Harel Insurance Investments and Financial Services Ltd.

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

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

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

In this instance, management consists of:

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

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

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

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

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

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

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

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

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

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

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

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

- Financial Institutions Circular 2009-9-10, from June 2009 – "Management's responsibility for the internal control over financial reporting".

In the annual report concerning the effectiveness of the internal control over financial reporting and disclosure that was included in the Periodic Report for the period ended December 31, 2016 (hereinafter – the last annual report on internal control), the Board of Directors and management assessed the Company’s internal control; based on this assessment, the Board of Directors and management of the Company concluded that this internal control, at December 31, 2016, is effective.

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

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

Certification

I, Michel Siboni, hereby certify that:

1. I have reviewed the quarterly report of Harel Insurance Investments and Financial Services Ltd. (hereinafter - the Company) for Q1 2017 ("the Reports");
2. Based on my knowledge, the Reports contains no misstatement of a material fact nor do they omit any statement of a material fact necessary to ensure that the presentations that they contain, in light of the circumstances under which such presentations were included, shall not be misleading with respect to the period covered in the Reports;
3. Based on my knowledge, the financial statements and other financial information contained in the Reports reasonably reflect, in all material respects, the financial position, results of operations, and cash flows of the Company at the dates and periods covered in the Reports;
4. Based on my most recent assessment of the internal control over financial reporting and disclosure, I disclosed to the auditors, to the Board of Directors and the Audit Committee and Financial Reports Committee of the Company:
    A. Any significant deficiencies and material weaknesses in the determination or application of the internal control over financial reporting and disclosure that might reasonably compromise the Insurance Company's ability to record, process, summarize and report financial information in a manner that may cast doubt on the reliability of the financial reporting and preparation of the financial reports pursuant to the provisions of the law; and –
    B. Any fraud, whether material or immaterial, that involves the General Manager (CEO) or any person directly accountable to him or other employees who hold a significant role in the internal control over financial reporting and disclosure;
5. I, myself or together with others in the Company:
    A. Defined controls and procedures, or ensured that such controls and procedures are determined and in place under my oversight, for the purpose of ensuring that material information relating to the Company, including its subsidiaries as they are defined in the Securities (Annual Financial Reports) Regulations, 2010, is brought to my attention by others in the Company and the subsidiaries, particularly during the preparation of the Report; and -
    B. Defined controls and procedures, or ensured that such controls and procedures are determined and in place under my oversight, for the purpose of providing a reasonable measure of certainty as to the reliability of the financial reporting and to ensure that the financial reports are prepared in accordance with the provisions of the law, including in accordance with generally accepted accounting standards;
    C. No event or matter which took place during the period between the date of the last report (quarterly or periodic, as applicable) and the date of this report was brought to my attention, that might alter the conclusion of the Board of Directors and Management in relation to the effectiveness of the Company's internal control over financial reporting and disclosure.

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

May 24, 2017

Michel Siboni
CEO

Certification

I, Arik Peretz, hereby certify that:

1. I have reviewed the interim financial statements and other financial information contained in the interim financial statements of Harel Insurance Investments and Financial Services Ltd. ("the Company") for Q1 2017 ("the Reports" or "the Interim Reports");

2. Based on my knowledge, the interim financial statements and other financial information contained in the Interim Reports contain no misstatement of a material fact nor do they omit any statement of a material fact necessary to ensure that the statements they contain, in light of the circumstances under which such statements were included, shall not be misleading with respect to the period covered in the Reports;

3. Based on my knowledge, the Interim Reports and other financial information contained in the Interim Reports reasonably reflect, in all material respects, the financial position, results of operations, and cash flows of the Company at the dates and for the periods covered in the Reports;

4. Based on my most recent assessment of the internal control over financial reporting and disclosure, I disclosed to the auditors, to the Board of Directors and the Audit Committee and Financial Reports Committee of the Company:

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

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

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

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

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

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

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

May 24, 2017

Arik Peretz

CFO

# Report Regarding Embedded Value Of

# Harel Insurance Company Ltd.

**(Including Pension Fund Management Companies)**

## as at 31.12.2016

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## 1. General

### 1.1. Background and scope of disclosure

According to a circular issued by the Commissioner of the Capital Market, Insurance and Savings ("the Commissioner") dated August 12, 2007 (Insurance Circular 1-11-2007) ("**the Circular**"), every year insurance companies must publish, together with the financial statements for the first quarter, information about the Embedded Value ("**EV"** or "**Embedded Value"**) in long term insurance policies (life assurance and health insurance) at the end of the previous year. In accordance with the Circular, Harel Insurance Company Ltd. ("**the Company"**) hereby publishes the Embedded Value of the Company's long-term insurance business as at December 31, 2016.

This report was prepared in accordance with the rules and principles prescribed by the Commissioner, who adopted the rules and principles set out in the report of a joint committee of insurance companies and the Commissioner, assisted by Israeli and foreign consultants **("the Committee"** and **"the Committee Report"**), except with respect to the treatment of certain risks described in paragraph 1.5.3 below, as specified in said paragraph.

Apart from the insurance business, the publication of which is mandatory according to Circular, this report also includes the Embedded Value of the pension management business of Harel Pension and Provident Ltd. (previously Harel Pension Fund Management Ltd.) and Yedidim Holding and Management (1984) Ltd., subsidiaries that are fully owned by the Company, which were calculated in accordance with the aforementioned principles, *mutatis mutandis*.

The rules and principles set out in the Committee Report are published on the website of the Ministry of Finance – Capital Market, Insurance and Savings Authority (www.mof.gov.il).

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

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

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

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

### 1.2. Clarification regarding forward looking information

**Determination of embedded value and value of new business (in accordance with the definition of this term hereunder) is based on forecasts, estimates and valuations of future events the materialization of which is uncertain and are beyond the Company's control, and must be regarded as "forward looking information" as defined in Section 32a of the Securities Law – 1968. The above forecasts, estimates and valuations may, all or part thereof, not materialize or may materialize in a manner differing from that presented in the embedded value report, therefore causing actual results to differ from the forecast.**

### 1.3. Main chapters in the document

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

### 1.4. Definitions

The following definitions are a concise explanation of key concepts used to understand the following report. Full descriptions and explanations can be found in the rules and principles of the Committee Report.

| | |
|---|---|
| **Present value of future profits (PVFP)** | Discounting the flow of future anticipated profit, attributable to the existing portfolio of covered business on the date of the report (see Section 2.5.2 hereunder). |
| **Adjusted Net Worth (ANW)** | The Company's equity, after adjustments for consistency with VIF (see Section 2.5.1). |
| **Cost of required capital (CoC)** | The effect on EV from the perspective of the company's shareholders resulting from the minimum equity requirement imposed on the company (see Section 2.5.3 hereunder). |
| **Value In Force (VIF)** | The present value of future profits, net of the cost of required capital. |
| **Embedded Value (EV)** | Comprises a combination of the in force portfolio value (VIF) and ANW.<br>It is stipulated that the ANW is the company's equity relating to the full range of the Company's activities and not only in respect of the covered business in VIF.<br>It is also stipulated that the value of VIF does not include:<br>a. (a) General (non-life) insurance business; (b) other areas of activity of companies controlled by the Company, such as insurance agencies and provident fund management; (c) the ability to generate additional business in the future (goodwill). |
| **Value of New Business (VNB)** | Present value of profits of business sold during the 12 months preceding the report date. |
| **Covered business** | Business covered (included) in the calculation of the value of the in-force portfolio:<br>(a) Long-term personal policies in the life and health insurance portfolio, in force at December 31, 2016, including premium increases and future lump-sum future deposits attributable to wage increases in respect of these policies.<br>(b) Group policies in the life and health insurance portfolio, in force at December 31, 2016. According to the rules and principles in the Committee Report, the profit of these policies was estimated only until their next renewal date.<br>(c) Pension fund management business which is managed by management companies owned by the Company (including 79% of LeAtid Pension Fund Management Company Ltd.) |

## 1.5. Comments, clarifications and exceptions

### 1.5.1. General

As mentioned above, the Embedded Value was calculated in accordance with the methodology, rules and principles defined in the Committee Report. The assumptions in the model are "Best Estimate Assumptions", i.e. assumptions that are the outcome of projecting existing experience onto the future in the context of the environment in which the insurance companies operate and without conservative coefficients. Naturally, since these are long term future estimates, actual results might differ from those forecast when the EV was calculated.

Deviations from the parameters and assumptions made in forecasting the Embedded Value may significantly affect the result. *Inter alia*, these parameters include:

1. Economic factors (e.g. – discounting interest, yields)
2. Demographic factors (e.g. – changes in mortality and morbidity)
3. Legislation and legislative arrangements on relevant matters
4. Pending liabilities (see Note 38 in the Company's Periodic Report for 2016).
5. Taxation
6. Changes in the business environment

**Future results that deviate from the estimates based on 'Best Estimate Assumptions' are natural and can be expected to occur, even if there is no change whatsoever in the aforementioned parameters. It is therefore to be expected that the actual results each year will differ from those forecast in the embedded value model, if only due to ordinary random fluctuations.**

### 1.5.2. Reforms and legislation

Over the last few years, there have been numerous reforms relating to long-term savings and health insurance which have affected and continue to affect the assessment and calculation of EV. The anticipated impact of the legislative reforms is uncertain, partially in view of the fact that some of the reforms have not yet been completed or their application has not yet commenced, and the actual implementation of some of the reforms might differ from forecasts and depend on various uncertain variables, including competitive conditions, tastes of the insureds and fund members, the conduct of competing entities and distributors. Consequently calculation of the EV does not take into account possible future repercussions of these reforms.

Following are the key regulatory changes that involve uncertainty regarding their future impact on calculation of the EV:

**Circular concerning Personal Health Insurance Plans**

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

The report gives expression to the future impact of this circular on the cancellation rate in existing insurance plans. Nevertheless, this reform might also have other effects in the future.

**Economic Plan Law**

On November 30, 2015, the chapter on health insurance in the Economic Plan (Legislative Amendments for Implementing Economic Policy for Fiscal Years 2015 and 2016) Law, 2015, was published in the Official Gazette. Among other things, this chapter stipulates that a plan for additional health services will not be approved with respect to cover for surgery, and permission will not be given to market policies that include insurance for surgery or to change such policies, unless the HMOs or the insurance companies have an arrangement for surgery that guarantees members or policyholders adequate provision of surgeons and surgery, types of surgery and their geographical distribution, including in peripheral areas. Furthermore, HMOs, as part of their supplementary health services, and insurance companies will pay doctors or medical institutions at which the surgery is performed for surgery in accordance with insurance plans or as part of the supplementary health services, only in accordance with an arrangement for surgery and they will not pay any additional amount or reimburse patients for surgery other than as part of the prescribed exclusions, whereby HMOs or insurance companies will be entitled to submit for approval a list of 50 specialists to whom a refund may be offered.

Furthermore, doctors or medical institutions or any person acting on their behalf will not ask for and will not accept any payment from patients other than the deductible; for surgery or for the choice of a surgeon, if the surgery is performed as part of an arrangement for surgery; the list of surgeons shall not include doctors with whom the HMOs or insurance companies have surgery arrangements, unless they have a consulting arrangement with that doctor, and the law also proposes amending the National Health Insurance Law, 1994, and the Public Health Ordinance, 1940 so that any payment to a doctor or medical professional for medical services performed by that medical institution will be made exclusively by the medical institution (except in those instances where the doctor or medical professional is entitled to payment from the insurance company or HMO as part of an agreement between them).

The report does not detail the full range of future effects of this law, which may affect the amounts of claims in these plans, given that at this stage it is impossible to estimate the behavior of the health system as a whole in light of this law.

**Material changes in laws relating to distribution channels**

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

On January 9, 2017, the Supervision of Financial Services (Provident Funds) (Amendment no. 20) Law, 2017 was passed which stipulates that there must be no relationship between the calculation of distribution fees, as noted in the law, and the management fees that management companies collect from members. The amendment becomes applicable on April 1, 2017.

This report does not address the range of future effects of these laws, given that at this stage they cannot be estimated.

**New allocation of designated bonds for pension funds**

On March 8, 2017, the Minister of Finance signed the Supervision of Financial Services (Provident Funds) (Recognition of Yields in New Comprehensive Pension Funds) Regulations, 2017. The regulations stipulate that the pension funds will allocate the designated bonds issued for the new pension funds at a rate of 30% of the pension fund's assets, as follows: 60% of the assets held against liabilities to pensioners (not including pensioners who are already entitled to an annuity), 30% of the assets of savers in the pension fund aged from 50 to retirement age, and the remainder to the fund's other members.

This report does not address the range of future effects of these laws, due to the fact that at this stage they cannot be estimated.

**1.5.3. Treatment of risks**

Following are exceptions regarding the estimated Embedded Value detailed in this report, attributable to the method used by the company to calculate the Embedded Value:

- Calculation of the EV did not take into account extreme risks that are unlikely to occur, where the Company cannot estimate the probability that such risks will occur, as well as other risks the effect of which the Company is unable to estimate, such as operating risks.
  Furthermore, the demographic assumptions on which the model is based were formulated mainly on the basis of studies and analyses based on the company experience in previous years. It is therefore possible that extreme scenarios that the Company did not take into account when determining the assumptions underlying the model might materialize, notwithstanding efforts to determine assumptions which correspond with actual experience in the long term.

- The model assumes that there is no correlation between the model assumptions regarding risks which are not market risks and market risks, that might materially affect EV. Due to lack of sufficient data for examining this correlation, the Company did not examine this assumption.

- According to the Committee's instructions and rules, the assumptions should be determined, *inter alia*, so as to obtain the Embedded Value forecast for the shareholders. In the absence of clear statistical data for assessing the EV distribution for all the demographic and operating factors, the Company used realistic assumptions for each parameter separately, based on the forecast for each relevant factor.

- Embedded Value is based on the notion that investors do not require compensation for risks that are not market risks, provided that the risks can be hedged or the investors are able to spread the uncertainty by holding a diverse, well-spread investment portfolio. In practice, it may be impossible to spread or hedge some of the demographic and operating risks ("non-hedged risks"). In the absence of a deep liquid market which will serve to estimate the 'risk price' given to these risks by the market, and in the absence of an agreed methodology to quantify the theoretical market price of these risks – the EV for these risks was not reduced

Notably, in 2011 the Committee entered into agreement with foreign actuarial consultants to formulate an appropriate, practical methodology whereby the EV will be adjusted to reflect the cost of non-hedged risks. This adjustment will probably reduce the EV, both in relation to the value of the in-force portfolio (VIF) and the value of new business (VNB), so as to more adequately reflect their value when taking all the risks, including the non-hedged risks, into account, and this consistent with accepted practice for EV reporting worldwide. At the publication date of this report, no detailed or final recommendations have been received from the aforementioned consultants, and the Committee has therefore not yet formulated a proper methodology on this matter. In view of the foregoing, these adjustments were not made in this report.

To reflect the estimate of the risks that were not taken into account, as aforementioned, readers of the report can adjust the Embedded Value presented here, at their discretion, by using the sensitivity analyses presented in Section 3.6. It should be emphasized that, as noted above, the Company is unable to estimate from a quantitative, scientific and objective point of view, the effect of the aforementioned issues on the Embedded Value. The sensitivity analysis presented therefore cannot be considered an estimate by the Company, rather it is intended to provide readers with a tool for estimating the possible effect of the materialization of these risks and other issues, based on their own judgment. In this context we wish to note that the present EV report includes, for the first time, an analysis of sensitivity to a reduction of management fees in pension business.

### 1.5.4. Fair-value revaluation of assets

According to the Committee Report rules and principles, the adjustment to fair value was only performed for those assets corresponding with the covered business in the EV, and the adjustment was not made for all the Company’s assets. It should be noted that designated bonds (both in life assurance and the new pension funds) were, for technical reasons, evaluated in accordance with their adjusted book value, taking into account the interest due to the holders of these bonds, so that their fair value was included in the EV.

### 1.5.5. Government subsidies for pension funds

In calculating the Embedded Value and the VNB for pension management business, the Company assumed that there will be no changes in the various government subsidy arrangements, expressed in the guaranteed yield rates on existing designated bonds and/or those expected to be issued in the future in the new and the old pension funds, in addition to the yield on assets in the old pension fund.

**1.5.6. The Embedded Value is not intended to represent the market**

**As aforementioned, the value of the in-force portfolio does not include general (non-life) insurance business or other areas of activity of the companies controlled by the Company and the ability to generate future business (goodwill). It should also be emphasized that the Embedded Value does not relate to Harel Insurance Investments and Financial Services Ltd., the Company's parent company which has other activities and business.**

**Furthermore, the Embedded Value does not take into account certain risks specified in Section 1.5.3 above.**

**Therefore, in light of the above, the EV does not represent the market value or the comprehensive economic value of the Company and its subsidiaries, and the market value or economic value of Harel Insurance Investments and Financial Services Ltd.**

## 2. Methodology for calculating Embedded Value

### 2.1. General

The principles applied in calculating the Embedded Value are consistent with the rules and principles in the Committee Report, subject to the treatment of certain risks described above in Section 1.5.3, as specified in that Section. The assumptions in the model are Best Estimate Assumptions, i.e. they do not include conservatism coefficients. The model does not include the value of future sales, however, regarding the level of expenses etc., the calculation assumes that business activity will continue.

Calculation of the Embedded Value is based on legislation and regulations that were published up to the end of the reporting year, and it therefore does not reflect possible changes in corporate tax rates and VAT or a possible reduction of the tax benefits for pension insurance.

### 2.2. Treatment of risks

Financial (or market) risks – every flow is discounted at a rate that correspond with its inherent risk. In practice, the model uses of a financing technique known as Certainty Equivalent Approach, in which the cash flows are adjusted to their inherent market risks and they are therefore discounted at an interest rate which is based on the risk-free rate. This risk-free based rate is also used for estimating the anticipated return on the investments. Notably, the expected cash flow from designated bonds was calculated on the basis of these bond yields, and their cash flow was also discounted according to this risk-free interest rate.

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

On March 23, 2017, the insurance company managers received a directive from the Chief Actuary of the Capital Market Authority (CM. 2017-6306) to the effect that from the EV report for 2016, the calculations must be prepared using the interest rates used in computing liabilities for the economic balance sheet under Solvency II. Detailed instructions for calculating these interest rates appear in the section “Time vector of risk-free interest rate for [calculating] adjusted solvency” in the draft provisions on implementation of an economic solvency regime for insurance companies based on Solvency II, Chapter 4, Section E. Within the context of these instructions, a volatility adjustment component ("VA") is added to the risk-free interest which reflects the liquidity margin embedded in the portfolio of debt assets backing these liabilities.

Risks which are not market risks – the EV calculation based on the financial theory that investors do not require additional compensation on the discounting interest for risks that are not market risks, provided they are able to spread the uncertainty by holding a diverse, well-distributed investment portfolio. Based on this assumption, the EV was calculated on the basis of Best Estimate demographic and operating assumptions and by discounting the cash flows at the risk-free interest rate, without the addition of margins for assumptions or the discounting interest rate.

## 2.3. Economic assumptions

### 2.3.1. Yield, discounting interest, and inflation

The future yield and discounting interest were determined on the basis of the yield curve of index-linked risk-free interest. The risk free (spot) interest rates at the end of 2016 are:

| Year | Interest rate | Year | Interest rate | Year | Interest rate |
|---|---|---|---|---|---|
| 2017 | 0.48% | 2027 | 0.78% | 2037 | 1.32% |
| 2018 | 0.02% | 2028 | 0.85% | 2038 | 1.35% |
| 2019 | -0.07% | 2029 | 0.91% | 2039 | 1.38% |
| 2020 | 0.01% | 2030 | 0.97% | 2040 | 1.41% |
| 2021 | 0.16% | 2031 | 1.03% | 2041 | 1.44% |
| 2022 | 0.31% | 2032 | 1.09% | 2042 | 1.46% |
| 2023 | 0.44% | 2033 | 1.14% | 2043 | 1.48% |
| 2024 | 0.54% | 2034 | 1.19% | 2044 | 1.50% |
| 2025 | 0.63% | 2035 | 1.24% | 2045 | 1.52% |
| 2026 | 0.70% | 2036 | 1.28% | 2046 | 1.54% |

Notably, there is no need for an explicit assumption of future inflation since all the amounts in the model are linked. When a particular parameter is expected to change not in accordance with future inflation, an explicit assumption of the anticipated deviation from the future inflation was taken into account. As noted above, on March 23, 2017, the insurance company managers received a directive from the Chief Actuary of the Capital Market Authority (CM. 2017-6306) to the effect that from the EV report for 2016, the calculations must be prepared on the basis of the interest rates used for calculating the liabilities for the Solvency II economic balance instead of the risk-free interest rates specified above. These are the interest rates:

| Year | Interest rate | Year | Interest rate | Year | Interest rate |
|---|---|---|---|---|---|
| 2017 | 0.65% | 2027 | 0.95% | 2037 | 1.47% |
| 2018 | 0.20% | 2028 | 1.02% | 2038 | 1.51% |
| 2019 | 0.10% | 2029 | 1.09% | 2039 | 1.54% |
| 2020 | 0.18% | 2030 | 1.14% | 2040 | 1.57% |
| 2021 | 0.34% | 2031 | 1.20% | 2041 | 1.60% |
| 2022 | 0.49% | 2032 | 1.25% | 2042 | 1.63% |
| 2023 | 0.61% | 2033 | 1.30% | 2043 | 1.66% |
| 2024 | 0.71% | 2034 | 1.35% | 2044 | 1.69% |
| 2025 | 0.80% | 2035 | 1.39% | 2045 | 1.71% |
| 2026 | 0.88% | 2036 | 1.43% | 2046 | 1.74% |

### 2.3.2. Taxation

On January 4, 2016, the Knesset passed the Amendment of the Income Tax Ordinance (Amendment no. 216) Law, 2016, which, inter alia, reduced the rate of corporate tax by 1.5% to 25%, from 2016 onwards. Furthermore, on December 29, 2016, the Economic Efficiency (Legislative Amendments for Implementation of the Economic Policy for Fiscal Years 2017 and 2018) Law, 2016, was published in the Official Gazette. Among other things, the law prescribes that corporate tax rate will be reduced from 25% to 23% in two stages. The first stage, to 24%, will apply from January 2017 and the second stage to 23% will apply from January 2018 and thereafter.

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 |
|---|---|---|---|
| 2016 | 25.0% | 17.0% | 35.9% |
| 2017 | 24.0% | 17.0% | 35.0% |
| 2018 and thereafter | 23.0% | 17.0% | 34.2% |

## 2.4. Demographic and operating assumptions

All the assumptions that significantly affect EV were determined according to the Company’s best estimates for each demographic and operating factor, and reflect the Company’s future expectations for these factors (also see Section 1.5).

### 2.4.1. Demographic assumptions

The demographic assumptions included in the calculation were taken from internal studies conducted by the Company, insofar as there are any, and conclusions stemming from the application of profession judgment, based both on relevant experience and the inclusion of information from external sources, e.g. information from reinsurers and published mortality and morbidity tables.

### 2.4.2. Future general and administrative expenses

General and administrative expenses were calculated according to the results of an internal pricing model prepared by the Company for expenses relating to the covered business, including: allocation of the expenses to different operating segments (life assurance, health insurance, and pensions) and allocation of the expenses to different activities (production, ongoing administration, investments, etc.), development of the expenses over time based on the changes in the mix of business and taking into account the management and operating agreements of Harel Pension (see Note 36.21 in the Company's 2016 Periodic Report).

The calculations in the EV model are made on the basis of real, CPI-linked values. The company assumed that in the future, the expenses will increase in line with the CPI or with the rate of increase in the premiums / benefit contributions, or in line with the growth of the asset portfolio, based on the allocation of the expenses to the various activities.

## 2.5. Calculation method

### 2.5.1. Adjusted Net worth (ANW)

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

### 2.5.2. Present value of future profits (PVFP)

PVFP was calculated using an actuarial model based on policy data, management of the pension rights of the pension fund members and other data available to the Company and the pension fund management companies. This model allows future cash flows to be forecast and discounted.

### 2.5.3. Cost of capital (CoC)

A forecast was prepared of the required capital according to the present requirements and based on the anticipated future development of the covered business. CoC is the discounted tax on investment profits on the capital required for the covered business.

### 2.5.4. Value of new business (VNB)

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

VNB was calculated for the following populations:

- All policies that were issued in 2016.
- New coverage issued in 2016 as an addition to policies issued before 2016.
- Group policies that were renewed in 2016.
- Single premiums on existing policies that are not due to a wage increase.

- New members of the pension funds in 2016.

It is stipulated that the present value of future profits (PVFP) includes the value of profits from the end of 2016 onwards for the aforementioned new business.

### 2.6. Treatment of options and financial guarantees

The covered options do not include any material options and guarantees in favor of policyholders.

### 2.7. Analysis of the change in EV and EV profit

The table in Section 3.4 below presents the change in Embedded Value, divided into ANW and VIF components (net of CoC), including transfers between these two components. All the amounts are presented after the deduction of tax. The change is detailed according to its various influencing factors, as follows:

1. Adjustments to EV as at December 31, 2015 – this Section includes corrections relating to the opening data.
2. Changes in operating and demographic assumptions – every year the Company updates the different assumptions that it uses to estimate EV, *inter alia*, on the basis of new data regarding actual experience and changes in management's forecasts. The principal changes in these assumptions were:
   A. In life and health insurance: an increase in the VIF due to revised cancellation rates.
   B. In life and health insurance: an increase in the VIF due to revised expense rates.
   C. In pension management business: a decrease in VIF due to revised assumptions of future management fees and revised cancellation rates.

3. Forecast profit included in EV – EV includes profits which the Company expects to earn even if it does not sell any new business and does not operate in the other segments that are not included in the EV. These profits are attributable to three sources:
   A. Expected yield on VIF at the end of the previous period – these expected revenues are based on the real yield (above the CPI) forecast at the beginning of the year, including margins above the risk-free interest that should have been obtained.
   B. Expected yield on ANW – revenues from investments expected from the assets held against ANW. This expected income is based on the real yield rate (above the index) forecast at the beginning of the year, including margins above the risk-free interest that should have been obtained.

C. Comprehensive income expected to shift from VIF to ANW during the course of 2016. In 2016, the profit forecast for 2016 from the value of the portfolio declined and was added to ANW, so that in total, this source does not affect the EV in its entirety, but results in a shift from VIF to ANW. According to the method of determining ANW, this profit does not include the effect of amortizing the DAC.

4. Effect of deviations from the operating and demographic assumptions – actual experience regarding the percentage of claims, cancellations, expenses and so on were different during the period from those assumed based on Section 2 above, for the purpose of calculating EV. These deviations also affect the profits expected to be received after the end of the year and the profits during year, and the effects are presented in this section separately for the VIF and ANW, respectively. Most of the deviation in insurance business was a greater-than-expected increase in the reserves, particularly in life assurance policies, due to the revised assumption of annuity take up rates (TUR) and in health insurance policies due to the revised cancellation assumption that led a reduction of ANW, and also as a result of implementation of the circular on “Introduction and marketing of services notes”, which prohibits insurance companies from renewing certain service notes from June 2016, that led to a reduction of the VIF.
   This section also includes the effect of several factors, each of which is insignificant in the Company’s opinion, including, *inter alia*, changes in existing insurance policies, reinsurance conditions or commission agreements with agents.

5. Profit from new business – EV does not include the value which is expected to be added from new business sold in the future. Consequently, this section presents the supplement to EV at the end of the previous period due to the sale of new insurance policies during the year and the enrollment of new members in the pension funds. The supplement is divided into the actual effect of the new business on profit for the actual period (presented under ANW) and expected future profit from the new business (presented under VIF). Notably, profit from new business is presented in accordance with the instructions for setting the interest rates for 2016 (see Section 2.3.1 “Yield, discounting interest, and inflation”).

The changes summarized in Sections 2-5 above are usually referred to as ‘real EV operating profit’. This amount reflects the value that was added to the EV, or the profit in terms of value, attributable to the Company’s current activities, excluding the effect of business that was not included in EV (such as non-life insurance) and before the effect of inflation and unforeseen economic factors, such as unexpected changes in the market interest rates, the capital market and inflation.

6. Development expenses not included in EV – we present the effect on actual profits during the year, due to extraordinary expenses that are not

included in EV, but were attributed to future sales. In 2016, there were no expenses that were not included in EV.

7. Profit from special items – there were no special items in 2016.

8. Effect of inflation in 2016 – this section includes the effect of inflation in 2016 (-0.3%) on the opening balance of the EV. The effect of inflation is mainly attributable to linkage of the policies to the CPI, which affects the VIF, and the effect of the anticipated yield equal to the rate of the CPI on ANW.

9. Profit resulting from deviations from the economic assumptions in 2016 and changes in the economic assumptions – this section has three components:

   A. The effect on VIF of changes in the economic assumptions which are based on the market interests. These assumptions include the discounting interest and anticipated yields. This section presents the effect of the change in the interest rate curve according to the rules that were in force at the end of 2015, without the effect of the change in the rules for determining the interest curve (see Section 2.3.1 "Yield, discounting interest, and inflation").

   B. The effect of the difference between the actual yield during the year and the yield that was forecast at the beginning of the year, including margins above the risk-free interest rate that were expected to be received. The effect is in both of the EV components:

      (i) In ANW – due to the effect on profit, mainly from yields on Company assets held against equity and against the insurance reserves for covered business that were different from those expected. Nevertheless, an increase in the special reserve for LAT reduced this effect.

      (ii) In VIF – due to lower-than-expected profits from the portfolio in the future, resulting from a change in the risk-free interest rate vector. Nevertheless, an increase in the special reserve for LAT reduced this effect.

The sum of the changes in Sections 2-9 above are generally referred to as "EV real profit" for covered business. This amount reflects the value that was added to the Embedded Value, or the profit in terms of value attributable to the Company's ongoing activities, including the effects of economic factors and special items, but excluding the effect of inflation and of business not covered by EV (such as non-life insurance).

10. Profit from uncovered business – total EV includes the Company's entire equity so that part of the increase / decrease in EV of the embedded value is explained by the profits/ losses of segments of operation which are not included in the value of the portfolio. This

section also includes financing expenses in in the amount of NIS 89 million (after tax) that were not allocated to the operating segments, together with profit from activity that is not included in VIF.

The sum of the changes in Sections 2-10 forms the total "EV profit" (including the effect of inflation).

11. Capital movements – this section presents the change in EV attributable to the movement of capital, including dividends paid during the year.

12. This section presents the change in EV attributable to the shift from the calculation according to risk free interest to the calculation according to Solvency II interest rates (see Section 2.3.1 above). The effect of the change increased the value of the life and health portfolio by NIS 307 million and reduced the value of the pension portfolio by NIS 59 million. The effect of this change does not include the effect on new business covered in Section 2.7.5 above.

## 2.8. Sensitivity tests

In the sensitivity tests presented in Section 3.6 below, the following approaches were adopted:

1. Unless specified otherwise, the sensitivities relate to all covered business.
2. The sensitivity tests address each assumption separately, without measuring accumulating or offsetting effects or derivative changes on other factors, etc.
3. Sensitivity in respect of VBN refers to changes from the end of 2016 onwards, and not to the period from the date of sale and up to the end of 2016.
4. Mortality – the sensitivity test of mortality rates in insurance business (including accidental death), excluding the death of insureds already receiving old-age pensions and those receiving monthly compensation for work disability or long-term care.
5. Mortality of retirement pension recipients – sensitivity test of mortality rates in the insurance business for recipients of old-age only, excluding the mortality of other pension recipients.
6. Morbidity – sensitivity tests in the insurance business include all claims that are not death events covered in subsection (4) above, including the incidence of critical illness, work disability, long-term care, surgery and hospitalization, accidental disability, etc. The test relates to the frequency of claims and not to the payment period of claims for work disability and long-term care.
7. Interest – the results of the sensitivity test include:

A. The effect of changes in interest rates used as the discounting rate and the yield expected to be received from investing the Company's assets.
B. The effect of changes in interest rates on value of assets bearing shekel or CPI-linked interest, held against the covered business.

8. Annuity Take-up Rate (TUR) – a sensitivity test of insurance business that refers to the growth of the population exercising its option for annuity at retirement age.

9. Changes in salary – this sensitivity test of pension business relates to changes in the rates of wage increases.

10. Management Fees – this sensitivity test of pension business relates to future management fees. This sensitivity test includes a reduction of the management fees for active members, members on hold and pensioners.

## 2.9 Review of the Embedded Value Report

A review report prepared by an external reviewer is attached to this report. The external reviewer reviewed the Embedded Value Report as at December 31, 2016 and the Value of New Business for the year ended on that date, as well as the sensitivity analyses presented in this report.

## 3. Results

### 3.1. Embedded value as at December 31, 2016 (NIS million)

| | EV for covered business in life and health insurance | EV for pension fund management business | Adjustment to consolidation of pension fund management business in the Company's EV | Total EV for life and health insurance and pension fund management business |
|---|---|---|---|---|
| ANW | 3,317 | 177 | (402) | 3,092 |
| PVFP, net of tax | 8,723 | 2,672 | 0 | 11,395 |
| Net of CoC | (209) | (28) | 0 | (237) |
| **Embedded Value** | **11,831** | **2,821** | **(402)** | **14,250** |

### 3.2. VNB of sales in 2016 (NIS million)

| | VNB for covered business in life and health insurance | VNB for pension fund management business | Total VNB for life and health insurance and pension fund management business |
|---|---|---|---|
| VNB before CoC | 911 | 182 | 1,093 |
| CoC for new business | (16) | (2) | (18) |
| **Total VNB** | 895 | 180 | 1,075 |

For comparison purposes only, we present VNB for sales in 2015, as published in the EV Report as at December 31, 2015

| | VNB for covered business in life and health insurance | VNB for pension fund management business | Total VNB for life and health insurance and pension fund management business |
|---|---|---|---|
| Value of new business before CoC | 1,036 | 253 | 1,289 |
| CoC for new business | (22) | (3) | (25) |
| **Total VNB** | **1,014** | **250** | **1,264** |

### 3.3. Correlation between ANW and the equity in the financial statements

**Table 3.3a – Insurance business**

| | NIS million |
|---|---|
| Equity (company's balance sheet) | 4,072 |
| Revaluation of assets that correspond with covered business and presented in the financial statements at fair value cost, net of tax | 368 |
| Net of deferred acquisition costs (DAC) | (1,664) |
| Plus reserve for deferred tax and future tax benefit, in respect of DAC | 541 |
| **ANW for covered long-term insurance business** | **3,317** |

**Table 3.3b – Pension fund management companies**

| | NIS million |
|---|---|
| Equity (companies balance sheets) | 327 |
| Net of deferred acquisition costs (DAC) | (206) |
| Plus reserve for deferred tax and future tax benefits, in respect of DAC | 56 |
| Net of goodwill for acquired pension funds, recorded in the balance sheet of the pension fund management company | 0 |
| **ANW for pension fund management business** | **177** |

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

| | NIS million |
|---|---|
| ANW for long-term insurance policies (life and health insurance), from table 3.3a above | 3,317 |
| Net of deferred acquisition costs (balance sheet DAC) in respect of pensions | (206) |
| Plus reserve for deferred tax and future tax benefits, in respect of DAC, for pensions | 56 |
| Net of the value of acquired pension fund management companies and their goodwill, included in equity | (75) |
| **ANW taking into account pension fund management business** | **3,092** |

### 3.4. Analysis of the change in EV and profit on the basis of EV (in NIS million)

**Table 3.4a –Insurance business**

| | See Section | ANW | VIF | EV |
|---|---|---|---|---|
| **EV as at December 31, 2015 (opening balance)** | | **3,358** | **7,244** | **10,602** |
| Adjustments to EV in respect of the opening balance | 2.7.1 | 0 | (70) | (70) |
| **EV adjusted to the opening balance** | | **3,358** | **7,174** | **10,532** |
| Operating profit from the in-force portfolio for opening balance: | | | | |
| - Changes in operating and demographic assumptions | 2.7.2 | (172) | 307 | 135 |
| - Real forecast increase in ANW and VIF | 2.7.3 | 92 | 336 | 428 |
| - Forecast comprehensive income in 2016, transferred from portfolio value to equity | 2.7.3 | 869 | (869) | 0 |
| - Effect of deviations from operating and demographic assumptions during 2015, and other changes to VIF | 2.7.4 | (329) | (125) | (454) |
| **Total operating profit from VIF on December 31, 2016** | | **460** | **(351)** | **109** |
| Profit from new business | 2.7.5 | (358) | 1,253 | 895 |
| **Real operating profit according to EV** | | **102** | **902** | **1,004** |
| Development expenses not included in EV | 2.7.6 | 0 | 0 | 0 |
| Profit from special items | 2.7.7 | 0 | 0 | 0 |
| Effect of inflation in 2016 | 2.7.8 | (7) | (22) | (29) |
| Profit (loss) from deviations from the economic assumptions during 2016 and changes to the economic assumptions | 2.7.9 | 44 | 153 | 197 |
| **Total EV profit – in respect of covered business and equity** | | **139** | **1,033** | **1,172** |
| Comprehensive income from pension management business | | 22 | 0 | 22 |
| Profit from non-covered business | 2.7.10 | 39 | 0 | 39 |
| **Total profit on basis of EV - including all the Company's business** | | **200** | **1,033** | **1,233** |
| Capital movements | | (241) | 0 | (241) |
| **Total change in EV** | | **(41** | **1,033** | **992** |
| Effect of shift from risk-free interest to Solvency II interest | | 0 | 307 | 307 |
| **EV at December 31, 2016** | | **3,317** | **8,514** | **11,831** |
| | | | | |

### Table 3.4b - Pension fund management business

| | See Section | ANW | VIF | EV |
|---|---|---|---|---|
| **EV as at December 31, 2015 (opening balance)** | | **156** | **2,968** | **3,124** |
| Adjustments to EV in respect of the opening balance | 2.7.1 | 0 | 0 | 0 |
| **EV adjusted to opening balance** | | **156** | **2,968** | **3,124** |
| Operating profit from VIF to the opening balance: | | | | |
| - Changes in operating and demographic assumptions | 2.7.2 | 0 | (621) | (621) |
| - Real increase forecast in ANW and VIF | 2.7.3 | 6 | 59 | 65 |
| - Forecast comprehensive income in 2016, transferred from VIF to ANW | 2.7.3 | 53 | (53) | 0 |
| - Effect of deviations from operating and demographic assumptions in 2016, and other changes in VIF | 2.7.4 | (1) | 12 | 11 |
| **Total operating profit from the in-force portfolio December 31, 2016** | | **58** | **(603)** | **(545)** |
| Profit from new business | 2.7.5 | (44) | 224 | 180 |
| **Real operating profit according to EV** | | **14** | **(379)** | **(365)** |
| Development expenses not included in EV | 2.7.6 | 0 | 0 | 0 |
| Profit from special items | 2.7.7 | 0 | 0 | 0 |
| Effect of inflation in 2016 | 2.7.8 | 0 | (9) | (9) |
| Profit (loss) from deviations from the economic assumptions in 2016 and changes in the economic assumptions | 2.7.9 | (5) | 123 | 118 |
| **Total EV profit – for covered business and equity** | | **9** | **(265)** | **(256)** |
| Movements in capital and uncovered business | | 12 | 0 | 12 |
| **Total change in EV** | | **21** | **(265)** | **(244)** |
| Effect of shift from risk-free interest to Solvency II interest | | 0 | (59) | (59) |
| **Embedded value as at December 31, 2016** | | **177** | **2,644** | **2,821** |

## Table 3.4c - Total insurance and pension business

| | See Section | ANW | VIF | EV |
|---|---|---|---|---|
| **EV as at December 31, 2015 (opening balance)** | | **3,075** | **10,212** | **13,287** |
| Adjustments to EV in respect of opening balance | 2.7.1 | 0 | (70) | (70) |
| **EV adjusted to opening balance** | | **3,075** | **10,142** | **13,217** |
| Operating profit from VIF to the opening balance: | | | | |
| - Changes in operating and demographic assumptions | 2.7.2 | (172) | (314) | (486) |
| - Real increase forecast in ANW and VIF | 2.7.3 | 85 | 395 | 480 |
| - Forecast comprehensive income in 2016, transferred from VIF to ANW | 2.7.3 | 922 | (922) | 0 |
| - Effect of deviations from operating and demographic assumptions in 2016, and other changes in VIF | 2.7.4 | (330) | (113) | (443) |
| **Total operating profit from in-force portfolio at December 31, 2016** | | **505** | **(954)** | **(449)** |
| Profit from new business | 2.7.5 | (402) | 1,477 | 1,075 |
| **Real operating profit according to EV** | | **103** | **523** | **626** |
| Development expenses not included in EV | 2.7.6 | 0 | 0 | 0 |
| Profit from special items | 2.7.7 | 0 | 0 | 0 |
| Effect of inflation in 2016 | 2.7.8 | (6) | (31) | (37) |
| Profit (loss) from deviations from the economic assumptions in 2016 and changes in the economic assumptions | 2.7.9 | 51 | 276 | 327 |
| **Total EV profit – for covered business and equity** | | **148** | **768** | **916** |
| Profit from uncovered business | | 39 | 0 | 39 |
| Capital movements | | (170) | 0 | (170) |
| **Total Change in EV** | | **17** | **768** | **785** |
| Effect of shift from risk-free interest to Solvency II interest | | 0 | 248 | 248 |
| **EV as at December 31, 2016** | | **3,092** | **11,158** | **14,250** |

### 3.5. Correlation between ANW and the net profit of the Company for 2016

#### a. Insurance business

| | NIS million |
|---|---|
| **Net profit for 2016** | 326 |
| Items transferred through a capital reserve | 33 |
| **Comprehensive income after tax** | 359 |
| Change in DAC, before tax | (130) |
| Tax in respect of changes in DAC not included in VIF | (29) |
| Change in fair value difference, net of tax | (0) |
| **Comprehensive income adjusted to EV basis** | 200 |
| Equity adjusted to opening balance | 0 |
| Capital Movements | (241) |
| **Total change in ANW** | (41) |

#### b. Pension business management companies

| | NIS million |
|---|---|
| **Net profit for 2016** | 24 |
| Items transferred through a capital reserve | (1) |
| **Comprehensive income after tax** | 23 |
| Change in DAC, before tax | (17) |
| Tax in respect of changes in DAC not included in VIF | 3 |
| Change in fair value difference, net of tax | 0 |
| **Comprehensive income adjusted to EV basis** | 9 |
| Capital Movements | 12 |
| **Total change in ANW** | 21 |

### 3.6. Sensitivity analysis for covered business as at 31.12.2015

#### a. Insurance business

| | Change in EV | | Change in VNB | |
|---|---|---|---|---|
| | In NIS million | In % | In NIS million | In % |
| **Basic result** | **11,831** | | **895** | |
| 0.5% reduction in risk-free interest rate | (247) | (2.1%) | 24 | 2.6% |
| 10% increase in general and administrative expenses | (291) | (2.5%) | (32) | (3.6%) |
| Relative 10% increase in cancellation rates (including redemptions and settlements) | (711) | (6.0%) | (162) | (18.1%) |
| 10% increase in mortality rates for insureds | (34) | (0.3%) | (34) | (3.8%) |
| 10% increase in morbidity rates | (899) | (7.6%) | (83) | (9.2%) |
| Relative 10% decrease in mortality rate for recipients of old-age pensions | (356) | (3.0%) | (5) | (0.6%) |
| Relative 10% increase in annuity TUR | (115) | (1.0%) | - | - |
| Relative 0.5% increase in risk-free interest rate | 179 | 1.5% | (29) | (3.2%) |
| 10% decrease in general and administrative expenses | 291 | 2.5% | 32 | 3.6% |
| Relative 10% decrease in cancellation rates (including redemptions and settlements) | 832 | 7.0% | 198 | 22.1% |
| 10% decrease in mortality rates for insureds before retirement age | 27 | 0.2% | 28 | 3.2% |
| 10% decrease in morbidity rates | 899 | 7.6% | 83 | 9.3% |
| Relative 10% increase in mortality rate for recipients of old-age pensions | 315 | 2.7% | 9 | 1.0% |

**b. Pension business**

| | Change in EV | | Change in VNB | |
|---|---|---|---|---|
| | **In NIS million** | **In %** | **In NIS million** | **In %** |
| **Basic result** | **2,821** | **100%** | **180** | **100%** |
| 0.5% reduction in risk-free interest rate | 131 | 4.6% | 11 | 6.2% |
| 10% increase in general and administrative expenses | (185) | (6.6%) | (19) | (10.6%) |
| Relative 10% increase in cancellation rates (including redemptions and settlements) | (243) | (8.6%) | (40) | (22.3%) |
| 1% decrease in wages increases | (164) | (5.8%) | (25) | (13.9%) |
| 0.5% increase in risk-free interest rate | (126) | (4.4%) | (12) | (6.5%) |
| 10% decrease in general and administrative expenses | 185 | 6.6% | 19 | 10.6% |
| 10% decrease in cancellation rates (including redemptions and settlements) | 270 | 9.6% | 45 | 25.0% |
| 1% increase in wages increases | 177 | 6.3% | 28 | 15.6% |
| 10 % decrease in management fees | (450) | (16.0%) | (43) | (24.0%) |

Michel Siboni
CEO

Arie Wurtzburger
Deputy CEO and
Chief Actuary

KPMG

May 24, 2017

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

Re: Review of the Report on Embedded Value at December 31, 2016

Foreword

We have reviewed the information that was prepared by Harel Insurance Company Ltd. concerning the Embedded Value at December 31, 2016, the Value of New Business (VNB) for the year ended on that date, an analysis of changes in the Embedded Value and the sensitivity analyses in relation to those changes, with respect to long-term health and life insurance policies and pension fund management business ("the Embedded Value [EV] Report"). The Board of Directors and management are responsible for the preparation and presentation of the EV Report. Our responsibility is to express a conclusion about the embedded value based on our review.

Scope of the review

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

A review is considerably more limited in scope than an audit performed in accordance with generally accepted auditing standards in Israel, and it therefore does not enable us to be certain that we were aware of all the significant matters that might have been identified in an audit. We therefore do not express an audit opinion.

Conclusion

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

We wish to draw your attention to the following:

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

Yours faithfully,

Somekh Chaikin

Certified Public Accountants