Harel Insurance Investments and Financial Services Ltd.

Interim Report as at

June 30, 2017

Contents

Board of Directors Report

Harel Insurance Investments and Financial Services Ltd.

Board of Directors Report
for the six months ended June 30, 2017

The Board of Directors Report for the six months ended June 30, 2017 ("the Reporting Period"), reflects the principal changes in the state of business of Harel Insurance Investments & Financial Services Ltd. ("Harel Investments" or “the Company") during this period, and it was prepared assuming that the reader is also in possession of the Group's full Periodic Report for 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 insurance sectors, the Company operates through the following subsidiaries: Harel Insurance Company Ltd. (fully controlled) ("Harel Insurance"); Interasco Societe Anonyme General Insurance Company S.A.G.I (in which the Company holds 94%) operating in non-life insurance in Greece; Turk Nippon Sigorta A.S. (fully controlled) (“Turk Nippon”), operating in Turkey; ICIC. - Israel Credit Insurance Company Ltd. (in which the Company holds 50%) ("ICIC") and EMI - Ezer Mortgage Insurance Company Ltd. (fully controlled) ("EMI").

   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.

B. 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. (“Harel Pension and Provident’”), a company that manages pension and provident funds, (previously: Harel Pension Funds

Management Ltd., into which, on October 1, 2016, merged with Harel Provident Funds and Education Funds Ltd., which was involved in the management of provident and education funds), was merged

(2) Tzva Hakeva Savings Fund - Provident Funds Management Company Ltd. (under full control) ("Tzva Hakeva").

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

C. In the financial services and capital market sector - the Company operates through Harel Finance Ltd. ("Harel Finance") (wholly controlled by the Company) and its subsidiaries: Harel Pia Mutual Funds Ltd. ("Harel-Pia"), Harel Finance Investments Management Ltd. ("Harel Finance Investments"), Harel Financial Products Ltd. ("Harel Products") (which engages in financial products such as: ETNs, covered warrants and more). The products are offered to the public through the subsidiary Harel Sal Ltd. ("Harel Sal") which is a reporting 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 49.74% of the voting rights in the Company and 49.5% of the Company's issued share capital.

The Shareholders' holding in the Company is principally through G.Y.N. Financial Consulting & Management Ltd. 2017, a limited partnership fully owned and controlled by the Shareholders, which they hold, as limited partners, through private, companies fully owned by them.

For additional information about the Shareholders holding in the Company, see Note 9(8) 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 Financial penalty

On a financial penalty imposed on Harel Insurance, see Note 9(9) to the Financial Statements.

2.1.2 Bonus for 2016

On approval given by the Board of Directors on June 21, 2017, for the manner of calculating the bonuses for the Company's senior officers and controlling shareholders, in accordance with the compensation policy, see Notes 9(12) and 9(13) to the Financial Statements.

2.1.3 Establishment of a New Business Division in Harel Insurance

On the establishment of a New Business Division in Harel Insurance - see Note 9(20) to the financial statements.

2.1.4 Dividend distribution

On a decision from June 21, 2017, concerning the distribution of a dividend, that was paid on July 12, 2017, see Note 9(4) to the Financial Statements.

On a decision from March 22, 2017, concerning the distribution of a dividend, that was paid on April 9, 2017, see Note 9(4) to the Financial Statements.

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

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

2.1.6 Purchase of another layer of insurance for the Directors liability policy

On the purchase of another layer of insurance for a Directors and Officers liability policy, see Note 9(14) to the Financial Statements.

2.1.7 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(16) to the Financial Statements.

2.1.8 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(17) to the Financial Statements.

2.1.9 Issuance of Series 9 and 10 bonds of Harel Financing & 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

There were no material changes in the Company's business after the Reporting Period.

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

Q2 2017 was accompanied by positive, moderate growth in the US, Europe and Asia, as global trade continued to expand and improve. The leading global economic organizations made a slight upward revision of their forecasts for growth in the developed economies.

In the US, Q2 growth was 2.6% at an annual rate. There is almost full employment in the labor market, but wages continue to increase moderately without being translated into significant inflationary pressure. In June, the Federal Reserve raised the interest rate for a second time.

In the Eurozone, Q2 growth was 2.3% at an annual rate. The Purchasing Managers Indices are at their highest level since 2011 and the unemployment rate continued to fall. Political risk diminished in light of the election results in France and this is also reflected in a decline in the yield differences between Germany and other European countries. In contrast, the election results in the UK increased uncertainty regarding the Brexit process. Q2 growth in the UK was 1.2% at an annual rate.

The emerging markets also recorded further improved performance. In China, Q2 growth was 6.9%, compared with the corresponding quarter last year

2.3.2 Developments in the Israeli economy

According to initial estimates, growth in Q2 2017 was 2.7% at an annual rate (compared with 0.6% in Q1). The composition of growth was mixed; alongside an acceleration in private consumption (up 6.5%) and investments in fixed assets (up 5.2%), the export of goods and services shrank (down 8.8%), mainly due to a decline in the export of diamonds and start-ups.

2.3.3 Stock market

Share prices on global stock markets rose reasonably in Q2 2017 as well. The MSCI World Index was up 4.2%, with an 11% increase overall from the beginning of the year. The corresponding index for the Emerging Markets rose by 6.4%, completing an impressive increase of 18.6% from the beginning of the year.

In Israel, the TA-125 index (which replaced the TA-100 index on February 9, 2017) was up 3% in Q2, but from the beginning of the year the index has increased by just 0.5%, mainly due to weak performance in the pharmaceuticals sector. The TA-90 index (which replaced the TA-75 index on February 9, 2017), was up 4.2% in Q2, supported by price increases in the financial, industrial and insurance sectors, increasing by 12.9% overall from the beginning of the year.

The daily turnover of trade in shares and convertible instruments was NIS 1.4 billion in Q2, up 13% compared with the corresponding quarter last year and 11% higher than the average turnover for 2016 as a whole.

2.3.4 Bond market

The general bond index was up 1.1% in Q2 2017, increasing by 1.7% from the beginning of the year. The corporate bond index rose 1.6% in Q2 2017, completing an increase of 3.1% from the beginning of the year. The government bond index rose 0.8% in Q2, increasing by 0.9% overall from the beginning of the year.

The daily turnover of trade in bonds was NIS 3.6 billion in Q2 2017, similar to the corresponding quarter last year, but 3% lower than the average turnover for 2016 as a whole.

2.3.5 Mutual funds

The mutual funds raised net amounts of NIS 5.7 billion in Q2 2017 (an acceleration compared with Q1) and NIS 8.9 billion from the beginning of the year. This is against redemptions of NIS 16.2 billion in the first half of last year.

Mutual funds specializing in shares (NIS 1.5 billion) and funds specializing in bonds (NIS 5.8 billion) continued to play a prominent role in these capital raisings. In contrast, there were further net redemptions in the shekel funds (NIS 970 million) and in the money market funds (NIS 700 million).

2.3.6 Index products

According to the Association of ETFs, at the end of Q2 2017 total assets under management amounted to NIS 92.8 billion, 3.5% lower than at the end of 2016. The decline in the first half of the year was greatest for ETNs on Israeli shares and bond indices, where redemptions of NIS 4.1 billion and NIS 1.0 billion respectively, were recorded. The redemptions were partially offset by the raising of NIS 860 million in ETNs on foreign share indices.

2.3.7 Foreign exchange market

In Q2 2017, the shekel was 1.3% stronger against the Bank of Israel's nominal basket of currencies (mainly due to appreciation against the dollar), completing a revaluation of 5.4% from the beginning of the year. The stronger shekel was supported by the high ongoing surplus in the balance of payments current account, and due to the high real interest rate relative to abroad, despite an acceleration in Bank of Israel purchases of foreign currency compared with last year.

During Q2, the shekel appreciated by 3.7% against the dollar (to NIS 3.496 / dollar) but depreciated by 2.7% against the euro (to NIS 3.9859 / euro).

2.3.8 Inflation

According to the last known index, at the end of Q2 2017, the rate of inflation for the last 12 known indices was 0.8% (until May 2017), after increasing by 0.9% in this quarter. The key factors that contributed to the higher index in Q2 (known index) were clothing and shoes, education and culture, and entertainment. These were partially offset by a decline in the index for food and transportation and communications.

2.3.9 Bank of Israel interest

The Bank of Israel interest rate remained unchanged at 0.1% in Q2 2017 and in practice has not changed since the February 2015 interest rate cut. The reasons for leaving the interest rate unchanged were inflation, that continued to be lower than the Bank of Israel target, and the strong shekel, despite the positive real economic activity.

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 July 30, 2017, the Supervision of Financial Services (Insurance) (Amendment no. 35) Law, 2017, was published in the Official Gazette. The amendment prescribes that insurance companies must send written notification to third parties, 30 days in advance, of their intention to file a claim against them and the amendment also stipulates the details to be included in the notice. If such notice is not sent, the court may rule expenses for the respondent and it may also instruct that the claim be struck out unless it is proven that the sending of such notification by the insurance company would have led to prescription of the claim.

2.4.1.1.2 On July 2, 2017, draft Supervision of Financial Services (Insurance) (Minimum Equity Required for Obtaining an Insurer's License) Regulations, 2017, were published, which repeal and replace the Supervision of Financial Services (Insurance) (Minimum Equity Required of Insurers) Regulations, 1998 ("The Capital Regulations"). The draft regulations propose reducing the minimum equity required for obtaining an insurance company license. The other provisions of the existing regulations relating to the solvency capital requirements will be replaced by circulars to be published by the Commissioner.

On July 2, 2017, the Commissioner published a draft circular on provisions concerning the solvency capital requirements for insurers. The draft circular proposes including provisions as they currently appear in the Capital Regulations, with adjustment for the changes proposed in the draft regulations and also to determine that an insurance company that has a controlling interest in a management company, in provident fund activity or in another insurance company, will be required to hold the minimum equity required of it and the amount obtained by multiplying the capital required of each controlled company by the insurance company's percentage holding in that controlled company, plus 65% of the balance of the original difference relating to the acquisition of these controlled companies..

2.4.1.1.3 On June 20, 2017, a draft Prohibition on Money Laundering (Obligations of Identification, Reporting and Record Keeping by Insurers for Credit Service Providers to Prevent Money Laundering and Terrorism Financing) Order, 2017, was published. The draft order proposes regulating the obligations relating to the prohibition on money laundering and terror financing for "providers of credit services" that are financial institutions, including knowing the customer (KYC), face-to-face identification, recording and verifying the customer's details, and obligations relating to control and reporting.

2.4.1.1.4 On May 18, 2017, the Prohibition on Money Laundering (Obligations of Identification, Reporting and Record Keeping by Insurers, Insurance Agents and Management Companies, to Prevent Money Laundering and Terror Financing) Order, 2017, was published in the Official Gazette. The order prescribes provisions concerning the duty to become acquainted with the customer ("KYC" - know your 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 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 accounts relating to loans; 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 becomes applicable on May 18, 2018, 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.

On July 18, 2017, a draft Prohibition on Money Laundering (Obligations of Identification, Reporting and Keeping Records by Insurers, Insurance Agents and Management Companies, to Prevent Money Laundering and Terror Financing) Order, 2017, was published which proposes bringing forward the application date of the order to February 18, 2018.

2.4.1.1.5 On January 25, 2017, the Bank of Israel (Amendment no. 4) (the Committee for Financial Stability) Bill, 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, 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 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. On July 2, 2017 the Commissioner published a circular which replaces and amends 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 circular also postpones the commencement date of the circular with respect to travel insurance from November 1, 2017 to June 3, 2018.

2.4.1.2.2 On June 1, 2017, the Commissioner published a circular on provisions for the implementation of an economic solvency regime for insurance companies based on Solvency II. The purpose of the circular is to introduce a new solvency regime for insurance companies in Israel, based on the provisions of the directive known as Solvency II, with adjustments for Israel. The provisions of the circular are based on the first pillar of the directive which deals with the calculation of economic capital and risk-based capital requirements. According to the circular, 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 Equity Required of Insurers), 1998, Regulations and any subsequent instructions issued by the Commissioner. According to the circular, the solvency regime based on Solvency II becomes applicable on June 30, 2017, and insurance companies may calculate, up to the end of 2018, solvency capital requirements at the date of the annual report only. In the period commencing June 30, 2017, and ending December 31, 2024, 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 to the circular, 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 on 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 75% of the SCR; the required capital to be calculated on data at December 31, 2020 and the required capital to be calculated on data at June 30, 2021, will not be less than 80% of the SCR, the required capital for solvency to be calculated on data at December 31, 2021 and on data at June 30, 2022, will not be less than 85% of the SCR; the required capital to be calculated on data at December 31, 2022 and on data at June 30, 2023 will not be less than 90% of the SCR; the required capital to be calculated on data at December 31, 2023, and on data at June 30, 2024, will not be less than 95% of the SCR and the required capital to be calculated on data at December 31, 2024, and thereafter will not be less than the SCR.

Further to publication of the circular, on July 2, 2017, the Commissioner published a draft circular on the required disclosure format in the periodic report of insurance companies relating to the economic solvency regime based on Solvency II. Pursuant to the draft circular, insurance companies must include in their annual and quarterly reports a report about the solvency ratio according to the appendix to the draft circular.

2.4.1.2.3 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.

2.4.1.2.4 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.

2.4.1.2.5 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 verifies 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 (Apartments) (Guaranteeing the Investments of Home Buyers) (Amendment no. 9) Law, 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 that sellers must give 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.

2.4.1.3 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.

2.4.1.4 Commissioner's position

On February 1, 2017, the Commissioner published a position paper clarifying the issue of a review of entitlement. The draft 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 July 24, 2017, the Knesset Finance Committee approved the Supervision of Financial Services (Provident Funds) (Purchase and Sale of Securities) (Amendment) Regulations, 2017. The amendment prescribes that the minimum number of bidders in a tender process to choose brokerage providers will be increased from four to eight; a tender process will be held separately for each investment channel instead of for all classes of securities together and at least one winner will be chosen for each investment channel; a sector-based provident fund, whose investments are managed by a corporation will be entitled to buy or sell securities from the corporation or from its related parties, provided that the total amount of commissions for the sale or purchase do not exceed 20% of all the commissions for all sales and purchases made by the provident fund during the year; financial institutions will be permitted to buy and sell securities for random transactions under special circumstances not through the entity chosen in the tender process if the institutional investor has a procedure in place for this type of agreement and that a quarterly report was submitted to the investment committee regarding these transactions; institutional investors will hold a tender process for the purpose of holding securities, once in five years among at least four participants but financial institutions that enter into agreement with a "global custodian" for the purpose of such holding will be exempt from conducting a tender process. The provisions relating to the tender process for holding securities will become applicable a year from their date of publication. The other provisions will enter into force when they are published in the Official Gazette, except regarding the purchase or sale of securities in relation to which a tender process was held before the publication date of the regulations.

2.4.2.1.2 On March 28, 2017, Supervision of Financial Services (Provident Funds) (Recognition of Yields in New Comprehensive Pension Funds) Regulations, 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 according to member groupings - annuity recipients, members aged fifty or above, and other members, so that out of the issuance of earmarked bonds for the new pension funds at a rate of 30% of all the pension fund's assets, the fund will allocate the earmarked bonds 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 from 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 that 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.

2.4.2.1.3 On March 20, 2017, a draft amendment was published to the Supervision of Financial Services (Provident Funds) (Individually Managed Provident Fund) Regulations, 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.

2.4.2.1.4 On March 1, 2017, a second draft of the Supervision of Financial Services (Provident Funds) (Distribution Fees) (Amendment) Regulations, 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 (Advice, Marketing and Pension Clearing System) Law, 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 funds, benefits provident fund, personal several pay provident fund, education funds, investment provident funds).

On May 29, 2017, Supervision of Financial Services (Provident Funds) (Individually Managed Provident Fund) (Amendment) Regulations, 2017, were published. The regulations prescribe provisions concerning monies that can be managed in an individually managed provident fund and transition provisions relating to monies that were deposited before the commencement date; restrictions were added regarding how money invested in individually managed provident funds may be invested and the transfer of money between provident funds where one of them is an individually managed provident fund. The regulations become applicable on June 29, 2018.

2.4.2.1.5 On January 29, 2017, the Supervision of Financial Services (Insurance) (Amendment no. 33) Law, 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 (Provident Funds) (Amendment no. 20) Law, 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 entered into force on April 1, 2017.

2.4.2.1.7 On January 1, 2017, Chapter 12: Tax on the ownership of multiple apartments, to the Economic Efficiency (Legislative Amendments to Achieve Budget Targets for Fiscal Years 2017 and 2018) Law, 2016, 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 (Legislative Amendments to Achieve Budget Targets for Fiscal Years 2017 and 2018) Law, 2016, was published, including Chapter 3: Severance Pay. 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, workers 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 (Legislative Amendments to Achieve Budget Targets for Fiscal Years 2017 and 2018) Law, 2016, was published, including Chapter 2: Savings and assistance for the self-employed. 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 June 1, 2017, the Commissioner published a circular on rules for increasing the percentage yield to be credited to annuity recipients in new pension funds. The circular stipulates that where the percentage yield to be credited for the earmarked bonds for members who are less than 50 years old and who are not receiving an annuity, or for members aged 50 and above, in a particular fund increases by more than 1.5% compared with the last minimum rate published by the Commissioner (which is the percentage yield to credited to these members in a fund in which this is the lowest rate), the fund's management company will credit the yield for the earmarked bonds at a rate that is more than the aforementioned rate for the assets applicable to the annuity recipients in the fund, subject to the provisions of the Supervision of Financial Services (Provident Funds) (Recognition of Yields in New Comprehensive Pension Funds) Regulations, 2012. On June 15, 2017, the Commissioner published that the minimum rate is 27.8%.

2.4.2.2.2 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 for 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, according to the rate of the actuarial surplus or deficit attributed to the yield and changes in the discounting interest rates, and according to 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 on 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.

2.4.2.2.3 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.

2.4.2.2.4 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.

2.4.2.2.5 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 become applicable on the publication date of the amendment. Deferment of the onset of the provisions relating to Investment Provident Funds to July 1, 2017, as well as individual instructions concerning procedures pertaining to Investment Provident Funds in the period between January 1, 2017 and July 1, 2017.

2.4.2.2.6 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.

2.4.2.2.7 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.

2.4.2.2.8 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 clearing fees paid to agents for the period January-December 2016 to July 1, 2017, and the date for subtracting the clearing fees so reported to August 15, 2017. The circular also stipulates that reports to members concerning 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 clearing fees that were paid to them for the period January-June 2017.

On July 2, 2017, the Commissioner published a circular which replaces the existing circular on the subject of rules for the operation of pension products, deferring to July 2, 2017, the date for submitting the report on the clearing fees paid to agents for the period January-December 2016. The circular also states that members will receive a report about the reduced management fees, the amount reduced and the date from which the management fees were reduced, as part of an accompanying letter attached to the first annual report sent to them from the commencement date of the circular. The circular also abolishes the provision whereby reports submitted to financial institutions by agents that were sent out after employees have withdrawn or transferred the money from the active pension product will not be corrected, provided that the amount of the correction is not more than NIS 60. Furthermore, the circular stipulates that a report that is sent after an employee has withdrawn or transferred money form the pension product, as a result of which the management fees per employee are reduced by no more than NIS 35 will not be included in the calculation of the reduced management fees, but financial institutions will transfer this non-reduced amount to employees who ask for it. The circular becomes applicable on its date of publication.

2.4.2.2.9 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 a provident fund chosen by the Commissioner. 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 August 2, 2017, the Commissioner published a draft circular on further implementation of the consolidation of existing accounts in new funds - from inactive accounts to accounts that will be active in September or October 2017. The draft circular sets out provisions for the transfer of information to and receiving information from the Commissioner, on notification to be sent to members about forwarding their details and regarding the transferring of money into their account in an active pension fund; and with respect to the transfer of money when existing accounts in a pension fund are consolidated.

2.4.2.3.2 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.

2.4.2.3.3 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.

2.4.2.3.4 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 Instructions and clarifications

2.4.2.4.1 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 (Provident Funds) Law, 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.

2.4.2.4.2 On July 2, 2017, the Commissioner published a draft ruling in principle which proposes that financial institutions will not collect handling fees from insureds or members for the purpose of arranging a loan that was provided against the balance of the member's accrued savings, or for handling the loan, or allow such money to be collected by a third party. The draft ruling also proposes that financial institutions will refund handling fees that were collected from insureds or members in the period between July 1, 2010 and June 30, 2017; they will publicize the ruling on the financial institution's website and will submit to the Commissioner a summary report prepared by the internal auditor confirming that the company has implemented the provisions of the draft ruling and the correctness of the text of the letter to be sent to savers. It is noted that the draft ruling has no material effect on the Company's results.

2.4.3 Health insurance

2.4.3.1 Provisions of law

2.4.3.1.1 On June 29, 2017, Supervision of Financial Services (Insurance) (Group Long-term Care Insurance for HMO members) (Amendment no. 2) Regulations, 2017, were published in the Official Gazette, amending the Supervision of Financial Services (Insurance) (Group Long-term Care Insurance for HMO members) Regulations, 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 career 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 assessment of a pre-existing medical condition. Furthermore, the definition of mobility in ADLs was broadened so that insureds who are unable to move around without a wheelchair will be considered unable to move independently.

2.4.3.1.2 On June 29, 2017, provisions of the Supervision of Financial Services (Insurance) (Group Health Insurance) (Amendment) Regulations, 2017, were published in the Official Gazette, amending the Supervision of Financial Services (Insurance) (Group Health Insurance) Regulations, 2009. The revised regulations stipulate that employers may enter into a group health insurance contract that also includes the family members of deceased pensioners who the insurer continues to insure, and that HMOs may enter into a group insurance contract for members who have cancelled their membership of an HMO and have not yet registered with another HMO.

2.4.3.1.3 On March 28, 2017, the Contracts (Insurance) (Amendment no. 9) Law, 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.

2.4.3.2 Circulars

2.4.3.2.1 On May 21, 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. According to a circular published on July 4, 2017, the circular will apply to travel insurance policies that are sold or renewed as of September 3, 2017.

2.4.3.3 Draft circulars

2.4.3.3.1 On August 2, 2017, the Commissioner published a draft amendment to the Consolidated Circular - Disclosure and Reporting to Insureds in Health Insurance. The draft amendment proposes amending the present provisions regarding the format for proper disclosure to holders of health insurance and the format of the annual reports, it prescribes provisions concerning the format of the schedule page in health insurance as well as provisions concerning additional disclosure to policyholders, including sending text messages (SMS) about receiving a request to enroll in the insurance, increasing the premiums and the sending of annual reports.

2.4.3.3.2 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 (deciding service provider), and 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 it also prohibits any attempt to influence the opinion of the professional service providers, etc.

2.4.3.3.3 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 bill

On January 30, 2017, the amended Motor Vehicle Insurance Ordinance [New Version] (no. 22), Bill, 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 plumbers.

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.

2.4.4.3 Draft circulars

On August 2, 2017, a draft amendment to the provisions of the Consolidated Circular - Motor and Property Sector, was published. The draft amendment proposes eliminating the list of external loss assessors of the insurance companies and establishing a mechanism for choosing an assessor at random from among a pool of assessors, where any assessor who is not associated with the insurance company can be included in this list; the amendment sets out principles for regulating the relationship between the insurance companies and the agreement garages, including a provision whereby insurance companies must publish the agreements with the garages on their websites and also enter into agreement with any garage that agrees to comply with its conditions, as well as provisions concerning rating and publicizing the insureds' satisfaction with the garages.

2.4.5 Financial services and capital market activity

On August 3, 2017, the Joint Investment Trust (Amendment No. 28) Law, 2017, was published in the Official Gazette. According to the amendment, the ETNs will become closed (traded) tracker mutual funds, and the provisions of the Joint Investment Trust Law will apply to these funds, *mutatis mutandis*, together with special arrangements to be prescribed in the regulations or instructions of the Israel Securities Authority with respect to ETFs. 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 six months ended June 30			For the three months ended June 30		For year ended December 31
	2017	2016	% change	2017	2016	2016
Life assurance and long-term savings segment						
Premiums earned, gross	2,504,173	2,037,250	23	1,255,946	1,019,285	4,299,943
Income from management fees	493,291	390,679	26	235,591	200,807	888,326
Profit (loss) from life assurance business	294,710	(173,612)	-	88,118	(125,966)	11,489
Profit from the management of provident funds	17,076	2,377	-	8,185	6,205	20,048
Profit from the management of pension funds	24,329	24,396	-	13,029	15,668	56,013
Total profit (loss) from life assurance and long-term savings segment	336,115	(146,839)	-	109,332	(104,093)	87,550
Total comprehensive income (loss) from life assurance and long-term savings segment	346,064	(109,381)	-	138,267	(72,732)	127,493
Non-life insurance segment						
Premiums earned, gross	1,528,821	1,451,705	5	775,794	735,655	2,949,193
Premiums earned, in retention	1,044,763	908,172	15	531,456	473,515	1,881,880
Total profit (loss) from non-life insurance segment	105,356	(4,507)	-	20,389	39,574	110,691
Total comprehensive income (loss) from non-life insurance segment	82,400	(3,283)	-	20,400	47,431	74,208
Health insurance segment						
Premiums earned, gross	2,165,699	2,019,083	7	1,088,228	1,022,927	4,163,232
Premiums earned, in retention	2,074,838	1,928,922	8	1,038,793	976,619	3,998,631
Total profit from health insurance segment	40,723	88,451	(54)	6,454	60,329	161,567
Total comprehensive income from health insurance segment	31,418	95,042	(67)	8,423	68,146	157,864
Insurance companies overseas segment						
Premiums earned, gross	203,731	129,694	57	107,334	70,166	300,688
Premiums earned, in retention	160,750	82,927	94	85,447	45,933	206,703
Total profit from insurance companies overseas segment	10,338	3,309	-	2,398	3,904	15,427
Total comprehensive income from insurance companies overseas segment	5,182	4,951	5	3,081	4,385	4,640
Capital market and financial services segment						
Income from the capital market and financial services	100,429	134,449	(25)	50,628	69,917	253,436
Total expenses from the capital market and financial services	83,482	117,210	(29)	41,256	70,627	256,196

	For the six months ended June 30			For the three months ended June 30		For year ended December 31
	2017	2016	% change	2017	2016	2016
Total profit (loss) from the capital market and financial services segment	16,947	17,239	(2)	9,372	(699)	(2,760)
Total comprehensive income (loss) from the capital market and financial services segment	17,028	17,369	(2)	9,426	(625)	(2,654)
Items not included in the operating segments						
Profit from investments, net, and financing income	161,798	59,192	-	62,160	29,698	150,706
Income from commissions	102,197	95,353	7	48,775	46,552	197,878
General and administrative expenses not recognized in the statements of operating segments	67,523	66,912	1	32,466	34,280	118,698
Financing expenses, net	77,352	51,321	51	47,674	36,460	113,404
Pre-tax profit (loss)	609,132	(34,222)	-	178,039	(11,537)	440,555
Net profit (loss) for the year	412,650	(3,554)	-	121,662	(12,617)	396,948
Other comprehensive income for the period, net of tax	24,562	45,804	(46)	62,464	40,587	25,793
Total profit for the period	437,212	42,250	-	184,126	27,970	422,741
Net profit (loss) for the period attributable to shareholders of the Company	412,547	(4,069)	-	121,554	(12,668)	396,599
Net profit attributable to non-controlling interests	103	515	(80)	108	51	349
Return on equity in terms of annual comprehensive income, in percent	16%	2%	-	14%	2%	9%

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

	As at June 30			As at December 31
	2017	2016	% change	2016
Total statement of financial position	101,674	92,580	9.8	96,170
Assets for yield-dependent contracts	47,817	41,255	15.9	44,058
Other financial investments	23,456	21,739	7.9	22,238
Intangible assets	1,453	1,498	(3.0)	1,442
Reinsurance assets	4,719	4,888	(3.5)	4,728
Insurance liabilities (insurance reserves and outstanding claims) in life assurance				
For yield-dependent insurance policies and investment contracts	42,875	36,706	16.8	39,488
For non yield-dependent insurance policies	11,631	11,625	0.1	11,626
In non-life insurance	9,778	9,648	1.3	9,528

	As at June 30			As at December 31
	2017	2016	% change	2016
In health insurance (yield dependent and non-yield dependent)	8,997	8,070	11.5	8,541
In insurance companies overseas (yield-dependent and non yield-dependent)	456	337	35.3	389
Inter-segment adjustments and offsets	(4)	(4)	-	(3)
Total insurance liabilities	73,733	66,382	11.1	69,569
Equity attributable to holders of the Company's equity	5,352	4,843	10.5	5,161

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

	As at June 30			As at December 31
	2017	2016	% change	
For yield-dependent insurance policies and investment contracts	47,817	41,255	15.9	44,058
For members of provident funds and pension funds*	82,629	70,202	17.7	76,023
For mutual fund customers*	16,727	20,747	(19.4)	17,801
For customer portfolios*	8,580	8,634	(0.6)	8,423
ETNs and deposit certificates	13,484	12,954	4.1	13,208
Total managed assets for the Group's policyholders and members	169,237	153,791	10.0	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

Premiums earned from insurance business increased by 14% to a total of NIS 6,400 million in the Reporting Period, compared with NIS 5,635 million in the corresponding period last year. The increase in premiums earned is mainly attributable to lump-sum deposits for savings in the long-term savings segment.

Premiums earned from insurance business increased by 13% to a total of NIS 3,226 million in Q2 2017, compared with NIS 2,847 million in the corresponding quarter last year. The increase in premiums earned is mainly attributable to lump-sum deposits for savings in the long-term savings segment.

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 437 million in the Reporting Period, compared with NIS 42 million in the corresponding period last year.

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

A. An increase in the long-term risk-free interest rate which is used to assess the adequacy of the reserves, as a result of which Harel Insurance reduced the insurance liabilities in the life assurance and long-term savings segment in the Reporting Period by NIS 87 million before tax and NIS 57 million after tax, as against an increase in the insurance liabilities in the corresponding period last year of NIS 146 million before tax and NIS 94 million after tax due to a decline in the interest rate (for additional information, see Note 9 to the Financial Statements).

B. Revised interest rates in the corresponding period 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 (Capitalization) Regulations, 1978, ("Winograd Committee"), in the amount of NIS 175 million before tax and NIS 112 million after tax. This was partially offset by a positive development in the corresponding period last year in estimating the outstanding claims for previous years.

C. An increase in the financial margin relative to the corresponding period last year, as well as an increase in the variable management fees collected in the Reporting Period. Total variable management fees collected in the Reporting Period amounted to NIS 81 million, compared with NIS 25 million collected in the corresponding period last year.

D. In the Reporting Period, the Company recognized income resulting from a revaluation of owner-occupied real estate in the amount of NIS 89 million before tax, and NIS 62 million after tax.

E. An impairment of NIS 25 million before tax and NIS 18 million after tax in respect of the value of the mutual fund activity in the corresponding period last year.

These effects were partially offset by:

A. An increase in claims in the long-term care insurance sector (health insurance segment).

B. An increase in claims in the compulsory motor sector and revised estimate for outstanding claims.

C. The decline in the long-term risk-free interest rate used to assess the discounting interest for the insurance liabilities, as a result of which Harel Insurance increased its insurance liabilities in the third party and employers liability sectors in the non-life segment by NIS 8 million before tax and NIS 5 million after tax.

D. Tax revenues in the corresponding period last year, in the amount of NIS 32 million, following a cut in the corporate tax rate.

Comprehensive income after tax was NIS 184 million in Q2 2017, compared with comprehensive income of NIS 28 million. The increase in comprehensive income is mainly attributable to the following:

A. Reduced insurance liabilities in the life assurance and long-term savings segment in the Reporting Period by NIS 41 million before tax and NIS 27 million after tax, following an increase in the yields embedded in the assets, as against an increase in the insurance liabilities in the corresponding quarter last year of NIS 92 million before tax and NIS 59 million after tax due to a decline in the interest rate (for additional information, see Note 9 to the Financial Statements).

B. An increase in the financial margin relative to the corresponding period last year, as well as an increase in the variable management fees collected in Q2. Total variable management fees collected in the current quarter amounted to NIS 26 million, compared with NIS 10 million collected in the corresponding quarter last year.

C. In Q2, the Company recognized income resulting from a revaluation of owner-occupied real estate in the amount of NIS 86 million before tax, and NIS 57 million after tax.

D. Revised interest in the corresponding quarter last year in the non-life segment in the amount of NIS 25 million before tax and NIS 16 million after tax, based on the Winograd Committee recommendations.

E. An impairment of NIS 25 million before tax and NIS 18 million after tax in respect of the value of the mutual fund activity in the corresponding period last year.

These effects were partially offset by:

A. An increase in claims in the long-term care insurance sector (health insurance segment).

B. An increase in claims in the compulsory motor sector and revised estimate for outstanding claims.

C. The decline in the long-term risk-free interest rate used to assess the discounting interest for the insurance liabilities, as a result of which Harel Insurance increased its insurance liabilities in the third party and employers liability sectors in the non-life segment by NIS 8 million before tax and NIS 5 million after tax.

Net profit was NIS 413 million in the Reporting Period, compared with a loss of NIS 4 million in the corresponding period last year.

Net profit was NIS 122 million in Q2 2017, compared with a loss of NIS 13 million in the corresponding quarter last year.

Pre-tax profit before was NIS 609 million in the Reporting Period, compared with a pre-tax loss of NIS 34 million in the corresponding period last year.

Pre-tax profit amounted to NIS 178 million in Q2 2017, compared with a pre-tax loss of NIS 12 million in the corresponding quarter last year.

Net revenues from investments and financing income amounted to NIS 2,335 million in the Reporting Period, compared with NIS 793 million in the corresponding period last year. The increase is mainly attributable to yields in the capital market which were higher than in the corresponding period last year.

Net income from investments and financing income amounted to NIS 1,227 million in Q2 2017, compared with revenues of NIS 733 million in the corresponding quarter last year. The increase is mainly attributable to yields in the capital market which were higher than in the corresponding quarter last year.

The Company’s financing expenses, that were not attributed to the operating segments, amounted to NIS 77 million in the Reporting Period, compared with financing expenses of NIS 51 million in the corresponding period last year. The increase in financing expenses compared to the corresponding period last year was mainly the result of positive inflation which was 0.7% in the Reporting Period, compared with negative inflation of 0.4% in the corresponding period last year.

The Company's equity at June 30, 2017, relating to the Company's shareholders, was NIS 5,352 million, compared with NIS 4,843 million at June 30, 2016 and 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 437 million; (b) the distribution of a dividend in the amount of NIS 257 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 346 million in the Reporting Period, compared with a comprehensive loss of NIS 109 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 long-term risk-free interest rate which is used to test the adequacy of the reserves, as a result of which Harel Insurance reduced the insurance liabilities in the life assurance and long-term savings segment by NIS 87 million before tax in the Reporting Period, as against an increase in the insurance liabilities of NIS 146 million before tax in the corresponding period last year due to a decline in the interest rate (for additional information, see Note 9 to the Financial Statements).

B. An increase in the financial margin relative to the corresponding period last year, as well as an increase in the variable management fees collected in the Reporting Period. Total variable management fees collected in the Reporting Period amounted to NIS 81 million, compared with NIS 25 million collected in the corresponding period last year.

C. An increase in comprehensive income before tax from the activity of the pension and provident funds, from NIS 28 million in the corresponding period last year, to NIS 42 million in the Reporting Period, which is mainly attributable to one-time provision for the refund of management fees to members as part of the optimization project, in the corresponding period last year.

Comprehensive income in life assurance and long-term savings was NIS 138 million in Q2 2017, compared with a comprehensive loss of NIS 73 million in the corresponding quarter last year. The shift from comprehensive loss to comprehensive income is mainly attributable to the following:

A. Reduced insurance liabilities in the life assurance and long-term savings segment in the amount of NIS 41 million before tax, following an increase in the yields embedded in the assets, as against an increase in the insurance liabilities in the corresponding quarter last year of NIS 92 million before tax due to a decline in the interest rate (for additional information, see Note 9 to the Financial Statements).

B. An increase in the financial margin relative to the corresponding period last year, as well as an increase in the variable management fees collected in Q2. Total variable management fees collected in the current quarter amounted to NIS 26 million, compared with NIS 10 million collected in the corresponding quarter last year.

Pre-tax profit in the life assurance and long-term savings segment was NIS 336 million in the Reporting Period, compared with a pre-tax loss of NIS 147 million in the corresponding period last year.

Pre-tax profit in the life assurance and long-term savings segment was NIS 109 million in Q2 2017, compared with a pre-tax loss of NIS 104 million in the corresponding quarter last year.

2.7.1 Life assurance

Premiums earned in the Reporting Period increased by 23% to NIS 2,504 million, compared with NIS 2,037 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.

Premiums earned in Q2 2017 increased by 23% to NIS 1,256 million, compared with NIS 1,019 million in the corresponding quarter last year. The increase is mainly attributable to lump-sum deposits for savings.

Comprehensive income in life assurance was NIS 304 million in the Reporting Period, compared with a comprehensive loss of NIS 138 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 long-term risk-free interest rate which is used to assess the adequacy of the reserves, as a result of which Harel Insurance reduced the insurance liabilities in the life assurance and long-term savings segment by NIS 87 million before tax in the Reporting Period, as against an increase in the insurance liabilities of NIS 146 million before tax in the corresponding period last year due to a decline in the interest rate (for additional information, see Note 9 to the Financial Statements).

B. An increase in the financial margin relative to the corresponding period last year, as well as an increase in the variable management fees collected in the Reporting Period. Total variable management fees collected in the Reporting Period amounted to NIS 81 million, compared with NIS 25 million collected in the corresponding period last year.

Comprehensive income in life assurance amounted to NIS 116 million in Q2 2017, compared with a comprehensive loss of NIS 95 million in the corresponding quarter last year. The shift from comprehensive loss to comprehensive income is mainly attributable to the following:

A. Reduced insurance liabilities in the life assurance and long-term savings segment in the amount of NIS 41 million before tax, following an increase in the yields embedded in the assets, as against an increase in the insurance liabilities in the corresponding quarter last year of NIS 92 million before tax due to a decline in the interest rate (for additional information, see Note 9 to the Financial Statements).

B. An increase in the financial margin relative to the corresponding period last year, as well as an increase in the variable management fees collected in Q2. Total variable management fees collected in the current quarter amounted to NIS 26 million, compared with NIS 10 million collected in the corresponding quarter last year.

Pre-tax profit in life assurance was NIS 295 million in the Reporting Period, compared with a pre-tax loss of NIS 174 million in the corresponding period last year.

Pre-tax profit from life assurance was NIS 88 million in Q2 2017, compared with a pre-tax loss of NIS 126 million in the corresponding quarter last year.

Profit from investments held against insurance liabilities in life assurance amounted to NIS 1,796 million in the Reporting Period, compared with NIS 519 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 returns in the capital market.

Profit from investments held against insurance liabilities in life assurance amounted to NIS 964 million in Q2 2017, compared with NIS 542 million in the corresponding quarter last year. Profitability in life assurance is derived principally from investment profits, which affect income from the management fees of yield-dependent liability assets and the financial margin from investing the money from liabilities that are not yield dependent. The management fees and financial margin are calculated in real values. The increase is mainly attributable to higher returns in the capital market.

Redemptions in the Reporting Period amounted to NIS 554 million, accounting for 2.5% of the average life assurance reserve, similar to the corresponding period last year.

Redemptions in Q2 2017 amounted to NIS 251 million, accounting for 2.3% of the average reserve in life insurance, compared with redemptions of NIS 264 million in the corresponding quarter last year, which accounted for 2.6% of the average reserve last year.

Total life assurance reserves at June 30, 2017 were NIS 54 billion.

Yield-dependent policies:

	Policies issued 1991-2003			
	1-6.2017 (in percent)	1-6.2016 (in percent)	4-6.2017 (in percent)	4-6.2016 (in percent)
Real yield before payment of management fees	3.09	1.20	1.03	0.53
Real yield after payment of management fees	2.40	0.79	0.76	0.33
Nominal yield before payment of management fees	3.82	0.79	1.94	1.04
Nominal yield after payment of management fees	3.11	0.38	1.66	0.84

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

	Policies issued from 2004			
	1-6.2017 (in percent)	1-6.2016 (in percent)	4-6.2017 (in percent)	4-6.2016 (in percent)
Real yield before payment of management fees	2.95	1.09	0.97	0.72
Real yield after payment of management fees	2.42	0.55	0.71	0.46
Nominal yield before payment of management fees	3.67	0.68	1.88	1.24
Nominal yield after payment of management fees	3.14	0.15	1.62	0.97

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):

	1-6.2017	1-6.2016	4-6.2017	4-6.2016
Profit after management fees	1,188	134	649	317
Total management fees	240	164	108	80

2.7.2 Pension funds

Assets managed by the pension funds increased by 23% to NIS 49.1 billion at June 30, 2017, compared with NIS 39.9 billion at June 30, 2016, and by 11% 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 and to the yield obtained in the Reporting Period.

Benefit contributions collected by the Group's pension funds increased by 12% to NIS 3,359 million in the Reporting Period, compared with NIS 3,011 million in the corresponding period last year.

Benefit contributions collected by the Group's pension funds increased by 9% to NIS 1,752 million in Q2 2017, compared with NIS 1,608 million in the corresponding quarter 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.

Revenues from management fees collected from the pension funds managed by the Group increased by 7% to NIS 145 million in the Reporting Period, compared with NIS 136 million in the corresponding period last year. Revenues from management fees in the corresponding period last year, include revenues in the amount of NIS 5 million for operating services provided by Harel Pension Funds Management Services to Nativ Pension Fund of the Histradrut Industries Workers and Employees Ltd.

For information about the termination of the 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.

Total revenues from management fees which were collected from the pension funds managed by the Group increased by 3% to NIS 72 million in Q2 2017, compared with NIS 70 million in the corresponding quarter last year. Revenues from management fees in the corresponding quarter last year, include revenues in the amount of NIS 2.5 million for operating services provided by Harel Pension Funds Management Services and Nativ Pension Fund of the Histradrut Industries Workers and Employees Ltd.

Expenses for management of the pension funds amounted to NIS 121 million in the Reporting Period, compared with NIS 112 million in the corresponding period last year.

Expenses for management of the pension funds amounted to NIS 60 million in Q2 2017, compared with NIS 56 million in the corresponding quarter last year.

Comprehensive income before tax from the management of pension funds and operation of an old pension fund amounted to NIS 25 million in the Reporting Period, similar to comprehensive income before tax 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 13 million in Q2 2017, compared with NIS 15 in the corresponding quarter last year.

Pre-tax profit from the management of pension funds and operation of an old pension fund amounted to NIS 24 million in the Reporting Period, similar to comprehensive income before tax 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 13 million in Q2 2017, compared with NIS 16 million in the corresponding quarter last year.

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 3.95% in the Reporting Period, compared with a nominal yield of 0.5% in the corresponding period last year.

2.7.3 Provident funds

At the date of the report, the Group's provident fund management companies manage 11 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 June 30, 2017, the Group operates 45 tracks in its provident funds.

Assets under management held by the Group’s provident funds increased by 11% to NIS 33.5 billion at June 30, 2017, compared with NIS 30.3 billion at June 30, 2016, and by 6% compared with 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 19% to NIS 108 million in the Reporting Period, compared with NIS 91 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 the management fees rate.

Income from management fees collected from the provident funds managed by the Group increased by 10% to NIS 55 million in Q2 2017, compared with NIS 50 million in the corresponding quarter last year. The increase in management fees is mainly attributable to a one-time provision recorded in the corresponding quarter last year to reimburse management fees to members as part of the optimization project. This was partially offset by the erosion of the management fees rate.

Provident fund expenses amounted to NIS 92 million, compared with NIS 88 million in the corresponding period last year.

Provident fund expenses amounted to NIS 47 million in Q2 2017, compared with NIS 44 million in the corresponding quarter last year.

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 17 million in the Reporting Period, compared with NIS 4 million in the corresponding period last year.

Comprehensive income before tax for the provident fund management companies which is included in the consolidated statement of income in the life assurance and long-term savings segment, amounted to NIS 8 million in Q2 2017, compared with NIS 7 million in the corresponding quarter last year.

Pre-tax profit from provident fund activity, which is included in the consolidated statement of income in the life assurance and long-term savings segment, amounted to NIS 17 million in the Reporting Period, compared with NIS 2 million in the corresponding period last year.

Pre-tax profit from provident fund activity which is included in the consolidated statement of income in the life assurance and long-term savings segment, was NIS 8 million in Q2 2017, compared with NIS 6 million in the corresponding quarter last year.

The provident funds accrued a net, positive amount (excluding investment profit) of NIS 972 million in the Reporting Period, compared with NIS 540 million accrued in the corresponding period last year.

2.8 Health insurance

Premiums earned in the health insurance segment increased by 7% to NIS 2,166 million in the Reporting Period, compared with NIS 2,019 million in the corresponding period last year. Premiums earned in the health insurance segment account for 34% of all premiums earned by the Group in the Reporting Period.

Premiums earned in the health insurance segment increased by 6% to NIS 1,088 million in Q2 2017, as against NIS 1,023 million in the corresponding quarter last year. Comprehensive income in the health insurance segment was NIS 31 million in the Reporting Period, as against NIS 95 million in the corresponding period last year. The decline in comprehensive income is mainly due to deterioration in long-term care insurance as a result of an increase in claims.

Comprehensive income in the health insurance segment was NIS 8 million in Q2 2017, as against NIS 68 million in the corresponding quarter last year. The decline in comprehensive income is mainly due to deterioration in long-term care insurance as a result of an increase in claims. Pre-tax profit in the health insurance segment was NIS 41 million in the Reporting Period, as against pre-tax profit of NIS 88 million in the corresponding period last year. Pre-tax profit in the health insurance segment was NIS 6 million in Q2 2017, as against NIS 60 million in the corresponding quarter last year. Total payments and changes in liabilities, gross, in respect of insurance contracts in the health insurance segment increased by 19% to NIS 1,785 million in the Reporting Period, compared with NIS 1,497 million in the corresponding period last year. The change in the insurance liabilities includes the investment profits recognized in a group long-term care insurance plan, in which most of the risk is allocated to the actual plan, in the amount of NIS 97 million in the Reporting Period, compared with NIS 31 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						
	1-6.2017	1-6.2016	% change	4-6.2017	4-6.2016	% change	2016
Compulsory motor	313,645	274,102	14.4	99,710	89,371	11.6	491,079
Motor property	384,979	421,818	(8.7)	167,348	170,181	(1.7)	780,015
Property & other branches	500,289	521,164	(4.0)	244,608	281,987	(13.3)	945,618
Other liabilities branches	476,974	453,376	5.2	171,414	162,718	5.3	849,897
Credit & mortgage insurance*	(4,303)	(10,533)	(59.1)	(1,819)	(5,047)	(64.0)	(17,504)
Total	1,671,584	1,659,927	0.7	681,261	699,210	(2.6)	3,049,105

	Comprehensive income (loss) before tax						
	1-6.2017	1-6.2016	% change	4-6.2017	4-6.2016	% change	2016
Compulsory motor	(10,229)	(28,995)	(64.7)	(25,321)	2,475	-	(23,616)
Motor property	17,378	6,305	-	10,302	4,741	-	13,667
Property & other branches	50,778	31,792	59.7	26,935	22,416	20.2	77,437
Other liabilities branches	71	(42,130)	-	(1,799)	7,081	-	(48,886)
Credit & mortgage insurance*	24,402	29,745	(18.0)	10,283	10,718	(4.1)	55,606
Total	82,400	(3,283)	-	20,400	47,431	(57.0)	74,208

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

	1-6.2017	1-6.2016
Compulsory motor	11%	(4%)
Motor property	2%	(18%)
Property & other branches	10%	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 1% to NIS 1,672 million in the Reporting Period, compared with NIS 1,660 million in the corresponding period last year.

Gross premiums decreased by 3% to NIS 681 million in Q2 2017, compared with NIS 699 million in the corresponding quarter last year.

Gross premiums in the non-life segment for the state employees transaction amounted to NIS 18 million in the Reporting Period, compared with NIS 76 million in the corresponding period last year. After adjustment for these premiums, the premiums increased by 4.4% 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 1,157 million in the Reporting Period, compared with NIS 1,137 million in the corresponding period last year.

Premiums in retention increased by 2% to NIS 430 million in Q2 2017, compared with NIS 422 million in the corresponding quarter last year.

Comprehensive income in non-life insurance was NIS 82 million in the Reporting Period, compared with a comprehensive loss of NIS 3 million in the corresponding period last year. The shift from comprehensive loss to comprehensive income is mainly attributable to a revision of the interest rate in the corresponding quarter last year in the non-life segment in the amount of NIS 175 million, based on the Winograd Committee recommendations.

This was partially offset by:

A. A negative development in the compulsory motor sector in the Reporting Period in the estimate of outstanding claims as against a positive development in the corresponding period last year.

B. A decline in the long-term risk-free interest rate used to assess the discounting interest for the insurance liabilities, as a result of which Harel Insurance increased its insurance liabilities in the third party and employers liability sectors in the non-life segment by NIS 8 million.

Comprehensive income in non-life insurance amounted to NIS 20 million in Q2 2017, as against with NIS 47 million in the corresponding quarter last year. The decline is mainly due to the following:

A. Yields in the capital market in the present quarter that were lower than those in the corresponding quarter last year.

B. A negative development in the compulsory motor sector in the current quarter in the estimate of outstanding claims.

C. A decline in the long-term risk-free interest rate used to assess the discounting interest for the insurance liabilities, as a result of which Harel Insurance increased its insurance liabilities in the third party and employers liability sectors in the non-life segment by NIS 8 million.

D. These effects were partially offset on account of revised interest in the corresponding quarter last year in the non-life segment in the amount of NIS 25 million, based on the Winograd Committee recommendations.

Pre-tax profit in non-life insurance amounted to NIS 105 million in the Reporting Period, compared with a loss of NIS 5 million in the corresponding period last year.

Pre-tax profit in non-life insurance amounted to NIS 20 million in Q2 2017, compared with profit of NIS 40 million in the corresponding quarter last year.

2.9.1 Motor property

Gross premiums in motor property insurance decreased by 9% to NIS 385 million in the Reporting Period, as against NIS 422 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.

Gross premiums in motor property insurance amounted to NIS 167 million in Q2 2017, similar to gross premiums of NIS 170 million in the corresponding quarter last year.

Premiums in retention decreased by 10% to NIS 371 million in the Reporting Period, compared with NIS 411 million in the corresponding period last year, as explained above.

Premiums in retention amounted to NIS 161 million in Q2 2017, similar to NIS 164 million in the corresponding quarter last year.

Comprehensive income in motor property insurance was NIS 17 million in the Reporting Period, compared with NIS 6 million in the corresponding period last year. The increased comprehensive income is mainly due to improved underwriting performance.

Comprehensive income in motor property insurance amounted to NIS 10 million in Q2 2017, compared with NIS 5 million in the corresponding quarter last year. The increase in comprehensive income is mainly due to further improvement in underwriting performance.

Pre-tax profit in motor property insurance amounted to NIS 20 million in the Reporting Period, compared with NIS 6 million in the corresponding period last year.

Pre-tax profit in motor property insurance amounted to NIS 10 million in Q2 2017, compared with NIS 4 million in the corresponding quarter 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 15% to NIS 314 million in the Reporting Period, compared with NIS 274 million in the corresponding period last year. The increase is mainly attributable to an increased premium in several group policies. The effect of this increase was offset due to 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.

Gross premiums in compulsory motor insurance increased by 12% to NIS 100 million in Q2 2017, compared with NIS 89 million in the corresponding quarter last year.

Premiums in retention amounted to NIS 312 million in the Reporting Period, compared with NIS 273 million in the corresponding period last year, as explained above.

Premiums in retention amounted to NIS 99 million in Q2 2017, compared with NIS 89 million in the corresponding quarter last year, as explained above.

The comprehensive loss in compulsory motor insurance amounted to NIS 10 million for the Reporting Period, as against a comprehensive loss of NIS 29 million in the corresponding period last year. The reduced comprehensive loss is mainly attributable to a revision of the interest rate in the corresponding quarter last year in the non-life segment in the amount of NIS 106 million, based on the Winograd Committee recommendations. This was partially offset by a negative development in the compulsory motor sector in the Reporting Period in the estimate of outstanding claims as against a positive development in the corresponding period last year.

The comprehensive loss in compulsory motor insurance amounted to NIS 25 million in Q2 2017, compared with comprehensive income of NIS 2 million in the corresponding quarter last year. The shift from comprehensive income to comprehensive loss in the current quarter is mainly attributable to the following:

A. Yields in the capital market in the present quarter that were lower than in the corresponding quarter last year.

B. A negative development in the compulsory motor sector in the current quarter in the estimate of outstanding claims.

C. These were partially offset by a revision of the interest rate in the corresponding period last year in the amount of NIS 10 million, based on the Winograd Committee recommendations.

The pre-tax loss in compulsory motor insurance was NIS 0.4 million in the Reporting Period, as against a pre-tax loss of NIS 30 million in the corresponding period last year.

There was a pre-tax loss of NIS 25 million in compulsory motor insurance in Q2 2017, compared with a pre-tax loss of NIS 1 million in the corresponding quarter last year.

Given that car owners must insure their vehicles in accordance with the Motor Vehicle Insurance Ordinance, the owners of vehicles (usually motorcycles) who were rejected by the insurance companies may purchase insurance through the Pool (Israel 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 477 million in the Reporting Period, compared with NIS 453 million in the corresponding period last year.

Gross premiums in liabilities and other insurance increased by 5%to NIS 171 million in Q2 2017, compared with NIS 163 million in the corresponding quarter last year.

Premiums in retention increased by 6% to NIS 349 million in the Reporting Period, compared with NIS 330 million in the corresponding period last year.

Premiums in retention increased by 3% to NIS 115 million in Q2 2017, compared with NIS 112 million in the corresponding quarter last year.

Comprehensive income in liabilities and other insurance was NIS 0.07 million in the Reporting Period, compared with a comprehensive loss of NIS 42 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 69 million to reflect a current estimate of the amounts that it will be expected to pay for liabilities insurance claims (including the NII). This was partially offset by a decline in the long-term risk-free interest rate used to test the discounting interest, as a result of which Harel Insurance increased its insurance liabilities by NIS 8 million in the Reporting Period.

The comprehensive loss in liabilities and other insurance amounted to NIS 2 million in

Q2 2017, as against comprehensive income of NIS 7 million in the corresponding quarter last year. The shift from comprehensive income to comprehensive loss is mainly attributable to the following:

A. Yields in the capital market in the present quarter that were lower than in the corresponding quarter last year.

B. A decline in the long-term risk-free interest rate used to assess the discounting interest, as a result of which Harel Insurance increased its insurance liabilities by NIS 8 million in Q2 2017.

These were partially offset by a revision of the interest rate in the corresponding quarter last year in the amount of NIS 15 million, based on the Winograd Committee recommendations.

Pre-tax profit in liabilities and other insurance was NIS 12 million in the Reporting Period, as against a pre-tax loss of NIS 43 million in the corresponding period last year.

The pre-tax loss in liabilities and other insurance amounted to NIS 2 million in Q2 2017, as against pre-tax profit of NIS 4 million in the corresponding quarter last year.

2.9.4 Property and other branches

Premiums in property and other insurance decreased by 4% to NIS 500 million in the Reporting Period, as against NIS 521 million in the corresponding period last year.

Premiums in property and other insurance decreased by 13% to NIS 245 million in Q2 2017, as against NIS 282 million in the corresponding quarter last year.

Premiums in retention decreased by 4% to NIS 129 million in the Reporting Period, as against NIS 134 million in the corresponding period last year.

Premiums in retention decreased by 8% to NIS 57 million in Q2 2017, as against NIS 62 million in the corresponding quarter last year.

Comprehensive income in property and other insurance was NIS 51 million in the Reporting Period, compared with NIS 32 million in the corresponding period 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.

Comprehensive income in property and other insurance was NIS 27 million in Q2 2017, compared with NIS 22 million in the corresponding quarter last year.

Pre-tax profit in property and other insurance was NIS 52 million in the Reporting Period, compared with NIS 32 million in the corresponding period last year.

Pre-tax profit in property and other insurance amounted to NIS 27 million in Q2 2017, compared with NIS 22 million in the corresponding quarter last year.

2.9.5 Credit insurance for mortgages

Premiums earned in retention from credit insurance for residential mortgages amounted to NIS 8 million in the Reporting Period, as against NIS 13 million in the corresponding period last year.

Premiums earned in retention from credit insurance for residential mortgages amounted to NIS 3 million in Q2 2017, as against NIS 5 million in the corresponding quarter last year.

Comprehensive income in credit insurance for mortgages amounted to NIS 24 million in the Reporting Period, as against NIS 30 million in the corresponding period last year. The decline in comprehensive income is mainly attributable to one-time income from the release of an outstanding claim in the amount of NIS 5 million in the corresponding period last year.

Comprehensive income in credit insurance for residential mortgages amounted to NIS 10 million in Q2 2017, as against NIS 11 million in the corresponding quarter last year.

Pre-tax profit on credit insurance for residential mortgages amounted to NIS 23 million in the Reporting Period, as against NIS 30 million in the corresponding period last year.

Pre-tax profit in credit insurance for residential mortgages amounted to NIS 10 million in Q2 2017, compared with NIS 10 million in the corresponding quarter 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 57% to NIS 204 million in the Reporting Period, compared with NIS 130 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.

Premiums earned in the insurance companies overseas segment increased by 53% to NIS 107 million in Q2 2017, compared with NIS 70 million in the corresponding quarter last year. Premiums earned by the insurance companies overseas segment in Q2 2017 account for 3% of all premiums earned by the Group.

Comprehensive income in the insurance companies overseas segment was NIS 5 million in the Reporting Period, similar to the corresponding period last year.

Comprehensive income in the insurance companies overseas segment was NIS 3 million in Q2 2017, compared with NIS 4 million in the corresponding quarter last year.

Pre-tax profit in the insurance companies overseas segment was NIS 10 million in the Reporting Period, compared with pre-tax profit of NIS 3 million in the corresponding period last year..

Pre-tax profit in the insurance companies overseas segment was NIS 2 million in Q2 2017, as against NIS 4 million in the corresponding quarter last year.

2.11 Capital market and financial services

Revenues in the capital market and financial services segment decreased by 25% to NIS 100 million in the Reporting Period, as against NIS 134 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.

Revenues in the capital market and financial services segment decreased by 27% to NIS 51 million in Q2 2017, as against NIS 70 million in the corresponding quarter last year. The reduced revenues in the current quarter compared with the corresponding quarter last year are mainly attributable to the decline in the assets under management in the mutual funds and managed portfolios.

Management fees from the mutual funds and managed portfolios amounted to NIS 72 million in the Reporting Period, compared with NIS 87 million in the corresponding period last year. The decline in management fees is attributable to a decline in the assets and to further erosion in the rate of the management fees.

Management fees from the mutual funds and managed portfolios amounted to NIS 36 million in Q2 2017, as against NIS 42 million in the corresponding quarter last year. The decline in management fees is attributable to a decline in the assets and to further erosion in the rate of the management fees.

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 28 million in the Reporting Period, as against NIS 47 million in the corresponding period last year. The decline is due to a change in the asset mix, higher costs for holding the backing asset as well as to market conditions.

Activity in ETNs and deposit certificates and related activity associated with financial products carried out by Harel Sal and Harel Financial Products generated revenues of NIS 15 million in Q2 2017, as against NIS 28 million in the corresponding quarter last year. The decline is due to a change in the asset mix, higher costs for holding the backing asset as well as to market conditions.

The volume of assets under management in the capital market and financial services segment amounted to NIS 38.8 billion at June 30, 2017, as against NIS 42.3 billion at June 30, 2016, and NIS 39.4 billion at December 31, 2016.

These amounts include mutual fund assets of NIS 16.7 billion at June 30, 2017, compared with NIS 20.7 billion at June 30, 2016, and NIS 17.8 billion at December 31, 2016, as well as ETN and deposit certificate assets, which at June 30, 2017 amounted to NIS 13.5 billion, compared with NIS 13 billion at June 30, 2016 and NIS 13.2 billion at 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 17 million in the Reporting Period, similar to the corresponding period last year. Profit in the corresponding period last year includes an impairment of NIS 25 million before tax for the value of the mutual fund activity. After adjustment for this impairment, pre-tax profit in the capital market and financial services segment was NIS 42 million before tax, a 60% decrease compared with the corresponding period last year. The reduced profit is mainly attributable to the decline in assets under management in the mutual fund and portfolio management activity, to the erosion in the management fees rate, and to a change in the asset mix, higher costs for holding the backing asset and market conditions in ETN and deposit certificate activity.

The capital market and financial services segment recorded pre-tax profit and comprehensive income of NIS 9 million in Q2 2017, compared with pre-tax profit and a comprehensive loss of NIS 1 million in the corresponding quarter last year. The loss in the corresponding quarter last year includes an impairment of NIS 25 million before tax for the value of the mutual fund activity. After adjustment for this impairment, pre-tax profit in the capital market and financial services segment was NIS 24 million before tax, a 62% decrease compared with the corresponding quarter last year. The reduced profit is mainly attributable to the decline in assets under management in the mutual fund and portfolio management activity, to the erosion in the management fees rate, to a change in the asset mix, higher costs for holding the backing asset and market conditions in ETN and deposit certificate activity.

2.12 Taxes on income

Taxes on income in the Reporting Period amounted to an expense of about NIS 196 million, compared with income tax revenues of NIS 31 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.

Taxes on income amounted to NIS 56 million in Q2 2017, compared with income tax expenses of about NIS 1 million in the corresponding quarter last year.

2.13 Liquidity and sources of finance

2.13.1 Cash flows

Total net cash flows used for current activity amounted to NIS 1 million in the Reporting Period. Net cash flows used for investment activity amounted to NIS 136 million. Net cash flows provided by financing activity and exchange rate fluctuations amounted to NIS 110 million. The result of all the aforesaid activity is expressed in a decrease of NIS 27 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 comprise tier-1 capital, hybrid tier-1 capital, hybrid tier-2 capital, and tier-3 capital.

On the issuance of Series 9 and 10 bonds of Harel Financing & Issuing, by way of an expansion of 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 August 2, 2017, Ms. Shlomit Zacks Engel took up office as the CFO of Harel Insurance, replacing Ms. Hagit Argov who announced that she wished to step down (Ms. Argov continues to serve Harel Insurance in a senior management position).

4.1.2 On June 22, 2017, Mr. Jonathan Brody began to serve as an appointed life assurance actuary in Harel Insurance, in addition to his service as an appointed health insurance actuary in Harel Insurance. Mr. Roman Reidman, who until that date served as an appointed life assurance actuary, continues to serve as an actuary and will deal mainly with business information. In accordance with Mr. Reidman's announcement to the Company on August 10, 2017, he will end his employment in Harel Insurance in the near future.

4.1.3 Mr. Ronen Agassi, who served, inter alia, as CEO of the Company and head of the Finance & Resources Division of Harel Insurance, terminated his service in the Group on April 15, 2017.

4.1.4 Mr. Michel Siboni, who was Co-CEO of the Company until December 31, 2015 and is currently the CEO of Harel Insurance, replaced Mr. Ronen Agassi as CEO of the Company effective from April 15, 2017.

4.1.5 On April 15, 2017, Mr. Arik Peretz. took up office as CFO of the Company and head of the Finance & Resources Division of Harel Insurance, replacing Mr. Ronen Agassi.

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

4.2 Board of Directors

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

4.2.2 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.

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

5 Disclosure relating to the economic solvency ratio

According to the provisions of a circular on the implementation of an economic solvency regime by insurance companies, based on Solvency II, which was published on June 1, 2017 ("Solvency Circular"), and taking into account the transitional provisions, at December 31, 2016, Harel Insurance, ICIC and EMI have significant capital surpluses.

The capital surplus of Harel Insurance as at December 31, 2016, on a consolidated basis and before the transitional provisions (in terms of SCR of 100%), is NIS 1.9 billion. This capital surplus takes into account the changes made in the directives of the Solvency II Circular during the course of 2016, compared with the assumptions of the IQIS exercise, the effect of which amounted to approximately NIS 1 billion.

Taking the transitional provisions into account, at December 31, 2016, Harel Insurance has a capital surplus of approximately NIS 5.1 billion. This capital surplus takes into account relief and changes in the directives pertaining, inter alia, to the rate of compliance with the required capital in the scheduling period.

At June 30, 2017, Harel Insurance must meet 60% of the amount of the capital requirements under the revised solvency requirements, as approved by the Finance Committee. The capital required to ensure the solvency of insurance companies will increase gradually by 5% each year, beginning with 60% of the SCR until the full SCR is reached.

Following are the Commissioner's provisions relating to the scheduling until the full SCR (100%) is reached on December 31, 2024 ("the Scheduling Period"):

Capital required of an insurance company to maintain solvency in the Scheduling Period, calculated on the basis of data at:	Minimum percentage of SCR
June 30, 2017	60%
December 31, 2017	65%
December 31, 2018; June 30, 2019	70%
December 31, 2019; June 30, 2020	75%
December 31, 2020; June 30, 2021	80%
December 31, 2021; June 30, 2022	85%
December 31, 2022; June 30, 2023	90%
December 31, 2023; June 30, 2024	95%
December 31, 2024 and thereafter	100%

The calculation prepared by Harel Insurance is not audited and not reviewed. According to the Commissioner's instructions, to prepare for audited reporting, a special auditor's report must be submitted to the Commissioner by December 31, 2017, (which does not constitute an audit or a review), the purpose of which is, inter alia, a review of the process, controls and completeness of the data used for the calculation performed by Harel Insurance, as noted.

The model in its present format is extremely sensitive to changes in market and other variables. Consequently, the capital position that it reflects might be extremely volatile. Furthermore, the results of the reporting may be affected by the presence of certain factors, the treatment of which has not yet been finally determined and which are being discussed by the Commissioner and Israel's insurance companies. The existing economic capital and required capital calculations are based on forecasts and assumptions that rely mostly on past experience, as it emerges from actuarial studies conducted from time to time. In view of the reforms in the capital market, insurance and savings, and changes in the economic, demographic and behavioral environment, past data do not necessarily reflect future results.

It should be emphasized that the calculation of the solvency ratio in accordance with the new provisions, is based on cash flows produced by various auxiliary systems that are not an integral part of the ongoing accounting system. These cash flows include a series of assumptions and costing allocations and a review of their sensitivity and validity has not yet been completed. Furthermore, the calculation includes, inter alia, a long series of correlations between the different risks. Harel Insurance is reviewing systems that provide effective analysis and control. Likewise, the Company has begun to define processes to ensure the effectiveness of the internal control.

The calculations required to allocate solvency in accordance with the new provisions are complex in many respects. The present tools, including the actuarial models, are not fully set up for making the calculations at the level of detail and accuracy required to ensure reasonability of the reporting and control over the solvency ratio. Harel Insurance is continuing to invest resources in automating the support processes, in an effort to limit exposure and gaps on this subject, the effect of which is unknown.

Based on all the foregoing, the results might be significantly different.

The calculation as at December 31, 2016, reflects a solvency ratio of 206% for Harel Insurance as calculated including transition provisions. Excluding the transition provisions, the solvency ratio is 123%.

Below is information about the solvency ratio and minimum capital requirement (MCR) at December 31, 2016, based on the instructions in the Solvency circular published on June 1, 2017.

A. Solvency ratio

	December 31, 2016 (Unaudited and not reviewed) NIS thousand
Equity for the purpose of solvency capital requirement (SCR)	**10,363,176**
Solvency capital requirement (SCR)	**8,459,479**
Surplus (deficit) at date of the Report	**1,903,697**
Solvency ratio at date of the report	**123%**
Compliance with milestones in the scheduling period:	
Equity for the purpose of solvency capital requirement (SCR) in the Scheduling Period	**9,814,586**
Solvency Capital Requirement in the Scheduling Period	**4,758,167**
Surplus in the Scheduling Period	**5,056,419**

B. Minimum Capital Requirement (MCR)

	December 31, 2016 (Unaudited and not reviewed) NIS thousand
Minimum Capital Requirement (MCR) [(1)]	**2,114,870**

	December 31, 2016
	(Unaudited and not reviewed)
	NIS thousand
Equity for the purpose of MCR	**7,858,477**

(1) The MCR is calculated in a range from 0.25 SCR to 0.45 SCR. At this stage the minimum amount was calculated.

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

Yair Hamburger Chairman of the Board of Directors	Michel Siboni CEO

August 23, 2017

HAREL INSURANCE INVESTMENTS AND FINANCIAL SERVICES LTD

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at June 30, 2017

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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 June 30, 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 14.90% of all the consolidated assets as at June 30, 2017 and whose revenues included in the consolidation comprise 2.72% and 2.81% of all the consolidated revenues for the six and three months, respectively, ended on that date. Furthermore, we did not review the condensed financial information for the interim period of equity accounted investees, in which the investment is NIS 113,320 thousand as at June 30, 2017, and the Group's share of their profits is NIS 6,267 thousand and NIS 3,285 thousand for the six and three months, respectively, 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)

August 23, 2017

Condensed consolidated interim statements of financial position at

	June 30		December 31
	2017	2016	2016
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand
Assets			
Intangible assets	**1,453,481**	1,497,829	1,442,467
Deferred tax assets	**11,906**	10,972	16,017
Deferred Acquisition Costs	**2,293,631**	2,116,331	2,183,149
Fixed assets	**1,319,256**	1,194,493	1,214,715
Investments in equity accounted investees	**1,368,670**	1,266,792	1,413,346
Investment property for yield-dependent policies	**1,422,136**	1,369,024	1,411,903
Other investment property	**1,687,523**	1,559,483	1,608,786
Reinsurance assets	**4,719,231**	4,887,739	4,728,124
Current tax assets	**28,349**	61,170	26,652
Trade and other receivables	**1,267,646**	1,497,656	1,299,652
Premium due	**1,261,143**	1,319,183	1,407,083
Financial investments for yield-dependent policies	**43,832,963**	37,570,438	40,181,076
Financial investments for holders of ETNs and deposit certificates	**6,543,089**	6,750,858	6,888,838
Other financial investments			
Marketable debt assets	**7,472,479**	7,314,464	7,133,596
Non-marketable debt assets	**12,772,380**	11,168,957	11,929,996
Shares	**833,006**	770,624	805,528
Other	**2,378,089**	2,484,978	2,368,525
Total other financial investments	**23,455,954**	21,739,023	22,237,645
Cash and cash equivalents pledged for bearers of ETNs	**7,434,022**	6,438,230	6,509,508
Cash and cash equivalents for yield-dependent contracts	**1,891,338**	1,541,499	1,847,772
Other cash and cash equivalents	**1,683,475**	1,758,865	1,753,680
Total assets	**101,673,813**	92,579,585	96,170,413
Total assets for yield-dependent contracts	**47,817,312**	41,254,679	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.)

	June 30		December 31
	2017	2016	2016
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand
Equity and liabilities			
Equity			
Share capital and share premium	**349,226**	346,802	351,425
Treasury shares	**(144,292)**	(161,141)	(158,035)
Capital reserves	**391,090**	410,939	368,742
Retained earnings	**4,756,280**	4,246,576	4,599,099
Total equity attributed to shareholders of the Company	**5,352,304**	4,843,176	5,161,231
Non-controlling interests	**6,215**	6,314	6,090
Total equity	**5,358,519**	4,849,490	5,167,321
Liabilities			
Liabilities for non-yield-dependent insurance contracts and investment contracts	**26,562,627**	25,800,075	26,013,727
Liabilities for yield-dependent insurance contracts and investment contracts	**47,171,853**	40,581,925	43,555,153
Deferred tax liabilities	**823,777**	773,164	794,688
Liabilities for employee benefits, net	**241,176**	287,013	252,613
Current tax liabilities	**28,979**	20,402	19,291
Trade and other payables	**3,290,281**	2,921,414	2,870,938
Liabilities for ETNs and deposit certificates	**13,469,187**	12,939,833	13,191,057
Financial liabilities	**4,727,414**	4,406,269	4,305,625
Total liabilities	**96,315,294**	87,730,095	91,003,092
Total equity and liabilities	**101,673,813**	92,579,585	96,170,413

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

Date of approval of the financial statements: August 23, 2017

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

Condensed consolidated interim statements of income

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31 2016 (Audited)
	2017	2016	2017	2016	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Premiums earned, gross	**6,400,329**	5,635,270	**3,226,337**	2,846,809	11,708,169
Premiums earned by reinsurers	**682,141**	749,049	**348,677**	369,477	1,456,026
Earned premiums in retention	**5,718,188**	4,886,221	**2,877,660**	2,477,332	10,252,143
Profit from investments, net, and financing income	**2,335,223**	792,507	**1,226,920**	733,142	2,882,049
Income from management fees	**575,126**	487,994 *	**277,455**	247,344 *	1,075,572 *
Income from commissions	**162,188**	153,895 *	**76,704**	73,234 *	298,888 *
Other income	**6,904**	-	**6,904**	-	-
Total income	**8,797,629**	6,320,617	**4,465,643**	3,531,052	14,508,652
Payments and changes in liabilities for insurance policies and investment contracts, gross	**6,889,901**	5,392,195	**3,681,818**	3,003,571	11,904,084
Reinsurers' share of payments and change in liabilities for insurance policies	**486,454**	717,692	**299,966**	322,118	1,229,856
Payments and changes in liabilities for insurance policies and investment contracts in retention	**6,403,447**	4,674,503	**3,381,852**	2,681,453	10,674,228
Commissions, marketing expenses and other purchasing expenses	**1,172,338**	1,103,053 *	**590,546**	558,199 *	2,246,502 *
General and administrative expenses	**576,410**	556,370 *	**288,820**	276,085 *	1,095,942 *
Other expenses	**20,953**	47,747	**10,485**	35,791	123,140
Financing expenses, net	**61,275**	53,301	**47,455**	50,429	124,456
Total expenses	**8,234,423**	6,434,974	**4,319,158**	3,601,957	14,264,268
Company's share of profits of equity accounted investees	**45,926**	80,135	**31,554**	59,368	196,171
Profit (loss) before taxes on income	**609,132**	(34,222)	**178,039**	(11,537)	440,555
Taxes on income (tax benefits)	**196,482**	(30,668)	**56,377**	1,080	43,607
Profit (loss) for period	**412,650**	(3,554)	**121,662**	(12,617)	396,948
Attributed to:					
Shareholders of the Company	**412,547**	(4,069)	**121,554**	(12,668)	396,599
Non-controlling interests	**103**	515	**108**	51	349
Profit (loss) for period	**412,650**	(3,554)	**121,662**	(12,617)	396,948
Basic earnings(losses) per share attributed to the Company's shareholders (in NIS)	**1.95**	(0.02)	**0.57**	(0.06)	1.88
Diluted earnings (losses) per share attributed to the Company's shareholders (in NIS)	**1.95**	(0.02)	**0.57**	(0.06)	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 six months ended June 30		For the three months ended June 30		For the year ended December 31 2016 (Audited)
	2017	2016	2017	2016	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Profit (loss) for period	**412,650**	(3,554)	**121,662**	(12,617)	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	**101,938**	96,225	**81,978**	57,342	101,884
Net change in fair value of financial assets classified as available-for-sale carried over to income statement	**(116,207)**	(80,285)	**(76,991)**	(37,962)	(147,503)
Loss from impairment of available-for-sale financial assets carried over to income statement	**27,267**	47,311	**19,022**	27,688	81,241
Foreign currency translation differences for foreign activity	**(70,839)**	(12,907)	**(18,648)**	9,068	(44,705)
Tax benefits (taxes on income) attributable to available-for-sale financial assets	**130**	(16,272) *	**(8,736)**	(16,536) *	(1,918)
Tax benefits (taxes on income) for other items of comprehensive income that after initial recognition as part of comprehensive income were or will be transferred to profit or loss	**18,027**	3,772 *	**4,899**	(2,610) *	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	**(39,684)**	37,844	**1,524**	36,990	(1,704)
Other items of comprehensive income that will not be transferred to profit or loss					
Capital reserve for revaluation of fixed assets	**88,954**	12,558	**85,991**	5,667	13,151
Remeasurement of a defined benefit plan	**2,484**	(6,531)	**2,483**	(905)	18,129
Tax benefits (taxes on income) for other items of comprehensive income that will not be transferred to profit or loss	**(27,192)**	1,933	**(27,534)**	(1,165)	(3,783)
Total other comprehensive income for period that will not be transferred to profit or loss, net of tax	**64,246**	7,960	**60,940**	3,597	27,497
Total other comprehensive income for period	**24,562**	45,804	**62,464**	40,587	25,793
Total comprehensive income for period	**437,212**	42,250	**184,126**	27,970	422,741
Attributed to:					
Shareholders of the Company	**437,087**	41,638	**184,038**	27,869	422,353
Non-controlling interests	**125**	612	**88**	101	388
Total profit for period	**437,212**	42,250	**184,126**	27,970	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 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 six months ended June 30, 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 for period	-	-	-	-	-	-	-	412,547	412,547	103	412,650
Total other comprehensive income (loss)	-	13,108	(52,810)	-	-	-	62,523	1,719	24,540	22	24,562
Total comprehensive income (loss) for period	-	13,108	(52,810)	-	-	-	62,523	414,266	437,087	125	437,212
Transactions with shareholders credited directly to equity											
Dividend distributed	-	-	-	-	-	-	-	(257,085)	(257,085)	-	(257,085)
Purchase of treasury stock	-	-	-	-	(14,254)	-	-	-	(14,254)	-	(14,254)
Reissuing of treasury stock	(2,672)	-	-	-	27,997	-	-	-	25,325	-	25,325
Exercising of stock options	473	-	-	(473)	-	-	-	-	-	-	-
Balance as at June 30 2017	349,226	342,731	(132,691)	3,130	(144,292)	(48,908)	226,828	4,756,280	5,352,304	6,215	5,358,519

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 June 30, 2017 (Unaudited)											
Balance as at April 1, 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
Total comprehensive income (loss) for period											
Profit for period	-	-	-	-	-	-	-	121,554	121,554	108	121,662
Total other comprehensive income (loss)	-	15,295	(13,747)	-	-	-	59,218	1,718	62,484	(20)	62,464
Total comprehensive income (loss) for period	-	15,295	(13,747)	-	-	-	59,218	123,272	184,038	88	184,126
Transactions with shareholders credited directly to equity											
Dividend distributed	-	-	-	-	-	-	-	(149,971)	(149,971)	-	(149,971)
Purchase of treasury stock	-	-	-	-	(1,870)	-	-	-	(1,870)	-	(1,870)
Reissuing of treasury stock	(2,047)	-	-	-	6,157	-	-	-	4,110	-	4,110
Exercising of stock options	260	-	-	(260)	-	-	-	-	-	-	-
Balance as at June 30, 2017	349,226	342,731	(132,691)	3,130	(144,292)	(48,908)	226,828	4,756,280	5,352,304	6,215	5,358,519

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 six months ended June 30, 2016 (Unaudited)											
Balance as at January 1, 2016	341,832	295,955	(44,472)	13,032	(161,077)	(48,908)	148,733	4,361,663	4,906,758	5,702	4,912,460
Total comprehensive income (loss) for the period											
Profit (loss) for the period	-	-	-	-	-	-	-	(4,069)	(4,069)	515	(3,554)
Total other comprehensive income (loss)	-	46,885	(9,135)	-	-	-	12,074	(4,117)	45,707	97	45,804
Total comprehensive income (loss) for period	-	46,885	(9,135)	-	-	-	12,074	(8,186)	41,638	612	42,250
Transactions with shareholders credited directly to equity											
Dividend distributed	-	-	-	-	-	-	-	(106,901)	(106,901)	-	(106,901)
Share based payment	-	-	-	84	-	-	-	-	84	-	84
Purchase of treasury stock	-	-	-	-	(3,216)	-	-	-	(3,216)	-	(3,216)
Reissuing of treasury stock	1,661	-	-	-	3,152	-	-	-	4,813	-	4,813
Exercising of stock options	3,309	-	-	(3,309)	-	-	-	-	-	-	-
Balance as at June 30, 2016	346,802	342,840	(53,607)	9,807	(161,141)	(48,908)	160,807	4,246,576	4,843,176	6,314	4,849,490

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 June 30, 2016 (Unaudited)											
Balance as at April 1 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
Total comprehensive income (loss) for period											
Profit (loss) for period	-	-	-	-	-	-	-	(12,668)	(12,668)	51	(12,617)
Total other comprehensive income (loss)	-	30,484	6,459	-	-	-	4,045	(451)	40,537	50	40,587
Total comprehensive income (loss) for period	-	30,484	6,459	-	-	-	4,045	(13,119)	27,869	101	27,970
Transactions with shareholders credited directly to equity											
Purchase of treasury stock	-	-	-	-	(1,267)	-	-	-	(1,267)	-	(1,267)
Reissuing of treasury stock	1,808	-	-	-	599	-	-	-	2,407	-	2,407
Exercising of stock options	3,211	-	-	(3,211)	-	-	-	-	-	-	-
Balance as at June 30, 2016	346,802	342,840	(53,607)	9,807	(161,141)	(48,908)	160,807	4,246,576	4,843,176	6,314	4,849,490

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 year	-	33,668	(35,409)	-	-	-	15,572	408,522	422,353	388	422,741
Transactions with shareholders credited directly to equity											
Dividend distributed	-	-	-	-	-	-	-	(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

		For the six months ended June 30		For the three months ended June 30		For the year ended December 31
		2017	2016	2017	2016	2016
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	Annex	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Cash flows from operating activity						
Before taxes on income	A	**147,848**	1,892,821	**(262,429)**	963,677	3,401,705
Income tax received (paid)		**(148,425)**	7,029	**(17,766)**	19,408	(14,507)
Net cash from (used for) current operations		**(577)**	1,899,850	**(280,195)**	983,085	3,387,198
Cash flows from investing activity					-	
Investment in investees, net		**(31,202)**	(16,774)	**(18,660)**	(12,055)	(73,502)
Proceeds from the sale of an investment in an equity accounted investee		**22,428**	231,120*	**(962)**	147,693*	216,552
Investment in fixed assets		**(56,443)**	(78,560)	**(28,586)**	(45,159)	(134,744)
Investment in intangible assets		**(82,066)**	(62,537)	**(39,748)**	(37,330)	(131,713)
Dividend and interest received from an investee		**10,186**	12,224*	**5,432**	2,957*	24,992
Proceeds from sale of fixed assets		**937**	638	**-**	337	1,423
Net cash provided by (used for) investment activity		**(136,160)**	86,111	**(82,524)**	56,443	(96,992)
Cash flows from financing activities					-	
Proceeds from issuance of liability notes		**247,052**	207,413	**-**	207,413	207,413
Purchase of Treasury shares, net		**11,071**	1,597	**2,240**	1,140	4,299
Proceeds from issuance (payment for purchase) of ETNs and covered warrants, net		**67,842**	(824,309)	**358,069**	(262,289)	(1,614,553)
Short-term credit from banks, net		**40,301**	(131,358)	**41,047**	15,563	(220,969)
Repayment of loans from banks and others		**(64,288)**	(52,367)	**(12,537)**	(27,200)	(106,981)
Dividend paid to the Company's shareholders		**(107,114)**	(106,901)	**(107,114)**	(106,901)	(171,086)
Net cash provided by (used for) financing activity		**194,864**	(905,925)	**281,705**	(172,274)	(1,901,877)
Effect of exchange rate fluctuations on cash balances and cash equivalents		**(84,766)**	(13,185)	**(16,797)**	28,855	(20,390)
Increase (decrease) in cash and cash equivalents		**(26,639)**	1,066,851	**(97,811)**	896,109	1,367,939
Retained cash and cash equivalents at beginning of period	B	**3,601,452**	2,233,513	**3,672,624**	2,404,255	2,233,513
Retained cash and cash equivalents at end of period	C	**3,574,813**	3,300,364	**3,574,813**	3,300,364	3,601,452

* Reclassified

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

Condensed consolidated interim statements of cash flows (Contd.)

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
(Annex A - Cash flows from operating activities before taxes on income (1), (2), (3					
Profit (loss) for the period	**412,650**	(3,554)	**121,662**	(12,617)	396,948
Items not involving cash flows:					
Company's share of profit of equity accounted investees	**(45,926)**	(80,135)	**(31,554)**	(59,368)	(196,171)
Net losses (profits) from financial investments for yield-dependent insurance contracts and investment contracts	**(1,120,197)**	5,002	**(579,351)**	(258,962)	(1,065,599)
Losses (profits) net, from other financial investments					
Marketable debt assets	**54,012**	(13,334)	**(26,436)**	(76,674)	58,905
Non-marketable debt assets	**(22,103)**	41,197	**(52,869)**	(37,600)	48,692
Shares	**(9,793)**	(12,964)	**(4,111)**	2,601	(35,217)
Other investments	**(291,807)**	(29,538)	**(80,757)**	35,976	(223,154)
Financing expenses (incomes) for financial liabilities	**4,425**	(297,382)	**(52,548)**	(99,360)	990,608
Change in fair value of investment property for yield-dependent contracts	**5,419**	16,389	**(353)**	6,302	(7,805)
Change in fair value of other investment property	**(65,958)**	9,999	**378**	711	(18,930)
Depreciation and amortization					
Fixed assets	**39,645**	36,090	**20,285**	15,332	71,255
Intangible assets	**77,991**	96,135	**39,904**	54,028	220,879
Change in liabilities for non-yield-dependent insurance contracts and investment contracts	**573,161**	764,502	**302,176**	261,148	1,033,162
Change in liabilities for yield-dependent insurance contracts and investment contracts	**3,616,700**	1,250,590	**1,833,077**	870,332	4,223,818
Change in reinsurance assets	**2,676**	41,158	**(84,027)**	58,602	185,353
Change in DAC	**(112,741)**	(112,008)	**(33,311)**	(34,462)	(184,050)
Payroll expenses (incomes) for share-based payment	**-**	84	**-**	-	(1,093)
Income tax expenses (incomes)	**196,482**	(30,668)	**56,377**	1,080	43,607
Changes in other statement of financial position items:					
Financial investments and investment property for yield-dependent insurance contracts and investment contracts					
Purchase of investment property	**(15,652)**	(16,455)	**(13,331)**	(7,904)	(35,140)
Net acquisitions of financial investments	**(2,310,238)**	(243,125)	**(1,516,510)**	110,353	(2,062,723)
Other financial investments and investment property					
Purchase of investment property	**(12,779)**	(15,231)	**(11,092)**	(7,763)	(35,606)
Proceeds from the sale of investment property	**-**	1,152	**-**	-	1,153
Net sales (acquisitions) of financial investments	**(474,948)**	(367,710)	**107,560**	1,866	(825,081)
Premiums due	**136,496**	(151,383)	**144,342**	(38,228)	(261,590)
Trade and other receivables	**(170,127)**	(488,789)	**(79,993)**	(449,393)	(154,927)
Financial investments for holders of ETNs, net	**345,749**	360,140	**86,854**	(9,224)	222,160
Cash and cash equivalents pledged for holders of ETNs	**(924,514)**	923,830	**(575,401)**	281,563	852,552
Trade and other payables	**268,022**	199,232	**178,352**	346,996	159,419
Liabilities for employee benefits, net	**(8,797)**	9,597	**(11,752)**	8,342	280
Total adjustments required to present cash flows from operating activity	**(264,802)**	1,896,375	**(384,091)**	976,294	3,004,757
Total cash flows from operating activity before taxes on income	**147,848**	1,892,821	**(262,429)**	963,677	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 625 million (for the six months ended June 30, 2016 an amount of NIS 671 million and for 2016 an amount of NIS 1,375 million) and interest was paid in the amount of NIS 64 million (for the six months ended June 30, 2016 an amount of NIS 58 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 162 million (for the six months ended June 30, 2016, an amount of NIS 96 million and for 2016 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 six months ended June 30		For the three months ended June 30		For the year ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Annex B - Cash and cash equivalents at beginning of period					
Cash and cash equivalents for yield-dependent contracts	**1,847,772**	966,875	**2,330,659**	1,064,160	966,875
Other cash and cash equivalents	**1,753,680**	1,266,638	**1,341,965**	1,340,095	1,266,638
Retained cash and cash equivalents at beginning of the period	**3,601,452**	2,233,513	**3,672,624**	2,404,255	2,233,513
Annex C - Cash and cash equivalents at end of period					
Cash and cash equivalents for yield-dependent contracts	**1,891,338**	1,541,499	**1,891,338**	1,541,499	1,847,772
Other cash and cash equivalents	**1,683,475**	1,758,865	**1,683,475**	1,758,865	1,753,680
Retained cash and cash equivalents at end of the period	**3,574,813**	3,300,364	**3,574,813**	3,300,364	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 June 30, 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 August 23, 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.

Interpretation of IFRIC 23, *Uncertainty over Income Tax Treatments*

The interpretation explains how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty over tax positions. According to the interpretation, when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates in cases of uncertainty, an entity has to consider whether it is probable that the relevant authority will accept the tax treatment that it used in its income tax filing. If the entity concludes that it is probable that a particular tax treatment will be accepted, the entity should recognize the tax repercussions on the financial statements based on that tax position. However, if the entity concludes that it is not probable that a particular tax treatment will be accepted, the entity should reflect the effect of uncertainty in its accounting tax position, using one of the following methods: the most likely outcome or the expected value. Additionally, the interpretation highlights the need to provide disclosure about the judgment and assumptions made by the entity with regard to uncertain tax positions.

Note 3 - Significant accounting principles (Contd.)

A. New standards and interpretations not yet adopted (contd.)

The interpretation will be applied to annual periods beginning on January 1, 2019, with an option for early adoption. The standard includes two possible methods of applying the transition provisions: retrospective application, or prospective application at the start of the reporting period in which an entity first applies them.

The Company has not yet begun to examine the implications of adopting the interpretation 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.

Note 4 - Operating segments (Contd.)

3. Non-life insurance (Contd)

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

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

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

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

4. Insurance companies overseas

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

5. Financial services

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

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

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 six months ended June 30, 2017 (Unaudited)							
	Life Assurance and Long-Term Savings	Health Insurance	Non-life insurance	Insurance companies overseas	Financial Services	Not allocated to operating segments and other	Adjustments and Offsets	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Premiums earned, gross	2,504,173	2,165,699	1,528,821	203,731	-	-	(2,095)	6,400,329
Premiums earned by reinsurers	66,336	90,861	484,058	42,981	-	-	(2,095)	682,141
Premiums earned in retention	2,437,837	2,074,838	1,044,763	160,750	-	-	-	5,718,188
Net profit from investments and financing income	1,797,881	209,462	132,680	11,845	28,154	161,798*	(6,597)	2,335,223
Income from management fees	493,291	1,412	-	-	71,716	8,811	(104)	575,126
Income from commissions	13,651	39,542	87,439	10,194	559	102,197**	(91,394)	162,188
Other income	-	-	-	-	-	6,904	-	6,904
Total income	4,742,660	2,325,254	1,264,882	182,789	100,429	279,710	(98,095)	8,797,629
Payments and changes in liabilities for insurance and investment contracts, gross	3,737,076	1,785,168	1,229,746	139,502	-	-	(1,591)	6,889,901
Reinsurers' share in payments and changes for insurance contracts liabilities	43,471	64,149	357,921	22,504	-	-	(1,591)	486,454
Payments and changes in liabilities for insurance and investment contracts, in retention	3,693,605	1,721,019	871,825	116,998	-	-	-	6,403,447
Commission, marketing and other acquisition expenses	430,420	426,115	311,074	46,447	-	49,676***	(91,394)	1,172,338
General and administrative expenses	269,822	134,279	17,663	7,600	81,253	67,523****	(1,730)	576,410
Other expenses	16,439	-	-	1,406	2,277	831***	-	20,953
Financing expenses (incomes), net	6,116	8,268	(31,131)	-	(48)	77,352	718	61,275
Total expenses	4,416,402	2,289,681	1,169,431	172,451	83,482	195,382	(92,406)	8,234,423
Company's share of profits of equity accounted investees	9,857	5,150	9,905	-	-	21,014	-	45,926
Profit before income taxes	336,115	40,723	105,356	10,338	16,947	105,342	(5,689)	609,132
Other comprehensive income (loss), before income tax	9,949	(9,305)	(22,956)	(5,156)	81	60,984	-	33,597
Total comprehensive income before income tax	346,064	31,418	82,400	5,182	17,028	166,326*****	(5,689)	642,729
Liabilities in respect of non-yield dependent insurance and investment contracts	11,631,179	4,700,488	9,778,482	456,215	-	-	(3,737)	26,562,627
Liabilities in respect of yield dependent insurance and investment contracts	42,874,856	4,296,997	-	-	-	-	-	47,171,853

* 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 91 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 47 million is for expenses of the activity of the Group's insurance agencies.

***** Total comprehensive income before income tax for the activity of the Group's insurance agencies was approximately NIS 16 million.

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Contd.)

	For the three months ended June 30, 2017 (Unaudited)							
	Life Assurance and Long-Term Savings	Health Insurance	Non-life insurance	Insurance companies overseas	Financial Services	Not allocated to operating segments and other	Adjustments and Offsets	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Premiums earned, gross	1,255,946	1,088,228	775,794	107,334	-	-	(965)	3,226,337
Premiums earned by reinsurers	33,982	49,435	244,338	21,887	-	-	(965)	348,677
Premiums earned in retention	1,221,964	1,038,793	531,456	85,447	-	-	-	2,877,660
Net profit from investments and financing income	965,004	117,639	66,305	4,962	15,038	62,160*	(4,188)	1,226,920
Income from management fees	235,591	879	-	-	35,320	5,715	(50)	277,455
Income from commissions	4,993	19,558	41,136	5,130	270	48,775**	(43,158)	76,704
Other income	-	-	-	-	-	6,904	-	6,904
Total income	2,427,552	1,176,869	638,897	95,539	50,628	123,554	(47,396)	4,465,643
Payments and changes in liabilities for insurance and investment contracts, gross	1,994,983	927,754	680,426	79,669	-	-	(1,014)	3,681,818
Reinsurers' share in payments and changes for insurance contracts liabilities	31,054	43,276	211,521	15,129	-	-	(1,014)	299,966
Payments and changes in liabilities for insurance and investment contracts, in retention	1,963,929	884,478	468,905	64,540	-	-	-	3,381,852
Commission, marketing and other acquisition expenses	212,397	213,439	160,598	23,803	-	23,466***	(43,157)	590,546
General and administrative expenses	135,025	69,557	9,206	4,023	40,220	32,466****	(1,677)	288,820
Other expenses	8,291	-	-	775	1,129	290***	-	10,485
Financing expenses (incomes), net	4,706	6,684	(12,275)	-	(93)	47,674	759	47,455
Total expenses	2,324,348	1,174,158	626,434	93,141	41,256	103,896	(44,075)	4,319,158
Company's share of profits of equity accounted investees	6,128	3,743	7,926	-	-	13,757	-	31,554
Profit before income taxes	109,332	6,454	20,389	2,398	9,372	33,415	(3,321)	178,039
Other comprehensive income, before income tax	28,935	1,969	11	683	54	62,183	-	93,835
Total comprehensive income before income tax	138,267	8,423	20,400	3,081	9,426	95,598*****	(3,321)	271,874
Liabilities in respect of non-yield dependent insurance and investment contracts	11,631,179	4,700,488	9,778,482	456,215	-	-	(3,737)	26,562,627
Liabilities in respect of yield dependent insurance and investment contracts	42,874,856	4,296,997	-	-	-	-	-	47,171,853

* 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 43 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 approximately NIS 11 million.

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Contd.)

	For the six months ended June 30, 2016 (Unaudited)							
	Life Assurance and Long-Term Savings	Health Insurance	Non-life insurance	Insurance companies overseas	Financial Services	Not allocated to operating segments and other	Adjustments and Offsets	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Premiums earned, gross	2,037,250	2,019,083	1,451,705	129,694	-	-	(2,462)	5,635,270
Premiums earned by reinsurers	71,050	90,161	543,533	46,767	-	-	(2,462)	749,049
Premiums earned in retention	1,966,200	1,928,922	908,172	82,927	-	-	-	4,886,221
Net profit from investments and financing income	519,779	85,620	74,107	4,566	46,542	59,192*	2,701	792,507
Income from management fees	390,679	1,434	-	-	87,240	8,775 [1]	(134) [1]	487,994
Income from commissions	7,758	32,166	92,501	11,554	667	95,353 **[1]	(86,104) [1]	153,895
Total income	2,884,416	2,048,142	1,074,780	99,047	134,449	163,320	(83,537)	6,320,617
Payments and changes in liabilities for insurance and investment contracts, gross	2,420,396	1,497,136	1,402,931	73,324	-	-	(1,592)	5,392,195
Reinsurers' share in payments and changes for insurance contracts liabilities	46,732	54,321	594,731	23,500	-	-	(1,592)	717,692
Payments and changes in liabilities for insurance and investment contracts, in retention	2,373,664	1,442,815	808,200	49,824	-	-	-	4,674,503
Commission, marketing and other acquisition expenses	412,305	404,745	285,498	38,887	-	47,723 ***[1]	(86,105) [1]	1,103,053
General and administrative expenses	253,810	124,675	16,897	6,690	87,520	66,912 ****[1]	(134) [1]	556,370
Other expenses	16,867	-	-	337	29,218	1,325***	-	47,747
Financing expenses (incomes), net	1,957	1,580	(2,191)	-	472	51,321	162	53,301
Total expenses	3,058,603	1,973,815	1,108,404	95,738	117,210	167,281	(86,077)	6,434,974
Company's share of profits of equity accounted investees	27,348	14,124	29,117	-	-	9,546	-	80,135
Profit (loss) before income taxes	(146,839)	88,451	(4,507)	3,309	17,239	5,585	2,540	(34,222)
Other comprehensive income, before income tax	37,458	6,591	1,224	1,642	130	9,326	-	56,371
Total comprehensive income (loss) before income tax	(109,381)	95,042	(3,283)	4,951	17,369	14,911*****	2,540	22,149
Liabilities in respect of non-yield dependent insurance and investment contracts	11,625,164	4,194,402	9,648,009	336,701	-	-	(4,201)	25,800,075
Liabilities in respect of yield dependent insurance and investment contracts	36,706,332	3,875,593	-	-	-	-	-	40,581,925

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 85 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 41 million is for expenses of the activity of the Group's insurance agencies.
***** Total comprehensive income before income tax for the activity of the Group's insurance agencies was approximately NIS 10 million

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Contd.)

	For the three months ended June 30, 2016 (Unaudited)							
	Life Assurance and Long-Term Savings	Health Insurance	Non-life insurance	Insurance companies overseas	Financial Services	Not allocated to operating segments and other	Adjustments and Offsets	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Premiums earned, gross	1,019,285	1,022,927	735,655	70,166	-	-	(1,224)	2,846,809
Premiums earned by reinsurers	38,020	46,308	262,140	24,233	-	-	(1,224)	369,477
Premiums earned in retention	981,265	976,619	473,515	45,933	-	-	-	2,477,332
Net profit from investments and financing income	543,512	72,021	56,073	2,839	27,302	29,698*	1,697	733,142
Income from management fees	200,807	419	-	-	42,290	3,908 [1]	(80) [1]	247,344
Income from commissions	6,334	12,960	43,158	5,987	325	46,552 **[1]	(42,082) [1]	73,234
Total income	1,731,918	1,062,019	572,746	54,759	69,917	80,158	(40,465)	3,531,052
Payments and changes in liabilities for insurance and investment contracts, gross	1,536,596	792,469	633,976	41,276	-	-	(746)	3,003,571
Reinsurers' share in payments and changes for insurance contracts liabilities	20,168	48,341	240,378	13,977	-	-	(746)	322,118
Payments and changes in liabilities for insurance and investment contracts, in retention	1,516,428	744,128	393,598	27,299	-	-	-	2,681,453
Commission, marketing and other acquisition expenses	201,712	205,917	148,846	20,025	-	23,781 ***[1]	(42,082) [1]	558,199
General and administrative expenses	127,101	60,356	7,666	3,306	43,456	34,280 ****[1]	(80) [1]	276,085
Other expenses	7,977	-	-	225	26,961	628***	-	35,791
Financing expenses, net	2,640	3,091	7,808	-	210	36,460	220	50,429
Total expenses	1,855,858	1,013,492	557,918	50,855	70,627	95,149	(41,942)	3,601,957
Company's share of profits of equity accounted investees	19,847	11,802	24,746	-	11	2,962	-	59,368
Profit (loss) before income taxes	(104,093)	60,329	39,574	3,904	(699)	(12,029)	1,477	(11,537)
Other comprehensive income, before income tax	31,361	7,817	7,857	481	74	13,308	-	60,898
Total comprehensive income (loss) before income tax	(72,732)	68,146	47,431	4,385	(625)	1,279*****	1,477	49,361
Liabilities in respect of non-yield dependent insurance and investment contracts	11,625,164	4,194,402	9,648,009	336,701	-	-	(4,201)	25,800,075
Liabilities in respect of yield dependent insurance and investment contracts	36,706,332	3,875,593	-	-	-	-	-	40,581,925

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 42 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 20million is for expenses of the activity of the Group's insurance agencies.

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

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Contd.)

	For the year ended December 31, 2016 (Audited)							
	Life Assurance and Long-Term Savings	Health Insurance	Non-life insurance	Insurance companies overseas	Financial Services	Not allocated to operating segments and other	Adjustments and Offsets	Total
	NIS 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 financing 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, approximately NIS 71 million is for expenses of the activity of the Group's insurance agencies.

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

Note 4 - Operating segments (Contd.)

B. Additional information about the non-life insurance segment

	For the six months ended June 30, 2017 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	Mortgage insurance	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Gross premiums	313,645	384,979	500,289	476,974	(4,303)	1,671,584
Reinsurance premiums	1,247	14,114	370,865	127,960	-	514,186
Premiums in retention	312,398	370,865	129,424	349,014	(4,303)	1,157,398
Changes in unearned premium balances, in retention	58,774	14,412	8,956	42,712	(12,219)	112,635
Earned premiums in retention	253,624	356,453	120,468	306,302	7,916	1,044,763
Profits from investments, net, and financing income	47,077	11,326	7,786	56,437	10,054	132,680
Income from commissions	-	3,591	71,385	12,463	-	87,439
Total income	300,701	371,370	199,639	375,202	17,970	1,264,882
Payments and changes in liabilities for insurance policies and investment contracts, gross	273,666	270,124	218,629	473,799	(6,472)	1,229,746
Reinsurers' share of payments and change in liabilities for insurance policies	(90)	7,657	182,039	168,315	-	357,921
Payments and changes in liabilities for insurance policies and investment contracts in retention	273,756	262,467	36,590	305,484	(6,472)	871,825
Commissions, marketing expenses and other acquisition expenses	39,932	87,696	109,081	74,365	-	311,074
General and administrative expenses	3,649	5,371	3,741	2,966	1,936	17,663
Financing expenses (incomes), net	(12,346)	(2,970)	(1,060)	(14,801)	46	(31,131)
Total expenses (incomes)	304,991	352,564	148,352	368,014	(4,490)	1,169,431
Company's share of profits of equity accounted investees	3,864	930	332	4,634	145	9,905
Profit (loss) before income taxes	(426)	19,736	51,619	11,822	22,605	105,356
Other comprehensive income (loss), before income tax	(9,803)	(2,358)	(841)	(11,751)	1,797	(22,956)
Total comprehensive income (loss) before income tax	(10,229)	17,378	50,778	71	24,402	82,400
Liabilities for insurance policies, gross, as at June 30, 2017	2,429,980	621,431	870,363	5,456,548	400,160	9,778,482
Liabilities for insurance policies, in retention as at June 30, 2017	2,182,548	589,796	195,979	2,670,058	400,160	6,038,541

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

** Other liabilities branches include mainly results from third-party insurance and professional liability which account for 77% 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 June 30, 2017 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	Mortgage insurance	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Gross premiums	99,710	167,348	244,608	171,414	(1,819)	681,261
Reinsurance premiums	625	6,576	188,083	55,962	-	251,246
Premiums in retention	99,085	160,772	56,525	115,452	(1,819)	430,015
Changes in unearned premium balances, in retention	(30,813)	(19,289)	(4,514)	(41,829)	(4,996)	(101,441)
Earned premiums in retention	129,898	180,061	61,039	157,281	3,177	531,456
Profits from investments, net, and financing income	23,068	5,570	3,559	27,923	6,185	66,305
Income from commissions	-	2,037	33,913	5,186	-	41,136
Total income	152,966	187,668	98,511	190,390	9,362	638,897
Payments and changes in liabilities for insurance policies and investment contracts, gross	162,149	136,387	103,937	279,438	(1,485)	680,426
Reinsurers' share of payments and change in liabilities for insurance policies	817	5,199	84,887	120,618	-	211,521
Payments and changes in liabilities for insurance policies and investment contracts in retention	161,332	131,188	19,050	158,820	(1,485)	468,905
Commissions, marketing expenses and other acquisition expenses	23,181	45,299	51,220	40,898	-	160,598
General and administrative expenses	1,616	2,765	1,973	1,857	995	9,206
Financing expenses (incomes), net	(4,829)	(1,168)	(455)	(5,871)	48	(12,275)
Total expenses (incomes)	181,300	178,084	71,788	195,704	(442)	626,434
Company's share of profits of equity accounted investees	3,117	751	272	3,746	40	7,926
Profit (loss) before income taxes	(25,217)	10,335	26,995	(1,568)	9,844	20,389
Other comprehensive income (loss), before income tax	(104)	(33)	(60)	(231)	439	11
Total comprehensive income (loss) before income tax	(25,321)	10,302	26,935	(1,799)	10,283	20,400
Liabilities for insurance policies, gross, as at June 30, 2017	2,429,980	621,431	870,363	5,456,548	400,160	9,778,482
Liabilities for insurance policies, in retention as at June 30, 2017	2,182,548	589,796	195,979	2,670,058	400,160	6,038,541

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

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

Note 4 - Operating segments (Contd.)

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

	For the six months ended June 30, 2016 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	Mortgage insurance	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Gross premiums	274,102	421,818	521,164	453,376	(10,533)	1,659,927
Reinsurance premiums	659	11,101	387,174	123,784	-	522,718
Premiums in retention	273,443	410,717	133,990	329,592	(10,533)	1,137,209
Changes in unearned premium balances, in retention	65,919	94,200	23,476	69,447	(24,005)	229,037
Earned premiums in retention	207,524	316,517	110,514	260,145	13,472	908,172
Profits from investments, net, and financing income	27,983	6,259	2,510	30,382	6,973	74,107
Income from commissions	1,216	7,436	62,395	21,454	-	92,501
Total income	236,723	330,212	175,419	311,981	20,445	1,074,780
Payments and changes in liabilities for insurance contracts, gross	258,720	265,894	267,532	622,384	(11,599)	1,402,931
Reinsurer's share of payments and changes in liabilities for insurance contracts	20,225	16,033	229,085	329,388	-	594,731
Payments and changes in liabilities for insurance contracts, retention	238,495	249,861	38,447	292,996	(11,599)	808,200
Commissions, marketing expenses and other acquisition expenses	37,205	71,998	103,083	73,212	-	285,498
General and administrative expenses	3,641	5,095	3,320	2,693	2,148	16,897
Financing expenses (incomes), net	(916)	(205)	(82)	(994)	6	(2,191)
Total expenses (incomes)	278,425	326,749	144,768	367,907	(9,445)	1,108,404
Company's share of profits of equity accounted investees	12,159	2,720	1,091	13,201	(54)	29,117
Profit (loss) before income taxes	(29,543)	6,183	31,742	(42,725)	29,836	(4,507)
Other comprehensive (loss), before income tax	548	122	50	595	(91)	1,224
Total comprehensive income (loss) before income tax	(28,995)	6,305	31,792	(42,130)	29,745	(3,283)
Liabilities for insurance policies, gross, as at June 30, 2016	2,403,836	597,667	869,317	5,331,306	445,883	9,648,009
Liabilities for insurance policies, in retention as at June 30, 2016	2,079,896	552,386	205,301	2,351,374	445,883	5,634,840

* Property and other branches primarily include results of property loss insurance and comprehensive homeowners insurance, operations of which account for 83% of total premiums earned from these branches.

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

Note 4 - Operating segments (Contd.)

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

	For the three months ended June 30, 2016 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	Mortgage insurance	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Gross premiums	89,371	170,181	281,987	162,718	(5,047)	699,210
Reinsurance premiums	380	5,929	220,184	51,074	-	277,567
Premiums in retention	88,991	164,252	61,803	111,644	(5,047)	421,643
Changes in unearned premium balances, in retention	(17,496)	1,691	3,873	(29,424)	(10,516)	(51,872)
Earned premiums in retention	106,487	162,561	57,930	141,068	5,469	473,515
Profits from investments, net, and financing income	21,461	4,803	1,965	23,409	4,435	56,073
Income from commissions	516	3,336	29,544	9,762	-	43,158
Total income	128,464	170,700	89,439	174,239	9,904	572,746
Payments and changes in liabilities for insurance contracts, gross	120,063	132,796	138,865	244,046	(1,794)	633,976
Reinsurer's share of payments and changes in liabilities for insurance contracts	6,737	8,188	119,377	106,076	-	240,378
Payments and changes in liabilities for insurance contracts, retention	113,326	124,608	19,488	137,970	(1,794)	393,598
Commissions, marketing expenses and other acquisition expenses	21,383	41,298	47,050	39,115	-	148,846
General and administrative expenses	1,539	2,349	1,428	1,266	1,084	7,666
Financing expenses, net	3,283	733	269	3,496	27	7,808
Total expenses (incomes)	139,531	168,988	68,235	181,847	(683)	557,918
Company's share of profits (losses) of equity accounted investees	10,359	2,318	941	11,276	(148)	24,746
Profit (loss) before income taxes	(708)	4,030	22,145	3,668	10,439	39,574
Other comprehensive, before income tax	3,183	711	271	3,413	279	7,857
Total comprehensive income before income tax	2,475	4,741	22,416	7,081	10,718	47,431
Liabilities for insurance policies, gross, as at June 30, 2016	2,403,836	597,667	869,317	5,331,306	445,883	9,648,009
Liabilities for insurance policies, in retention as at June 30, 2016	2,079,896	552,386	205,301	2,351,374	445,883	5,634,840

* Property and other branches primarily include results of property loss insurance and comprehensive homeowners insurance, operations of which account for 84% of total premiums earned from these branches.

** Other liabilities branches include mainly results from third-party insurance and professional liability which account for 76% of total premiums in these branches.

Note 4 - Operating segments (Contd.)

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

	For the year ended December 31, 2016 (Audited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	Mortgage insurance	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Gross premiums	491,079	780,015	945,618	849,897	(17,504)	3,049,105
Reinsurance premiums	2,523	18,024	701,532	258,864	-	980,943
Premiums in retention	488,556	761,991	244,086	591,033	(17,504)	2,068,162
Changes in unearned premium balances, in retention	55,322	108,820	11,792	51,504	(41,156)	186,282
Earned premiums in retention	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
Income from commissions	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
Commissions, marketing expenses and other acquisition expenses	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 six months ended June 30, 2017 (Unaudited)				For the six months ended June 30, 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	-	-	2,504,173	2,504,173	-	-	2,037,250	2,037,250
Premiums earned by reinsurers	-	-	66,336	66,336	-	-	71,050	71,050
Premiums in retention	-	-	2,437,837	2,437,837	-	-	1,966,200	1,966,200
Profit from investments, net, and financing income	817	932	1,796,132	1,797,881	40	1,129	518,610	519,779
Income from management fees	108,352	144,894	240,045	493,291	90,751	135,542	164,386	390,679
Income from commissions	-	-	13,651	13,651	-	149	7,609	7,758
Total income	109,169	145,826	4,487,665	4,742,660	90,791	136,820	2,656,805	2,884,416
Payments and changes in liabilities for insurance policies and investment contracts, gross	1,065	5,113	3,730,898	3,737,076	1,049	4,602	2,414,745	2,420,396
Reinsurers' share of payments and change in liabilities for insurance policies	-	-	43,471	43,471	-	-	46,732	46,732
Payments and changes in liabilities for insurance policies and investment contracts in retention	1,065	5,113	3,687,427	3,693,605	1,049	4,602	2,368,013	2,373,664
Commissions, marketing expenses and other purchasing expenses	38,165	67,933	324,322	430,420	40,954	62,803	308,548	412,305
General and administrative expenses	47,680	47,681	174,461	269,822	40,765	44,558	168,487	253,810
Other expenses	5,044	767	10,628	16,439	5,642	597	10,628	16,867
Financing expenses (income), net	139	3	5,974	6,116	4	(136)	2,089	1,957
Total expenses	92,093	121,497	4,202,812	4,416,402	88,414	112,424	2,857,765	3,058,603
Company's share of profits of equity accounted investees	-	-	9,857	9,857	-	-	27,348	27,348
Profit (loss) before taxes on income	17,076	24,329	294,710	336,115	2,377	24,396	(173,612)	(146,839)
Other comprehensive income before taxes on income	142	200	9,607	9,949	1,358	176	35,924	37,458
Total comprehensive income (loss) before taxes on income	17,218	24,529	304,317	346,064	3,735	24,572	(137,688)	(109,381)

Note 4 - Operating segments (Contd.)

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

	For the three months ended June 30, 2017 (Unaudited)				For the three months ended June 30, 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	-	-	1,255,946	1,255,946	-	-	1,019,285	1,019,285
Premiums earned by reinsurers	-	-	33,982	33,982	-	-	38,020	38,020
Premiums in retention	-	-	1,221,964	1,221,964	-	-	981,265	981,265
Profit from investments, net, and financing income	78	794	964,132	965,004	374	949	542,189	543,512
Income from management fees	55,447	72,271	107,873	235,591	49,763	70,158	80,886	200,807
Income from commissions	-	-	4,993	4,993	-	73	6,261	6,334
Total income	55,525	73,065	2,298,962	2,427,552	50,137	71,180	1,610,601	1,731,918
Payments and changes in liabilities for insurance policies and investment contracts, gross	543	2,583	1,991,857	1,994,983	517	2,264	1,533,815	1,536,596
Reinsurers' share of payments and change in liabilities for insurance policies	-	-	31,054	31,054	-	-	20,168	20,168
Payments and changes in liabilities for insurance policies and investment contracts in retention	543	2,583	1,960,803	1,963,929	517	2,264	1,513,647	1,516,428
Commissions, marketing expenses and other purchasing expenses	19,421	32,932	160,044	212,397	20,227	31,918	149,567	201,712
General and administrative expenses	24,785	24,066	86,174	135,025	20,353	21,639	85,109	127,101
Other expenses (income)	2,522	455	5,314	8,291	2,836	(173)	5,314	7,977
Financing expenses (income), net	69	-	4,637	4,706	(1)	(136)	2,777	2,640
Total expenses	47,340	60,036	2,216,972	2,324,348	43,932	55,512	1,756,414	1,855,858
Company's share of profits of equity accounted investees	-	-	6,128	6,128	-	-	19,847	19,847
Profit (loss) before taxes on income	8,185	13,029	88,118	109,332	6,205	15,668	(125,966)	(104,093)
Other comprehensive income (loss) before taxes on income	187	376	28,372	28,935	485	(292)	31,168	31,361
Total comprehensive income (loss) before taxes on income	8,372	13,405	116,490	138,267	6,690	15,376	(94,798)	(72,732)

Note 4 - Operating segments (Contd.)

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

	For the 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

	Policies which include a savings component (incl. riders) by date of policy issue				Policies with no savings component		
			from 2004		Risk that was sold as a stand-alone policy		
	Until 1990 (1)	Up to 2003	Not yield-dependent	Yield dependent	Personal lines	Group	Total
For the six months ended June 30, 2017 (Unaudited)	NIS thousand						
Gross premiums	59,095	476,302	-	1,380,538	500,273	91,872	2,508,080
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(3,907)
Total							2,504,173
Amounts received for investment contracts recognized directly in insurance reserves	-	-	-	1,748,836	-	-	1,748,836
Financial margin including management fees - in terms of comprehensive income (2)	68,247	140,333	35,796	99,712	-	-	344,088
Payments and changes in liabilities for insurance policies gross	210,498	1,205,083	-45	1,703,946	260,912	81,862	3,462,256
Payments and change in liabilities for investment contracts	-	-	136	268,506	-	-	268,642
For the three months ended June 30 2017 (Unaudited)							
Gross premiums	30,104	238,789	-	685,379	257,303	44,910	1,256,485
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(539)
Total							1,255,946
Amounts received for investment contracts recognized directly in insurance reserves	-	-	-	826,878	-	-	826,878
Financial margin including management fees - in terms of comprehensive income (2)	19,781	56,125	17,320	51,748	-	-	144,974
Payments and changes in liabilities for insurance policies gross	150,326	625,496	9,652	897,722	150,531	37,796	1,871,523
Payments and change in liabilities for investment contracts	-	-	105	120,229	-	-	120,334

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

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

Note 4 - Operating segments (Contd.)

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

Results by policy category (Contd.)

	Policies which include a savings component (incl. riders) by date of policy issue				Policies with no savings component		
			from 2004		Risk that was sold as a stand-alone policy		
	Until 1990 (1)	Up to 2003	Not yield-dependent	Yield dependent	Personal lines	Group	Total
For the six months ended June 30, 2016 (Unaudited)	NIS thousand						
Gross premiums	62,209	457,278	5	970,732	451,642	103,876	2,045,742
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(8,492)
Total							2,037,250
Amounts received for investment contracts recognized directly in insurance reserves	-	-	-	866,318	-	-	866,318
Financial margin including management fees - in terms of comprehensive income (2)	75,064	80,068	(79,018)	84,319	-	-	160,433
Payments and changes in liabilities for insurance policies gross	324,935	592,700	112,687	900,074	208,108	106,559	2,245,063
Payments and change in liabilities for investment contracts	-	-	75	169,607	-	-	169,682
For the three months ended June 30, 2016 (Unaudited)							
Gross premiums	30,435	226,970	5	486,790	229,395	51,775	1,025,370
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(6,085)
Total							1,019,285
Amounts received for investment contracts recognized directly in insurance reserves	-	-	-	423,567	-	-	423,567
Financial margin including management fees - in terms of comprehensive income (2)	19,570	38,258	(29,376)	42,629	-	-	71,081
Payments and changes in liabilities for insurance policies gross	241,721	410,305	46,472	603,677	125,624	47,358	1,475,157
Payments and change in liabilities for investment contracts	-	-	362	58,296	-	-	58,658

(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 six months ended June 30, 2017 (Unaudited)	Long-term care (LTC) Personal lines	Long-term care (LTC) Group	Other health* long-term **	Other health* short-term **	Total
	NIS thousand				
Gross premiums	294,107	624,763	1,035,464	214,259	2,168,593
Payments and changes in liabilities for insurance contracts, gross	297,891	697,279	649,994	140,004	1,785,168

For the three months ended June 30, 2017 (Unaudited)	Long-term care (LTC) Personal lines	Long-term care (LTC) Group	Other health* long-term **	Other health* short-term **	Total
	NIS thousand				
Gross premiums	143,270	318,469	513,023	100,139	1,074,901
Payments and changes in liabilities for insurance contracts, gross	150,920	385,386	322,398	69,050	927,754

For the six months ended June 30, 2016 (Unaudited)	Long-term care (LTC) Personal lines	Long-term care (LTC) Group	Other health* long-term **	Other health* short-term **	Total
	NIS thousand				
Gross premiums	263,148	566,873	992,222	199,759	2,022,002
Payments and changes in liabilities for insurance contracts, gross	177,311	582,406	608,501	128,918	1,497,136

For the three months ended June 30, 2016 (Unaudited)	Long-term care (LTC) Personal lines	Long-term care (LTC) Group	Other health* long-term **	Other health* short-term **	Total
	NIS thousand				
Gross premiums	131,486	284,702	500,327	101,984	1,018,499
Payments and changes in liabilities for insurance contracts, gross	108,228	304,505	313,547	66,189	792,469

* Of this personal lines premiums in the amount of NIS 818,527 thousand and NIS 402,866 thousand for the six and three-month periods ended June 30, 2017, respectively (personal lines premiums of NIS 748,731 thousand and NIS 377,756 thousand for the six and three-month periods ended June 30, 2016 respectively) and group premiums in the amount of NIS 431,196 thousand and NIS 210,296 thousand for the six and three-month periods ended June 30, 2017, respectively (and group premiums of NIS 443,250 thousand and NIS 224,455 thousand for the six and three-month periods ended June 30, 2016, respectively) .

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

Note 4 – Operating segments (Contd.)

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

Results by policy category (Contd.)

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

* Of this, personal lines premiums in the amount of NIS 1,588,920 thousand and group premiums in the 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:

	June 30		Dec 31
	2017	2016	2016
	(Unaudited)	(Unaudited)	(Audited)
Investment property	**1,422,136**	1,369,024	1,411,903
Financial investments			
Marketable debt assets	**16,660,952**	16,077,771	15,441,195
Non-marketable debt assets (*)	**10,717,742**	7,462,301	9,597,966
Shares	**7,816,290**	6,422,844	7,433,050
Other financial investments	**8,637,979**	7,607,522	7,708,865
Total financial investments	**43,832,963**	37,570,438	40,181,076
Cash and cash equivalents	**1,891,338**	1,541,499	1,847,772
Other	**670,875**	773,718	617,090
Total assets for yield-dependent contracts **	**47,817,312**	41,254,679	44,057,841
Trade and other payables	**258,567**	247,538	10,570
Financial liabilities ***	**123,124**	193,560	145,562
Financial liabilities for yield-dependent contracts	**381,691**	441,098	156,132
(*) Assets measured at adjusted cost	**688,776**	623,451	700,749
Fair value of debt assets measured at adjusted cost	**734,818**	670,071	739,088

** Including assets in the amount of NIS 3,912,736 thousand, NIS 3,506,982 thousand, and NIS 3,686,521 thousand as at June 30, 2017 and 2016, and as at December 31, 2016 respectively, for a liability attributable to a group long-term care portfolio in which most of the investment risks are not imposed on the insurer.

*** Mainly derivatives and futures contracts.

Note 6 – Financial instruments (Contd.)

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

2. Fair value hierarchy of financial assets

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

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

	as at June 30, 2017 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Marketable debt assets	**13,668,269**	**2,992,683**	**-**	**16,660,952**
Non-marketable debt assets	**-**	**9,162,550**	**866,416**	**10,028,966**
Shares	**5,855,569**	**8,480**	**1,952,241**	**7,816,290**
Other	**5,138,577**	**463,077**	**3,036,325**	**8,637,979**
Total	**24,662,415**	**12,626,790**	**5,854,982**	**43,144,187**

	as at June 30, 2016 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Marketable debt assets	12,538,988	3,538,783	-	16,077,771
Non-marketable debt assets	-	6,540,646	298,204	6,838,850
Shares	4,897,057	21,198	1,504,589	6,422,844
Other	4,636,001	139,265	2,832,256	7,607,522
Total	22,072,046	10,239,892	4,635,049	36,946,987

	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 six and three-month periods ended June 30, 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 (*)	2,043	(52,976)	24,775	(26,158)
Interest and dividend receipts	(10,711)	(17,191)	(86,299)	(114,201)
Purchases	197,406	72,569	233,201	503,176
Sales	(9,471)	(5,179)	(174,776)	(189,426)
Redemptions	(130,882)	(1,050)	(7,417)	(139,349)
Transfers to Level 3 *	11,338	-	-	11,338
Transfers from Level 3 **	(88)	-	-	(88)
Balance as at June 30 2017	866,416	1,952,241	3,036,325	5,854,982
(*) Of which total profits (losses) for the period that have not yet been exercised for financial assets held correct to June 30, 2017	(685)	(53,952)	22,654	(31,983)

	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 April 1, 2017	841,766	1,906,282	3,057,016	5,805,064
Total profits (losses) that were recognized:				
In profit and loss (*)	2,009	(2,604)	20,124	19,529
Interest and dividend receipts	(6,612)	(6,975)	(38,075)	(51,662)
Purchases	36,965	60,278	93,166	190,409
Sales	(649)	(4,403)	(93,864)	(98,916)
Redemptions	(16,999)	(337)	(2,042)	(19,378)
Transfers to Level 3 *	9,936	-	-	9,936
Balance as at June 30 2017	866,416	1,952,241	3,036,325	5,854,982
(*) Of which total profits (losses) for the period that have not yet been exercised for financial assets held correct to June 30, 2017	1,887	(2,654)	17,402	16,635

* For securities whose rating changed
** For securities in which the instrument changed from non-marketable debt assets to receivables for investment arrears.

Note 6 – Financial instruments (Contd.)

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

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

For six and three-month periods ended June 30, 2016

	Fair-value measurement on report date			
	Financial assets at fair value through profit or loss			
	Non-marketable debt assets	Shares	Other	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Balance as at January 1, 2016	364,666	1,589,054	2,598,485	4,552,205
Total profits (losses) that were recognized:				
In profit and loss (*)	7,193	140,776	55,014	202,983
Interest and dividend receipts	(10,966)	(25,204)	(65,745)	(101,915)
Purchases	73,515	42,182	404,061	519,758
Sales	(42,257)	(212,050)	(134,740)	(389,047)
Redemptions	(73,242)	(30,169)	(24,819)	(128,230)
Transfers to Level 3 **	37,798	-	-	37,798
Transfers from Level 3 **	(58,503)	-	-	(58,503)
Balance as at June 30 2016	298,204	1,504,589	2,832,256	4,635,049
(*) Of which total profit for the period that have not yet been exercised for financial assets held correct to June 30, 2016	4,027	60,324	56,354	120,705

	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 April 1, 2016	330,687	1,569,963	2,701,650	4,602,300
Total profits (losses) that were recognized:				
In profit and loss (*)	3,474	109,607	43,985	157,066
Interest and dividend receipts	(6,553)	(7,269)	(33,491)	(47,313)
Purchases	48,408	39,686	214,997	303,091
Sales	(42,257)	(206,660)	(81,045)	(329,962)
Redemptions	(56,548)	(738)	(13,840)	(71,126)
Transfers to Level 3 **	37,798	-	-	37,798
Transfers from Level 3 **	(16,805)	-	-	(16,805)
Balance as at June 30 2016	298,204	1,504,589	2,832,256	4,635,049
(*) Of which total profit for the period that have not yet been exercised for financial assets held correct to June 30, 2016	936	29,317	45,030	75,283

Note 6 – Financial instruments (Contd.)

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

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

For the year ended December 31, 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 have 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.

Note 6 – Financial instruments (Contd.)

B. Other financial investments

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

	June 30		December 31	June 30		December 31
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(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	**4,897,723**	4,710,094	4,783,994	**6,306,307**	6,160,121	6,238,108
Non-marketable, non-convertible debt assets, excluding bank deposits	**6,893,607**	5,552,834	6,191,104	**7,551,972**	6,285,635	6,800,005
Bank deposits	**981,050**	905,717	954,886	**1,048,561**	984,322	1,021,699
Non-marketable, convertible debt assets	**-**	312	12	**-**	312	12
Total non-marketable debt assets	**12,772,380**	11,168,957	11,929,996	**14,906,840**	13,430,390	14,059,824
Investments held to maturity:						
Marketable non-convertible debt assets	**245,328**	295,129	272,133	**254,366**	310,408	283,114
Total Investments held to maturity	**245,328**	295,129	272,133	**254,366**	310,408	283,114
Total	**13,017,708**	11,464,086	12,202,129	**15,161,206**	13,740,798	14,342,938
Impairments recognized in profit and loss (in aggregate)	**12,478**	17,703	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 June 30, 2017 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Marketable debt assets	**5,918,340**	**1,308,811**	**-**	**7,227,151**
Non-marketable debt assets	**-**	**-**	**-**	**-**
Shares	**750,727**	**-**	**82,279**	**833,006**
Other	**791,072**	**244,313**	**1,342,704**	**2,378,089**
Total	**7,460,139**	**1,553,124**	**1,424,983**	**10,438,246**

	as at June 30, 2016 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Marketable debt assets	5,399,725	1,619,610	-	7,019,335
Non-marketable debt assets	-	-	312	312
Shares	692,397	-	78,227	770,624
Other	1,092,744	84,437	1,307,797	2,484,978
Total	7,184,866	1,704,047	1,386,336	10,275,249

	as at December 31, 2016 (Audited)			
	Level 1	Level 2	Level 3	Total
	NIS thousand	NIS thousand	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 six and three-month periods ended June 30, 2017

	Fair-value measurement on reporting date Financial assets at fair value through profit or loss and available-for-sale assets			
	Non-marketable debt assets	Shares	Other	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Balance as at January 1, 2017	12	47,361	1,389,750	1,437,123
Total profits (losses) that were recognized:				
In profit and loss (*)	-	1,909	5,737	7,646
In other comprehensive income	-	(3,502)	(37,034)	(40,536)
Interest and dividend receipts	-	(2,004)	(27,373)	(29,377)
Purchases	-	38,515	77,832	116,347
Sales	-	-	(61,966)	(61,966)
Redemptions	-	-	(4,242)	(4,242)
Transfers from Level 3 *	(12)	-	-	(12)
Balance as at June 30 2017	-	82,279	1,342,704	1,424,983
(*) Of which total unexercised profit for the period for financial assets held correct at June 30, 2017	-	1,909	5,668	7,577

	Fair-value measurement on reporting date Financial assets at fair value through profit or loss and available-for-sale assets			
	Non-marketable debt assets	Shares	Other	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Balance as at April 1, 2017	-	63,025	1,367,403	1,430,428
Total profits (losses) that were recognized:				
In profit and loss (*)	-	(34)	3,648	3,614
In other comprehensive income	-	(807)	(10,428)	(11,235)
Interest and dividend receipts	-	-	(12,645)	(12,645)
Purchases	-	20,095	30,484	50,579
Sales	-	-	(34,644)	(34,644)
Redemptions	-	-	(1,114)	(1,114)
Balance as at June 30, 2017	-	82,279	1,342,704	1,424,983
(*) Of which total unexercised profit for the period for financial assets held correct at June 30, 2017	-	(33)	3,654	3,621

* For securities in which the instrument changed from non-marketable debt assets to receivables for investment arrears.

Note 6 – Financial instruments (Contd.)

B. Other financial investments (Contd.)

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

For the six and three-month periods ended June 30, 2016

	Fair-value measurement on reporting date Financial assets at fair value through profit or loss and available-for-sale assets			
	Non-marketable debt assets	Shares	Other	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Balance as at January 1, 2016	311	77,006	1,228,938	1,306,255
Total profits (losses) that were recognized:				
In profit and loss (*)	1	91	14,146	14,238
In other comprehensive income	-	1,604	3,549	5,153
Interest and dividend receipts	-	(82)	(23,601)	(23,683)
Purchases	-	-	147,239	147,239
Sales	-	(392)	(51,476)	(51,868)
Redemptions	-	-	(10,998)	(10,998)
Balance as at June 30 2016	312	78,227	1,307,797	1,386,336
(*) Of which total unexercised profit for the period for financial assets held correct at June 30, 2016	1	91	14,102	14,194

	Fair-value measurement on reporting date Financial assets at fair value through profit or loss and available-for-sale assets			
	Non-marketable debt assets	Shares	Other	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Balance as at April 1, 2016	312	76,387	1,261,443	1,338,142
Total profits (losses) that were recognized:				
In profit and loss (*)	-	(6)	4,599	4,593
In other comprehensive income	-	1,846	15,311	17,157
Interest and dividend receipts	-	(1)	(9,544)	(9,545)
Purchases	-	-	75,792	75,792
Sales	-	1	(32,468)	(32,467)
Redemptions	-	-	(7,336)	(7,336)
Balance as at June 30 2016	312	78,227	1,307,797	1,386,336
(*) Of which total unexercised profit for the period for financial assets held correct at June 30, 2016	-	(6)	5,028	5,022

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			
	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 unexercised profit for the period for financial assets held correct at 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

	June 30		December 31	June 30		December 31
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(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)	**388,010**	447,222	397,620	**409,014**	466,579	408,403
Loans from non-bank corporations (1)	**60,703**	90,273	90,394	**61,629**	90,661	91,728
Loans from interested parties	**10,900**	11,636	10,765	**10,900**	11,636	10,765
Subordinated promissory notes	**3,013,555**	2,812,355	2,780,623	**3,323,840**	3,117,950	2,994,599
Total financial liabilities presented at amortized cost	**3,473,168**	3,361,486	3,279,402	**3,805,383**	3,686,826	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 June 30		As at December 31
	2017	2016	2016
In percent			
Loans	**2.50%**	2.57%	2.81%
Subordinated liability notes	**1.89%**	1.71%	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).

	as at June 30, 2017 (Unaudited)		
	Level 1	Level 2	Total
	NIS thousand	NIS thousand	NIS thousand
Loans from banks (1)	-	71,329	71,329
Derivatives (2)	111,721	910,883	1,022,604
Short sales (3)	160,313	-	160,313
Total financial liabilities	272,034	982,212	1,254,246

	as at June 30 2016 (Unaudited)		
	Level 1	Level 2	Total
	NIS thousand	NIS thousand	NIS thousand
Loans from banks (1)	-	74,874	74,874
Derivatives (2)	25,648	858,311	883,959
Short sales (3)	85,950	-	85,950
Total financial liabilities	111,598	933,185	1,044,783

	as at 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.

(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 577 million as at June 30, 2017, NIS 637 million as at June 30, 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 691 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 June 30, 2017 is NIS 9 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 June 30, 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

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.

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, non-life insurance, 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.

In June 2017, the Commissioner of the Capital Market imposed a financial penalty on Harel Insurance in the amount of NIS 3.375 million. This followed an investigation that the Capital Market Authority conducted in the second half of 2016 on the subject of enrollment in insurance. The penalty was imposed in respect of 18 localized violations of the provisions of Insurance Circular 2015-1-12 - Enrollment in Insurance. The aforementioned financial penalty was imposed after the Commissioner exercised the powers conferred on him by law, and reduced the amount of the penalty by 25%, in part after determining that he had not found Harel Insurance had made a similar breach of the provisions in the previous three years and that Harel Insurance had taken action to prevent the breach and reduce the damage.

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

In connection with a merger of the insurance activity of Dikla into Harel Insurance, and based on a request by Clalit Health Services which is Dikla's main customer and where, as part of the agreement with Clalit Dikla provides operating and management services for the Supplementary Health Services Plan and the Long-term Care plan for Clalit's members, Harel Insurance signed an indemnity note in which it undertook to indemnify Clalit Health Services for losses sustained by Clalit if and insofar as any losses are sustained, as a result of a spin-off of operations, under the conditions set out in the indemnity note. On the merger of Dikla's insurance activity, see Note 8(2) below.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

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 49, 52, 53, 55, 56, and 57 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.

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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

2. In April 2008, an action was filed in the Jerusalem District Labor Court against the subsidiary Harel Insurance and against three other insurance companies (hereinafter together: “the Defendants”), together with an application for its certification as a class action. The subject of the action is the allegation that the Defendants generally credit women policyholders, when they reach the age of retirement, for old managers’ insurance policies that were sold until 2000, with a lower monthly benefit than the benefit received by male insureds with the same data, for the reason that 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.

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

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

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

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

Note 7 - Contingent liabilities and commitments (Contd.)
A. Contingent Liabilities (Contd.)
Par. 4 Contd

Nevertheless, the Attorney General stated that in his opinion, there is some difficulty with the compromise settlement, whereby the Defendants will continue to collect the policy factor in future in a manner that prevents the class members from filing a claim on this matter in the future, in view of the fact that, in his opinion, the compromise settlement involves a waiver of grounds for a future claim. However, under the circumstances of the aforesaid application, he wishes to leave the question of further collection of the policy factor in the future to the discretion of the court. Furthermore, the Attorney General expressed his opinion to the effect that any reduction of the collection of the policy factor in the future must be directed in its entirety to increasing the savings component in the policy, and he also commented on several other matters in the compromise settlement including: notice to be given to policyholders who are entitled to receive compensation for the past, the manner of paying the compensation relating to the past, including donating any amounts owed to recipients who are not found and the proposed fee and compensation for the applicants and their attorneys. In its decision from November 21, 2016, the court dismissed the compromise settlement and approved litigation of part of the claim as a class action on the grounds of a breach of the insurance policy on account of collection of the policy factor fee with no legal basis in a manner that compromises the insured's accrued savings, starting from seven years prior to the date of filing the claim. The relief to be claimed as part of the class action will be to remedy of the breach by way of revising the insured's accrued savings by the additional amount of savings that would have been accrued if the policy factor had not been collected or by compensating the insured by the aforesaid amount. In addition, from now on, the policy factor will no longer be collected. The class in whose name the class action is litigated comprises insureds of the Defendants who have combined life assurance and savings policies that were drawn up between 1992-2003, where the savings accrued by the insureds was compromised on account of the collection of the policy factor. 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. In June 2017, the Supreme Court acceded to the Defendants' petition and instructed that the proceeding in the District Court be suspended.

5. In June 2011, an action 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

6. In July 2012, an action was filed against the subsidiary Harel Insurance in the Tel Aviv District Court, together with an application for its certification as a class action against the subsidiary Harel Insurance and against the IDF Disabled Veterans Organization (hereinafter together: “the Defendants”). The subject of the class action claim is that in a group life insurance policy issued to members of the IDF Disabled Veterans Organization a certain insurance coverage ostensibly exists which was intended for cases where the insurance event takes place in the year between the age of 75 and 76 in the life of the insured, while Harel Insurance only provides insurance coverage for insurance events occurring up to the age of 75. The plaintiff estimates the amount of the claim for all group members he wishes to represent at NIS 46 million. On June 5, 2014, the Tel Aviv District Court certified hearing of the claim as a class action. The group which was approved is all the beneficiaries of the IDF Disabled Veterans Organization who died between 2006 and 2012, when the insureds were aged between 75 and 76, and who suffered an insured event during that year and did not receive insurance benefits from Harel Insurance. On July 6, 2014, the Defendants filed an application for permission to appeal this decision in the Supreme Court. In November 2014, the Supreme Court ordered a stay of proceedings in the Tel Aviv District Court until another decision is made. As recommended by the court, the Defendants withdrew their application for appeal in December 2015. Consequently, the stay of proceedings in the District Court was suspended. In its decision from March 20, 2016, the Tel Aviv District Court instructed that the group should be enlarged to include the beneficiaries of IDF veterans who died between 2013 and 2016 as well.
7. 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.
8. 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

9. In July 2013, an action was filed in the Lod District Court against the subsidiary Harel Insurance, with an application for its certification as a class action. The subject of the action is the allegation that Harel Insurance allegedly refrains from publishing complete information on its website in connection with the sums insured payable as compensation to policyholders when the surgery is paid for by another entity who is not the insurer, and this ostensibly in contravention of the provisions of a circular issued by the Commissioner - "Details of Insurance Benefits in Health Insurance Plans", and with the purpose, ostensibly, of reducing the amounts of compensation paid to policyholders according to the policies. The overall loss claimed for all members of the group amounts to NIS 35 million. In March 2016, a compromise settlement was submitted for the court's approval. In June 2016, an amended compromise agreement was submitted for the court's approval, consistent with the court's comments. In September 2016, the Attorney General's position was submitted to the court whereby he does not oppose the compromise settlement and leaves approval of the decision in the court's hands. As part of his position, the Attorney General made several remarks relating to the wording of the arrangement. In January 2017, the court appointed a reviewer for the compromise settlement.
10. 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.
11. In April 2014, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary 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).

12. 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

13. 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.
14. 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.
15. 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

16. 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.
17. 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.
18. 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.
19. 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

20. 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.
21. 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.
22. 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. In June 2017, a joint, agreed application was filed in the court for the Plaintiffs to abandon the motion for certification against the Defendants in which the Defendants undertook to amend or clarify, as applicable and as necessary, the text of their relevant insurance policies, with respect to the exclusion of insured events that occurred during the course of reserve duty.
23. 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

24. 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. In July 2017, the reviewer’s opinion was submitted to the court whereby the reviewer believes that the joint profit rate of Harel and Madanes in 2009 - 2015 cannot be considered exceptional when compared with the profitability of other insurance companies in Israel in the professional liability sector or in comparison with the profitability of insurance companies in the USA and Australia that operate in the medical malpractice sector.

25. 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.

26. 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

27. 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.
28. 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.
29. 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.
30. 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.

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

31. In March 2016, an action was filed in the Tel Aviv District Labor Court against Standard Insurance Ltd. ("Standard"), together with a motion for its certification as a class action ("Application for Approval"). The subject of the action is the argument that Standard allegedly neglected to provide its employees with the rights prescribed in the Extension Order in the import, export and wholesale trade industry ("Extension Order in the Import Industry"), but did so only in accordance with the extension orders and general laws that apply to all workers in the economy, including that it deposited payments for them in a pension in accordance with the general extension order in the economy relating to pensions ("General Extension Order") and not in accordance with the Extension Order in the Import Industry, that it did not pay them vacation differences and payments for the holidays and elective days by virtue of the Extension Order in the Import Industry, and that it did not deposit payments for them in a pension for the holidays, vacation and sick-pay component in accordance with the Extension Order in the Import Industry. This, according to the Plaintiff, in breach of their rights under the wage protection laws. The Plaintiff estimates the total loss claimed for all members of the group that it wishes to represent at approximately NIS 8 million.
32. 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.
33. 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.
34. 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

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. In June 2017, the opinion of the Attorney General was submitted to the court in connection with the compromise settlement in which context the Attorney General made several comments in relation to the text of the arrangement. In July 2017, the court instructed that a reviewer should be appointed to examine the compromise settlement.

35. In June 2016, an action 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.
36. In June 2016, an action 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.
37. 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.
38. 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

39. 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.
40. In September 2016, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action, against the consolidated subsidiary Harel Insurance Company Ltd. and against three other insurance companies (hereinafter together: “the Defendants”). The subject of the action is the allegation that the Defendants ostensibly collect high premiums from the insureds for health insurance policies that include cover that the insureds ostensibly do not need as they have supplementary health insurance from the HMOs to which they belong. The Plaintiffs also argue that the Defendants do not disclose to the insureds that this cover is in fact superfluous and/or they make one type of service conditional on another as they do not allow the insureds to purchase a limited version of the policy which includes only coverage that is not included in the HMO supplementary health insurance, thus creating a situation of double insurance. The Plaintiffs argue that the Defendants are therefore in breach of the duty of utmost good faith which applies to them, are in breach of a statutory obligation, in breach of the provisions of the law, in breach of an agreement, mislead their policyholders and practice unjust enrichment. The Plaintiffs estimate that the total loss claimed for all members of the class that they wish to represent against Harel Insurance amounts to NIS 2.2 billion, and NIS 4.45 billion against all the Defendants.
41. In September 2016, an action was filed in the Lod-Central District Court, together with a motion for its certification as a class action, against the consolidated subsidiary Harel Insurance Company Ltd. The subject of the action is the allegation that Harel Insurance ostensibly fails to disclose on its website complete and accurate information about the maximum amounts of indemnification to which health insurance policyholders are entitled for surgery-related expenses which are covered in the health insurance policies that it sells. This, according to the Plaintiff, with the purpose of reducing the amounts of indemnification owed to its insureds. The Plaintiff argues that Harel is therefore in breach of contract, in breach of the Commissioner’s instructions, it refrains from providing proper disclosure of the amounts of indemnity to which insureds are entitled and acts fraudulently. The Plaintiff estimates the total loss claimed by all members of the class it wishes to represent to be at least NIS 20 million. In June 2017, the parties submitted an application in the court for certification of a compromise settlement, which settles the manner of calculating the amount of the insurance benefits for members of the class who, after the date of approval of the settlement, will file an insurance claim with the company for indemnification for the costs of surgery that they undergo, as well as a mechanism for supplementing the amounts of compensation for group members who received such indemnity in the past. The validity of the compromise settlement is contingent on the court’s approval.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

42. In October 2016, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action against the consolidated subsidiary Harel Insurance Company Ltd. The subject of the action is the allegation that until the annual report for 2015, Harel Insurance ostensibly neglected to disclose to its policyholders, who purchased long-term care insurance with a variable premium, what premium they will be charged from the age of 65, despite the fact that, according to the Plaintiff, the premium on this policy increases by hundreds of percent at the age of 65. The Plaintiff argues that Harel Insurance is therefore in breach of a statutory obligation and in breach of the obligation to provide disclosure, in breach of agreement, acts in bad faith, practices unjust enrichment and acts negligently. The Plaintiff further argues that charging insureds for future premiums based on tariffs that are unknown to them is a discriminatory condition in a standard contract. The Plaintiff has not quantified the total loss claimed for all members of the group that she wishes to represent against Harel Insurance, although she estimates it to be millions of shekels. In July 2017, the court approved the Plaintiff's application to amend the motion for certification so that it also addresses the claim whereby Harel Insurance ostensibly neglected to present to its policyholders before the date of enrolment in the policy, the premium they would pay from the age of 65, despite the fact that it is obligated to do so according to the Commissioner's circular. In August 2017, an amended motion was filed for certification of the action as a class action. The subject of the amended motion is the allegation that Harel Insurance ostensibly neglected to present to its policyholders who have long-term care insurance with a variable premium, in the enrolment form and/or in the general conditions of the policy, the premium they would pay from the age of 65 onwards, before they enrolled in the insurance.

43. 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 class they wish to represent with respect to Harel Insurance at approximately NIS 39.8 million.

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

45. 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.)

46. 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.
47. 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 class that he seeks to represent.
48. 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 class that he seeks to represent. The hearing on the motion for certification was transferred to the Labor Court.
49. 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

50. 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 class 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.)

51. 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 class that it wishes to represent amounts to NIS 1.4 million.
52. 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 class members that it wishes to represent at NIS 5.9 million.
53. 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.
54. In March 2017, an action was filed in the Jerusalem District Labor Court, together with a motion for its certification as a class action, against the second-tier subsidiary Harel Pension and Provident Ltd. (Harel Pension & Provident). The subject of the action is the allegation that until the end of 2015, Harel Pension ostensibly collected from members of Harel Otzma Taoz Provident Fund, investment management expenses which is permissible by law, but without contractual agreement in the policy conditions that allow it to collect these expenses. The Plaintiff estimates the total loss caused to all members of the class it wishes to represent in the amount of NIS 127.1 million.
55. 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.
56. 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 class that he seeks to represent.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

57. In May 2017, a claim was filed in the Central Region District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance and two other insurance companies (hereinafter together: “the Defendants”). The subject of the action is the allegation that in the insurance policies marketed by the Defendants as part of a tender for motor insurance for State employees, issued by the Ministry of Finance Accountant General, the Defendants ostensibly ignore the insureds’ insurance history for the purpose of calculating the compulsory motor premiums, and that the insurance premiums paid by members of the class therefore include a higher risk that is irrelevant to the class members. The insurance premiums set for these insureds are therefore higher than the amount they should have paid in light of their insurance history. The Plaintiffs estimate the loss caused to all members of the class they wish to represent at NIS 155 million.
58. 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 class it seeks to represent in the amount of NIS 42.8 million

Summary table:

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

Type	Number of claims	Amount claimed NIS thousand
Actions certified a class action:		
Amount pertaining to the Company and/ or subsidiaries is specified	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	31	4,506,963
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	11	
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 96 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 whereby the interest according to which the expert will perform the review and will calculate the royalties is the interest in respect of arrears in transferring money from the banking system. In relation to the personal claim, on January 3, 2017, the court-appointed expert submitted a partial opinion on the subject of royalties and on the subject of directors’ fees. Following the expert’s decision on these matters, an amount of NIS 322,356 was paid to the Plaintiffs. The expert has not yet completed his opinion on the subject of the commissions where the parties have agreed that he will also address this matter. On May 25, 2017, a hearing took place in the District Court on the outline of the expert’s review relating to the commissions, at the end of which the parties agreed on an outline for completion of his position. 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, an action was filed in the Central Region Lod District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance ("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.

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.

D. Claims that were settled after the Reporting Period

1. In July 2008, an action was filed in the Tel Aviv District Court against the subsidiary Harel Insurance, together with a motion for its recognition as a class action. The subject of the action is the allegation that Harel Insurance ostensibly refrains from paying and/or indemnifying its policyholders for damage sustained by protective devices fitted in the vehicle in cases of total loss or constructive total loss or theft, and that it allegedly signs the insureds on a letter of surrender, in contravention of the Commissioner's instructions. The Plaintiff argues that Harel Insurance therefore enriches itself at the expense of the policyholder and is in breach of a statutory obligation. 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 class, as they are defined in the compromise settlement, a sum equal to fifty per cent (50%) of the cost of the relevant protective 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 class 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 class 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 class members will be donated to charity as per the provisions of the compromise settlement. The compromise settlement also regulates future conduct with respect to protective devices in the event of total loss, as it is defined in the compromise settlement. 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. In July 2017, the court approved the compromise settlement.
2. 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 was the allegation that prior to the entering into force of Amendment no. 14 to the Joint Investment Trust Law, 1994 ("the Investment Law"), 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 companies 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. In July 2017, a motion was filed in the court for the Plaintiffs to abandon the application for certification and to dismiss their personal claim against Harel-Pia and against 4 other Defendants, without ordering costs. In August 2017, the court approved the Plaintiffs' abandonment of the application for certification and dismissal of their personal claim against Harel-Pia and against 4 other Defendants, without ordering costs.

Note 7 - Contingent liabilities and commitments (Contd.)

D. Claims that were settled after the Reporting Period (Contd.)

3. 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 a motion to approve a compromise settlement. The subject of the action was the allegation that Standard did not include the component for commissions and/or wages based on output listed in the wage slips of the workers at its sales centers in the effective wage for the purpose of calculating payments for annual vacation, religious holidays, sick pay, pension and overtime, and that these were paid only on the basis of the basic wage. The Plaintiff argues that such conduct is a breach of rights under the wage protection laws. Concurrent with the filing of the application for certification, a motion was filed in the court to approve a compromise settlement in the action. 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. In June 2017, an amended compromise settlement was filed in the court. In August 2017, the Tel Aviv Regional Labor Court validated as a court ruling the amended compromise settlement that the parties had filed, and it ruled insignificant amounts of compensation and lawyers' fees for the Plaintiff and his attorney.
4. 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 was the allegation that Harel Insurance does not provide the holders of health insurance for disclosure of critical illness ("the Policy") with insurance cover in the event that the specific illness from which a claimant suffers is diagnosed, despite the fact that according to the Plaintiff, the proper interpretation of the policy should, ostensibly lead to the conclusion that insurance cover should be provided in such a case (even though the illness itself is excluded under the policy conditions). In August 2017, the Central District Court dismissed the motion for certification of the action as a class action.

Note 8 - Capital requirements and management

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

	as at June 30, 2017		December 31, 2016	
	Harel Insurance	EMI	Harel Insurance	EMI
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Amount required according to regulations and Commissioner's directives (A)	5,627,292	74,113	5,702,567	79,652
The present amount calculated in accordance with the Capital Regulations:				
Tier-1 capital				
Basic Tier-1 capital	4,205,069	422,719	4,071,946	436,811
Hybrid tier-1 capital	350,526	-	350,517	-
Total tier-1 capital	4,555,595	422,719	4,422,463	436,811
Tier-2 capital				
Subordinated tier-2 capital (B)	90,843	-	145,145	-
Hybrid tier-2 capital (C)	2,080,508	-	1,825,894	-
Total tier-2 capital	2,171,351	-	1,971,039	-
Hybrid tier-3 capital	744,898	-	741,040	-
	2,916,249	-	2,712,079	-
Total present amount calculated in accordance with the Capital Regulations	7,471,844	422,719	7,134,542	436,811
Surplus at report date	1,844,552	348,606	1,431,975	357,159
Events after the report date *				
Obsolescence of tier-2 capital	-	-	(30,182)	-
Issue of hybrid tier-2 capital after balance sheet date	-	-	250,100	-
Dividend distribution	-	-	-	(25,000)
Amount retained taking into account events after the report date*	1,844,552	348,606	1,651,893	332,159

Note 8 - Capital requirements and management (Contd.)

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

	as at June 30 2017		December 31, 2016	
	Harel Insurance	EMI	Harel Insurance	EMI
The required amount includes, inter alia, capital requirements for:	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Activity in non-life insurance	778,995	74,113	744,944	79,652
Activity in long-term care insurance [LTC] **	118,507	-	352,840	-
Capital requirements for yield-guaranteed plans	39,800	-	40,997	-
Investment assets and other assets (D)	1,433,871	-	1,395,557	-
Catastrophe risks in non-life insurance	91,744	-	85,859	-
Operating risks	314,758	-	310,703	-
Deferred acquisition costs in life assurance and insurance against illness and hospitalization	1,725,605	-	1,657,588	-
Investment in consolidated management companies and insurers and in Broadgate	837,898	-	837,109	-
Relief in capital requirements for cost of acquiring provident funds	(192,119)	-	(194,036)	-
Extraordinary risks in life assurance (E)	428,686	-	408,834	-
Unrecognized assets as defined in the Capital Regulations (F)	49,547	-	62,172	-
Total amount required under the amended Capital Regulations	5,627,292	74,113	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 92 million and NIS 95 million at June 30, 2017 and December 31, 2016, respectively.

** See also Note 9(2).

B. Including subordinated promissory notes in the amount of NIS 205,009 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 August 3, 2017, an amendment to the Joint Investment Trust Law, (“the Amendment”) in connection with ETFs was published in the Official Gazette. According to the Amendment, ETNs will cease to exist as a committed asset and will become closed, tracker mutual funds, namely - traded tracker funds. The provisions of the Joint Investment Trust Law, 1994 (“the Law”) 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 (“ISA”) 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. At this stage, the Company is unable to estimate the actual scope of the effect of the process on the results of its activity.

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 June 30, 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. On June 21, 2017, , the Board of Directors of Harel Insurance approved the distribution of a cash dividend in the amount of NIS 250 million. The Board of Directors' decision was made after obtaining approval from the regulator and after taking into account the financial results of Harel Insurance at December 31, 2016, presenting the distributable surplus of Harel Insurance at December 31, 2016, and examining the capital surplus and capital requirements of Harel Insurance and taking into account the expected adoption of Solvency II. The dividend was paid on July 4, 2017.

Note 8 – Capital Requirements and Management (Contd.)

9. 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.

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

(1) On June 1, 2017, the Capital Market, Insurance and Savings Authority published a circular "Provisions for the Implementation of an Economic Solvency Regime for Insurance Companies Based on Solvency II" (Insurance Circular 2017-1-9 - "Solvency Circular"). The purpose of this circular is to establish a new solvency regime for insurance companies in Israel, based on the provisions of the directive known as "Solvency II", which was adopted by the European Union and has been applied by all member countries since January 2016. 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). 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. Nevertheless, the circular defines a transition period whereby 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 Scheduling Period"), as follows:

Capital required of an insurance company to maintain solvency in the Scheduling Period, calculated on the basis of data at:	**Minimum percentage of SCR**
June 30, 2017	60%
December 31, 2017	65%
December 31, 2018; June 30, 2019	70%
December 31, 2019; June 30, 2020	75%
December 31, 2020; June 30, 2021	80%
December 31, 2021; June 30, 2022	85%
December 31, 2022; June 30, 2023	90%
December 31, 2023; June 30, 2024	95%
December 31, 2024 and thereafter	100%

Furthermore, during the Scheduling Period, the percentage of tier-2 capital will not be more than 50% of the capital required of insurance companies to maintain solvency in the Scheduling Period.

Note 8 – Capital Requirements and Management (Contd.)

10. Information about progress in the preparation for implementing Solvency II (Contd.)

(1) (Contd.)

In addition to SCR, the circular also defines a Minimum Capital Requirement - MCR - which will not be less than 25% or more than 45% of the SCR. Similarly, a graded level of supervisory intervention was set whereby companies that do not comply with the SCR or where there is real concern that their SCR is less than required, will submit a plan to the Commissioner to ensure that they are in compliance with the SCR within 6 months of the submittal date. Should the insurance company fail to comply with the requirements of the plan, based on the conditions set out in the revised circular, the Commissioner will consider supervisory intervention in accordance with his powers. Companies that fail to comply with the MCR or where there is real concern that they will not be in compliance with the MCR, will submit a plan to the Commissioner to ensure that they are in compliance with the MCR within 3 months of the submittal date. Should the insurance company fail to comply with the requirements of the plan, based on the conditions set out in the revised document, the Commissioner will take supervisory action in accordance with the powers conferred upon him in the Supervision Law

(2) On July 2, 2017, the Capital Market, Insurance and Savings Authority published a circular on “Reporting the Results of the Solvency Capital Ratio to the Commissioner” (Insurance Circular 2017-1-10). Accordingly, until designated reporting files that are appropriate for Israel have been arranged, insurance companies will report the results of their economic solvency ratio to the Commissioner in accordance with the Solvency Circular on the reporting files in the instruction to perform IQIS for 2015, with adjustments to the Solvency Circular. The report will be submitted to the Commissioner up to 3 business days of closing the financial report for Q2 2017, or at August 31, 2017, whichever is earlier.

Harel Insurance performed the calculations as at December 31, 2016, in accordance with the Solvency Circular and it was found that the Company has significant capital surpluses. The results of the calculation can be found in Chapter 5 of the Board of Directors Report.

The calculation prepared by Harel Insurance is not audited and not reviewed. According to the Commissioner’s instructions, to prepare for audited reporting, a special auditor’s report must be submitted to the Commissioner by December 31, 2017, (which does not constitute an audit or a review), the purpose of which is, inter alia, a review of the process, controls and completeness of the data used for the calculation performed by Harel Insurance, as noted.

The model in its current format is extremely sensitive to changes in market and other variables. Consequently, the capital position that it reflects might be extremely volatile. Furthermore, factors exist that materially affect the results of the report, the treatment of these factors has not yet been finally determined and are being discussed by the Commissioner and Israel’s insurance companies. The calculation of the existing economic capital and required capital are based on forecasts and assumptions that rely, in principal on past experience, as it emerges from actuarial studies conducted from time to time. In view of the reforms in the capital market, insurance and savings, and changes in the economic, demographic and behavioral environment, past data do not necessarily reflect future results.

It should be emphasized that the calculation of the solvency ratio in accordance with the new provisions, is based on cash flows produced by various auxiliary systems that are not an integral part of the ongoing accounting system. These cash flows include a series of assumptions and costing allocations and a review of their sensitivity and validity has not yet been completed. Furthermore, the calculation includes, inter alia, a long series of correlations between the different risks. Harel Insurance is reviewing systems that provide effective analysis and control. Likewise, the Company has begun to define processes to ensure the effectiveness of the internal control.

The calculations required to allocate solvency in accordance with the new provisions are complex in many respects. The present tools, including the actuarial models, are not fully set up for making the calculations at the level of detail and accuracy required to ensure reasonability of the reporting and control over the solvency ratio. Harel Insurance is continuing to invest resources in automating the support processes, in an effort to limit exposure and gaps on this subject, the effect of which is unknown.

Based on all the foregoing, the results might be significantly different.

Note 8 – Capital Requirements and Management (Contd.)

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

(3) 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%

(5) 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.

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Note 9 – Material events in the Reporting Period

1. Revaluation of owner-occupied real-estate

   In the Reporting Period, the Company recognized an increase in the fair value of owner-occupied real estate items in the amount of NIS 89 million before tax, and NIS 62 million after tax. In accordance with the Company’s accounting policies described in Note 3 to the annual Financial Statements, the change in fair value was recorded in equity under the item “revaluation reserve” and was recognized in other comprehensive income in the period.
   The fair value was determined by an independent, external appraiser who has the appropriate qualifications and experience for the type and location of the assets which are the subject of the valuation.

2. Group LTC policy for members of Clalit Health Services

   The policy period for the Group Long-term care [LTC] policy for members of Clalit Health Services was extended to December 31, 2018. On June 19, 2017, the Commissioner granted permission to run the long-term care plan effective through December 31, 2018.

3. 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.

4. 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.

   On June 21, 2017, the Company's Board of Directors resolved to distribute a cash dividend in the amount of NIS 150 million (NIS 0.7 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 on the distributable profits, capital surpluses of the Company's subsidiaries and the Group's cash requirements, in various scenarios. The Board of Directors reviewed the Company's compliance with the profit test and solvency test prescribed in Section 203(a) of the Companies Law. Following this review, the Board of Directors confirmed that the Company was in compliance with the distribution test. The dividend was paid on July 12, 2017.

5. On the distribution of a dividend by EMI, see Note 8.

6. Changeover 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.

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

6. Changeover of senior officers (Contd.)

B. Appointment of Michel Siboni as CEO (Contd.)

Notably, 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]

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.

D. On June 22, 2017, June 22, 2017, Mr. Jonathan Brody began to serve as an appointed life assurance actuary in Harel Insurance, in addition to his service as an appointed health insurance actuary in Harel Insurance. Mr. Roman Reidman, who until that date served as an appointed life assurance actuary, continues to serve as an actuary and will deal mainly with business information.

7. Changeover of senior officers serving the subsidiaries

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

8. Technical change in the manner of the holding of the controlling shareholders

The controlling shareholders in the Company, Yair Hamburger, Gideon Hamburger and Nurit Manor ("the Shareholders"), hold 49.74% of the voting rights in the Company and 49.5% of the Company's issued share capital. The holding in the Company is principally through G.Y.N. Financial Consulting & Management Ltd. (G.Y.N.).

On December 29, 2016, the Company's controlling shareholders informed the Company that they had decided to make a structural change in the manner in which they hold the controlling interest in the Company, held through 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 controlling shareholders ("the Partnership").

After obtaining 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 G.Y.N. Financial Consulting & Management 2017 Limited Partnership, this structural change was completed on June 13, 2017.

The Company was informed that this change is essentially structural and technical and that it will not affect the holding rates or management of the Company.

[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.)

9. Financial penalty imposed by the Commissioner of the Capital Market, Insurance and Savings

On June 28, 2017, Harel Insurance was informed by the Commissioner of the Capital Market that a financial penalty had been imposed on Harel Insurance in the amount of NIS 3.4 million. This followed an investigation that the Capital Market Authority conducted in the second half of 2016 on the subject of enrollment in insurance. The penalty was imposed in respect of 18 localized violations of the provisions of Insurance Circular 2015-1-12 - Enrollment in Insurance.

The aforementioned financial penalty was imposed after the Commissioner exercised the powers conferred on him by law, and he reduced the amount of the penalty by 25%, in part after determining that he had not found that Harel Insurance had made a similar breach of the provisions in the previous three years and that Harel Insurance had taken action to prevent the breach and to reduce the damage

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

Due to an increase in the risk-free interest rate used to review the adequacy of the reserves, Harel Insurance reduced the insurance liabilities in the life assurance and long-term savings segment in the six-month period ended June 30, 2017. In the six-month period ended June 30, 2017, the risk-free interest rate used to review the adequacy of the reserves declined and in contrast the yield embedded in the assets held against the insurance liabilities increased. As a result, Harel Insurance reduced the insurance liabilities in the life assurance and long-term savings segment.

Due to the decline in the short-term risk-free interest rate used to review the adequacy of the reserves, the discounting interest rates were reduced by a real annual rate of 0.25% from 1% to 0.75% and accordingly, Harel Insurance increased the insurance liabilities in the non-life segment by NIS 8 million before tax, and NIS 5 million after tax in the six-month period ended June 30, 2017, (by NIS 8 million before tax and NIS 5 million after tax for the three months ended June 30, 2017), thus reducing profit and comprehensive income by the aforesaid amounts.

The effect on the financial results is set out below:

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
NIS thousand	**2017**	**2016**	**2017**	**2016**	**2016**
Increase (decrease) as a result of due diligence of the reserves	(87,185)	146,236	(40,997)	92,239	93,230
Total life assurance	(87,185)	146,236	(40,997)	92,239	93,230
Non-life insurance	7,586	-	7,586	-	-
Total effect of interest before tax	**(79,599)**	**146,236**	**(33,411)**	**92,239**	**93,230**
Change in percentage of annuity TUR	-	-	-	-	69,651

11. 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.

12. Bonus for Mssrs. Yair Hamburger, Gideon Hamburger and Yoav Manor for 2016

On June 21, 2017, the Board of Directors of Harel Investments approved (in a resolution in which the senior officers who are the controlling shareholders did not participate) the results of the calculation of the bonus for 2016. According to the calculation, Yair Hamburger received a bonus in the amount of NIS 393,000; and Gideon Hamburger and Yoav Manor each received a bonus in the amount of NIS 234,000

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

13. Bonus for 2016 for other senior officers.

    On June 21, 2017, approval of the bonuses for officers of the Company and officers who were included in the compensation the final bonuses were approved for officers of the Company and officers who are included in the compensation plan, as specified in Note 38 in the annual financial statements, based on the final figures published by the companies in the benchmark group. There were no significant changes between the amounts included as an estimate published in the financial statements for 2016 and the final amounts that were approved.

    The difference between the actual bonus and the amounts that were included as an estimate is attributable both to parameters that were only available for the final calculation in May 2017 and also taking into account an insignificant company-wide revision of the method of calculating some of the indicators included in the compensation of senior officers which was applied from 2016 and thereafter. The effect of the revised indices is an amount of NIS 800,000 for each of the Company's senior officers (including NIS 300,000 for the CEO at the date of this report). The additional accounting expense compared with the provision in the 2016 reports for each of the Company's senior officers is NIS 260,000 (of which NIS 75,000 is for the CEO at the date of this report).

14. 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.

15. 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.

    On March 30 and on June 29, 2017, Yedidim Agency, a wholly owned subsidiary of the Company, repaid a capital note in the amount of NIS 1 million and NIS 9 million, respectively. This repayment was made from Yedidim Agency's independent sources.

16. 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.

17. 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.

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

18. 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.

19. 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.

20. In May 2017, the Company announced that it had established a new business division in Harel Insurance incorporating the industry and business insurance division, the general (non-life) 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 was split into the following business-professional units: the handling of non-life claims was transferred to the New Non-life Insurance Division, and the handling of health and long-term care claims was transferred to the Health Insurance Division.

21. On May 22, 2017, the Board of Directors of ICIC approved the distribution of a dividend in the amount of NIS 20 million. The Board of Directors reached its decision after taking into account the financial results of ICIC at December 31, 2016; the distributable surplus of ICIC at December 31, 2016 was presented, and the capital surpluses and equity requirements of ICIC were tested, based on the equity management policy of ICIC. Based on its stake in ICIC, the Company received half the dividend. The dividend was paid on June 26, 2017

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

23. On the publication by the Commissioner of a revised version of the provisions for implementation of a solvency regime, see Note 8.

24. On the expansion of Series 9 and 10 liability notes in the Reporting Period, see Note 6.

25. 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 – Significant Events after the Reporting Period

1. Changeover of senior officers

   In August 2017, Ms. Shlomit Zacks Engel took up office as the CFO of Harel Insurance, replacing Ms. Hagit Argov who announced that she wished to step down due to feeling she has no more to offer the Company in this position (Ms. Argov continues to serve Harel Insurance in a senior management position).

2. After the Reporting Period, the risk-free interest rate curve declined. A decline in the interest rates could increase the insurance liabilities. Such a change in the interest curve may positively affect the value of the Group’s financial assets in a manner that might reduce this aforesaid impact. At this stage, it is impossible to estimate the repercussions of the decline in the risk-free interest rate curve in this period on the Q3 2017 results.

HAREL INSURANCE INVESTMENTS AND FINANCIAL SERVICES LTD

ANNEXES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

A. Information about other financial investments

	as at June 30 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)	316,053	6,890,095	245,328	-	7,451,476
Non-negotiable debt assets (*)	-	-	-	12,606,795	12,606,795
Shares (a2)	32	830,125	-	-	830,157
Other (a3)	320,556	1,770,609	-	-	2,091,165
Total other financial investments	636,641	9,490,829	245,328	12,606,795	22,979,593

	as at June 30 2016 (Unaudited)				
	Presented at fair value through profit or loss	Available for sale	Held to maturity	Loans and Receivables	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Negotiable debt assets (a1)	514,802	6,474,736	295,129	-	7,284,667
Non-negotiable debt assets (*)	312	-	-	11,165,584	11,165,896
Shares (a2)	-	770,573	-	-	770,573
Other (a3)	176,074	1,846,804	-	-	2,022,878
Total other financial investments	691,188	9,092,113	295,129	11,165,584	21,244,014

	as 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 june 30		As at December 31	As at june 30		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	**2,715,524**	2,066,066	2,152,955	**2,687,487**	1,963,907	2,107,749
<u>Other debt assets:</u>						
Other non-convertible debt assets	**4,735,952**	5,214,555	4,955,530	**4,586,762**	5,033,384	4,858,242
Other convertible debt assets	**-**	4,046	3,255	**-**	3,703	3,076
Total marketable debt assets	**7,451,476**	7,284,667	7,111,740	**7,274,249**	7,000,994	6,969,067
Impairments recognized in profit and loss (in aggregate)	**4,267**	3,303	12,170			

A2. Shares

	Book value			Amortized cost		
	as at June 30		As at December 31	as at June 30		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
Other non-convertible debt assets	**747,878**	692,354	756,379	**637,495**	638,474	659,586
Other convertible debt assets	**82,279**	78,219	47,361	**80,595**	56,773	42,175
Total marketable debt assets	**830,157**	770,573	803,740	**718,090**	695,247	701,761
Impairments recognized in profit and loss (in aggregate)	**71,406**	64,839	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 June 30		As at December 31	as at June 30		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	**504,285**	633,336	527,368	**453,292**	600,903	472,302
Non-marketable financial investments	**1,586,880**	1,389,542	1,485,907	**1,124,778**	1,099,176	1,132,857
Total other financial investments	**2,091,165**	2,022,878	2,013,275	**1,578,070**	1,700,079	1,605,159
Impairments recognized in profit and loss (in aggregate)	**134,500**	125,551	121,956			
Derivative financial instruments presented in financial liabilities	**575,581**	634,163	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.

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HAREL INSURANCE INVESTMENTS AND FINANCIAL SERVICES LTD.

SEPARATE FINANCIAL INFORMATION FROM THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at June 30, 2017

Somekh Chaikin
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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 June 30, 2017 and for the six and three-month periods ended on that date. The separate interim financial information is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial information for these interim periods, based on our review.

We did not review the separate interim financial information from the financial statements of investee companies, in which the investment amounts to NIS 702,789 thousand as at June 30, 2017, and where the Company's profit from these investee companies amounts to NIS 73,858 thousand and NIS 61,303 thousand for the six and three-month periods, respectively, ended on that date. The financial statements of those companies were reviewed by other auditors whose review reports were furnished to us, and our conclusion, to the extent that it relates to 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

August 23, 2017

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

	June 30		December 31
	2017	2016	2016
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand
Assets			
Deferred tax assets	**350**	1,805	1,451
Fixed assets	**1,696**	1,394	1,582
Investments in investee companies	**5,109,799**	4,616,745	4,967,435
Loans to investee companies	**350,526**	350,483	350,515
Real estate for investment	**20,808**	19,758	19,758
Other receivables	**261,358**	12,077	16,288
Other financial investments			
Non marketable debt assets	**-**	3,062	2,980
Other	**179,669**	350,377	248,597
Total financial investments and others	**179,669**	353,439	251,577
Cash and cash equivalents	**72,874**	48,582	90,062
Total assets	**5,997,080**	5,404,283	5,698,668
Capital			
Share capital and premium on shares	**349,226**	346,802	351,425
Treasury stock	**(144,292)**	(161,141)	(158,035)
Capital reserves	**391,090**	410,939	368,742
Retained earnings	**4,756,280**	4,246,576	4,599,099
Total capital	**5,352,304**	4,843,176	5,161,231
Liabilities			
Liabilities for benefits to employees, Net	**16,691**	18,960	16,627
Other payables	**170,768**	22,893	27,374
Liabilities for current taxes	**5,657**	4,261	3,738
Financial liabilities	**451,660**	514,993	489,698
Total liabilities	**644,776**	561,107	537,437
Total liabilities and capital	**5,997,080**	5,404,283	5,698,668

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

Date of approval of the financial statements: August 23, 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 six months ended June 30		For the three months ended June 30		For the year ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Profits from investments, net, and financing revenues	**9,421**	7,166	**3,461**	3,632	18,132
Revenues from management fees	**50,699**	44,877	**24,358**	21,964	91,307
Total revenues	**60,120**	52,043	**27,819**	25,596	109,439
General and administrative expenses	**8,756**	9,263	**3,932**	3,790	18,750
Financing expenses	**9,153**	9,301	**4,858**	5,231	18,819
Total expenses	**17,909**	18,564	**8,790**	9,021	37,569
Company's shares in profits (losses) of investee companies	**380,688**	(29,165)	**107,419**	(25,072)	340,274
Profit (loss) before taxes on income	**422,899**	4,314	**126,448**	(8,497)	412,144
Taxes on income	**10,352**	8,383	**4,894**	4,171	15,545
Profit (loss) for period ended relating to the Company's shareholders	**412,547**	(4,069)	**121,554**	(12,668)	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 six months ended June 30		For the three months ended June 30		For the year ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Profit (loss) for the period	**412,547**	(4,069)	**121,554**	(12,668)	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 classified as available for sale	**(37)**	(1,621)	**(35)**	(1,574)	(1,630)
Net changes in fair value of financial assets classified as available for sale carried over to income statement	**(9)**	(23)	**(9)**	5	(15)
Loss from the impairment of assets classified as available for sale carried over to the income statement	**-**	808	**-**	808	808
Foreign currency translation differences for foreign activity	**(5,581)**	(230)	**925**	(734)	(12,060)
Group's share in the comprehensive income of investee companies	**29,558**	46,085	**60,994**	40,937	37,464
Tax benefits for items of other comprehensive income which after initial recognition under comprehensive income were or will be carried over to profit or loss	**11**	222	**11**	190	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	**23,942**	45,241	**61,886**	39,632	24,785
Other items of comprehensive income which will not be carried over to profit or loss					
Remeasurement of a defined benefit plan	**777**	621	**777**	1,206	1,292
Taxes on income for other items of comprehensive income which will not be carried over to profit or loss	**(179)**	(155)	**(179)**	(301)	(323)
Other comprehensive income for the period which will not be carried over to profit or loss, net of tax	**598**	466	**598**	905	969
Other comprehensive income for the period, net of tax	**24,540**	45,707	**62,484**	40,537	25,754
Total income for the period attributed to the company's shareholders	**437,087**	41,638	**184,038**	27,869	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 assets available for sale	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling shareholders	Capital reserve for revaluation of fixed assets	Retained earnings	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
For the six months ended June 30 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	-	-	-	-	-	-	-	412,547	412,547
Other comprehensive income (loss)	-	13,108	(52,810)	-	-	-	62,523	1,719	24,540
Total comprehensive income (loss) for the period	-	13,108	(52,810)	-	-	-	62,523	414,266	437,087
Transactions with owners credited directly to equity									
Dividend distributed	-	-	-	-	-	-	-	(257,085)	(257,085)
Purchase of Treasury shares	-	-	-	-	(14,254)	-	-	-	(14,254)
Re-issuance of Treasury shares	(2,672)	-	-	-	27,997	-	-	-	25,325
Exercising of options	473	-	-	(473)	-	-	-	-	-
Balance as at June 30 2017	349,226	342,731	(132,691)	3,130	(144,292)	(48,908)	226,828	4,756,280	5,352,304

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 assets available for sale	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling shareholders	Capital reserve for revaluation of fixed assets	Retained earnings	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
For the three months ended June 30 2017 (Unaudited)									
Balance as at April 1 2017	351,013	327,436	(118,944)	3,390	(148,579)	(48,908)	167,610	4,782,979	5,315,997
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	-	-	121,554	121,554
Other comprehensive income (loss)	-	15,295	(13,747)	-	-	-	59,218	1,718	62,484
Total comprehensive income (loss) for the period	-	15,295	(13,747)	-	-	-	59,218	123,272	184,038
Transactions with owners credited directly to equity									
Dividend distributed	-	-	-	-	-	-	-	(149,971)	(149,971)
Purchase of Treasury shares	-	-	-	-	(1,870)	-	-	-	(1,870)
Re-issuance of Treasury shares	(2,047)	-	-	-	6,157	-	-	-	4,110
Exercising of options	260	-	-	(260)	-	-	-	-	-
Balance as at June 30 2017	349,226	342,731	(132,691)	3,130	(144,292)	(48,908)	226,828	4,756,280	5,352,304

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 assets available for sale	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling shareholders	Capital reserve for revaluation of fixed assets	Retained earnings	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
For the six months ended June 30 2016 (Unaudited)									
Balance as at January 1, 2016	341,832	295,955	(44,472)	13,032	(161,077)	(48,908)	148,733	4,361,663	4,906,758
Total comprehensive income (loss) for the period									
Loss for the period	-	-	-	-	-	-	-	(4,069)	(4,069)
Other comprehensive income (loss)	-	46,885	(9,135)	-	-	-	12,074	(4,117)	45,707
Total comprehensive income (loss) for the period	-	46,885	(9,135)	-	-	-	12,074	(8,186)	41,638
Transactions with owners credited directly to equity									
Dividend distributed	-	-	-	-	-	-	-	(106,901)	(106,901)
Share-based payments	-	-	-	84	-	-	-	-	84
Purchase of Treasury shares	-	-	-	-	(3,216)	-	-	-	(3,216)
Re-issuance of Treasury shares	1,661	-	-	-	3,152	-	-	-	4,813
Exercising of options	3,309	-	-	(3,309)	-	-	-	-	-
Balance as at June 30 2016	346,802	342,840	(53,607)	9,807	(161,141)	(48,908)	160,807	4,246,576	4,843,176

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 assets available for sale	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling shareholders	Capital reserve for revaluation of fixed assets	Retained earnings	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
For the three months ended June 30 2016 (Unaudited)									
Balance as at April 1 2016	341,783	312,356	(60,066)	13,018	(160,473)	(48,908)	156,762	4,259,695	4,814,167
Total comprehensive income (loss) for the period									
Loss for the period	-	-	-	-	-	-	-	(12,668)	(12,668)
Other comprehensive income (loss)	-	30,484	6,459	-	-	-	4,045	(451)	40,537
Total comprehensive income (loss) for the period	-	30,484	6,459	-	-	-	4,045	(13,119)	27,869
Transactions with owners credited directly to equity									
Purchase of Treasury shares	-	-	-	-	(1,267)	-	-	-	(1,267)
Re-issuance of Treasury shares	1,808	-	-	-	599	-	-	-	2,407
Exercising of options	3,211	-	-	(3,211)	-	-	-	-	-
Balance as at June 30 2016	346,802	342,840	(53,607)	9,807	(161,141)	(48,908)	160,807	4,246,576	4,843,176

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 assets available for sale	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling shareholders	Capital reserve for revaluation of fixed assets	Retained earnings	Total
	NIS 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
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 distributed	-	-	-	-	-	-	-	(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

	Appendix	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
		2017	2016	2017	2016	2016
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
		NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Cash flows from operating activity						
Before taxes on income	A	**40,276**	14,034	**22,529**	15,433	48,516
Income tax received paid		**(7,492)**	(6,507)	**(4,913)**	(3,278)	(14,631)
Net cash provided by current operations		**32,784**	7,527	**17,616**	12,155	33,885
Cash flows from investing activity						
Investment in investees, net		**-**	-	**-**	-	(6,308)
Investment in fixed assets		**(665)**	(7)	**-**	-	(709)
Proceeds from sale of fixed assets		**444**	-	**-**	-	380
Dividend and interest from investees		**10,000**	211,811	**10,000**	211,811	213,964
Financial investments, net		**74,011**	(90,457)	**114,887**	(129,953)	14,663
Repayment of loans and capital notes provided to investees		**12,927**	12,534	**9,349**	4,533	15,538
Net cash provided by investment activity		**96,717**	133,881	**134,236**	86,391	237,528
Cash flows from financing activities						
Dividend paid		**(107,114)**	(106,901)	**(107,114)**	(106,901)	(171,086)
Repayment of loans from banks and others		**(39,575)**	(27,752)	**(12,540)**	(27,200)	(52,092)
Net cash used for financing activity		**(146,689)**	(134,653)	**(119,654)**	(134,101)	(223,178)
Net increase (decrease) in cash and cash equivalents		**(17,188)**	6,755	**32,198**	(35,555)	48,235
Cash and cash equivalents at beginning of the period		**90,062**	41,827	**40,676**	84,137	41,827
Cash and cash equivalents at end of the period		**72,874**	48,582	**72,874**	48,582	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 six months ended June 30		For the three months ended June 30		For the year ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Appendix A - Cash flows from operating activities before taxes on income					
Profit (loss) for the period attributed to the Company's shareholders	**412,547**	(4,069)	**121,554**	(12,668)	396,599
Items not involving cash flows					
Company's shares in losses (revenues) of investee companies	**(380,688)**	29,165	**(107,419)**	25,072	(340,274)
Net losses (profits) from financial investments	**(943)**	1,151	**1,406**	757	(2,110)
Profit from sale of fixed assets	**(61)**	-	**-**	-	(40)
Change in fair value of investment property	**(1,050)**	(448)	**(1,050)**	(448)	(448)
Financing income, net	**105**	(1,599)	**8,224**	7,416	(287)
Taxes on income	**10,352**	8,383	**4,894**	4,171	15,545
Depreciation and amortization	**168**	187	**84**	88	361
Share-based payment	**-**	34	**-**	-	34
Changes in other balance sheet items					
Other receivables	**4,930**	(6,865)	**362**	314	(11,076)
Other payables	**(5,148)**	(8,572)	**(5,353)**	(5,171)	(4,122)
Liabilities for benefits to employees, net	**64**	(3,333)	**(173)**	(4,098)	(5,666)
Total adjustments required to present cash flows from operating activities	**(372,271)**	18,103	**(99,025)**	28,101	(348,083)
Total cash flows from operating activities, before taxes on income	**40,276**	14,034	**22,529**	15,433	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 June 30, 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 March 30, 2017, 2017, and on June 29, 2017, Yedidim Agency, a wholly owned subsidiary of the Company, repaid a capital note in the amount of NIS 1 million and NIS 9.4 million, respectively. This repayment was made from Yedidim Agency's independent sources.
4. On the distribution of a dividend by Harel Insurance, see Note 8 to the consolidated financial statements.
5. On the distribution of a dividend by EMI, see Note 8 in the consolidated financial statements.

Note 3 - Significant events during the reporting period

1. Dividend distribution

   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.

   On June 21, 2017, the Company's Board of Directors resolved to distribute a cash dividend in the amount of NIS 150 million (NIS 0.7 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 on the distributable profits, capital surpluses of the Company's subsidiaries and the Group's cash requirements, in various scenarios. The Board of Directors reviewed the Company's compliance with the profit test and solvency test prescribed in Section 203(a) of the Companies Law. Following this review, the Board of Directors confirmed that the Company was in compliance with the distribution test. The dividend was paid on July 12, 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 changeover 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.

8. On a technical change in the manner of the controlling shareholders’ control of the Company, see Note 9 to the consolidated financial statements.

Note 4 – Material events after the Reporting Period

1. On a changeover of senior officers in Harel Insurance, see Note 10 to the consolidated financial statements.

Harel Insurance Investments and Financial Services Ltd.

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

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

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

In this instance, management consists of:

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

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

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

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

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

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

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

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

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

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

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

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

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

In the quarterly report concerning the effectiveness of the internal control over financial reporting and disclosure that was included in the quarterly report for the period ended March 31, 2017 (hereinafter – the last quarterly report on internal control), the internal control was found to be effective.

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

At the date of the report, based on the information in the last quarterly 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 Q2 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.

August 23, 2017

Michel Siboni
CEO

Certification

I, Arik Peretz, hereby certify that:

1. I have reviewed the interim financial statements and the other financial information contained in the interim financial statements of Harel Insurance Investments and Financial Services Ltd. ("the Company") for Q2 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.

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August 23, 2017 | Arik Peretz

CFO