



Harel Insurance Investments and Financial Services Ltd.

**Interim Report as at
September 30, 2017**



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Board of Directors Report

Harel Insurance Investments and Financial Services Ltd.

Board of Directors Report for the nine months ended September 30, 2017

The Board of Directors Report for the nine months ended September 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:

- 1.1.1 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 Com 2pany S.A.G.I (in which the Company holds 94%) operating 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").

Effective from 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.

- 1.1.2 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").

- 1.1.3 In the financial services and capital market sector - the Company operates through Harel Finance Ltd. ("Harel Finance") (wholly controlled by the Company) and its subsidiaries: Harel Pia Mutual Funds Ltd. ("Harel-Pia"), Harel Finance Investments Management Ltd. ("Harel Finance Investments"), Harel Financial Products Ltd. ("Harel Products") (which engages in financial products such as: ETNs, covered warrants and more). The products are offered to the public through the subsidiary Harel Sal Ltd. ("Harel Sal") which is a reporting corporation under the Securities Law and issues index products (covered warrants and ETNs) and through the subsidiary, Harel Sal Currencies Ltd ("Harel Currencies"), which is a reporting company 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 49.71% of the voting rights in the Company and 49.48% 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(21) to the Financial Statements.

2.1.4 Dividend distribution

On a decision from September 3, 2017, concerning the distribution of a dividend, that was paid on September 25, 2017, see Note 9(4) to the Financial Statements.

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 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.

2.1.7 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.

2.1.8 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

2.2.1 Convening of a special General Meeting of the Company

On the convening of a special General Meeting of the Company on October 25, 2017, see Note 10(1) to the Financial Statements.

2.2.2 Revised compensation policy of subsidiaries that are financial institutions

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

2.2.3 Engagement in a D&O liability insurance policy

On extending the engagement in a Directors and Officers (D&O) liability policy, see Note 9(14) to the Financial Statements.

2.3 Developments in the macroeconomic environment of the Group

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

2.3.1 General

Q3 2017 was accompanied by positive growth in most countries and global trade is expanding at a

reasonable pace. According to initial estimates, growth in the quarter was similar to that of the previous quarter. The global purchasing managers indices remained close to their highest level for three years.

In the USA, growth in Q3 2017 was 3% in annual terms, similar to the previous quarter and this despite two devastating hurricanes that hit Florida and Texas. The labor market is close to full employment and the market sentiment of companies and households remains high. The Federal Reserve left the interest rate unchanged but announced that it will begin to reduce its balance sheet in the next quarter.

In the Eurozone, growth in Q3 2017 was 2.4% in annual terms and the purchasing managers indices remained at their highest level since 2011. The ECB left its policy unchanged in Q3 as well while inflation remains lower than the Bank's target.

The emerging markets also recorded further improved performance, partially supported by price increases for raw materials and commodities, recovery in the developed economies which contributed to growing global trade and the further expansion of activity in China. Over the last four quarters, China's growth has moderated slightly to 6.8% in Q3 2017.

2.3.2 Developments in the Israeli economy

Most indicators for Q3 2017 are positive and show that the economy continued to grow at a reasonable pace; this emerges from data in the Companies Survey and the high level of the Consumer Confidence Index and Purchasing Managers Index, despite a certain moderation in private consumption. Labor market data continue to support the opinion that the economy is in full employment. The unemployment rate declined to 4.1% in Q3 2017, close to its lowest historical level. The percentage of job openings remains high, and although the rate of wage increases moderated slightly, it is still quite fast.

2.3.3 Stock market

Share prices on global stock markets rose reasonably in Q3 2017 as well. The MSCI World Index (gross in dollar terms) was up 5%, with a 16.5% increase overall from the beginning of the year. The corresponding index for the Emerging Markets rose by 8%, completing an impressive increase of 28.1% from the beginning of the year.

In Israel, the TA-125 index (which replaced the TA-100 index on February 9, 2017) increased by only 0.3% in Q3, and by just 0.8% from the beginning of the year, 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 2.7% in Q3, supported by price increases in the banking, real estate and insurance sectors, increasing by 15.9% overall from the beginning of the year.

The daily turnover of trade in shares and convertible instruments was NIS 1.3 billion in Q3, 20% higher than in the corresponding quarter last year and 3% higher than the average turnover for 2016 as a whole.

2.3.4 Bond market

The general bond index was up 1.5% in Q3 2017, increasing by 3.3% from the beginning of the year. The corporate bond index was up 1.5% in Q3 2017, increasing by 4.7% from the beginning of the year. The government bond index was up 1.6% in Q3 2017, increasing by 2.5% from the beginning of the year.

The daily turnover of trade in bonds was NIS 3.5 billion in Q3 2017, 2% higher than in the corresponding quarter last year, but 7% lower than the average turnover for 2016 as a whole.

2.3.5 Mutual funds

The mutual funds raised net amounts of NIS 4 billion in Q3 2017, raising NIS 12.9 billion from the beginning of the year, and this in contrast with redemptions of NIS 15.6 billion in the corresponding period last year.

The positive performance of the mutual funds specializing in bonds (which raised NIS 3.4 billion) and the funds specializing in foreign investments (NIS 840 million) was particularly noteworthy in Q3 2017. In contrast, net redemptions in the money market funds continued for the eleventh consecutive quarter (with a loss of NIS 300 million).

2.3.6 Index products

According to the Association of ETFs, at the end of Q3 2017 total assets under management amounted to NIS 94.3 billion, 1.9% less than at the end of 2016. The decline from the beginning of the year was greatest for ETNs on Israeli shares where redemptions of NIS 5.3 billion were recorded. The redemptions were partially offset by the raising of NIS 1.1 billion in ETNs on foreign share indices.

2.3.7 Foreign exchange market

After gaining strength for four consecutive quarters, the shekel weakened in Q3 2017 by 2.3% against the Bank of Israel's nominal basket of currencies (mainly due to depreciation against the Euro and Pound Sterling), but since the beginning of the year the shekel has appreciated against the basket of currencies. In Q3 2017, the shekel weakened 0.9% against the dollar (to NIS 3.529 / dollar) and by 4.3% against the euro (to NIS 4.1569 / euro).

2.3.8 Inflation

According to the last known index, in Q3 2017, inflation declined by 0.5% and for the last 12 indices (until August 2017) inflation was -0.1%. The key factors contributing to the lower index (known index) in Q3 were clothing and shoes, and fruit and vegetables, which were partially offset by an increase in the housing index.

2.3.9 Bank of Israel interest

The Bank of Israel interest rate remained unchanged at 0.1% in Q3 2017 as well, and in practice has remained at this level 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, the strong shekel and positive real (non-financial) activity, particularly in view of signs of stability in the housing market.

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 stipulates that insurance companies must send written notification to third parties, 30 days in advance, of their intention to file a claim against them and it 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 the application date forward to February 18, 2018.

On September 3, 2017, the Commissioner published a circular on provisions regarding alternative ways of identifying customers of financial institutions in emergency situations. The circular prescribes alternatives to those set out in 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, with respect to identifying customers, verifying particulars and document requirements, to be applied by financial institutions in emergency situations. The provisions of the circular will apply to financial institutions that manage life assurance accounts or contracts, effective from February 18, 2018.

On November 5, 2017, a draft circular was published concerning the management of money laundering and terror financing risks by financial institutions. The draft circular stipulates that financial institutions will define a policy for the management of money laundering and terror financing risks which will address, *inter alia*, identifying money laundering risks and measures to reduce them, will define procedures and tools for identifying and assessing money laundering and terror financing risks, effective steps to be taken to reduce these risks and the setting in place of supervisory, audit and reporting procedures, will establish procedures relating to the measures for reducing the risk and will also apply a know-your-customer (KYC) process.

- 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 September 3, 2017, the Commissioner published a second draft circular on the required disclosure format in the periodic reports and websites 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, and at the time of the periodic report also on their website, a report about the solvency ratio in accordance with 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 prescribe 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

- 2.4.1.4.1 On October 1, 2017, the Commissioner published a letter to insurance company executives on the subject of dividend distributions by insurance companies. The letter revises the letter on this subject dated August 10, 2016 and it determines the conditions that insurance companies must satisfy for distributing a dividend. For additional information, see Note 8(11)2) to the Financial Statements.
- 2.4.1.4.2 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 November 1, 2017, Supervision of Financial Services (Provident Funds) (Individually Managed Provident Funds) Regulations, 2009, were published, which prescribe that a tender process will be held among at least eight bidders. Furthermore, the 20% limit on the payment of commissions to related parties was cancelled, and the regulations stipulate 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 a winner of the tender that is not a related party. The regulations also state that for all the transactions, the commission paid to the related party will be the lowest commission offered by the winner of the tender, 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. These provisions will not apply to the sale or purchase of securities regarding which a tender process took place before the publication date of the amendment.

2.4.2.1.2 On October 31, 2017, Supervision of Financial Services (Provident Funds) (Purchase and Sale of Securities) (Amendment) Regulations, 2017, were published. The amendment stipulates that the minimum number of bidders in a tender to choose brokerage services will be increased from four to eight; a tender process will be held separately for each investment channel, instead of for all categories of securities together, and at least one winner will be chosen for each investment channel. These provisions will not apply with respect to the sale or purchase of securities for which a tender was held before the publication date of the regulations; sector-based provident funds, 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 the holding of securities will become applicable a year from the date of publication of the regulations. The other provisions of the regulations become applicable on their date of publication.

- 2.4.2.1.3 On September 3, 2017, draft Supervision of Financial Services (Provident Funds) (Investment Committee) Regulations, 2017, were published. The draft regulations set out provisions concerning the composition of a members’ investment fund (the investment committee of a provident fund or yield-dependent investment committee in an insurer) and its work methods, preventing a conflict of interests among its members, qualifications of its members, the way they are appointed, duration and manner of terminating their term of office and restrictions on their service. The draft regulations also propose transitional provisions whereby the provisions relating to the composition of the committee will enter into force three years after publication of the regulations. Furthermore, it is proposed that any member of the investments committee who does not meet the qualifications may continue to serve for 12 months from the date of publication of the regulations, and if he is an outside representative he may continue to serve for 3 years from the date of the regulations.
- 2.4.2.1.4 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 a 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.
- 2.4.2.1.5 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.

- 2.4.2.1.6 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.
- 2.4.2.1.7 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.
- 2.4.2.1.8 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.
- 2.4.2.1.9 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 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.

2.4.2.1.10 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 November 8, 2017, the Commissioner published a circular concerning the manner of depositing payments in provident funds. The circular sets out provisions with respect to the manner of making deposits to provident funds, the details that employers must provide to the management company when making the deposit, the dates on which the payments must be made and confirmations that management companies must provide to members, and regarding salaried members - also to their employers, in the provident funds that they manage. The provisions of the circular apply from their date of publication.

2.4.2.2.2 On October 2, 2017, the Commissioner published a circular concerning the transfer of money from central severance pay provident funds. The circular prescribes provisions amending a circular on the transfer of money between provident funds which allows employers to transfer money from central severance pay provident funds to the provident fund accounts of their employees whose employment in the company began before December 31, 2007 and they are still employed by the company. The circular also prescribes provisions concerning the maximum amount that employers may transfer, confirmation that employers must provide to the financial institution, the way in which the amounts are transferred to the workers and notice to be sent to employers and employees about the money transfers. The provisions of the circular apply from their date of publication.

2.4.2.2.3 On October 1, 2017, the Commissioner published a circular concerning an amendment to the consolidated circular - way of calculating an actuarial balance and the coefficients in the articles of association of pension funds and central provident funds for annuity. The circular revises the default option assumptions according to which pension fund management companies that operate according to a mutual insurance format are required to calculate the actuarial balance of the funds that they manage and the coefficients included in their articles of

association. The revision of the demographic assumptions included an update, inter alia, of the mortality tables for fund members, the disabled and their spouses, old-age pension recipients and their spouses, the spouses of deceased members who received an old-age pension, the disability take-up rate, probability for children under the age of 21 and the age of the youngest child, and the rate of increase in the Consumer Price Index (CPI). The provisions of the circular become applicable on December 31, 2017. The aforementioned changes in the coefficients will not apply to insureds who, by December 31, 2007, had reached the earliest age at which an old-age pension may be received in accordance with the fund's articles, and who remained in the same pension fund. Pension funds may defer the deficit created by way of applying the circular to such time as the fund will actually begin to make the payments to the insured or his survivors.

- 2.4.2.2.4 On September 11, 2017, the Commissioner published a draft amendment to a circular on management fees in pension savings instruments. The draft amendment prescribes 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 five years, unless the exclusions set out in the circular are satisfied and the relevant notifications on this matter are sent to members. The discount will apply to any savings balance accrued by the member in the pension fund. Financial institutions that wish to raise their management fees, must inform their members to this effect in a separate document to be sent no later than four months before the expected date of the increase, and the increase will begin two months after the date on which the notice is sent or on the date specified in the notice, whichever is later. The provisions of the circular will become applicable on April 1, 2018.
- 2.4.2.2.5 On September 3, 2017, the Commissioner published a circular on additional implementation of the consolidation of existing accounts in new pension funds from inactive accounts to active accounts. The circular sets out provisions concerning 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.
- 2.4.2.2.6 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 be 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%.

- 2.4.2.2.7 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.

- 2.4.2.2.8 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.

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

On September 3, 2017, the Commissioner published an amendment to the circular concerning guidelines for work disability insurance plans. The amendment prescribes provisions with respect to extending the policy period in group work disability policies that were sold before the previous circular entered into force on August 1, 2017 and which ended on or after August 1, 2017. The amendment also stipulates that insurers may market individual follow-on policies for work disability insurance that was approved before August 1, 2017, to insureds who are eligible for continuity under the Supervision of Financial Services (Insurance) (Group Work Disability Insurance), 2006, and this up to such time as there is an individual work disability policy that was approved in accordance with the provisions of the previous circular.

- 2.4.2.2.10 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.

- 2.4.2.2.11 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.

On November 5, 2017, the Commissioner published a circular on enrollment in a pension fund or provident fund - temporary order, which prescribes that the assets registered to the credit of a member, that are transferred in accordance with the provisions of the circular in the period between October 1 and the date of the allocation of the actuarial surplus, will be the member's accrued balance on the date on which the money is transferred, plus the amount arising from the actuarial balance that would have been credited to his account had the assets not been transferred on the date the allocation of the actuarial surplus.

- 2.4.2.2.12 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 becomes applicable from the annual report sent to members for 2016.

On September 10, 2017, an amendment to the circular was published revising the format of the abridged annual report sent to life assurance policyholders, to holders of life assurance and work disability policies that do not include a savings component, to members of provident funds and education funds, to members of old and new pension funds, in the format of the detailed annual report sent to life assurance policyholders, to members of provident funds and education funds, to members of new and old pension funds, and in the format of the quarterly report sent to insureds and members in financial institutions. (Among other things, details were added concerning a refund of management fees for the payment of clearing fees by employers, a clarification that details of the yields will be regarding those attained during the year of the report, net of investment management expenses but not net of management fees, and in the detailed annual report, links to the policy conditions, the signed documents signed by the insured or the member and the policy schedule.) The circular becomes applicable on its date of publication.

- 2.4.2.2.13 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 the date for submitting the report on the clearing fees paid to agents for the period January-December 2016 to July 2, 2017. 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 sent after an employee has withdrawn or transferred money from the pension product, that carries with it a cut in the management fees per employee of 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 takes effect on its date of publication.

- 2.4.2.2.14 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 must comply with when enrolling members in accordance with the provisions of Section 20(B) of the Provident Funds Law. The circular stipulates that employees will enroll in a provident fund by actively choosing their own provident fund or through the employer in a provident fund of his choice, pursuant to Section 20(B) of the Provident Funds Law, and that if the employee does not choose a provident fund and a provident fund is not chosen by the employer under Section 20(B) of the Provident Funds Law, the employer will enroll the employee in 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 every three years, commencing September 1, 2016. The circular also stipulates that the default fund will be chosen by the employer or workers' organization (union) by tender, in accordance with the criteria prescribed by the Commissioner. Existing default arrangements will remain in force until March 2019 at the latest. 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 a draft amendment to the circular on provisions with respect to choosing 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 transferred by virtue of a default option agreement as defined in the circular, will be returned to the employer immediately. Furthermore, it is proposed that excluding the provisions of the draft circular with respect to the default option agreement that was in force on the date of publication of the circular and up to the end of the agreement period but no later than March 31, 2019, will only apply if the management fee rates set out in or collected by virtue of such an agreement for a particular employee, are not the maximum management fee rates prescribed in the statutory provisions.

2.4.2.3 Draft circulars

2.4.2.3.1 On April 2, 2017, the Commissioner published a draft 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.

2.4.2.3.2 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 October 1, 2017, the Commissioner published a draft clarification regarding pension marketing procedures during enrolment in a pension product whereby, in accordance with the Supervision of Financial Services (Pension Advice, Marketing and Clearing System) Law, 2005, pension insurance agents who carry out pension product transactions, *inter alia* enrolment in a pension product, must conduct a pension marketing procedure in which they clarify the customer's requirements, choose for the customer the type of pension product, the pension product and financial institution that are best suited to the customer and explain their recommendation in writing. Financial institutions may pay agents a distribution fee only if the agent carried out the transaction as part of a pension marketing procedure.

2.4.2.4.2 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.

- 2.4.2.4.3 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 whole-life 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, transitional 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 for that part of the premium designated to cover the prepaid future risk.

At the date of the report, in view of experience gained in presenting the model to those entities with which the company entered into collective (group) agreements, it is unclear whether the new framework for group policies, which was regulated as part of the aforementioned circular, will be chosen by the entities with which the Company has entered into agreement as an alternative to the existing group policies, due to the significant increase in the premiums for older insureds. To the extent that this option is not chosen, the insureds in the group policies are entitled to engage with the Company in a personal-lines long-term care policy, without underwriting (under conditions of continuity). To the best of the Company's knowledge, various ministers and Knesset members are reviewing alternatives to

the model put forward in the circular, including a proposal to introduce national long-term care insurance.

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 November 5, 2017, the Commissioner published a draft circular amending the provisions of the Consolidated Circular - Deductible in Insurance for Surgery. The circular proposes allowing insurance companies to offer insureds insurance for surgery that includes a deductible of NIS 3,000 for performing surgery, with respect to policies "from the first shekel" and to the Supplementary Health Services policy (SHS); Furthermore, insureds may at any time move over to insurance for surgery with a deductible without a reappraisal of their medical condition and without any additional qualifying period. The insurance for surgery with a deductible will include a condition whereby if the cost of the surgery under the arrangement between the insurance company and the service provider is less than the deductible, the insured will be able to undergo the surgery under conditions defined for insurance companies with the arrangement service provider.

2.4.3.3.2 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.

2.4.3.3.3 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.

- 2.4.3.3.4 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 they are approved by the Commissioner; it also postpones to January 1, 2019 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.

2.4.4 Non-life insurance

2.4.4.1 Proposed legislation

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 circular

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

2.4.5.1 Provisions of law

2.4.5.1.1 On October 19, 2017, an amendment to the Prohibition on Money Laundering (Obligations of Identification, Reporting and Record Keeping by Portfolio Managers to Prevent Money Laundering and Terror Financing) Order, 2010, was published in the Official Gazette, which includes updates to the Order on several topics. Among other things, these amendments will enable portfolio managers to enter into agreement with customers by means of technology. The amendments entered into force on November 19, 2017.

2.4.5.1.2 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.

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 nine months ended September 30			For the three months ended September 30		For year ended December 31
	2017	2016	% change	2017	2016	2016
Life assurance and long-term savings segment						
Premiums earned, gross	3,777,384	3,085,570	22	1,273,211	1,048,320	4,299,943
Income from management fees	787,971	639,852	23	294,680	249,173	888,326
Profit (loss) before taxes from life assurance business	270,166	(111,464)	-	(24,544)	62,148	11,489
Profit before taxes from the management of provident funds	25,900	12,033	-	8,824	9,656	20,048
Profit before taxes from the management of pension funds	45,602	39,560	15	21,273	15,164	56,013
Total profit (loss) before taxes from life assurance and long-term savings segment	341,668	(59,871)	-	5,553	86,968	87,550
Total comprehensive income (loss) before taxes from life assurance and long-term savings segment	391,783	(20,324)	-	45,719	89,057	127,493
Non-life insurance segment						
Premiums earned, gross	2,327,357	2,193,297	6	798,536	741,592	2,949,193
Premiums earned, in retention	1,583,121	1,382,991	14	538,358	474,819	1,881,880
Total profit before taxes from non-life insurance segment	120,957	50,177	-	15,601	54,684	110,691
Total comprehensive income before taxes from non-life insurance segment	129,493	35,056	-	47,093	38,339	74,208
Health insurance segment						
Premiums earned, gross	3,293,092	3,103,972	6	1,127,393	1,084,889	4,163,232
Premiums earned, in retention	3,155,264	2,984,144	6	1,080,426	1,055,222	3,998,631
Total profit before taxes from health insurance segment	96,452	125,191	(23)	55,729	36,740	161,567
Total comprehensive income before taxes from health insurance segment	105,420	127,820	(18)	74,002	32,778	157,864
Insurance companies overseas segment						
Premiums earned, gross	323,296	211,028	53	119,565	81,334	300,688
Premiums earned, in retention	250,241	140,536	78	89,491	57,609	206,703
Total profit before taxes from insurance companies overseas segment	13,473	9,106	48	3,135	5,797	15,427
Total comprehensive income before taxes from insurance companies overseas segment	11,280	7,033	60	6,098	2,082	4,640
Capital market and financial services segment						
Income from the capital market and financial services	151,178	196,254	(23)	50,749	61,805	253,436
Total expenses from the capital market and financial	124,881	161,741	(23)	41,399	44,531	256,196

	For the nine months ended September 30			For the three months ended September 30		For year ended December 31
	2017	2016	% change	2017	2016	2016
services						
Total profit (loss) before taxes from the capital market and financial services segment	26,297	34,513	(24)	9,350	17,274	(2,760)
Total comprehensive income (loss) before taxes from the capital market and financial services segment	26,456	34,651	(24)	9,428	17,282	(2,654)
Items not included in the operating segments						
Profit from investments, net, and financing income	192,366	114,944	67	30,568	55,752	150,706
Income from commissions	156,435	147,978	6	54,238	52,625	197,878
General and administrative expenses not recognized in the statements of operating segments	103,278	100,233	3	35,755	33,321	118,698
Financing expenses, net	102,318	88,359	16	24,966	37,038	113,404
Pre-tax profit	716,018	201,401	-	106,886	235,623	440,555
Net profit for the year	494,200	159,774	-	81,550	163,328	396,948
Other comprehensive income (loss) for the period, net of tax	107,194	45,561	-	82,632	(243)	25,793
Total profit for the period	601,394	205,335	-	164,182	163,085	422,741
Net profit for the period attributable to shareholders of the Company	494,233	159,527	-	81,686	163,596	396,599
Net profit (loss) attributable to non-controlling interests	(33)	247	-	(136)	(268)	349
Return on equity in terms of annual comprehensive income, in percent	15%	6%	-	13%	13%	9%

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

	As at September 30			As at December 31
	2017	2016	% change	2016
Total statement of financial position	104,060	94,051	10.6	96,170
Assets for yield-dependent contracts	49,883	42,398	17.7	44,058
Other financial investments	23,476	22,121	6.1	22,238
Intangible assets	1,450	1,491	(2.7)	1,442
Reinsurance assets	4,573	4,822	(5.2)	4,728
Insurance liabilities (insurance reserves and outstanding claims) in life assurance				
For yield-dependent insurance policies and investment contracts	44,873	37,997	18.1	39,488
For non yield-dependent insurance policies	11,796	11,686	0.9	11,626
In non-life insurance	9,548	9,479	0.7	9,528

	As at September 30			As at December 31
	2017	2016	% change	2016
In health insurance (yield dependent and non-yield dependent)	9,163	8,322	10.1	8,541
In insurance companies overseas (yield-dependent and non yield-dependent)	516	370	39.5	389
Inter-segment adjustments and offsets	(4)	(4)	-	(3)
Total insurance liabilities	75,892	67,850	11.9	69,569
Equity attributable to holders of the Company's equity	5,313	4,944	7.5	5,161

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

	As at September 30			As at December 31
	2017	2016	% change	
For yield-dependent insurance policies and investment contracts	49,883	42,398	17.7	44,058
For members of provident funds and pension funds*	86,792	73,230	18.5	76,023
For mutual fund customers*	17,420	19,335	(9.9)	17,801
For customer portfolios*	8,457	8,499	(0.5)	8,423
ETNs and deposit certificates	14,282	13,239	7.9	13,208
Total managed assets for the Group's policyholders and members	176,834	156,701	12.8	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

Earned premiums from insurance business increased by 13% to a total of NIS 9,713 million in the Reporting Period, compared with NIS 8,590 million in the corresponding period last year. The increase in premiums earned is attributable to an increase in deposits and an increase in lump-sum deposits for savings in the long-term savings segment.

Earned premiums from insurance business increased by 12% to a total of NIS 3,313 million in Q3 2017, compared with NIS 2,955 million in the corresponding quarter last year. The increase in premiums earned is attributable to an increase in deposits and an increase in 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 601 million in the Reporting Period, compared with NIS 205 million in the corresponding period last year.

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

- 2.6.1 A decrease 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 increased the insurance liabilities in the life assurance and long-term savings segment in the Reporting Period by NIS 13 million before tax and NIS 9 million after tax, as against an increase in the insurance liabilities in the corresponding period last year of NIS 149 million before tax and NIS 96 million after tax due to a decline in the interest rate (for additional information, see Note 9 to the Financial Statements).
- 2.6.2 A revision of the interest rate in the corresponding period last year, following publication of the National Insurance Regulations (“Winograd Committee”), whereby, *inter alia*, the rate of interest for the purpose of discounting annual annuities will be 2% instead of 3%. Harel Insurance revised its estimates in respect of the aforementioned effect and accordingly, it increased the provisions by 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.
- 2.6.3 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 159 million, compared with NIS 77 million collected in the corresponding period last year.
- 2.6.4 In the Reporting Period, the Company recognized income resulting from a revaluation of owner-occupied real estate in the amount of NIS 88 million before tax, and NIS 61 million after tax.
- 2.6.5 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:

- 2.6.6 A deterioration of underwriting performance in the long-term care insurance sector (health insurance segment) due to an increase in claims.
- 2.6.7 An increase in claims in the compulsory motor sector and revised estimate for outstanding claims.
- 2.6.8 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 before tax and NIS 5 million after tax.
- 2.6.9 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 amounted to NIS 164 million in Q3 2017, similar to comprehensive income of NIS 163 million in the corresponding quarter last year.

The principal factors that affected this profit are:

- 2.6.10 An increase in the insurance liabilities in the life assurance and long-term savings

segment in the amount of NIS 100 million before tax and NIS 65 million after tax, following the decrease in the interest rate, compared with an insignificant change in the insurance liabilities in the corresponding quarter last year (for additional information, see Note 9 to the Financial Statements).

- 2.6.11 A deterioration of underwriting performance in the long-term care insurance sector (health insurance segment) due to an increase in claims.
- 2.6.12 An increase in claims in the compulsory motor sector and revised estimate for outstanding claims.
- 2.6.13 These effects were offset by 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 Q3. Total variable management fees collected in the current quarter amounted to NIS 78 million, compared with NIS 52 million collected in the corresponding quarter last year

Net profit in the Reporting Period was NIS 494 million, compared with NIS 160 million in the corresponding period last year.

Net profit was NIS 82 million in Q3 2017, as against profit of NIS 163 million in the corresponding quarter last year.

Pre-tax profit amounted to NIS 716 million in the Reporting Period, compared with NIS 201 million in the corresponding period last year.

Pre-tax profit amounted to NIS 107 million in Q3 2017, as against NIS 236 million in the corresponding quarter last year.

Net income from investments and financing income amounted to NIS 3,480 million in the Reporting Period, compared with NIS 2,037 million for 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 1,145 million in Q3 2017, compared with NIS 1,244 million in the corresponding quarter last year. The decline is mainly attributable to nominal yields in the capital market in the quarter that were lower than those in the corresponding quarter last year.

The Company's financing expenses that were not attributed to the operating segments, amounted to NIS 102 million in the Reporting Period, compared with financing expenses of NIS 88 million in the corresponding period last year. The increase in financing expenses is mainly attributable to the issuance of hybrid tier-2 capital (Series 12-13) in the corresponding period last year and to an expansion of hybrid tier-2 capital (Series 9-10) through Harel Financing & Issuing (for additional information, see Note 9 to the Financial Statements).

The Company's equity, relating to the Company's shareholders, was NIS 5,313 million at September 30, 2017, compared with NIS 4,944 million at September 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 601 million; (b) the distribution of a dividend in the amount of NIS 461 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 392 million in the Reporting Period, compared with a comprehensive loss of NIS 20 million in the corresponding period last year. The shift from comprehensive loss to comprehensive income is mainly attributable to the following:

- 2.7.1 A decrease 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 increased the insurance liabilities in the life assurance and long-term savings segment by NIS 13 million before tax in the Reporting Period, as against an increase in the insurance liabilities of NIS 149 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).
- 2.7.2 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 159 million, compared with NIS 77 million collected in the corresponding period last year.
- 2.7.3 An increase in comprehensive income before tax from the activity of the pension and provident funds, from NIS 52 million in the corresponding period last year, to NIS 73 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 46 million in Q3 2017, compared with NIS 89 million in the corresponding quarter last year. The decline in comprehensive income is mainly attributable to an increase in the insurance liabilities in the life assurance and long-term savings segment in the amount of NIS 100 million before tax and NIS 65 million after tax, following the decrease in the interest rate, compared with an insignificant change in the insurance liabilities in the corresponding quarter last year (for additional information, see Note 9 to the Financial Statements). This was partially offset by 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 Q3. Total variable management fees collected in the current quarter amounted to NIS 78 million, compared with NIS 52 million collected in the corresponding quarter last year.

Pre-tax profit in the life assurance and long-term savings segment was NIS 342 million in the Reporting Period, compared with a pre-tax loss of NIS 60 million in the corresponding period last year.

Pre-tax profit in the life assurance and long-term savings segment in Q3 2017 was NIS 6 million, compared with pre-tax profit of NIS 87 million in the corresponding quarter last year.

2.7.4 Life assurance

Premiums earned in the Reporting Period increased by 22% to NIS 3,777 million, compared with NIS 3,086 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 Q3 2017 increased by 21% to NIS 1,273 million, compared with NIS 1,048 million in the corresponding quarter last year. The increase is mainly attributable to an increase in deposits and to an increase in lump-sum deposits for savings.

Comprehensive income in life assurance was NIS 319 million in the Reporting Period, compared with a comprehensive loss of NIS 72 million in the corresponding period last year. The shift from comprehensive loss to comprehensive income is mainly attributable to the following:

- A. A decrease 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 increased the insurance liabilities in the life assurance and long-term savings segment by NIS 13 million before tax in the Reporting Period, as against an increase in the insurance liabilities of NIS 149 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 159 million, compared with NIS 77 million collected in the corresponding period last year.

Comprehensive income in life assurance was NIS 14 million in Q3 2017, as against NIS 66 million in the corresponding quarter last year. The decline in comprehensive income is mainly attributable to an increase in the insurance liabilities in the life assurance and long-term savings segment in the amount of NIS 100 million before tax, following the decrease in the interest rate, compared with an insignificant change in the corresponding quarter last year (for additional information, see Note 9 to the Financial Statements). This was partially offset by 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 78 million, compared with NIS 52 million collected in the corresponding quarter last year.

Pre-tax profit in life assurance was NIS 270 million in the Reporting Period, compared with a pre-tax loss of NIS 111 million in the corresponding period last year.

There was a pre-tax loss from life assurance of NIS 25 million in Q3 2017, as against pre-tax profit of NIS 62 million in the corresponding quarter last year.

Profit from investments held against insurance liabilities in life assurance amounted to NIS 2,809 million in the Reporting Period, compared with NIS 1,513 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 1,013 million in Q3 2017, compared with NIS 994 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.

Redemptions in the Reporting Period amounted to NIS 880 million, accounting for 2.6% of the average life assurance reserve, compared with redemptions of NIS 824 million in the corresponding period last year, which accounted for 2.6% of the average reserve last year.

Redemptions amounted to NIS 326 million in Q3 2017, accounting for 2.9% of the average reserve in life assurance, compared with redemptions of NIS 309 million in the corresponding quarter last year, which accounted for 3% of the average reserve last year.

Total life assurance reserves at September 30, 2017 amounted to NIS 56.7 billion.

Yield-dependent policies:

Policies issued 1991-2003				
	1-9.2017 (in percent)	1-9.2016 (in percent)	7-9.2017 (in percent)	7-9.2016 (in percent)
Real yield before payment of management fees	5.95	3.25	2.77	2.02
Real yield after payment of management fees	4.70	2.40	2.25	1.61
Nominal yield before payment of management fees	6.16	3.25	2.26	2.43
Nominal yield after payment of management fees	4.91	2.40	1.74	2.02

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

Policies issued from 2004				
	1-9.2017 (in percent)	1-9.2016 (in percent)	7-9.2017 (in percent)	7-9.2016 (in percent)
Real yield before payment of management fees	5.72	3.10	2.69	1.99
Real yield after payment of management fees	4.91	2.28	2.43	1.72
Nominal yield before payment of management fees	5.93	3.10	2.18	2.41
Nominal yield after payment of management fees	5.12	2.28	1.92	2.13

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):

	1-9.2017	1-9.2016	7-9.2017	7-9.2016
Profit (loss) after management fees	1,948	826	760	691
Total management fees	403	290	163	126

2.7.5 Pension funds

Assets managed by the pension funds increased by 23% to NIS 52 billion at September 30, 2017, compared with NIS 42.2 billion at September 30, 2016, and by 17% 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 15% to NIS 5,281 million in the Reporting Period, compared with NIS 4,592 billion in the corresponding period last year.

Benefit contributions collected by the Group's pension funds increased by 22% to NIS 1,922 million in Q3 2017, compared with NIS 1,581 million in the corresponding quarter last year.

The assets managed by the pension funds and the benefit contributions 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 221 million in the Reporting Period, compared with NIS 206 million in the corresponding period last year. Revenues from management fees in the corresponding period last year include revenues in the amount of NIS 7.6 million for operating services provided to Nativ Pension Fund of the Histadrut Industries Workers and Employees Ltd. by Harel Pension and Provident.

For information about the termination of the agreement to provide operating services between Harel Pension and Provident and Nativ Pension Fund of the Histadrut 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 7% to NIS 76 million in Q3 2017, compared with NIS 71 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 to Nativ Pension Fund of the Histadrut Industries Workers and Employees Ltd. by Harel Pension and Provident.

Expenses for management of the pension funds amounted to NIS 176 million in the Reporting Period, compared with NIS 169 million in the corresponding period last year.

Expenses for management of the pension funds amounted to NIS 54 million in Q3 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 47 million in the Reporting Period, compared with NIS 39 million in the corresponding period last year. The increase in comprehensive income is mainly attributable to the increase in assets under management.

Comprehensive income before tax from the management of pension funds and operation of an old pension fund amounted to NIS 22 million in Q3 2017, compared with NIS 14 million in the corresponding quarter last year. The increase in comprehensive income is mainly attributable to the increase in assets under management.

Pre-tax profit from the management of pension funds and operation of an old pension fund amounted to NIS 46 million in the Reporting Period, compared with NIS 40 million in the corresponding period last year.

Pre-tax profit from the management of pension funds and operation of an old pension fund amounted to NIS 21 million in Q3 2017, compared with NIS 15 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 6.14% in the Reporting Period, compared with a nominal yield of 3.21% in the corresponding period last year.

2.7.6 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 September 30, 2017, the Group operates 45 tracks in its provident funds.

Assets under management held by the Group's provident funds increased by 12% to NIS 34.8 billion at September 30, 2017, compared with NIS 31 billion at September 30, 2016, and by 10% 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 15% to NIS 164 million in the Reporting Period, compared with NIS 143 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 and to an increase in the assets under management. These effects were partially offset by an erosion in the rate of the management fees.

Revenues from management fees collected from the provident funds managed by the Group increased by 6% to NIS 56 million in Q3 2017, compared with NIS 53 million in the corresponding quarter last year. The increase in management fees is mainly attributable to an increase in the assets under management. This was partially offset by the erosion in the rate of the management fees.

Provident fund expenses amounted to NIS 139 million in the Reporting Period, compared with NIS 132 million in the corresponding period last year.

Provident fund expenses amounted to NIS 47 million in Q3 2017, compared with NIS 43 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 26 million in the Reporting Period, compared with NIS 13 million in the corresponding period last year. The increased profit 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 and to an increase in the assets under management.

Comprehensive income before tax for the provident fund management companies which is included in the consolidated statement of income in the life assurance and long-term savings segment, amounted to NIS 9 million in Q3 2017, similar to the comprehensive income before tax 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 26 million in the Reporting Period, compared with NIS 12 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 9 million in Q3 2017, as against NIS 10 million in the corresponding quarter last year.

The provident funds accrued a net, positive amount (excluding investment profit) of NIS 1,674 million in the Reporting Period, compared with accruals of NIS 804 million in the corresponding period last year.

2.8 Health insurance

Premiums earned in the health insurance segment increased by 6% to NIS 3,293 million in the Reporting Period, compared with NIS 3,104 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 4% to NIS 1,127 million in Q3 2017, compared with NIS 1,085 million in the corresponding quarter last year.

Comprehensive income in the health insurance segment was NIS 105 million in the Reporting Period, as against NIS 128 million in the corresponding period last year. The decline in comprehensive income is mainly attributable to deterioration of long-term care insurance due to an increase in the number of claims.

Comprehensive income in the health insurance segment was NIS 74 million in Q3 2017, compared with NIS 33 million in the corresponding quarter last year. The increase in comprehensive income is mainly attributable to an increase in capital market yields in the current quarter compared with the yields in the corresponding quarter last year.

Pre-tax profit in the health insurance segment was NIS 96 million in the Reporting Period, as against pre-tax profit of NIS 125 million in the corresponding period last year.

Pre-tax profit in the health insurance segment was NIS 56 million in Q3 2017, compared with NIS 37 million in the corresponding quarter last year.

Total payments and changes in gross liabilities in respect of insurance contracts in the health insurance segment increased by 11% to NIS 2,647 million in the Reporting Period, compared with NIS 2,391 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 142 million in the Reporting Period, compared with NIS 83 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							
	1-9.2017	1-9.2016	% change	7-9.2017	7-9.2016	% change	2016
Compulsory motor	434,564	378,845	14.7	120,919	104,743	15.4	491,079
Motor property	556,198	587,161	(5.3)	171,219	165,343	3.6	780,015
Property & other branches	746,957	751,698	(0.6)	246,668	230,534	7.0	945,618
Other liabilities branches	616,740	585,057	5.4	139,766	131,681	6.1	849,897
Credit & mortgage insurance*	(6,255)	(14,606)	(57.2)	(1,952)	(4,073)	(52.1)	(17,504)
Total	2,348,204	2,288,155	2.6	676,620	628,228	7.7	3,049,105

Comprehensive income (loss) before tax							
	1-9.2017	1-9.2016	% change	7-9.2017	7-9.2016	% change	2016
Compulsory motor	(17,368)	(27,161)	(36.1)	(7,139)	1,834	-	(23,616)
Motor property	30,075	7,918	-	12,697	1,613	-	13,667
Property & other branches	77,312	52,757	46.5	26,534	20,965	26.6	77,437
Other liabilities branches	1,568	(43,383)	-	1,497	(1,253)	-	(48,886)
Credit & mortgage insurance*	37,906	44,925	(15.6)	13,504	15,180	(11.0)	55,606
Total	129,493	35,056	-	47,093	38,339	22.8	74,208

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

	1-6.2017	1-6.2016
Compulsory motor	11%	(4%)
Motor property	1%	(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 3% to NIS 2,348 million in the Reporting Period, compared with NIS 2,288 million in the corresponding period last year.

Gross premiums increased by 8% to NIS 677 million in Q3 2017, compared with NIS 628 million in the corresponding quarter last year.

Gross premiums in the non-life segment for the state employees transaction amounted to NIS 19 million in the Reporting Period, as against NIS 77 million in the corresponding period last year. After adjustment for these premiums, the premiums increased by 5% 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 4% to NIS 1,571 million in the Reporting Period, compared with NIS 1,509 million in the corresponding period last year.

Premiums in retention increased by 11% to NIS 413 million in Q3 2017, compared with NIS 372 million in the corresponding quarter last year.

Comprehensive income in non-life insurance amounted to NIS 129 million in the Reporting Period, compared with NIS 35 million in the corresponding period last year. The increased comprehensive income is mainly attributable to the effect of the publication of the Winograd Committee recommendations, as a result of which Harel Insurance increased its insurance liabilities in the corresponding period last year by NIS 175 million.

This was partially offset by:

- 2.9.1 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.
- 2.9.2 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 47 million in Q3 2017, compared with NIS 38 million in the corresponding quarter last year. The increase in comprehensive income is mainly attributable to real yields in the capital market in the current quarter, that were higher than those in the corresponding quarter last year. This effect was partially offset by a negative development in the compulsory motor sector in the current quarter in the estimate of outstanding claims.

Pre-tax profit in non-life insurance was NIS 121 million in the Reporting Period, compared with NIS 50 million in the corresponding period last year.

Pre-tax profit in non-life insurance amounted to NIS 16 million in Q3 2017, as against NIS 55 million in the corresponding quarter last year.

2.9.3 Motor property

Gross premiums in motor property insurance decreased by 5% to NIS 556 million in the Reporting Period, as against NIS 587 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 171 million in Q3 2017, compared with gross premiums of NIS 165 million in the corresponding quarter last year.

Premiums in retention decreased by 6% to NIS 535 million in the Reporting Period, as against NIS 572 million in the corresponding period last year, as explained above.

Premiums in retention amounted to NIS 164 million in Q3 2017, compared with NIS 161 million in the corresponding quarter last year.

Comprehensive income in motor property insurance was NIS 30 million in the Reporting Period, compared with NIS 8 million in the corresponding period last year. The increased comprehensive profit is mainly attributable to improved underwriting performance.

Comprehensive income in motor property insurance amounted to NIS 13 million in Q3 2017, compared with NIS 2 million in the corresponding quarter last year. The increase in comprehensive income is mainly attributable to the continuing improvement in underwriting performance.

Pre-tax profit in motor property insurance amounted to NIS 30 million in the Reporting Period, compared with NIS 9 million in the corresponding period last year.

Pre-tax profit in motor property insurance amounted to NIS 10 million in Q3 2017, compared with NIS 3 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.

On October 2, 2017, Harel Insurance was informed that it had not been awarded the tender published by the Accountant General for 32% of the scope of motor property insurance and compulsory motor insurance of state employees for 2018. The results of the tender are not expected to significantly affect the financial results of Harel Insurance.

2.9.4 Compulsory motor

Gross premiums in compulsory motor insurance increased by 15% to NIS 435 million in the Reporting Period, compared with NIS 379 million in the corresponding period last year. The increase is mainly attributable to an increase in the premiums 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 15% to NIS 121 million in Q3 2017, compared with NIS 105 million in the corresponding quarter last year.

Premiums in retention amounted to NIS 432 million in the Reporting Period, compared with NIS 377 million in the corresponding period last year, as explained above.

Premiums in retention amounted to NIS 119 million in Q3 2017, compared with NIS 103 million in the corresponding quarter last year, as explained above.

The comprehensive loss in compulsory motor insurance amounted to NIS 17 million in

the Reporting Period, as against a comprehensive loss of NIS 27 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 7 million in Q3 2017, as against 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 a negative development in the compulsory motor sector in the current quarter in the estimate of outstanding claims. This was partially offset by real yields in the capital market in the current quarter, that were higher than those in the corresponding quarter last year.

There was a pre-tax loss in compulsory motor insurance of NIS 19 million in the Reporting Period, compared with a pre-tax loss of NIS 21 million in the corresponding period last year.

There was a pre-tax loss of NIS 19 million in compulsory motor insurance in Q3 2017, compared with pre-tax profit of NIS 9 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 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.

On October 2, 2017, Harel Insurance was informed that it had not been awarded the tender published by the Accountant General for 32% of the scope of motor property insurance and compulsory motor insurance of state employees for 2018. The results of the tender are not expected to significantly affect the financial results of Harel Insurance.

2.9.5 Liabilities and other branches

Gross premiums in liabilities and other insurance increased by 5% to NIS 617 million in the Reporting Period, compared with NIS 585 million in the corresponding period last year.

Gross premiums in liabilities and other insurance increased by 6% to NIS 140 million in Q3 2017, compared with premiums of NIS 132 million in the corresponding quarter last

year.

Premiums in retention increased by 9% to NIS 416 million in the Reporting Period, compared with NIS 382 million in the corresponding period last year.

Premiums in retention increased by 29% to NIS 67 million in Q3 2017, compared with NIS 52 million in the corresponding quarter last year.

Comprehensive income in liabilities and other insurance was NIS 2 million in the Reporting Period, compared with a comprehensive loss of NIS 43 million in the corresponding period last year. The shift from comprehensive loss to comprehensive income is mainly attributable to the 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.

Comprehensive income in liabilities and other insurance amounted to NIS 1 million in Q3 2017, as against a comprehensive loss of NIS 1 million in the corresponding quarter last year. The shift from comprehensive loss to comprehensive income is mainly attributable to the real yields in the capital market in the current quarter, that were higher than those in the corresponding quarter last year.

There was a pre-tax loss in liabilities and other insurance of NIS 0.5 million in the Reporting Period, compared with a pre-tax loss of NIS 37 million in the corresponding period last year.

There was a pre-tax loss in liabilities and other insurance amounted of NIS 12 million in Q3 2017, as against pre-tax profit of NIS 6 million in the corresponding quarter last year.

2.9.6 Property and other branches

Premiums in property and other insurance decreased by 1% to NIS 747 million in the Reporting Period, as against NIS 752 million in the corresponding period last year.

Gross premiums in property and other sectors increased by 7% to NIS 247 million in Q3 2017, compared with NIS 231 million in the corresponding quarter last year.

Premiums in retention amounted to NIS 194 million in the Reporting Period, similar to the corresponding period last year.

Premiums in retention increased by 8% to NIS 65 million in Q3 2017, compared with NIS 60 million in the corresponding quarter last year.

Comprehensive income in property and other insurance was NIS 77 million in the Reporting Period, compared with NIS 53 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 in the current period.

Comprehensive income in property and other insurance was NIS 27 million in Q3 2017,

compared with NIS 21 million in the corresponding quarter last year.

Pre-tax profit in property and other insurance was NIS 77 million in the Reporting Period, compared with NIS 53 million in the corresponding period last year.

Pre-tax profit in property and other insurance amounted to NIS 26 million in Q3 2017, compared with NIS 22 million in the corresponding quarter last year.

2.9.7 Credit insurance for mortgages

Premiums earned in retention from credit insurance for residential mortgages amounted to NIS 12 million in the Reporting Period, compared with NIS 18 million in the corresponding period last year.

Premiums earned in retention from credit insurance for residential mortgages amounted to NIS 4 million in Q3 2017, as against NIS 5 million in the corresponding quarter last year.

Comprehensive income in credit insurance for mortgages amounted to NIS 38 million in the Reporting Period, as against NIS 45 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 corresponding period last year.

Comprehensive income in credit insurance for residential mortgages amounted to NIS 14 million in Q3 2017, as against NIS 15 million in the corresponding quarter last year.

Pre-tax profit in credit insurance for residential mortgages amounted to NIS 34 million in the Reporting Period, as against NIS 45 million in the corresponding period last year.

Pre-tax profit in credit insurance for residential mortgages amounted to NIS 11 million in Q3 2017, compared with NIS 15 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, and it also fully controls Turk Nippon - an insurance company which operates in Turkey ("insurance companies overseas"). The insurance companies overseas are engaged in non-life insurance and health insurance.

Premiums earned in the insurance companies overseas segment increased by 53% to NIS 323 million in the Reporting Period, compared with NIS 211 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 48% to NIS 120 million in Q3 2017, compared with NIS 81 million in the corresponding quarter last year. Premiums earned by the insurance companies overseas segment in Q3 2017 account for 4% of all premiums earned by the Group.

Comprehensive income in the insurance companies overseas segment was NIS 11 million in the Reporting Period, compared with NIS 7 million in the corresponding period last year.

Comprehensive income in the insurance companies overseas segment was NIS 6 million in Q3 2017, compared with NIS 2 million in the corresponding quarter last year.

Pre-tax profit in the insurance companies overseas segment was NIS 13 million in the Reporting Period, compared with NIS 9 million in the corresponding period last year..

Pre-tax profit in the insurance companies overseas segment was NIS 3 million in Q3 2017, as against NIS 6 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 23% to NIS 151 million in the Reporting Period, as against NIS 196 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 managed portfolios.

Revenues in the capital market and financial services segment decreased by 18% to NIS 51 million in Q3 2017, as against NIS 62 million in the corresponding quarter last year. The decline in revenues in the current quarter compared with the corresponding quarter last year is mainly attributable to the erosion of 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.

Management fees from the mutual funds and managed portfolios amounted to NIS 108 million in the Reporting Period, as against NIS 128 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 Q3 2017, as against NIS 40 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 43 million in the Reporting Period, as against NIS 68 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 Q3 2017, as against NIS 22 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 40.2 billion at September 30, 2017, as against NIS 41.1 billion at September 30, 2016, and NIS 39.4 billion at December 31, 2016.

These amounts include mutual fund assets of NIS 17.4 billion at September 30, 2017, as against NIS 19.3 billion at September 30, 2016, and NIS 17.8 billion at December 31, 2016, as well as ETN and deposit certificate assets, which at September 30, 2017 amounted to NIS 14.3 billion, compared with NIS 13.2 billion at September 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 26 million in the Reporting Period, as against NIS 35 million in 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 sector was NIS 60 million before tax, a decrease of 57% 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, to a change in the asset mix, higher costs for holding the backing asset and market conditions in ETN and deposit certificate activity.

In Q3 2017, the capital market and financial services segment recorded pre-tax profit and comprehensive income of NIS 9 million, as against NIS 17 million in the corresponding quarter last year. The reduced profit relative to the corresponding period last year 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. The second quarter saw the beginning of net positive capital raisings, although the outcome has yet to be reflected in the Company's results.

2.12 Taxes on income

Taxes on income in the Reporting Period amounted to an expense of about NIS 222 million, compared with income tax expenses of NIS 42 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 an expense of NIS 25 million in Q3 2017, as against income tax expenses of about NIS 72 million in the corresponding quarter last year.

2.13 Liquidity and sources of finance

2.13.1 Cash flows

Total net cash flows provided by current activity amounted to NIS 201 million in the Reporting Period. Net cash flows used for investment activity amounted to NIS 201 million. Net cash flows used for financing activity and exchange rate fluctuations amounted to NIS 221 million. The result of all the aforesaid activity is expressed as a decrease of NIS 221 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.
- 4.1.2 On June 22, 2017, Mr. Jonathan Brody began to serve as the appointed life assurance actuary in Harel Insurance, in addition to his service as an appointed health insurance actuary in Harel Insurance. On August 10, 2017, Mr. Roman Reidman, who until that date served as the appointed life assurance actuary, informed the Company that he would be terminating his employment in Harel Insurance at the end of October 2017.
- 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 effective from April 15, 2017.
- 4.1.6 Mr. Tal Kedem was appointed CEO of Harel Finance, effective from 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 transition 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 September 30, 2017, Harel Insurance must meet 60% of the total 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 in December 2024 (“the Scheduling Period”).

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 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 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) 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 (deficit) in the scheduling period	5,056,419

B. Minimum Capital Requirement (MCR)

	December 31 2016 (Unaudited) NIS thousand
Minimum Capital Requirement (MCR)	2,114,870
Equity for the purpose of MCR	7,858,477

⁽¹⁾ The MCR is calculated in the range between $SCR \times 0.25$ and $SCR \times 0.45$. 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

November 22, 2017

HAREL INSURANCE INVESTMENTS AND FINANCIAL SERVICES LTD

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at September 30, 2017



Somekh Chaikin

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

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

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

Introduction

We reviewed the attached financial information of Harel Investments in Insurance and Financial Services Ltd. and its subsidiaries (hereinafter: "the Group") which include the condensed consolidated interim statement of financial position as at September 30, 2017 and the condensed consolidated interim statements of income, comprehensive income, changes in capital and cash flows for the nine 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 15.20% of all the consolidated assets as at September 30, 2017 and whose revenues included in the consolidation comprise 2.77% and 2.87% of all the consolidated revenues for the nine 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 116,660 thousand as at September 30, 2017, and the Group's share of their profits is NIS 9,698 thousand and NIS 3,431 thousand for the nine 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 the Group's exposure to contingent liabilities.

Somekh Chaikin
Certified Public Accountants (Isr)

November 22, 2017

KPMG Somekh Chaikin, a partnership registered under the Israeli Partnership Ordinance, is the Israeli member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

Condensed consolidated interim statements of financial position at

	September 30		December 31
	2017	2016	2016
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand
Assets			
Intangible assets	1,449,886	1,491,099	1,442,467
Deferred tax assets	11,363	15,258	16,017
Deferred Acquisition Costs	2,325,206	2,140,774	2,183,149
Fixed assets	1,307,505	1,199,372	1,214,715
Investments in equity accounted investees	1,453,191	1,274,240	1,413,346
Investment property for yield-dependent policies	1,456,491	1,378,345	1,411,903
Other investment property	1,717,484	1,573,352	1,608,786
Reinsurance assets	4,572,809	4,821,800	4,728,124
Current tax assets	34,007	44,485	26,652
Trade and other receivables	1,152,412	1,325,588	1,299,652
Premium due	1,328,845	1,254,394	1,407,083
Financial investments for yield-dependent policies	45,824,237	38,927,387	40,181,076
Financial investments for holders of ETNs and deposit certificates	6,746,589	7,043,943	6,888,838
Other financial investments			
Marketable debt assets	7,079,579	7,364,928	7,133,596
Non-marketable debt assets	13,211,174	11,521,286	11,929,996
Shares	870,709	768,706	805,528
Other	2,314,131	2,466,022	2,368,525
Total other financial investments	23,475,593	22,120,942	22,237,645
Cash and cash equivalents pledged for bearers of ETNs	7,824,195	6,412,879	6,509,508
Cash and cash equivalents for yield-dependent contracts	2,012,519	1,423,617	1,847,772
Other cash and cash equivalents	1,367,768	1,603,333	1,753,680
Total assets	104,060,100	94,050,808	96,170,413
Total assets for yield-dependent contracts	49,882,544	42,397,701	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.)

	September 30		December 31
	2017	2016	2016
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand
Equity and liabilities			
Equity			
Share capital and share premium	344,659	346,574	351,425
Treasury shares	(137,737)	(159,274)	(158,035)
Capital reserves	474,293	405,584	368,742
Retained earnings	4,632,186	4,351,115	4,599,099
Total equity attributed to shareholders of the Company	5,313,401	4,943,999	5,161,231
Non-controlling interests	6,163	6,030	6,090
Total equity	5,319,564	4,950,029	5,167,321
Liabilities			
Liabilities for non-yield-dependent insurance contracts and investment contracts	26,615,325	25,615,051	26,013,727
Liabilities for yield-dependent insurance contracts and investment contracts	49,277,477	42,235,297	43,555,153
Deferred tax liabilities	865,833	807,190	794,688
Liabilities for employee benefits, net	248,885	280,272	252,613
Current tax liabilities	30,811	13,345	19,291
Trade and other payables	2,887,772	2,641,143	2,870,938
Liabilities for ETNs and deposit certificates	14,281,556	13,223,534	13,191,057
Financial liabilities	4,532,877	4,284,947	4,305,625
Total liabilities	98,740,536	89,100,779	91,003,092
Total equity and liabilities	104,060,100	94,050,808	96,170,413

Yair Hamburger
Chairman of the Board of
Directors

Michel Siboni
CEO

Arik Peretz
CFO

Date of approval of the financial statements: November 22, 2017

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

Condensed consolidated interim statements of income

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Premiums earned, gross	9,713,046	8,590,200	3,312,717	2,954,930	11,708,169
Premiums earned by reinsurers	1,049,888	1,094,296	367,747	345,247	1,456,026
Earned premiums in retention	8,663,158	7,495,904	2,944,970	2,609,683	10,252,143
Profit from investments, net, and financing income	3,480,499	2,036,552	1,145,276	1,244,045	2,882,049
Income from management fees	911,430	782,820 *	336,304	294,826 *	1,075,572 *
Income from commissions	249,448	221,461 *	87,260	67,566 *	298,888 *
Other income	6,904	-	-	-	-
Total income	13,311,439	10,536,737	4,513,810	4,216,120	14,508,652
Payments and changes in liabilities for insurance policies and investment contracts, gross	10,561,508	8,767,391	3,671,607	3,375,196	11,904,084
Reinsurers' share of payments and change in liabilities for insurance policies	645,019	974,251	158,565	256,559	1,229,856
Payments and changes in liabilities for insurance policies and investment contracts in retention	9,916,489	7,793,140	3,513,042	3,118,637	10,674,228
Commissions, marketing expenses and other purchasing expenses	1,774,918	1,664,653 *	602,580	561,600 *	2,246,502 *
General and administrative expenses	869,517	840,295 *	293,107	283,925 *	1,095,942 *
Other expenses	31,603	59,732	10,650	11,985	123,140
Financing expenses, net	89,910	87,598	28,635	34,297	124,456
Total expenses	12,682,437	10,445,418	4,448,014	4,010,444	14,264,268
Company's share of profits of equity accounted investees	87,016	110,082	41,090	29,947	196,171
Profit before taxes on income	716,018	201,401	106,886	235,623	440,555
Taxes on income	221,818	41,627	25,336	72,295	43,607
Profit for period	494,200	159,774	81,550	163,328	396,948
Attributed to:					
Shareholders of the Company	494,233	159,527	81,686	163,596	396,599
Non-controlling interests	(33)	247	(136)	(268)	349
Profit for period	494,200	159,774	81,550	163,328	396,948
Basic earnings per share attributed to the Company's shareholders (in NIS)	2.34	0.76	0.39	0.78	1.88
Diluted earnings per share attributed to the Company's shareholders (in NIS)	2.33	0.76	0.39	0.78	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 nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS	NIS	NIS	NIS	NIS
	thousand	thousand	thousand	thousand	thousand
Profit for period	494,200	159,774	81,550	163,328	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	265,226	124,889	163,288	28,664	101,884
Net change in fair value of financial assets classified as available-for-sale carried over to income statement	(182,517)	(109,830)	(66,310)	(29,545)	(147,503)
Loss from impairment of available-for-sale financial assets carried over to income statement	34,093	65,513	6,826	18,202	81,241
Foreign currency translation differences for foreign activity	(46,884)	(35,889)	23,955	(22,982)	(44,705)
Taxes on income attributable to available-for-sale financial assets	(34,753)	(22,279) *	(34,883)	(6,007) *	(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	10,973	9,628 *	(7,054)	5,856 *	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	46,138	32,032	85,822	(5,812)	(1,704)
Other items of comprehensive income that will not be transferred to profit or loss					
Capital reserve for revaluation of fixed assets	87,598	13,151	(1,356)	593	13,151
Remeasurement of a defined benefit plan	(773)	979	(3,257)	7,510	18,129
Tax benefits (taxes on income) for other items of comprehensive income that will not be transferred to profit or loss	(25,769)	(601)	1,423	(2,534)	(3,783)
Total other comprehensive income (loss) for period that will not be transferred to profit or loss, net of tax	61,056	13,529	(3,190)	5,569	27,497
Total other comprehensive income (loss) for period	107,194	45,561	82,632	(243)	25,793
Total comprehensive income for period	601,394	205,335	164,182	163,085	422,741
Attributed to:					
Shareholders of the Company	601,321	205,007	164,234	163,369	422,353
Non-controlling interests	73	328	(52)	(284)	388
Total profit for period	601,394	205,335	164,182	163,085	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 nine months ended September 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 (loss) for period	-	-	-	-	-	-	-	494,233	494,233	(33)	494,200
Total other comprehensive income (loss)	-	81,943	(35,911)	-	-	-	61,479	(423)	107,088	106	107,194
Total comprehensive income (loss) for period	-	81,943	(35,911)	-	-	-	61,479	493,810	601,321	73	601,394
Transactions with shareholders credited directly to equity											
Dividend distributed	-	-	-	-	-	-	-	(460,723)	(460,723)	-	(460,723)
Purchase of treasury stock	-	-	-	-	(16,408)	-	-	-	(16,408)	-	(16,408)
Reissuing of treasury stock	(8,726)	-	-	-	36,706	-	-	-	27,980	-	27,980
Exercising of stock options	1,960	-	-	(1,960)	-	-	-	-	-	-	-
Balance as at September 30, 2017	344,659	411,566	(115,792)	1,643	(137,737)	(48,908)	225,784	4,632,186	5,313,401	6,163	5,319,564

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

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

	Attributed to shareholders of the Company										
	Share capital and premium	Capital reserve for available- for-sale assets	Translation reserve for foreign activity	Capital reserve for share- based payment	Treasury shares	Capital reserve for transactions with non- controlling interests	Capital reserve for revaluation of fixed assets	Retained earnings	Total	Non- controlling interests	Total equity
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
For the three months ended September 30, 2017 (Unaudited)											
Balance as at July 1, 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
Total comprehensive income (loss) for period											
Profit (loss) for period	-	-	-	-	-	-	-	81,686	81,686	(136)	81,550
Total other comprehensive income (loss)	-	68,835	16,899	-	-	-	(1,044)	(2,142)	82,548	84	82,632
Total comprehensive income (loss) for period	-	68,835	16,899	-	-	-	(1,044)	79,544	164,234	(52)	164,182
Transactions with shareholders credited directly to equity											
Dividend distributed	-	-	-	-	-	-	-	(203,638)	(203,638)	-	(203,638)
Purchase of treasury stock	-	-	-	-	(2,154)	-	-	-	(2,154)	-	(2,154)
Reissuing of treasury stock	(6,054)	-	-	-	8,709	-	-	-	2,655	-	2,655
Exercising of stock options	1,487	-	-	(1,487)	-	-	-	-	-	-	-
Balance as at September 30, 2017	344,659	411,566	(115,792)	1,643	(137,737)	(48,908)	225,784	4,632,186	5,313,401	6,163	5,319,564

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

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

	Attributed to shareholders of the Company										
	Share capital and premium	Capital reserve for available- for-sale assets	Translation reserve for foreign activity	Capital reserve for share- based payment	Treasury shares	Capital reserve for transactions with non- controlling interests	Capital reserve for revaluation of fixed assets	Retained earnings	Total	Non- controlling interests	Total equity
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
For the nine months ended September 30, 2016 (Unaudited)											
Balance as at January 1, 2016	341,832	295,955	(44,472)	13,032	(161,077)	(48,908)	148,733	4,361,663	4,906,758	5,702	4,912,460
Total comprehensive income (loss) for the period											
Profit for the period	-	-	-	-	-	-	-	159,527	159,527	247	159,774
Total other comprehensive income (loss)	-	58,213	(26,262)	-	-	-	12,518	1,011	45,480	81	45,561
Total comprehensive income (loss) for period	-	58,213	(26,262)	-	-	-	12,518	160,538	205,007	328	205,335
Transactions with shareholders credited directly to equity											
Dividend distributed	-	-	-	-	-	-	-	(171,086)	(171,086)	-	(171,086)
Share based payment	-	-	-	84	-	-	-	-	84	-	84
Purchase of treasury stock	-	-	-	-	(4,582)	-	-	-	(4,582)	-	(4,582)
Reissuing of treasury stock	1,433	-	-	-	6,385	-	-	-	7,818	-	7,818
Exercising of stock options	3,309	-	-	(3,309)	-	-	-	-	-	-	-
Balance as at September 30, 2016	346,574	354,168	(70,734)	9,807	(159,274)	(48,908)	161,251	4,351,115	4,943,999	6,030	4,950,029

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

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

	Attributed to shareholders of the Company										
	Share capital and premium	Capital reserve for available- for-sale assets	Translation reserve for foreign activity	Capital reserve for share- based payment	Treasury shares	Capital reserve for transactions with non- controlling interests	Capital reserve for revaluation of fixed assets	Retained earnings	Total	Non- controlling interests	Total equity
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
For the three months ended September 30, 2016 (Unaudited)											
Balance as at July 1 2016	346,802	342,840	(53,607)	9,807	(161,141)	(48,908)	160,807	4,246,576	4,843,176	6,314	4,849,490
Total comprehensive income (loss) for period											
Profit (loss) for period	-	-	-	-	-	-	-	163,596	163,596	(268)	163,328
Total other comprehensive income (loss)	-	11,328	(17,127)	-	-	-	444	5,128	(227)	(16)	(243)
Total comprehensive income (loss) for period	-	11,328	(17,127)	-	-	-	444	168,724	163,369	(284)	163,085
Transactions with shareholders credited directly to equity											
Dividend announced	-	-	-	-	-	-	-	(64,185)	(64,185)	-	(64,185)
Purchase of treasury stock	-	-	-	-	(1,366)	-	-	-	(1,366)	-	(1,366)
Reissuing of treasury stock	(228)	-	-	-	3,233	-	-	-	3,005	-	3,005
Balance as at September 30, 2016	346,574	354,168	(70,734)	9,807	(159,274)	(48,908)	161,251	4,351,115	4,943,999	6,030	4,950,029

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

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

	Attributed to shareholders of the Company										Non- controlling interests NIS thousand	Total equity NIS thousand
	Share capital and premium	Capital reserve for available- for-sale assets	Translation reserve for foreign activity	Capital reserve for share- based payment	Treasury shares	Capital reserve for transactions with non- controlling interests	Capital reserve for revaluation of fixed assets	Retained earnings	Total			
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand			
For the year ended December 31, 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 nine months ended September 30		For the three months ended September 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	369,007	2,016,524	221,159	123,703	3,401,705
Income tax paid		(168,197)	(29,563)	(19,772)	(36,592)	(14,507)
Net cash from current operations		200,810	1,986,961	201,387	87,111	3,387,198
Cash flows from investing activity						
Investment in investees, net		(56,709)	(20,056)	(25,507)	(3,282)	(73,502)
Proceeds from the sale of an investment in an equity accounted investee		22,600	231,515	172	395	216,552
Investment in fixed assets		(67,542)	(100,544)	(11,099)	(21,984)	(134,744)
Investment in intangible assets		(114,888)	(93,063)	(32,822)	(30,526)	(131,713)
Dividend and interest received from an investee		14,174	17,086	3,988	4,862	24,992
Proceeds from sale of fixed assets		1,121	1,099	184	461	1,423
Net cash provided by (used for) investment activity		(201,244)	36,037	(65,084)	(50,074)	(96,992)
Cash flows from financing activities						
Proceeds from issuance of liability notes		247,052	207,413	-	-	207,413
Purchase of Treasury shares, net		11,572	3,236	501	1,639	4,299
Proceeds from issuance (payment for purchase) of ETNs and covered warrants, net		128,411	(962,640)	60,569	(138,331)	(1,614,553)
Short-term credit from banks, net		(3,455)	(221,557)	(43,756)	(90,199)	(220,969)
Repayment of loans from banks and others		(64,288)	(52,367)	-	-	(106,981)
Dividend paid to the Company's shareholders		(460,723)	(171,086)	(353,609)	(64,185)	(171,086)
Net cash used for financing activity		(141,431)	(1,197,001)	(336,295)	(291,076)	(1,901,877)
Effect of exchange rate fluctuations on cash balances and cash equivalents		(79,300)	(32,560)	5,466	(19,375)	(20,390)
Increase (decrease) in cash and cash equivalents		(221,165)	793,437	(194,526)	(273,414)	1,367,939
Retained cash and cash equivalents at beginning of period	B	3,601,452	2,233,513	3,574,813	3,300,364	2,233,513
Retained cash and cash equivalents at end of period	C	3,380,287	3,026,950	3,380,287	3,026,950	3,601,452

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

Condensed consolidated interim statements of cash flows (Contd.)

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2017 (Unaudited) NIS thousand	2016 (Unaudited) NIS thousand	2017 (Unaudited) NIS thousand	2016 (Unaudited) NIS thousand	2016 (Audited) NIS thousand
(Annex A - Cash flows from operating activities before taxes on income (1), (2), (3))					
<u>Profit (loss) for the period</u>	494,200	159,774	81,550	163,328	396,948
Items not involving cash flows:					
Company's share of profit of equity accounted investees	(87,016)	(110,082)	(41,090)	(29,947)	(196,171)
Net profits from financial investments for yield-dependent insurance contracts and investment contracts	(1,872,768)	(679,813)	(752,571)	(684,815)	(1,065,599)
<u>Losses (profits) net, from other financial investments</u>					
Marketable debt assets	39,508	27,689	(14,504)	41,023	58,905
Non-marketable debt assets	2,980	28,759	25,083	(12,438)	48,692
Shares	(11,441)	(23,028)	(1,648)	(10,064)	(35,217)
Other investments	(202,681)	(161,473)	89,126	(131,935)	(223,154)
Financing expenses for financial liabilities	853,555	428,635	849,130	726,017	990,608
Change in fair value of investment property for yield-dependent contracts	(11,088)	15,046	(16,507)	(1,343)	(7,805)
Change in fair value of other investment property	(84,030)	4,023	(18,072)	(5,976)	(18,930)
<u>Depreciation and amortization</u>					
Fixed assets	61,048	53,158	21,403	17,068	71,255
Intangible assets	114,502	133,335	36,511	37,200	220,879
Change in liabilities for non-yield-dependent insurance contracts and investment contracts	631,198	593,551	58,037	(170,951)	1,033,162
Change in liabilities for yield-dependent insurance contracts and investment contracts	5,722,324	2,903,962	2,105,624	1,653,372	4,223,818
Change in reinsurance assets	149,778	102,200	147,102	61,042	185,353
Change in DAC	(143,999)	(137,811)	(31,258)	(25,803)	(184,050)
Payroll expenses (incomes) for share-based payment	-	84	-	-	(1,093)
Income tax expenses	221,818	41,627	25,336	72,295	43,607
Changes in other statement of financial position items:					
<u>Financial investments and investment property for yield-dependent insurance contracts and investment contracts</u>					
Purchase of investment property	(33,500)	(24,433)	(17,848)	(7,978)	(35,140)
Net acquisitions of financial investments	(3,630,350)	(1,269,644)	(1,320,112)	(1,026,519)	(2,062,723)
<u>Other financial investments and investment property</u>					
Purchase of investment property	(27,273)	(23,124)	(14,494)	(7,893)	(35,606)
Proceeds from the sale of investment property	2,605	1,152	2,605	-	1,153
Net acquisitions of financial investments	(790,769)	(746,942)	(315,821)	(379,232)	(825,081)
Premiums due	68,757	(91,673)	(67,739)	59,710	(261,590)
Trade and other receivables	62,721	(159,811)	232,848	328,978	(154,927)
Financial investments for holders of ETNs, net	142,249	67,055	(203,500)	(293,085)	222,160
Cash and cash equivalents pledged for holders of ETNs	(1,314,687)	949,181	(390,173)	25,351	852,552
Trade and other payables	15,755	(75,368)	(252,267)	(274,600)	159,419
Liabilities for employee benefits, net	(4,389)	10,495	4,408	898	280
Total adjustments required to present cash flows from operating activity	(125,193)	1,856,750	139,609	(39,625)	3,004,757
Total cash flows from operating activity before taxes on income	369,007	2,016,524	221,159	123,703	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 1,080 million (for the nine months ended September 30, 2016 an amount of NIS 964 million and for 2016 an amount of NIS 1,375 million) and interest was paid in the amount of NIS 63 million (for the nine months ended September 30, 2016 an amount of NIS 60 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 222 million (for the nine months ended September 30, 2016, an amount of NIS 150 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 nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS	NIS	NIS	NIS	NIS
	thousand	thousand	thousand	thousand	thousand
Annex B - Cash and cash equivalents at beginning of period					
Cash and cash equivalents for yield-dependent contracts	1,847,772	966,875	1,891,338	1,541,499	966,875
Other cash and cash equivalents	1,753,680	1,266,638	1,683,475	1,758,865	1,266,638
Retained cash and cash equivalents at beginning of the period	3,601,452	2,233,513	3,574,813	3,300,364	2,233,513
Annex C - Cash and cash equivalents at end of period					
Cash and cash equivalents for yield-dependent contracts	2,012,519	1,423,617	2,012,519	1,423,617	1,847,772
Other cash and cash equivalents	1,367,768	1,603,333	1,367,768	1,603,333	1,753,680
Retained cash and cash equivalents at end of the period	3,380,287	3,026,950	3,380,287	3,026,950	3,601,452

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

Notes to the Condensed consolidated interim financial statements

Note 1 - General

The reporting entity

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

The Company is a holding company whose main holdings are in subsidiaries comprising insurance and finance companies. The condensed consolidated interim financial statements, as at September 30, 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 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 November 22, 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.

Notes to the Condensed consolidated interim financial statements

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 contracts (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.

Notes to the Condensed consolidated interim financial statements

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.

Notes to the Condensed consolidated interim financial statements

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.

Notes to the Condensed consolidated interim financial statements

Note 4 - Operating segments (Contd.)

A. Information about reportable segments

	For the nine months ended September 30, 2017 (Unaudited)							
	Life Assurance and Long-Term Savings NIS thousand	Health Insurance NIS thousand	Non-life insurance NIS thousand	Insurance companies overseas NIS thousand	Financial Services NIS thousand	Not Allocated To Operating Segments and other NIS thousand	Adjustments and Offsets NIS thousand	Total NIS thousand
Premiums earned, gross	3,777,384	3,293,092	2,327,357	323,296	-	-	(8,083)	9,713,046
Premiums earned by reinsurers	102,852	137,828	744,236	73,055	-	-	(8,083)	1,049,888
Premiums earned in retention	3,674,532	3,155,264	1,583,121	250,241	-	-	-	8,663,158
Net profit from investments and financial income	2,810,842	290,663	136,106	16,520	43,042	192,366*	(9,040)	3,480,499
Income from management fees	787,971	2,301	-	-	107,305	14,016	(163)	911,430
Income from commissions	22,137	60,976	132,269	16,772	831	156,435**	(139,972)	249,448
Other income	-	-	-	-	-	6,904	-	6,904
Total income	7,295,482	3,509,204	1,851,496	283,533	151,178	369,721	(149,175)	13,311,439
Payments and changes in liabilities for insurance and investment contracts, gross	5,961,351	2,646,673	1,734,874	220,865	-	-	(2,255)	10,561,508
Reinsurers' share in payments and changes for insurance contracts liabilities	69,506	85,222	456,613	35,933	-	-	(2,255)	645,019
Payments and changes in liabilities for insurance and investment contracts, in retention	5,891,845	2,561,451	1,278,261	184,932	-	-	-	9,916,489
Commission, marketing and other acquisition expenses	643,773	650,773	472,917	72,326	-	75,101***	(139,972)	1,774,918
General and administrative expenses	407,216	202,721	26,861	10,799	121,243	103,278****	(2,601)	869,517
Other expenses	24,658	-	-	2,003	3,570	1,372***	-	31,603
Financing expenses (incomes), net	5,716	8,326	(26,746)	-	68	102,318	228	89,910
Total expenses	6,973,208	3,423,271	1,751,293	270,060	124,881	282,069	(142,345)	12,682,437
Company's share of profits of equity accounted investees	19,394	10,519	20,754	-	-	36,349	-	87,016
Profit before income taxes	341,668	96,452	120,957	13,473	26,297	124,001	(6,830)	716,018
Other comprehensive income (loss), before income tax	50,115	8,968	8,536	(2,193)	159	91,158	-	156,743
Total comprehensive income before income tax	391,783	105,420	129,493	11,280	26,456	215,159****	(6,830)	872,761
Liabilities in respect of non-yield dependent insurance and investment contracts	11,795,986	4,759,341	9,547,649	516,063	-	-	(3,714)	26,615,325
Liabilities in respect of yield dependent insurance and investment contracts	44,873,383	4,404,094	-	-	-	-	-	49,277,477

* 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 139 million thereof are commissions paid to these agents from the Group's financial institutions.

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

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

***** Total comprehensive income before income tax for the activity of the Group's insurance agencies was approximately NIS 22 million.

Notes to the Condensed consolidated interim financial statements

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Contd.)

	For the three months ended September 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	1,273,211	1,127,393	798,536	119,565	-	-	(5,988)	3,312,717
Premiums earned by reinsurers	36,516	46,967	260,178	30,074	-	-	(5,988)	367,747
Premiums earned in retention	1,236,695	1,080,426	538,358	89,491	-	-	-	2,944,970
Net profit from investments and financial income	1,012,961	81,201	3,426	4,675	14,888	30,568*	(2,443)	1,145,276
Income from management fees	294,680	889	-	-	35,589	5,205	(59)	336,304
Income from commissions	8,486	21,434	44,830	6,578	272	54,238**	(48,578)	87,260
Total income	2,552,822	1,183,950	586,614	100,744	50,749	90,011	(51,080)	4,513,810
Payments and changes in liabilities for insurance and investment contracts, gross	2,224,275	861,505	505,128	81,363	-	-	(664)	3,671,607
Reinsurers' share in payments and changes for insurance contracts liabilities	26,035	21,073	98,692	13,429	-	-	(664)	158,565
Payments and changes in liabilities for insurance and investment contracts, in retention	2,198,240	840,432	406,436	67,934	-	-	-	3,513,042
Commission, marketing and other acquisition expenses	213,353	224,658	161,843	25,879	-	25,425***	(48,578)	602,580
General and administrative expenses	137,394	68,442	9,198	3,199	39,990	35,755****	(871)	293,107
Other expenses	8,219	-	-	597	1,293	541***	-	10,650
Financing expenses (incomes), net	(400)	58	4,385	-	116	24,966	(490)	28,635
Total expenses	2,556,806	1,133,590	581,862	97,609	41,399	86,687	(49,939)	4,448,014
Company's share of profits of equity accounted investees	9,537	5,369	10,849	-	-	15,335	-	41,090
Profit before income taxes	5,553	55,729	15,601	3,135	9,350	18,659	(1,141)	106,886
Other comprehensive income, before income tax	40,166	18,273	31,492	2,963	78	30,174	-	123,146
Total comprehensive income before income tax	45,719	74,002	47,093	6,098	9,428	48,833*****	(1,141)	230,032
Liabilities in respect of non-yield dependent insurance and investment contracts	11,795,986	4,759,341	9,547,649	516,063	-	-	(3,714)	26,615,325
Liabilities in respect of yield dependent insurance and investment contracts	44,873,383	4,404,094	-	-	-	-	-	49,277,477

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

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

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

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

***** Total comprehensive income before income tax for the activity of the Group's insurance agencies was approximately NIS 6 million.

Notes to the Condensed consolidated interim financial statements

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Contd.)

	For the nine months ended September 30, 2016 (Unaudited)							
	Life Assurance and Long-Term Savings NIS thousand	Health Insurance NIS thousand	Non-life insurance NIS thousand	Insurance companies overseas NIS thousand	Financial Services NIS thousand	Not Allocated To Operating Segments and other NIS thousand	Adjustments and Offsets NIS thousand	Total NIS thousand
Premiums earned, gross	3,085,570	3,103,972	2,193,297	211,028	-	-	(3,667)	8,590,200
Premiums earned by reinsurers	97,337	119,828	810,306	70,492	-	-	(3,667)	1,094,296
Premiums earned in retention	2,988,233	2,984,144	1,382,991	140,536	-	-	-	7,495,904
Net profit from investments and financial income	1,515,145	195,970	129,546	10,513	67,867	114,944*	2,567	2,036,552
Income from management fees	639,852	2,232	-	-	127,384	13,534 ¹	(182) ¹	782,820
Income from commissions	12,770	42,108	134,532	17,436	1,003	147,978 ^{**1}	(134,366) ¹	221,461
Total income	5,156,000	3,224,454	1,647,069	168,485	196,254	276,456	(131,981)	10,536,737
Payments and changes in liabilities for insurance and investment contracts, gross	4,287,712	2,390,569	1,955,992	133,779	-	-	(661)	8,767,391
Reinsurers' share in payments and changes for insurance contracts liabilities	69,950	82,270	777,454	45,238	-	-	(661)	974,251
Payments and changes in liabilities for insurance and investment contracts, in retention	4,217,762	2,308,299	1,178,538	88,541	-	-	-	7,793,140
Commission, marketing and other acquisition expenses	615,135	608,827	440,169	60,152	-	74,736 ^{***1}	(134,366) ¹	1,664,653
						100,233 ^{****1}		
General and administrative expenses	380,419	194,581	26,024	10,015	129,205		(182) ¹	840,295
Other expenses	25,774	-	-	671	31,506	1,781 ^{***}	-	59,732
Financing expenses (incomes), net	4,336	4,151	(10,364)	-	1,030	88,359	86	87,598
Total expenses	5,243,426	3,115,858	1,634,367	159,379	161,741	265,109	(134,462)	10,445,418
Company's share of profits of equity accounted investees	27,555	16,595	37,475	-	-	28,457	-	110,082
Profit (loss) before income taxes	(59,871)	125,191	50,177	9,106	34,513	39,804	2,481	201,401
Other comprehensive income (loss), before income tax	39,547	2,629	(15,121)	(2,073)	138	33,693	-	58,813
Total comprehensive income (loss) before income tax	(20,324)	127,820	35,056	7,033	34,651	73,497^{*****}	2,481	260,214
Liabilities in respect of non-yield dependent insurance and investment contracts	11,686,440	4,083,844	9,479,298	369,520	-	-	(4,051)	25,615,051
Liabilities in respect of yield dependent insurance and investment contracts	37,997,371	4,237,926	-	-	-	-	-	42,235,297

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 133 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 64 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 15 million

Notes to the Condensed consolidated interim financial statements

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Contd.)

	For the three months ended September 30, 2016 (Unaudited)							
	Life Assurance and Long-Term Savings NIS thousand	Health Insurance NIS thousand	Non-life insurance NIS thousand	Insurance companies overseas NIS thousand	Financial Services NIS thousand	Not Allocated To Operating Segments and other NIS thousand	Adjustments and Offsets NIS thousand	Total NIS thousand
Premiums earned, gross	1,048,320	1,084,889	741,592	81,334	-	-	(1,205)	2,954,930
Premiums earned by reinsurers	26,287	29,667	266,773	23,725	-	-	(1,205)	345,247
Premiums earned in retention	1,022,033	1,055,222	474,819	57,609	-	-	-	2,609,683
Net profit from investments and financial income	995,366	110,350	55,439	5,947	21,325	55,752*	(134)	1,244,045
Income from management fees	249,173	798	-	-	40,144	4,759 ¹	(48) ¹	294,826
Income from commissions	5,012	9,942	42,031	5,882	336	52,625 ^{**1}	(48,262) ¹	67,566
Total income	2,271,584	1,176,312	572,289	69,438	61,805	113,136	(48,444)	4,216,120
Payments and changes in liabilities for insurance and investment contracts, gross	1,867,316	893,433	553,061	60,455	-	-	931	3,375,196
Reinsurers' share in payments and changes for insurance contracts liabilities	23,218	27,949	182,723	21,738	-	-	931	256,559
Payments and changes in liabilities for insurance and investment contracts, in retention	1,844,098	865,484	370,338	38,717	-	-	-	3,118,637
Commission, marketing and other acquisition expenses	202,830	204,082	154,671	21,265	-	27,013 ^{***1}	(48,261) ¹	561,600
General and administrative expenses	126,609	69,906	9,127	3,325	41,685	33,321 ^{****1}	(48) ¹	283,925
Other expenses	8,907	-	-	334	2,288	456 ^{***}	-	11,985
Financing expenses (income), net	2,379	2,571	(8,173)	-	558	37,038	(76)	34,297
Total expenses	2,184,823	1,142,043	525,963	63,641	44,531	97,828	(48,385)	4,010,444
Company's share of profits of equity accounted investees	207	2,471	8,358	-	-	18,911	-	29,947
Profit before income taxes	86,968	36,740	54,684	5,797	17,274	34,219	(59)	235,623
Other comprehensive income (loss), before income tax	2,089	(3,962)	(16,345)	(3,715)	8	24,367	-	2,442
Total comprehensive income before income tax	89,057	32,778	38,339	2,082	17,282	58,586^{*****}	(59)	238,065
Liabilities in respect of non-yield dependent insurance and investment contracts	11,686,440	4,083,844	9,479,298	369,520	-	-	(4,051)	25,615,051
Liabilities in respect of yield dependent insurance and investment contracts	37,997,371	4,237,926	-	-	-	-	-	42,235,297

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 48 million thereof are commissions paid to these agents from the Group's financial institutions.

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

**** Of the total general and administrative expenses, NIS 23million 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 6 million

Notes to the Condensed consolidated interim financial statements

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 financial income	2,170,825	273,052	188,953	16,231	86,618	150,706*	(4,336)	2,882,049
Income from management fees	888,326	2,701	-	-	165,493	19,285 ¹	(233) ¹	1,075,572
Income from commissions	20,987	55,416	177,964	23,103	1,325	197,878 ^{**1}	(177,785) ¹	298,888
Total income	7,245,067	4,329,800	2,248,797	246,037	253,436	367,869	(182,354)	14,508,652
Payments and changes in liabilities for insurance and investment contracts, gross	5,934,285	3,255,839	2,532,215	184,766	-	-	(3,021)	11,904,084
Reinsurers' share in payments and changes for insurance contracts liabilities	104,059	126,835	949,432	52,551	-	-	(3,021)	1,229,856
Payments and changes in liabilities for insurance and investment contracts, in retention	5,830,226	3,129,004	1,582,783	132,215	-	-	-	10,674,228
Commission, marketing and other acquisition expenses	824,943	823,641	594,938	83,311	-	114,180 ^{***}	(194,511) ¹	2,246,502
						118,698		
General and administrative expenses	502,730	237,664	35,004	13,942	171,413	****	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.

Notes to the Condensed consolidated interim financial statements

Note 4 - Operating segments (Contd.)

B. Additional information about the non-life insurance segment

	For the nine months ended September 30, 2017 (Unaudited)					
	Compulsory Motor NIS thousand	Motor Property NIS thousand	Property and Other Segments* NIS thousand	Other Liability Segments** NIS thousand	Mortgage insurance NIS thousand	Total NIS thousand
Gross premiums	434,564	556,198	746,957	616,740	(6,255)	2,348,204
Reinsurance premiums	2,682	21,084	552,806	200,888	-	777,460
Premiums in retention	431,882	535,114	194,151	415,852	(6,255)	1,570,744
Changes in premium balances that have not yet been earned, retention	45,111	(3,269)	8,739	(44,490)	(18,468)	(12,377)
Earned premiums in retention	386,771	538,383	185,412	460,342	12,213	1,583,121
Profits from investments, net, and financing income	47,250	11,367	10,444	56,056	10,989	136,106
Income from commissions	35	5,373	106,773	20,088	-	132,269
Total income	434,056	555,123	302,629	536,486	23,202	1,851,496
Payments and changes in liabilities for insurance policies and investment contracts, gross	401,879	399,765	293,536	652,961	(13,267)	1,734,874
Reinsurers' share of payments and change in liabilities for insurance policies	(1,347)	12,129	233,727	212,104	-	456,613
Payments and changes in liabilities for insurance policies and investment contracts in retention	403,226	387,636	59,809	440,857	(13,267)	1,278,261
Commissions, marketing expenses and other acquisition expenses	62,861	134,313	161,373	114,370	-	472,917
General and administrative expenses	5,854	8,034	6,020	4,034	2,919	26,861
Financing expenses (incomes), net	(10,634)	(2,558)	(977)	(12,617)	40	(26,746)
Total expenses (incomes)	461,307	527,425	226,225	546,644	(10,308)	1,751,293
Company's share of profits of equity accounted investees	8,166	1,964	750	9,689	185	20,754
Profit (loss) before income taxes	(19,085)	29,662	77,154	(469)	33,695	120,957
Other comprehensive income, before income tax	1,717	413	158	2,037	4,211	8,536
Total comprehensive income (loss) before income tax	(17,368)	30,075	77,312	1,568	37,906	129,493
Liabilities for insurance policies, gross, as at September 30, 2017	2,431,476	609,183	825,833	5,294,144	387,013	9,547,649
Liabilities for insurance policies, Retention as at September 30, 2017	2,200,232	578,273	200,274	2,621,691	387,013	5,987,483

* 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 75% of total premiums in these branches.

Notes to the Condensed consolidated interim financial statements

Note 4 - Operating segments (Contd.)

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

	For the three months ended September 30, 2017 (Unaudited)					
	Compulsory Motor NIS thousand	Motor Property NIS thousand	Property and Other Segments* NIS thousand	Other Liability Segments** NIS thousand	Mortgage insurance NIS thousand	Total NIS thousand
Gross premiums	120,919	171,219	246,668	139,766	(1,952)	676,620
Reinsurance premiums	1,435	6,970	181,941	72,928	-	263,274
Premiums in retention	119,484	164,249	64,727	66,838	(1,952)	413,346
Changes in premium balances that have not yet been earned, retention	(13,663)	(17,681)	(217)	(87,202)	(6,249)	(125,012)
Earned premiums in retention	133,147	181,930	64,944	154,040	4,297	538,358
Profits from investments, net, and financing income	173	41	2,658	(381)	935	3,426
Income from commissions	35	1,782	35,388	7,625	-	44,830
Total income	133,355	183,753	102,990	161,284	5,232	586,614
Payments and changes in liabilities for insurance policies and investment contracts, gross	128,213	129,641	74,907	179,162	(6,795)	505,128
Reinsurers' share of payments and change in liabilities for insurance policies	(1,257)	4,472	51,688	43,789	-	98,692
Payments and changes in liabilities for insurance policies and investment contracts in retention	129,470	125,169	23,219	135,373	(6,795)	406,436
Commissions, marketing expenses and other acquisition expenses	22,929	46,617	52,292	40,005	-	161,843
General and administrative expenses	2,205	2,663	2,279	1,068	983	9,198
Financing expenses (incomes), net	1,712	412	83	2,184	(6)	4,385
Total expenses (incomes)	156,316	174,861	77,873	178,630	(5,818)	581,862
Company's share of profits of equity accounted investees	4,302	1,034	418	5,055	40	10,849
Profit (loss) before income taxes	(18,659)	9,926	25,535	(12,291)	11,090	15,601
Other comprehensive income, before income tax	11,520	2,771	999	13,788	2,414	31,492
Total comprehensive income (loss) before income tax	(7,139)	12,697	26,534	1,497	13,504	47,093
Liabilities for insurance policies, gross, as at September 30, 2017	2,431,476	609,183	825,833	5,294,144	387,013	9,547,649
Liabilities for insurance policies, in retention as at September 30, 2017	2,200,232	578,273	200,274	2,621,691	387,013	5,987,483

* 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 65% of total premiums in these branches.

Notes to the Condensed consolidated interim financial statements

Note 4 - Operating segments (Contd.)

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

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

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

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

Notes to the Condensed consolidated interim financial statements

Note 4 - Operating segments (Contd.)

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

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

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

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

Notes to the Condensed consolidated interim financial statements

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 NIS thousand	Motor Property NIS thousand	Property and Other Segments* NIS thousand	Other Liability Segments** NIS thousand	Mortgage insurance NIS thousand	Total 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 premium balances that have not yet been earned, 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.

Notes to the Condensed consolidated interim financial statements

Note 4 - Operating segments (Contd.)

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

	For the nine months ended September 30, 2017 (Unaudited)				For the nine months ended September 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	-	-	3,777,384	3,777,384	-	-	3,085,570	3,085,570
Premiums earned by reinsurers	-	-	102,852	102,852	-	-	97,337	97,337
Premiums in retention	-	-	3,674,532	3,674,532	-	-	2,988,233	2,988,233
Profit from investments, net, and financing income	850	840	2,809,152	2,810,842	419	1,623	1,513,103	1,515,145
Income from management fees	163,872	220,704	403,395	787,971	143,370	206,304	290,178	639,852
Income from commissions	-	-	22,137	22,137	-	148	12,622	12,770
Total income	164,722	221,544	6,909,216	7,295,482	143,789	208,075	4,804,136	5,156,000
Payments and changes in liabilities for insurance policies and investment contracts, gross	1,595	7,639	5,952,117	5,961,351	1,522	6,918	4,279,272	4,287,712
Reinsurers' share of payments and change in liabilities for insurance policies	-	-	69,506	69,506	-	-	69,950	69,950
Payments and changes in liabilities for insurance policies and investment contracts in retention	1,595	7,639	5,882,611	5,891,845	1,522	6,918	4,209,322	4,217,762
Commissions, marketing expenses and other purchasing expenses	58,474	96,560	488,739	643,773	61,306	92,483	461,346	615,135
General and administrative expenses	71,168	70,589	265,459	407,216	60,200	68,146	252,073	380,419
Other expenses	7,566	1,151	15,941	24,658	8,725	1,108	15,941	25,774
Financing expenses (income), net	19	3	5,694	5,716	3	(140)	4,473	4,336
Total expenses	138,822	175,942	6,658,444	6,973,208	131,756	168,515	4,943,155	5,243,426
Company's share of profits of equity accounted investees	-	-	19,394	19,394	-	-	27,555	27,555
Profit (loss) before taxes on income	25,900	45,602	270,166	341,668	12,033	39,560	(111,464)	(59,871)
Other comprehensive income (loss) before taxes on income	556	1,088	48,471	50,115	835	(576)	39,288	39,547
Total comprehensive income (loss) before taxes on income	26,456	46,690	318,637	391,783	12,868	38,984	(72,176)	(20,324)

Notes to the Condensed consolidated interim financial statements

Note 4 - Operating segments (Contd.)

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

	For the three months ended September 30, 2017 (Unaudited)				For the three months ended September 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	-	-	1,273,211	1,273,211	-	-	1,048,320	1,048,320
Premiums earned by reinsurers	-	-	36,516	36,516	-	-	26,287	26,287
Premiums in retention	-	-	1,236,695	1,236,695	-	-	1,022,033	1,022,033
Profit (losses) from investments, net, and financing income	33	(92)	1,013,020	1,012,961	379	494	994,493	995,366
Income from management fees	55,520	75,810	163,350	294,680	52,619	70,762	125,792	249,173
Income (expenses) from commissions	-	-	8,486	8,486	-	(1)	5,013	5,012
Total income	55,553	75,718	2,421,551	2,552,822	52,998	71,255	2,147,331	2,271,584
Payments and changes in liabilities for insurance policies and investment contracts, gross	530	2,526	2,221,219	2,224,275	473	2,316	1,864,527	1,867,316
Reinsurers' share of payments and change in liabilities for insurance policies	-	-	26,035	26,035	-	-	23,218	23,218
Payments and changes in liabilities for insurance policies and investment contracts in retention	530	2,526	2,195,184	2,198,240	473	2,316	1,841,309	1,844,098
Commissions, marketing expenses and other purchasing expenses	20,309	28,627	164,417	213,353	20,352	29,680	152,798	202,830
General and administrative expenses	23,488	22,908	90,998	137,394	19,435	23,588	83,586	126,609
Other expenses	2,522	384	5,313	8,219	3,083	511	5,313	8,907
Financing expenses (income), net	(120)	-	(280)	(400)	(1)	(4)	2,384	2,379
Total expenses	46,729	54,445	2,455,632	2,556,806	43,342	56,091	2,085,390	2,184,823
Company's share of profits of equity accounted investees	-	-	9,537	9,537	-	-	207	207
Profit (loss) before taxes on income	8,824	21,273	(24,544)	5,553	9,656	15,164	62,148	86,968
Other comprehensive income (loss) before taxes on income	414	888	38,864	40,166	(523)	(752)	3,364	2,089
Total comprehensive income before taxes on income	9,238	22,161	14,320	45,719	9,133	14,412	65,512	89,057

Notes to the Condensed consolidated interim financial statements

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	2,170,825
Income from management fees	194,004	279,455	888,326
Income from commissions	522	148	20,987
Total income	195,590	281,667	7,245,067
Payments and changes in liabilities for insurance policies and investment contracts, gross	2,028	9,169	5,923,088
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
Commissions, marketing expenses and other purchasing expenses	81,346	125,202	618,395
General and administrative expenses	79,812	89,821	333,097
Other expenses	12,327	1,611	21,255
Financing expenses (income), net	29	(149)	4,901
Total expenses	175,542	225,654	6,796,677
Company's share of profits of equity accounted investees	-	40,356	40,356
Profit before taxes on income	20,048	56,013	11,489
Other comprehensive income (loss) before taxes on income	411	(1,601)	41,133
Total comprehensive income before taxes on income	20,459	54,412	52,622
			127,493

Notes to the Condensed consolidated interim financial statements

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 Risk that was sold as a stand-alone policy		Total
	Until 1990 (1)	Up to 2003	from 2004 Not yield- dependent	Yield dependent	Personal lines	Group	
	NIS thousand						
For the nine months ended September 30, 2017 (Unaudited)							
Gross premiums	87,993	715,436	-	2,079,618	761,660	138,882	3,783,589
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(6,205)
Total							3,777,384
Amounts received for investment contracts recognized directly in insurance reserves	-	-	-	2,827,660	-	-	2,827,660
Financial margin including management fees - in terms of comprehensive income (2)	128,056	247,801	1,390	155,594	-	-	532,841
Payments and changes in liabilities for insurance policies gross	389,073	1,893,078	55,418	2,667,821	395,007	125,905	5,526,302
Payments and change in liabilities for investment contracts	-	-	370	425,445	-	-	425,815
For the three months ended September 30, 2017 (Unaudited)							
Gross premiums	28,898	239,134	-	699,080	261,387	47,010	1,275,509
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(2,298)
Total							1,273,211
Amounts received for investment contracts recognized directly in insurance reserves	-	-	-	1,078,824	-	-	1,078,824
Financial margin including management fees - in terms of comprehensive income (2)	59,809	107,468	(34,406)	55,882	-	-	188,753
Payments and changes in liabilities for insurance policies gross	178,575	687,995	55,463	963,875	134,095	44,043	2,064,046
Payments and change in liabilities for investment contracts	-	-	234	156,939	-	-	157,173

(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.

Notes to the Condensed consolidated interim financial statements

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		Total
	Until 1990 (1)	Up to 2003	from 2004 Not yield- dependent	Yield dependent	Risk that was sold as a stand-alone policy Personal lines	Group	
	NIS thousand						
For the nine months ended September 30, 2016 (Unaudited)	93,041	690,555	19	1,481,246	690,715	151,633	3,107,209
Gross premiums							
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(21,639)
Total							3,085,570
Amounts received for investment contracts recognized directly in insurance reserves	-	-	-	1,405,763	-	-	1,405,763
Financial margin including management fees - in terms of comprehensive income (2)	97,069	160,728	(70,236)	129,450	-	-	317,011
Payments and changes in liabilities for insurance policies gross	477,759	1,275,908	111,559	1,638,678	355,324	151,359	4,010,587
Payments and change in liabilities for investment contracts	-	-	384	268,301	-	-	268,685
For the three months ended September 30, 2016 (Unaudited)	30,832	233,277	14	510,514	239,073	47,757	1,061,467
Gross premiums							
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(13,147)
Total							1,048,320
Amounts received for investment contracts recognized directly in insurance reserves	-	-	-	539,445	-	-	539,445
Financial margin including management fees - in terms of comprehensive income (2)	22,005	80,660	8,782	45,131	-	-	156,578
Payments and changes in liabilities for insurance policies gross	152,824	683,208	(1,128)	738,604	147,216	44,800	1,765,524
Payments and change in liabilities for investment contracts	-	-	309	98,694	-	-	99,003

- (1) The products issued through 1990 (including increases in respect of these products) are mainly yield guaranteed and are partially backed by earmarked bonds.
- (3) 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.

Notes to the Condensed consolidated interim financial statements

Note 4 - Operating segments (Contd.)

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

Results by policy category (Contd.)

	Policies which include a savings component (incl. riders) by date of policy issue				Policies with no savings component		
			from 2004		Risk that was sold as a stand-alone policy		
For the year ended December 31, 2016 (Audited)	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.

Notes to the Condensed consolidated interim financial statements

Note 4 - Operating segments (Contd.)

D. Additional information about the health insurance segment

Results by policy category

For the nine months ended September 30, 2017 (Unaudited)

Gross premiums

Payments and changes in liabilities for insurance contracts, gross

Long-term care (LTC)		Other health*		Total
Personal lines	Group	long-term**	short-term**	
NIS thousand				
439,378	947,979	1,559,486	351,402	3,298,245
381,802	1,090,238	958,722	215,911	2,646,673

For the three months ended September 30, 2017 (Unaudited)

Gross premiums

Payments and changes in liabilities for insurance contracts, gross

Long-term care (LTC)		Other health*		Total
Personal lines	Group	long-term**	short-term**	
NIS thousand				
145,271	323,216	524,022	137,143	1,129,652
83,911	392,959	308,728	75,907	861,505

For the nine months ended September 30, 2016 (Unaudited)

Gross premiums

Payments and changes in liabilities for insurance contracts, gross

Long-term care (LTC)		Other health*		Total
Personal lines	Group	long-term **	short-term **	
NIS thousand				
397,035	871,470	1,496,815	346,402	3,111,722
282,071	938,742	980,962	188,794	2,390,569

For the three months ended September 30, 2016 (Unaudited)

Gross premiums

Payments and changes in liabilities for insurance contracts, gross

Long-term care (LTC)		Other health*		Total
Personal lines	Group	long-term **	short-term **	
NIS thousand				
133,887	304,597	504,593	146,643	1,089,720
104,760	356,336	372,461	59,876	893,433

* Of this personal lines premiums in the amount of NIS 1,262,494 thousand and NIS 443,967 thousand for the nine and three-month periods ended September 30, 2017, respectively (personal lines premiums of NIS 1,188,339 thousand and NIS 439,608 thousand for the nine and three-month periods ended September 30, 2016 respectively) and group premiums in the amount of NIS 648,394 thousand and NIS 217,198 thousand for the nine and three-month periods ended September 30, 2017, respectively (and group premiums of NIS 654,878 thousand and NIS 211,628 thousand for the nine and three-month periods ended September 30, 2016, respectively) .

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

Notes to the Condensed consolidated interim financial statements**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)		Other health*		Total
	Personal lines	Group	long-term**	short-term**	
	NIS thousand				
Gross premiums	535,483	1,179,383	2,009,226	447,455	4,171,547
Payments and changes in liabilities for insurance 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.

Notes to the condensed consolidated interim financial statements

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.

D. Special tax arrangements for the insurance sector

Agreement with the tax authorities

On August 2, 2017, the Israel Insurance Association and the Tax Authority signed a sector-specific tax agreement for 2016.

The agreement stipulates that an increase or decrease in the surpluses resulting from implementation of the Best Practice provisions will be recognized for tax purposes in the year of implementation in the books, as income or as an expense. Besides this, the sector-specific agreement for 2016 contains no other changes with respect to the agreements from previous years.

In other words, the Group's financial results were and are not expected to be significantly affected.

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

Notes to the condensed consolidated interim financial statements

Note 6 - Financial instruments

A. Assets for Yield-dependent contracts

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

	As at September 30		As at December 31
	2017	2016	2016
	(Unaudited)	(Unaudited)	(Audited)
	NIS	NIS	NIS
	thousand	thousand	thousand
Investment property	1,456,491	1,378,345	1,411,903
Financial investments			
Marketable debt assets	17,315,923	16,331,694	15,441,195
Non-marketable debt assets (*)	11,585,619	8,080,371	9,597,966
Shares	7,934,064	6,700,650	7,433,050
Other financial investments	8,988,631	7,814,672	7,708,865
Total financial investments	45,824,237	38,927,387	40,181,076
Cash and cash equivalents	2,012,519	1,423,617	1,847,772
Other	589,297	668,352	617,090
Total assets for yield-dependent contracts **	49,882,544	42,397,701	44,057,841
Trade and other payables	108,919	9,982	10,570
Financial liabilities ***	123,906	121,270	145,562
Financial liabilities for yield-dependent contracts	232,825	131,252	156,132
(*) Assets measured at adjusted cost	692,826	633,745	700,749
Fair value of debt assets measured at adjusted cost	747,738	674,785	739,088

** Including assets in the amount of NIS 3,983,228 thousand, NIS 3,605,203 thousand, and NIS 3,686,521 thousand as at September 30, 2017 and 2016, and 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.

Notes to the condensed consolidated interim financial statements

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 September 30, 2017 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Marketable debt assets	14,262,626	3,053,297	-	17,315,923
Non-marketable debt assets	-	9,988,692	904,101	10,892,793
Shares	5,900,896	8,690	2,024,478	7,934,064
Other	5,636,642	240,905	3,111,084	8,988,631
Total	25,800,164	13,291,584	6,039,663	45,131,411

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

	As at 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

Notes to the condensed consolidated interim financial statements

Note 6 - Financial instruments (Contd.)

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

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

For nine and three-month periods ended September 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 (*)	24,400	36,482	93,585	154,467
Interest and dividend receipts	(33,059)	(27,678)	(113,949)	(174,686)
Purchases	261,272	166,513	370,687	798,472
Sales	(12,323)	(106,907)	(276,719)	(395,949)
Redemptions	(151,916)	-	(9,361)	(161,277)
Transfers to Level 3 *	11,338	-	-	11,338
Transfers from Level 3 *	(2,392)	-	-	(2,392)
Balance as at September 30, 2017	904,101	2,024,478	3,111,084	6,039,663
(*) Of which total profits for the period that have not yet been exercised for financial assets held correct to September 30, 2017	19,133	34,073	93,900	147,106

	Fair-value measurement on report date			
	Financial assets at fair value through profit or loss			
	Non-marketable debt assets	Shares	Other	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Balance as at July 1, 2017	866,416	1,952,241	3,036,325	5,854,982
Total profits (losses) that were recognized:				
In profit and loss (*)	22,357	89,458	68,810	180,625
Interest and dividend receipts	(22,348)	(10,487)	(27,650)	(60,485)
Purchases	63,866	93,944	137,486	295,296
Sales	(2,852)	(100,678)	(101,943)	(205,473)
Redemptions	(21,034)	-	(1,944)	(22,978)
Transfers to Level 3 *	(2,304)	-	-	(2,304)
Balance as at September 30 2017	904,101	2,024,478	3,111,084	6,039,663
(*) Of which total profits for the period that have not yet been exercised for financial assets held correct to September 30, 2017	19,818	88,025	71,246	179,089

* Mainly for securities whose rating changed

Notes to the condensed consolidated interim financial statements

Note 6 - Financial instruments (Contd.)

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

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

For nine and three-month periods ended September 30, 2016

Fair-value measurement on report date				
Financial assets at fair value through profit or loss				
Non- marketabl e 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 (*)	33,155	137,000	104,380	274,535
Interest and dividend receipts	(18,406)	(47,448)	(94,400)	(160,254)
Purchases	85,988	50,185	538,850	675,023
Sales		(255,414)		
	(42,257)	***	(218,605)	(516,276)
Redemptions	(73,848)	-***	(31,993)	(105,841)
Transfers to Level 3 **	46,475	-	-	46,475
Transfers from Level 3 **	(58,503)	-	-	(58,503)
			2,896,717	4,707,364
Balance as at September 30, 2016	337,270	1,473,377	7	4
(*) Of which total profit for the period that have not yet been exercised for financial assets held correct to September 30, 2016	25,927	56,548	105,717	188,192

Fair-value measurement on report date				
Financial assets at fair value through profit or loss				
Non- marketabl e debt assets	Shares	Other	Total	
NIS thousand	NIS thousand	NIS thousand	NIS thousand	
Balance as at July 1, 2016	298,204	1,504,589	2,832,256	4,635,049
Total profits (losses) that were recognized:				
In profit and loss (*)	25,962	(3,776)	49,366	71,552
Interest and dividend receipts	(7,440)	(22,244)	(28,655)	(58,339)
Purchases	12,473	8,003	134,789	155,265
Sales		(13,195)		
	-	***	(83,865)	(97,060)
Redemptions	(606)	-***	(7,174)	(7,780)
Transfers to Level 3 **	8,677	-	-	8,677
			2,896,717	4,707,364
Balance as at September 30, 2016	337,270	1,473,377	7	4
(*) Of which total profit (losses) for the period that have not yet been exercised for financial assets held correct to September 30, 2016	21,900	(3,776)	49,363	67,487

** For securities whose rating changed

*** Reclassified

Notes to the condensed consolidated interim financial statements

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			
	NIS thousand	Shares NIS thousand	Other NIS thousand	Total 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)
				1,880,94
Purchases	621,477	493,431	766,036	4
Sales	(42,505)	(274,397)	***	(622,586)
Redemptions	(145,372)	-	(35,079)	(180,451)
Transfers to Level 3 **	46,475	-	-	46,475
Transfers from Level 3 **	(69,476)	-	-	(69,476)
			3,046,84	5,809,69
Balance as at December 31, 2016	806,781	1,956,068	1	0
(*) 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.

*** Reclassified

Notes to the condensed consolidated interim financial statements

Note 6 - Financial instruments (Contd.)

B. Other financial investments

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

	September 30 (Unaudited)		December 31 (Audited)		September 30 (Unaudited)		December 31 (Audited)	
	Book Value				Fair Value			
	2017	2016	2016		2017	2016	2016	
	NIS thousand	NIS thousand	NIS thousand		NIS thousand	NIS thousand	NIS thousand	
Loans and receivables:								
Earmarked bonds	4,917,270	4,842,902	4,783,994		6,528,866	6,418,062	6,238,108	
Non-marketable, non-convertible debt assets, excluding bank deposits	7,329,922	5,780,039	6,191,104		8,107,638	6,443,538	6,800,005	
Bank deposits	963,982	898,033	954,886		1,036,046	964,484	1,021,699	
Non-marketable, convertible debt assets	-	312	12		-	312	12	
Total non-marketable debt assets	13,211,174	11,521,286	11,929,996		15,672,550	13,826,396	14,059,824	
Investments held to maturity:								
Marketable non-convertible debt assets	173,150	290,044	272,133		181,646	301,680	283,114	
Total Investments held to maturity	173,150	290,044	272,133		181,646	301,680	283,114	
Total	13,384,324	11,811,330	12,202,129		15,854,196	14,128,076	14,342,938	
Impairments recognized in profit and loss (in aggregate)	12,377	16,474	13,956					

Notes to the condensed consolidated interim financial statements

Note 6 - Financial instruments (Contd.)

B. Other financial investments (Contd.)

2. Fair value hierarchy of financial assets

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

	As at September 30, 2017 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Marketable debt assets	5,592,211	1,314,218	-	6,906,429
Shares	787,013	-	83,696	870,709
Other	858,557	99,080	1,356,494	2,314,131
Total	7,237,781	1,413,298	1,440,190	10,091,269

	As at September 30, 2016 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Marketable debt assets	5,440,552	1,634,332	-	7,074,884
Non-marketable debt assets	-	-	312	312
Shares	696,943	-	71,763	768,706
Other	1,036,083	112,584	1,317,355	2,466,022
Total	7,173,578	1,746,916	1,389,430	10,309,924

	As at 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

Notes to the condensed consolidated interim financial statements

Note 6 - Financial instruments (Contd.)

B. Other financial investments (Contd.)

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

For the nine and three-month periods ended September 30, 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 (*)	-	3,007	16,240	19,247
In other comprehensive income	-	(1,764)	(22,158)	(23,922)
Interest and dividend receipts	-	(3,423)	(40,131)	(43,554)
Purchases	-	23,420	125,031	148,451
Sales	-	-	(106,880)	(106,880)
Redemptions	-	-	(5,358)	(5,358)
Transfers to Level 3 **	-	15,095	-	15,095
Transfers from Level 3 *	(12)	-	-	(12)
Balance as at September 30, 2017	-	83,696	1,356,494	1,440,190
(*) Of which total unexercised profit for the period for financial assets held correct as at September 30, 2017	-	3,007	16,495	19,502

	Fair-value measurement on reporting date			
	Financial assets at fair value through profit or loss and available-for-sale assets			
	Non-marketable debt assets	Shares	Other	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Balance as at July 1, 2017	-	82,279	1,342,704	1,424,983
Total profits (losses) that were recognized:				
In profit and loss (*)	-	1,098	10,503	11,601
In other comprehensive income	-	1,738	14,876	16,614
Interest and dividend receipts	-	(1,419)	(12,758)	(14,177)
Purchases	-	-	47,199	47,199
Sales	-	-	(44,914)	(44,914)
Redemptions	-	-	(1,116)	(1,116)
Balance as at September 30, 2017	-	83,696	1,356,494	1,440,190
(*) Of which total unexercised profit for the period for financial assets held correct as at September 30, 2017	-	1,098	10,827	11,925

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

** For reclassification from investment in held assets to non-marketable shares.

Notes to the condensed consolidated interim financial statements

Note 6 - Financial instruments (Contd.)

B. Other financial investments (Contd.)

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

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

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

Notes to the condensed consolidated interim financial statements

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	<u>12</u>	<u>47,361</u>	<u>1,389,750</u>	<u>1,437,123</u>
(*) Of which total unexercised profit for the period for financial assets held correct at December 31, 2016	<u>(299)</u>	<u>(2,448)</u>	<u>45,175</u>	<u>42,428</u>

Notes to the condensed consolidated interim financial statements

Note 6 - Financial instruments (Contd.)

C. Financial liabilities

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

	September 30		December 31	September 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)	388,023	422,026	397,620	413,503	439,232	408,403
Loans from non-bank corporations (1)	60,412	90,653	90,394	62,043	90,589	91,728
Loans from interested parties	10,970	10,697	10,765	10,970	10,697	10,765
Subordinated promissory notes	3,006,010	2,818,616	2,780,623	3,388,934	3,089,185	2,994,599
Total financial liabilities presented at amortized cost	3,465,415	3,341,992	3,279,402	3,875,450	3,629,703	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 September 30		As at December 31
	2017	2016	2016
In percent			
Loans	2.30%	2.62%	2.81%
Subordinated liability notes	1.54%	2.17%	2.36%

Notes to the condensed consolidated interim financial statements

Note 6 - Financial instruments (Contd.)

C. Financial liabilities (Contd.)

3. Financial liabilities measured at fair value hierarchy

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

	As at September 30, 2017 (Unaudited)		
	Level 1	Level 2	Total
	NIS thousand	NIS thousand	NIS thousand
Loans from banks (1)	-	57,781	57,781
Derivatives (2)	14,036	848,139	862,175
Short sales (3)	147,506	-	147,506
Total financial liabilities	161,542	905,920	1,067,462

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

	As at 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

- (1) Harel Financial Products has arbitrage activity which is performed as part of the ETN assets. This activity includes the acquisition of contracts in lieu of the sale of underlying assets as well as the acquisition of underlying assets and the sale of contracts on those assets. The funding for the purchase of the underlying assets comes from bank credit. Harel Financial Products' policy with respect to this arbitrage is to fully hedge the transactions so that there is no exposure to the underlying assets.
- (2) Derivative financial instruments held against the insurance liabilities as part of the Group's policy for asset and liability management ("ALM"). Of the above, NIS 605 million, NIS 618 million and NIS 644 million as at September 30, 2017 and 2016 and at December 31, 2016, respectively, are included in the non-yield-dependent liabilities, and the balance is included in the Group's yield-dependent liabilities. Most of the amount is attributable to management of exposure by means of derivatives to foreign currency and 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. Pursuant to the foregoing, the Group's financial institutions deposited NIS 707 million as collateral to cover the liabilities arising from this activity.
- (3) 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.

Notes to the condensed consolidated interim financial statements

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 September 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.

Notes to the condensed consolidated interim financial statements

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 contracts 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 prescribes stages for implementation of the optimization project, which is scheduled for completion on June 30, 2016. At this date, the Company has completed the optimization activity for most of the issues that were included in the work plan. Nevertheless, several issues remain that will continue to be dealt with even after the date scheduled for completion of the project. Furthermore, in accordance with the requirements of the circular, the Company also performs ongoing optimization and preserves the optimization activity conducted as part of the project.

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. In this context, the Capital Markets Authority recently issued a ruling on the flawed enrolment of insureds in personal accident insurance. Accordingly, Harel Insurance is required to contact the holders of personal accident insurance who were enrolled in the insurance in a specific period by a small number of insurance agencies so as to ensure that they are aware of the insurance, and insofar as they are unaware of it, to allow them to cancel the policy and receive a refund of the premiums that they paid. Additionally, sometimes, the complaining entities even threaten to take action regarding their complaints in the form of class actions. At this time, it is impossible to estimate whether there is any exposure for such complaints and it is not possible to estimate whether the Capital Market, Insurance and Savings Authority will issue an across-the-board decision on these complaints and/or if class actions will be filed as a result of such processes, and it is impossible to estimate the potential exposure to such complaints. Therefore, no provision for this exposure has been included. Furthermore, as part of the policy applied by the Capital Market, Insurance and Savings Authority to enhance the controls and audits of financial institutions, from time to time the Authority conducts in-depth audits of a variety of activities of the Group's financial institutions. As a result of these audits, the Ministry of Finance may impose fines and/or financial penalties and it may also order that changes should be made with respect to various operations, both in the past and in the future. Regarding instructions with respect to past activity, the Capital Market, Insurance and Savings Authority might request the restitution of money or a change in conditions vis-à-vis policyholders and/or fund members which may impose financial liabilities on the Company's subsidiaries and/or increase the exposure of the subsidiaries that are insurers to a broader range of insurance events to be covered on account of these instructions, in policies that were issued.

Notes to the condensed consolidated interim financial statements

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

As part of the audits conducted by the Capital Market, Insurance and Savings Authority, during the Reporting Period several in-depth audits were and are being conducted of the pensions, actuarial practice, 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.

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 50, 51, 55, 57, 58, 59, 60 and 61 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.

Notes to the condensed consolidated interim financial statements

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

1. In January 2008, an action was filed in the Tel Aviv District Court against the subsidiary Harel Insurance and against four additional insurance companies (hereinafter together: "the Defendants") together with an application for its certification as a class action. The subject of the action is a claim that the respondents unlawfully collected "sub-annual factor payments" (a fee that insurance companies are allowed to collect when the amount of the annual premium is paid in several installments). The plaintiffs claim damages in the amount of NIS 1,683.54 for each year of insurance. The plaintiffs estimate that the total claim for the entire class that they wish to represent against all defendants is about NIS 2.3 billion, of which about NIS 307 million is against Harel Insurance. On February 1, 2010, the court approved a request for a procedural arrangement between the parties, whereby the plaintiff will strike out from the motion and the action the claim that Harel Insurance collected a sub-annual factor fee exceeding the rate permitted in policies that were issued before 1992 as well. As instructed by the court, the plaintiff submitted an amended claim and request for its certification as a class action. On December 29, 2013 the Commissioner submitted a position that supports the position of the Defendants that there is no impediment to collecting sub-annual policy factors, on the savings component of life insurance combined savings and other term policies, including long-term care, work disability and accidental disability. On July 19, 2016, the Tel Aviv District Court approved the claim as a class action in connection with the collection of a sub-annual factor on the premium component which is known as the policy factor and on the savings component in combined savings and life assurance policies, and in connection with the collection of a sub-annual policy factor in health, disability, critical illness, work disability and long-term care policies. In December 2016, an application was filed for permission to appeal the decision of Tel Aviv District Court. In January 2017, the Supreme Court handed down its ruling stating that the application for permission to appeal the decision to approve the action as a class action would be heard by a panel of judges and that the respondents to the motion for permission to appeal must reply to this motion. In April 2017, the Supreme Court accepted the request for a stay of implementation that was filed by the company and it determined that the hearing would be put on hold until a decision has been made on the application for permission to appeal and on the appeal.
2. In April 2008, an action was filed in the Jerusalem District Labor Court against the subsidiary Harel Insurance and against three other insurance companies (hereinafter together: "the Defendants"), together with an application for its certification as a class action. The subject of the action is the allegation that the Defendants generally credit women policyholders, when they reach the age of retirement, for old managers' insurance policies that were sold until 2000, with a lower monthly benefit than the benefit received by male insureds with the same data, for the reason that women have a higher life expectancy. In contrast, the Defendants collect the same term (pure life) assurance premiums from the women as they collect from the men, despite the fact that the mortality rate for women, during the risk period, is ostensibly lower. The Plaintiffs argue that this conduct discriminates against female policyholders, in contravention of the statutory provisions. On August 17, 2014, the Jerusalem District Labor Court certified the action as a class action. The group that was certified for the class action consists of women who have or had an insurance policy with the four Defendants, and for whom no distinction was made between the tariff for men and women in the calculation of the risk premium. In December 2014, the Defendants filed an application for permission to appeal this ruling in the Jerusalem National Labor Court. Concurrently, the District Labor Court accepted the Defendants' application for a stay of proceedings until a decision is made on the application for permission to appeal. In April 2015, the National Labor Court decided to grant the Defendants permission to appeal the decision. As part of a hearing on appeal, the court instructed that the material must be submitted to the Commissioner for his opinion. In December 2016, the Commissioner's position was submitted to the court, supporting the opinion of the insurance companies whereby the action cannot be heard as a class action since there is no unacceptable discrimination involved.
3. In April 2010, an action and application for its certification as a class action was filed in the Petach Tikva Central Region District Court against the subsidiary Harel Insurance and against four additional insurance companies (hereinafter together: "the Defendants"). The subject of the legal action is the allegation that in the event of a discontinuation of insurance in any month, after the insurance premium for that month was collected by the Defendants in advance, the defendants allegedly did not reimburse the insured the proportionate, surplus share of the premiums for that month, or alternatively they allegedly repaid the insurance premium in nominal values only. In the opinion of the applicants, the total damages to all members

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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.

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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. 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. In September 2017, the court appointed a reviewer to review the possibility of making individual refunds.

Notes to the condensed consolidated interim financial statements

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.

Notes to the condensed consolidated interim financial statements

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.

Notes to the condensed consolidated interim financial statements

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's 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 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. In September 2017, the Commissioner's position was submitted supporting the Defendants' position whereby the rate of the management fees collected from members during the savings period is not equal to the rate of the management fees collected from post-retirement annuity recipients, given that they relate to two different periods and have different characteristics. The post-retirement management fees are reset at the time of retirement and unrelated to the rate prior to retirement. This is therefore not considered an increase in the management fees but rather setting the rate of the management fees for the period of retirement. The "Management Fees Circular" which relates to the management companies' obligation to notify their members does not apply to the setting of management fees for pensioners; and the obligation to give notice of a change in the management fees by virtue of the circular does not apply to the management companies with respect to annuity recipients.
15. 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.

Notes to the condensed consolidated interim financial statements

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

16. 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.
17. 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 class that it wishes to represent.
18. 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.
19. 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.
20. 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.

Notes to the condensed consolidated interim financial statements

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

21. 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.
22. 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 paramedical 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. In November 2017, an agreed motion was filed in the court for the Plaintiffs to abandon the application for certification, this following the conclusions in the opinion of the court-appointed expert. As part of the motion for abandonment, the Defendants agreed, *ex gratia*, and for the benefit of members of the insured group, to provide a sum of NIS 2,150,000 in favor of establishing a special fund the purpose of which is to provide indemnity, *ex gratia*, to members of the group in whose name the action had been filed, who were insured by Harel Insurance through Madanes between 2010-2015 and who, due to the provisions in the insurance policy, are not eligible for insurance cover for that insured event. The motion for abandonment is subject to the court's approval.
23. 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.

Notes to the condensed consolidated interim financial statements

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

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. At a hearing which took place in July 2017, the court approved the parties agreement to terminate the proceeding in the plan, in which the Company's auditors were appointed as an expert for the court to examine the reasonability of the process of refunding the payment by Dikla.

24. 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.
25. 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.
26. 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.
27. 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.

Notes to the condensed consolidated interim financial statements

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

28. 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 Contract 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.
29. 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.
30. 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.

Notes to the condensed consolidated interim financial statements

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

31. 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. In September 2017, the parties filed a motion in court to approve a compromise settlement in which context it was agreed, among other things, that Harel Insurance will take action to pay insurance benefits to those insureds whose disability claim had been rejected due to the fact that 3 years have passed from the occurrence of the insured event although 3 years have not yet passed from the date on which their right to claim the insurance benefits was established under the provisions of the insurance contract; furthermore, amended letters will be sent to insureds for whom the text of the prescription clause included in the letters sent to them mentioned the date of occurrence of the insured event and not the date on which the insured's right to claim insurance benefits was established, under the conditions of the insurance contract. The validity of the compromise settlement is contingent on the court's approval.
32. In June 2016, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance ("Harel Insurance"). The subject of the action is the allegation that Harel Insurance is in breach of its obligation to pay linkage differences by law for the insurance benefits that it pays in the health insurance segment, in respect of the period between the date on which the insured event occurs and the date of payment of the insurance benefits. The Plaintiff argues that Harel Insurance is therefore in breach of the statutory provisions, in breach of contract, acts negligently and practices unjust enrichment. The Plaintiff estimates the amount of the loss caused to the members of the group it seeks to represent in the amount of approximately NIS 4 million. In March 2017, the parties filed an application in the court to approve a compromise settlement in which context it was agreed, in accordance with a report prepared by a reviewer to be appointed to examine the compromise settlement, inter alia, that Harel Insurance will contribute 70% of the total linkage differences for the first period as they are defined in the compromise settlement, and 100% of the linkage differences for the second period, as they are defined in the compromise settlement. The validity of the compromise settlement is contingent on the court's approval. 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.
33. 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.

Notes to the condensed consolidated interim financial statements

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

34. 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's 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.
35. 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. In October 2017, the court ordered the dismissal, *in limine*, of the motion for certification against the Commissioner of the Capital Market.
36. 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 to do so. The Plaintiff argues that Harel Pension is therefore in breach of the provisions of the pension fund articles and the onerous fiduciary obligations and duty of disclosure that apply to it, it negotiates in bad faith and gives its customers a misleading description. The Plaintiff estimates the total loss claimed for all members of the group that it wishes to represent amounts to approximately NIS 132 million. In April 2017, the court ordered the transfer of the hearing of the motion to the Tel Aviv District Labor Court.
37. 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.

Notes to the condensed consolidated interim financial statements

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

38. In September 2016, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action, against the consolidated subsidiary Harel Insurance Company Ltd. and against three other insurance companies (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants ostensibly collect high premiums from the insureds for health insurance policies that include cover that the insureds ostensibly do not need as they have supplementary health insurance from the HMOs to which they belong. The Plaintiffs also argue that the Defendants do not disclose to the insureds that this cover is in fact superfluous and/or they make one type of service conditional on another as they do not allow the insureds to purchase a limited version of the policy which includes only coverage that is not included in the HMO supplementary health insurance, thus creating a situation of double insurance. The Plaintiffs argue that the Defendants are therefore in breach of the duty of utmost good faith which applies to them, are in breach of a statutory obligation, in breach of the provisions of the law, in breach of an agreement, mislead their policyholders and practice unjust enrichment. The Plaintiffs estimate that the total loss claimed for all members of the class that they wish to represent against Harel Insurance amounts to NIS 2.2 billion, and to NIS 4.45 billion against all the Defendants.
39. 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. In November, 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 remarks relating to the agreement, expressed his support of the parties' request to appoint a reviewer for the settlement and he also asked to submit an additional position after receiving the reviewer's opinion.
40. 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.

Notes to the condensed consolidated interim financial statements

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

41. 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. In October 2017, the parties informed the court that the Plaintiffs had agreed to dismiss the motion for certification of the action as a class action, given that it had been exhausted.
42. 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.
43. 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.
44. 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. In October 2017, an agreed motion was submitted for abandonment of motion for certification against Harel Insurance and against another insurance company was filed in the court. Accordingly, Harel Insurance agreed to add a question in its proposal form about whether the mortgage is a loan in which the principal is repaid as a lump sum at the end of the loan period, or a mortgage in which the principal is repaid in installments. Furthermore, when an insurance event occurs, Harel will continue to pay existing insureds insurance benefits of an amount that is the higher of the outstanding amount of the loan as set out in the policy schedule or the updated outstanding amount of the loan in the lender's books as defined in the policy. The motion for abandonment is subject to the court's approval.

Notes to the condensed consolidated interim financial statements

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

45. 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.
46. 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.
47. 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.
48. 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.

Notes to the condensed consolidated interim financial statements

Note 7 - Contingent liabilities and commitments (Contd.)**A. Contingent Liabilities (Contd.)****Actions filed in the Reporting Period**

49. 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.
50. 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.
51. 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.
52. 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.
53. 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.
54. 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.

Notes to the condensed consolidated interim financial statements

Note 7 - Contingent liabilities and commitments (Contd.)**A. Contingent Liabilities (Contd.)****Actions filed in the Reporting Period (Contd.)**

55. 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.
56. 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. In November 2017, the parties filed an agreed motion in the court to dismiss the motion for certification due to having exhausted the proceedings, in which the court was asked to dismiss the motion for certification of the action as a class action. This as a result of agreement by Harel Insurance to pay insurance benefits to the group of insureds whose claim had been dismissed in the circumstances mentioned in the motion for certification and clarification of its procedures so as to prevent such cases recurring in the future. Harel Insurance also agreed to pay the Plaintiff and his attorney, subject to the court's approval, compensation and attorney's fees of insignificant amounts. The motion for dismissal is subject to the court's approval.
57. In September 2017, an action was filed against the subsidiary Harel Insurance in the Tel Aviv District Court, together with a motion for its certification as a class action. The subject of the action is the allegation that Harel Insurance pays its insureds monthly benefits on a date that is later than the date specified in the policy, without the addition of interest due to the overdue payment. The Plaintiff does not quantify the total loss caused to all members of the group it seeks to represent but it estimates the loss at more than NIS 2.5 million.
58. In September 2017, an action was filed in the Jerusalem District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance and against 12 other insurance companies ("the Defendants"). The subject of the action is the allegation that in cases where the Defendants pay amounts ruled against them by judicial authorities after the date set for their settlement, the Defendants allegedly do not add linkage differences, interest and linked interest as required, under the provisions of Section 5(b) to the Adjudication of Interest and Linkage Law, 1961 ("the Law"). The Plaintiffs have not quantified the loss claimed for all members of the group they wish to represent, however they estimate it to be tens of millions of shekels.
59. In September 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, ostensibly, contrary to the provisions of the insurance policies, Harel Insurance indemnifies its health insurance insureds for intraocular lenses that were implanted in cataract surgery only up to the amount of an ordinary lens even when the implanted lens is a premium lens. The Plaintiff estimates the total loss claimed by all members of the group it wishes to represent to be NIS 466 million.

Notes to the condensed consolidated interim financial statements**Note 7 - Contingent liabilities and commitments (Contd.)****A. Contingent Liabilities (Contd.)****Actions filed after the Reporting Period**

60. In October 2017, 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 ostensibly collects premiums from its insureds for a qualifying period, even though the insured does not receive coverage during this period. The Plaintiff estimates the overall loss caused to all members of the group it seeks to represent in the amount of NIS 42 million.
61. In October 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 is ostensibly in breach of the provisions of the "Private Center for Fast Medical Diagnosis" service note and that it fails to comply with the dates specified in the service note in cases where its insureds need to undergo tests that are not performed by the service provider. This, ostensibly, even though the service note does mention any exclusion with respect to these tests. The Plaintiff does not quantify the overall loss caused to all members of the group it seeks to represent.

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
<u>Actions certified a class action:</u>		
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	
<u>Pending requests for certification of actions as class actions:</u>		
Amount pertaining to the Company and/ or subsidiaries is specified	32	4,927,103
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	13	
Other significant claims	1	15,605

The total provision for claims filed against the Company as noted above amounts to NIS 99 million (at December 31, 2016, an amount of NIS 75 million).

Notes to the condensed consolidated interim financial statements

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 Atidit'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.)**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. 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

Notes to the condensed consolidated interim financial statements

Note 7 - Contingent liabilities and commitments (Contd.)**C. Claims that were settled during the Reporting Period (Contd.)**

Par 4 (Contd.)

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 Histadrut Employees Ltd., Amitim Pension ("Amitim"), and Israel Shahr (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. 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.
6. 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.
7. 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

Notes to the condensed consolidated interim financial statements

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.

8. 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.
9. 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.
10. In September 2015, In September 2015, 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 and against the subsidiary Dikla Insurance Agency Ltd. (under 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 argued that the provisions limiting 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. 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. In August 2017, the court approved the Plaintiffs' abandonment of the motions for certification as a class action, and it instructed that they should be struck out and that the Plaintiffs' personal claims should be dismissed.

Notes to the condensed consolidated interim financial statements

Note 7 - Contingent liabilities and commitments (Contd.)**C. Claims that were settled after the Reporting Period (Contd.)**

11. 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 was the allegation that the Defendants stipulate sums insured 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 insured are not revised to correspond 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 court passed the motion to accept the position of the Commissioner on the questions arising from the application for certification. The Commissioner forwarded the court’s questions to be discussed by the Supervisor of Banks. On March 23, 2016, the position of the Commissioner was submitted which, in general, supports the Defendants’ position, and determines that there is no regulation which obligates 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. In September 2017, the court approved the Plaintiffs’ abandonment of the motion for certification in which the Defendants agreed that until the Commissioner of the Capital Market publishes a procedure regulating the issue which is the subject of the motion for certification or until any other statutory provision becomes applicable, the Defendants will take action to inform the insureds before they engage in mortgage-related life insurance policies of the interest rates used to calculate the changes in the sum insured throughout the policy period, of the possibility that there may be a discrepancy between the sum insured and the outstanding amount of the mortgage and the option open to the insureds to reduce the sum insured during the life of the policy.

Other contingent liabilities settled after the Reporting Period

12. In February 2014, a claim was filed in the Tel Aviv District Court (Economics Department) together with a motion 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 motions to recognize the actions as derivative claims, after they were amended pursuant to a request which was accepted by the court, were the allegation 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 obligations of 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 motions 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 Plaintiffs 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 statutory provisions remain unchanged, there is no place for such an action. The court forwarded the application to the Attorney General for his 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 motion 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

Notes to the condensed consolidated interim financial statements

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, such action can be justified. Furthermore, in his opinion, the Attorney General states that in any event, the creation of a subrogation arrangement between the public basket and the commercial insurance or between it and the supplementary health services cannot be considered. In October 2017, the Supreme Court accepted the motions for permission to appeal filed by the HMOs against the decision of the Tel Aviv District Court (Economics Department) to dismiss the motion to dismiss outright the motions for certification of the claims as derivative claims for the reason that HMO members are not entitled to file derivative claims against HMOs and it accepted their request to dismiss outright the motions to certify the claims as derivative claims.

Notes to the condensed consolidated interim financial statements

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 September 30, 2017		December 31, 2016	
	Harel Insurance NIS thousand	EMI NIS thousand	Harel Insurance NIS thousand	EMI NIS thousand
Amount required according to regulations and Commissioner's directives (A)	5,730,281	71,351	5,702,567	79,652
The present amount calculated in accordance with the Capital Regulations:				
Tier-1 capital				
Basic Tier-1 capital	4,089,141	424,695	4,071,946	436,811
Hybrid tier-1 capital	350,485	-	350,517	-
Total tier-1 capital	4,439,626	424,695	4,422,463	436,811
Tier-2 capital				
Subordinated tier-2 capital (B)	90,430	-	145,145	-
Hybrid tier-2 capital (C)	2,079,103	-	1,825,894	-
Total tier-2 capital	2,169,533	-	1,971,039	-
Hybrid tier-3 capital	740,652	-	741,040	-
	2,910,185	-	2,712,079	-
Total present amount calculated in accordance with the Capital Regulations	7,349,811	424,695	7,134,542	436,811
Surplus at report date	1,619,530	353,344	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*	1,619,530	353,344	1,651,893	332,159

Notes to the condensed consolidated interim financial statements

Note 8 - Capital requirements and management (Contd.)

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

	As at September 30, 2017		December 31, 2016	
	Harel Insurance	EMI	Harel Insurance	EMI
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
The required amount includes, inter alia, capital requirements for:				
Activity in non-life insurance	788,429	71,351	744,944	79,652
Activity in long-term care insurance [LTC]**	121,054	-	352,840	-
Capital requirements for yield-guaranteed plans	40,014	-	40,997	-
Investment assets and other assets (D)	1,476,905	-	1,395,557	-
Catastrophe risks in non-life insurance	93,308	-	85,859	-
Operating risks	312,074	-	310,703	-
Deferred acquisition costs in life assurance and insurance against illness and hospitalization	1,756,249	-	1,657,588	-
Investment in consolidated management companies and insurers and in Broadgate	833,740	-	837,109	-
Relief in capital requirements for cost of acquiring provident funds	(191,135)	-	(194,036)	-
Extraordinary risks in life assurance (E)	438,794	-	408,834	-
Unrecognized assets as defined in the Capital Regulations (F)	60,849	-	62,172	-
Total amount required under the amended Capital Regulations	5,730,281	71,351	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 91 million and NIS 95 million at September 30, 2017 and December 31, 2016, respectively.

** See also Note 9(2).

- B. Including subordinated promissory notes in the amount of NIS 205,802 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 serve 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.

Notes to the condensed consolidated interim financial statements

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. 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 legislation initiated by the ISA to regulate the ETN market, as part of the Joint Investment Trust Law, 1994. At the publication date of the financial statements, the ETN issuing companies (Harel Sal Ltd. and Harel Sal Currencies Ltd.) are in compliance with the above-mentioned draft Backing Account Regulations.
5. 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.
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 September 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 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.
9. On September 3, 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 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 September 13, 2017.

Notes to the condensed consolidated interim financial statements

Note 8 - Capital Requirements and Management (Contd.)

10. To enable Turk Nippon to comply with the capital regulations as an insurer operating in Turkey, 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.

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

- (1) In June 2017, the circular "Provisions for the Implementation of an Economic Solvency Regime for Insurance Companies Based on Solvency II" (Insurance Circular 2017-1-9 - "Solvency Circular") was published. The circular prescribes provisions for calculating equity and required capital on an economic basis, in accordance with the Solvency II Directive as adopted by the European Union and implemented as of January 2016 in all its member states.

The Directive contains a comprehensive review of the risks to which insurance companies are exposed and standards for managing and measuring these risks and it is based on three pillars: Pillar 1 - quantitative, addresses a risk-based solvency ratio, Pillar 2 - qualitative, addresses internal control processes for risk management, corporate governance and ORSA (Own Risk and Solvency Assessment), and Pillar 3 - addresses the advancement of market, disclosure and reporting discipline.

The new instructions are based on Pillar 1, with adjustment to the local market and they are applied in Israel from June 30, 2017 on the basis of data at December 31, 2016.

According to the instructions, there are two levels of capital requirements, reflecting different levels of supervisory intervention:

- The capital required to maintain the solvency of insurance companies (SCR). SCR is risk-sensitive and based on a forward-looking calculation based on the instructions for implementation of a new solvency regime.
- Minimum capital requirement ("MCR" or capital threshold").

Under the provisions, the MCR will equal the higher of the minimum required tier-1 capital according to the present capital requirements and an amount derived from the amount of the insurance reserves and premiums (as defined in the directives) in the range between 25% and 45% of the SCR.

The instructions include the following provisions which are in addition the implementation of Solvency II:

1. Compliance with the capital requirements (SCR):

The capital required to ensure the solvency of insurance companies in the period commencing June 30, 2017, and ending on December 31, 2024 ("the Scheduling Period") will increase gradually by 5% each year from 60% of the SCR until the full SCR is reached.

2. Reduced capital requirements on certain types of investments held by insurers at each reporting date, where this requirement will gradually increase over 7 years until the capital requirements in respect of these investments reach their full amount.

Under the new provisions, an insurance company's equity will consist of tier-1 capital and tier-2 capital (which includes, among other things, subordinated tier-2 capital instruments, hybrid tier-2 capital and tier-3 capital issued before the commencement date). The provisions include limitations on the composition of equity with respect to SCR so that the percentage of the components included in tier-2 capital will not be more than 40% of the SCR. During the Scheduling Period, the percentage of tier-2 capital will not be more than 50% of the SCR in the Scheduling Period.

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.

Note 8 - Capital Requirements and Management (Contd.)**11. Information about progress in the preparation for implementing Solvency II (Contd.)**

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 might 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 has purchased a new solvency system which the Company believes will provide an appropriate and controlled response in the long term to the complex calculations, for producing the necessary report and for business requirements. The Company is in the early stages of integrating the system.

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.

- (2) On October 1, 2017, the Commissioner published a letter to insurance company executives concerning dividend distributions by insurance companies ("the Dividend Letter"). The Letter updates the Commissioner's position regarding dividend distributions as part of the deployment to implement the Solvency II solvency regime. According to the Letter, until the Commissioner's confirmation is received that an auditor's audit has been performed on the implementation of the Solvency Circular, insurance companies will be able to distribute a dividend if they meet 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 distribution, the Company has a solvency ratio of at least 100% under the Solvency Circular, as calculated excluding the provisions in the Scheduling Period and subject to a solvency ratio target set by the Company's Board of Directors. Furthermore, the solvency ratio will be calculated without taking into account the addition of 35% of the original difference relating to the acquisition of provident fund management companies.

It is emphasized that after the date on which the Commissioner's confirmation is received that an auditor's audit has been performed on the implementation of the provisions of the Solvency Circular, insurance companies will be able to distribute a dividend only in accordance with that stated in subsection B.

Moreover, within 20 business days of the date of the distribution, the insurer will submit to the Commissioner an annual profit forecast for the two years following the dividend distribution date, a revised debt servicing plan, a revised capital management plan and a copy of the minutes of the Board of Directors meeting at which the dividend distribution was approved, together with the background material for the meeting.

Notes to the condensed consolidated interim financial statements

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 61 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.

On September 3, 2017, the Company's Board of Directors approved the distribution of a cash dividend in the amount of NIS 204 million (NIS 0.95 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 September 25, 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 April 15, 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, terminated his office in the Group.

Notes to the condensed consolidated interim financial statements

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

6. Changeover of senior officers (Contd.)

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, effective from April 2017, as CEO of Harel Investments to replace Ronen Agassi, in addition to his position as CEO of Harel Insurance.

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 view of Mr. Agassi's resignation 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 the Company and head of the Finance & Resources Division of Harel Insurance

On April 15, 2017, 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.

D. Appointed actuary

On June 22, 2017, Mr. Jonathan Brody began to serve as the appointed life assurance actuary in Harel Insurance, in addition to his service as an appointed health insurance actuary in Harel Insurance. On August 10, 2017, Mr. Roman Reidman, who until that date served as the appointed life assurance actuary, informed the Company that he would be terminating his employment in Harel Insurance at the end of October 2017.

7. Changeover of senior officers serving the subsidiaries

(a) In August 2017, Ms. Shlomit Zacks Engel began to serve as the CFO of Harel Insurance, replacing Ms. Hagit Argov.

(b) 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 49.48% 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").

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.

Notes to the condensed consolidated interim financial statements

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

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.

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 a decrease to a decrease in the risk-free interest rate used to review the adequacy of the reserves in the nine and three-month periods ended September 30, 2017, Harel Insurance increased the insurance liabilities in the life assurance and long-term savings segment in these periods.

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 nine-month period ended September 30, 2017, thus reducing profit and comprehensive income by the aforesaid amounts.

The effect on the financial results is set out below:

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
NIS thousand	2017	2016	2017	2016	2016
Increase as a result of due diligence of the reserves	12,841	148,871	100,026	2,635	93,230
Total life assurance	12,841	148,871	100,026	2,635	93,230
Non-life insurance	7,586	-	-	-	-
Total effect of interest before tax	20,427	148,871	100,026	2,635	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.

Notes to the condensed consolidated interim financial statements

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

In October 2017, a further insignificant revision was made in the compensation policy of Harel Group's financial institutions which revised the method of calculating the linear indices - the rate of increase of premiums, return on equity, VNB/VIF ratio and rate of increase of VIF ("the Linear Indices"), used to determine the quantitative part of the variable compensation for the Company's senior officers.

The Linear Indices are measured by comparing Harel's results with those of the four largest insurance and finance companies in Israel ("the Benchmark Group"). According to the revised method of calculating the Linear Indices, the difference between the Company's results and the external result for the Benchmark Group was measured.

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

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).

On October 19, 2017 and October 25, 2017, in accordance with the provisions of the Company's compensation policy, the Company's Compensation Committee and Board of Directors, respectively, approved the renewal of a D&O liability insurance policy commencing October 1, 2017 for one year, so that the sum insured will be USD 200 million and the premium will not exceed 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.

Notes to the condensed consolidated interim financial statements

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

16. Annual and Special 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. Appointment of Ben Hamburger as a Company director

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.

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

19. Termination of office – David Granot

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.

20. 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.

21. Restructuring in Harel Insurance

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.

22. 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

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

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

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

26. 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. Convening of a Special General Meeting

On October 25, 2017, the Company published an announcement that it would be convening a special general meeting on November 30, 2017, at which the following topics would be on the agenda: (1) The appointment of Prof. Israel Gilad for a further term as external director; (2) the appointment of Ms. Miri Lent Sharir as an external director in the Company; (3) approval of a revision of the Company's compensation policy with respect to the method of calculating the Linear Indices used to determine the quantitative part of the variable compensation for the Company's senior officers; (4) approval of terms of employment for Mr. Yair Hamburger without any change compared with the present employment conditions; (5) approval of terms of employment for Mr. Gideon Hamburger without any change compared with the present employment conditions; (6) approval of terms of employment for Mr. Yoav Manor without any change compared with the present employment conditions. For additional information, see an Immediate Report of the Company dated October 25, 2017 (Ref.: 2017-01-093859).

HAREL INSURANCE INVESTMENTS AND FINANCIAL SERVICES LTD

ANNEXES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Annexes to the condensed consolidated interim financial statements

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

A. Information about other financial investments

As at September 30, 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)	278,336	6,607,615	173,150	-	7,059,101
Non-negotiable debt assets (*)	-	-	-	13,054,874	13,054,874
Shares (a2)	-	868,132	-	-	868,132
Other (a3)	181,782	1,689,675	-	-	1,871,457
Total other financial investments	460,118	9,165,422	173,150	13,054,874	22,853,564

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

As at 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.

Annexes to the condensed consolidated interim financial statements

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

A1. Marketable debt assets

	Book value			Amortized cost		
	As at September 30		As at	As at September 30		As at
	2017	2016	December 31	2017	2016	December 31
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Government bonds	2,543,097	2,130,642	2,152,955	2,484,707	2,052,727	2,107,749
Other debt assets:						
Other non-convertible debt assets	4,516,004	5,208,413	4,955,530	4,323,010	5,052,720	4,858,242
Other convertible debt assets	-	3,241	3,255	-	3,008	3,076
Total marketable debt assets	7,059,101	7,342,296	7,111,740	6,807,717	7,108,455	6,969,067
Impairments recognized in profit and loss (in aggregate)	1,226	1,710	12,170			

A2. Shares

	Book value			Cost		
	As at September 30		As at	As at September 30		As at
	2017	2016	December 31	2017	2016	December 31
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Other non-convertible debt assets	784,436	695,140	756,379	671,264	611,107	659,586
Other convertible debt assets	83,696	71,763	47,361	80,274	54,274	42,175
Total marketable debt assets	868,132	766,903	803,740	751,538	665,381	701,761
Impairments recognized in profit and loss (in aggregate)	91,328	69,016	81,410			

Annexes to the condensed consolidated interim financial statements

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

A3. Other financial investments

	Book value			Cost		
	As at September 30		As at	As at September 30		As at
	2017	2016	December 31	2017	2016	December 31
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Marketable financial investments	415,884	627,244	527,368	349,470	573,781	472,302
Non-marketable financial investments	1,455,573	1,426,702	1,485,907	1,123,059	1,099,366	1,132,857
Total other financial investments	1,871,457	2,053,946	2,013,275	1,472,529	1,673,147	1,605,159
Impairments recognized in profit and loss (in aggregate)	129,259	121,072	121,956			
Derivative financial instruments presented in financial liabilities	601,358	615,566	642,783			

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

HAREL INSURANCE INVESTMENTS AND FINANCIAL SERVICES LTD.

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

As at September 30, 2017



Somekh Chaikin

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

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

To:

The shareholders of Harel Insurance Investments and Financial Services Ltd.

Subject: Special auditors' report on separate interim financial information in accordance with Regulation 38D of the Securities 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 September 30, 2017 and for the nine and three-month periods ended on that date. The separate interim financial information is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial information for these interim periods, based on our review.

We did not review the separate interim financial information from the financial statements of investee companies, in which the investment amounts to NIS 737,962 thousand as at September 30, 2017, and where the Company's profit from these investee companies amounts to NIS 35,881 thousand and NIS 12,935 thousand for the nine 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

November 22, 2017

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

	September 30		December 31
	2017	2016	2016
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand
Assets			
Deferred tax assets	614	1,365	1,451
Fixed assets	1,611	1,666	1,582
Investments in investee companies	5,009,431	4,762,671	4,967,435
Loans to investee companies	350,485	350,483	350,515
Investment property	20,808	19,758	19,758
Other receivables	10,312	11,390	16,288
Other financial investments			
Non marketable debt assets	-	3,032	2,980
Other	312,875	301,418	248,597
Total other financial investments	312,875	304,450	251,577
Cash and cash equivalents	130,474	59,123	90,062
Total assets	5,836,610	5,510,906	5,698,668
Capital			
Share capital and premium on shares	344,659	346,574	351,425
Treasury stock	(137,737)	(159,274)	(158,035)
Capital reserves	474,293	405,584	368,742
Retained earnings	4,632,186	4,351,115	4,599,099
Total capital	5,313,401	4,943,999	5,161,231
Liabilities			
Liabilities for benefits to employees, Net	17,087	16,484	16,627
Other payables	44,329	33,961	27,374
Current tax liabilities	7,996	2,074	3,738
Financial liabilities	453,797	514,388	489,698
Total liabilities	523,209	566,907	537,437
Total liabilities and capital	5,836,610	5,510,906	5,698,668

Yair Hamburger
Chairman of the Board of
Directors

Michel Siboni
CEO

Arik Peretz
CFO

Date of approval of the financial statements: November 22, 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 nine months ended September 30		For the three months ended September 30		For the year ended December 31
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2016</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>
	<u>thousand</u>	<u>thousand</u>	<u>thousand</u>	<u>thousand</u>	<u>thousand</u>
Profits from investments, net, and financing revenues	10,988	12,079	1,567	4,913	18,132
Revenues from management fees	76,930	68,494	26,231	23,617	91,307
Total revenues	87,918	80,573	27,798	28,530	109,439
General and administrative expenses	13,024	14,234	4,268	4,971	18,750
Financing expenses	13,046	14,408	3,893	5,107	18,819
Total expenses	26,070	28,642	8,161	10,078	37,569
Company's shares in profits of investee companies	447,481	118,600	66,793	147,765	340,274
Profit before taxes on income	509,329	170,531	86,430	166,217	412,144
Taxes on income	15,096	11,004	4,744	2,621	15,545
Profit for period ended attributed to the Company's shareholders	494,233	159,527	81,686	163,596	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 nine months ended September 30		For the three months ended September 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 for the period	494,233	159,527	81,686	163,596	396,599
Other items of comprehensive income which after initial recognition under comprehensive income were or will be transferred to profit or loss					
Net change in fair value of financial assets classified as available for sale	142	(1,650)	179	(29)	(1,630)
Net change in fair value of financial assets classified as available for sale carried over to income statement	(17)	(20)	(8)	3	(15)
Loss from the impairment of financial assets classified as available for sale carried over to the income statement	-	808	-	-	808
Foreign currency translation differences for foreign activity	(3,660)	(3,932)	1,921	(3,702)	(12,060)
Group's share in the comprehensive income of investee companies	110,064	49,152	80,506	3,067	37,464
Tax benefits (taxes on income) for items of other comprehensive income which after initial recognition under comprehensive income were or will be carried over to profit or loss	(29)	233	(40)	11	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	106,500	44,591	82,558	(650)	24,785
Other items of comprehensive income which will not be carried over to profit or loss					
Remeasurement of a defined benefit plan	765	1,185	(12)	564	1,292
Tax benefits (taxes on income) for other items of comprehensive income which will not be carried over to profit or loss	(177)	(296)	2	(141)	(323)
Other comprehensive income for the period which will not be carried over to profit or loss, net of tax	588	889	(10)	423	969
Other comprehensive income (loss) for the period, net of tax	107,088	45,480	82,548	(227)	25,754
Total income for the period attributed to the company's shareholders	601,321	205,007	164,234	163,369	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 NIS thousand	Capital reserve for assets available for sale NIS thousand	Translation reserve for foreign activity NIS thousand	Capital reserve for share-based payment NIS thousand	Treasury shares NIS thousand	Capital reserve for transactions with non-controlling shareholders NIS thousand	Capital reserve for revaluation of fixed assets NIS thousand	Retained earnings NIS thousand	Total NIS thousand
For the nine months ended September 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	-	-	-	-	-	-	-	494,233	494,233
Other comprehensive income (loss)	-	81,943	(35,911)	-	-	-	61,479	(423)	107,088
Total comprehensive income (loss) for the period	-	81,943	(35,911)	-	-	-	61,479	493,810	601,321
Transactions with owners credited directly to equity									
Dividend distributed	-	-	-	-	-	-	-	(460,723)	(460,723)
Purchase of Treasury shares	-	-	-	-	(16,408)	-	-	-	(16,408)
Re-issuance of Treasury shares	(8,726)	-	-	-	36,706	-	-	-	27,980
Exercising of options	1,960	-	-	(1,960)	-	-	-	-	-
Balance as at September 30, 2017	344,659	411,566	(115,792)	1,643	(137,737)	(48,908)	225,784	4,632,186	5,313,401

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 NIS thousand	Capital reserve for assets available for sale NIS thousand	Translation reserve for foreign activity NIS thousand	Capital reserve for share- based payment NIS thousand	Treasury shares NIS thousand	Capital reserve for transactions with non- controlling shareholders NIS thousand	Capital reserve for revaluation of fixed assets NIS thousand	Retained earnings NIS thousand	Total NIS thousand
For the three months ended September 30, 2017 (Unaudited)									
Balance as at July 1, 2017	349,226	342,731	(132,691)	3,130	(144,292)	(48,908)	226,828	4,756,280	5,352,304
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	-	-	81,686	81,686
Other comprehensive income (loss)	-	68,835	16,899	-	-	-	(1,044)	(2,142)	82,548
Total comprehensive income (loss) for the period	-	68,835	16,899	-	-	-	(1,044)	79,544	164,234
Transactions with owners credited directly to equity									
Dividend distributed	-	-	-	-	-	-	-	(203,638)	(203,638)
Purchase of Treasury shares	-	-	-	-	(2,154)	-	-	-	(2,154)
Re-issuance of Treasury shares	(6,054)	-	-	-	8,709	-	-	-	2,655
Exercising of options	1,487	-	-	(1,487)	-	-	-	-	-
Balance as at September 30, 2017	344,659	411,566	(115,792)	1,643	(137,737)	(48,908)	225,784	4,632,186	5,313,401

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 NIS thousand	Capital reserve for assets available for sale NIS thousand	Translation reserve for foreign activity NIS thousand	Capital reserve for share- based payment NIS thousand	Treasury shares NIS thousand	Capital reserve for transactions with non- controlling shareholders NIS thousand	Capital reserve for revaluation of fixed assets NIS thousand	Retained earnings NIS thousand	Total NIS thousand
For the nine months ended September 30, 2016 (Unaudited)									
Balance as at January 1, 2016	341,832	295,955	(44,472)	13,032	(161,077)	(48,908)	148,733	4,361,663	4,906,758
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	-	-	159,527	159,527
Other comprehensive income (loss)	-	58,213	(26,262)	-	-	-	12,518	1,011	45,480
Total comprehensive income (loss) for the period	-	58,213	(26,262)	-	-	-	12,518	160,538	205,007
Transactions with owners credited directly to equity									
Dividend distributed	-	-	-	-	-	-	-	(171,086)	(171,086)
Share-based payments	-	-	-	84	-	-	-	-	84
Purchase of Treasury shares	-	-	-	-	(4,582)	-	-	-	(4,582)
Re-issuance of Treasury shares	1,433	-	-	-	6,385	-	-	-	7,818
Exercising of options	3,309	-	-	(3,309)	-	-	-	-	-
Balance as at September 30, 2016	<u>346,574</u>	<u>354,168</u>	<u>(70,734)</u>	<u>9,807</u>	<u>(159,274)</u>	<u>(48,908)</u>	<u>161,251</u>	<u>4,351,115</u>	<u>4,943,999</u>

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

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 NIS thousand	Capital reserve for assets available for sale NIS thousand	Translation reserve for foreign activity NIS thousand	Capital reserve for share- based payment NIS thousand	Treasury shares NIS thousand	Capital reserve for transactions with non- controlling shareholders NIS thousand	Capital reserve for revaluatio n of fixed assets NIS thousand	Retained earnings NIS thousand	Total 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	<u>351,425</u>	<u>329,623</u>	<u>(79,881)</u>	<u>3,603</u>	<u>(158,035)</u>	<u>(48,908)</u>	<u>164,305</u>	<u>4,599,099</u>	<u>5,161,231</u>

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

Financial information from the condensed consolidated interim statement of cash flows

	Annex	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
		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	89,512	40,096	49,236	26,062	48,516
Income tax paid		(12,644)	(9,500)	(5,152)	(2,993)	(14,631)
Net cash provided by current operations		76,868	30,596	44,084	23,069	33,885
Cash flows from investing activity						
Investment in investees, net		-	-	-	-	(6,308)
Investment in fixed assets		(665)	(707)	-	(700)	(709)
Proceeds from sale of fixed assets		444	380	-	380	380
Dividend and interest from investees		510,069	211,812	500,069	-	213,964
Financial investments, net		(59,017)	(40,383)	(133,028)	50,074	14,663
Repayment of loans and capital notes provided to investees		13,011	14,436	84	1,903	15,538
Net cash provided by investment activity		463,842	185,538	367,125	51,657	237,528
Cash flows from financing activities						
Dividend paid		(460,723)	(171,086)	(353,609)	(64,185)	(171,086)
Repayment of loans from banks and others		(39,575)	(27,752)	-	-	(52,092)
Net cash used for financing activity		(500,298)	(198,838)	(353,609)	(64,185)	(223,178)
Net increase in cash and cash equivalents		40,412	17,296	57,600	10,541	48,235
Cash and cash equivalents at beginning of the period		90,062	41,827	72,874	48,582	41,827
Cash and cash equivalents at end of the period		130,474	59,123	130,474	59,123	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.)

	<u>For the nine months ended September 30</u>		<u>For the three months ended September 30</u>		<u>For the year ended December 31</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2016</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
	<u>NIS thousand</u>	<u>NIS thousand</u>	<u>NIS thousand</u>	<u>NIS thousand</u>	<u>NIS thousand</u>
Annex A - Cash flows from operating activities before taxes on income					
Profit for the period attributed to the Company's shareholders	494,233	159,527	81,686	163,596	396,599
Items not involving cash flows					
Company's shares in revenues of investee companies	(447,481)	(118,600)	(66,793)	(147,765)	(340,274)
Net losses (profits) from financial investments	1,457	39	2,400	(1,112)	(2,110)
Profit from sale of fixed assets	(61)	(40)	-	(40)	(40)
Change in fair value of investment property	(1,050)	(448)	-	-	(448)
Financing income, net	(1,205)	(5,688)	(1,310)	(4,089)	(287)
Taxes on income	15,096	11,004	4,744	2,621	15,545
Depreciation and amortization	253	275	85	88	361
Share-based payment	-	34	-	-	34
Changes in other balance sheet items					
Other receivables	5,976	(6,178)	1,046	687	(11,076)
Other payables	21,834	5,980	26,982	14,552	(4,122)
Liabilities for benefits to employees, net	460	(5,809)	396	(2,476)	(5,666)
Total adjustments required to present cash flows from operating activities	(404,721)	(119,431)	(32,450)	(137,534)	(348,083)
Total cash flows from operating activities, before taxes on income	89,512	40,096	49,236	26,062	48,516

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

Notes to the separate condensed consolidated interim financial statements

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 September 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.

Notes to the separate condensed consolidated interim financial statements

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

1. In accordance with a permit to control and hold the means of control in insurers and management companies, the Company undertook, at all times, to supplement the equity of the insurance companies that are included among the financial institutions it controls, including ICIC, to the amount prescribed in the Supervision of Financial Services (Insurance) (Minimum Equity Required of Insurers) Regulation, 1998, or any other regulation or law that may replace them, and also to supplement at all times the equity of the provident fund and pension fund management companies it controls, to the amount prescribed in the Income Tax (Rules for the Approval and Management of Provident Funds) Regulations, 1965, or any other regulation or law that may replace them. This undertaking is irrevocable and will remain in force as long as the Company controls the financial institutions, directly or indirectly.
2. 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.
6. On the distribution of a dividend by ICIC, see Note 9 to the consolidated financial statements.

Notes to the separate condensed consolidated interim financial statements

Note 3 - Significant events during the reporting period1. 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.

On September 3, 2017, the Company's Board of Directors approved the distribution of a cash dividend in the amount of NIS 204 million (NIS 0.95 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 September 25, 2017.

2. On a special annual 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. Convening of a special general meeting

On October 25, 2017, the Company published an announcement that it would be convening a special general meeting on November 30, 2017, at which the following topics would be on the agenda: (1) The appointment of Prof. Israel Gilad for a further term as external director; (2) the appointment of Ms. Miri Lent Sharir as an external director in the Company; (3) approval of a revision of the Company's compensation policy with respect to the method of calculating the Linear Indices used to determine the quantitative part of the variable compensation for the Company's senior officers; (4) approval of terms of employment for Mr. Yair Hamburger without any change compared with the present employment conditions; (5) approval of terms of employment for Mr. Gideon Hamburger without any change compared with the present employment conditions; (6) approval of terms of employment for Mr. Yoav Manor without any change compared with the present employment conditions. For additional information, see an Immediate Report of the Company dated October 25, 2017 (Ref.: 2017-01-093859).



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.

November 22, 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 Q3 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.

November 22, 2017

Arik Peretz

CFO