Harel Insurance Investments and Financial Services Ltd.

Interim Report as at
March 31, 2018

Contents

Board of Directors Report

Harel Insurance Investments and Financial Services Ltd.

Board of Directors Report

for the three months ended March 31, 2018

The Board of Directors Report for the three months ended March 31, 2018 ("the Reporting Period"), reflects the principal changes in the state of the 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 2017 which was published on March 26, 2018 ("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:

In the various sectors of insurance, the Company operates through the following subsidiaries: Harel Insurance Company Ltd. (fully controlled) ("Harel Insurance"); Interasco Societe Anonyme General Insurance Company S.A.G.I (in which the Company holds 94%) operating in non-life insurance in Greece; Turk Nippon Sigorta A.S. (fully controlled) (“Turk Nippon”), operating in Turkey; ICIC. - Israel Credit Insurance Company Ltd. (in which the Company holds 50%) ("ICIC") and EMI - Ezer Mortgage Insurance Company Ltd. (fully controlled) ("EMI").

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

A. Harel Pension & Provident Ltd. (fully controlled) ("Harel Pension & Provident"), a company that manages pension funds and provident funds.

B. Tzva Hakeva Savings Fund - Provident Funds Management Company Ltd. (fully controlled) (“Tzva Hakeva").

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

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 Financial Products") (which engages in financial products, Harel Sal Ltd. (a company that manages ETNs), Harel Sal Currencies Ltd. (a company that manages deposit certificates), Harel Institutional Trade (a company engaged in trade in a nostro account and in OTC activity), and Alfa Tech (a company that manages investments by means of computerized models).

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 49.7% of the voting rights in the Company and 49.48% of the Company’s issued share capital.

The Shareholders hold the Company 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 (“G.Y.N. Partnership”) and they also hold the general partner in G.Y.N. Partnership.

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 Maalot Rating

2.1.2 On the affirmation of a Maalot rating for the subsidiary Harel Insurance and upgrading of the rating outlook to positive, following the creation of a safety cushion for capital management, see Note 6C to the Financial Statements.

2.1.3 Issuance of bonds

On the issuance of Series 14 and 15 bonds of Harel Financing & Issuing Ltd. (“Harel Issuing & Financing”), see Note 6C to the Financial Statements.

2.1.4 Dividend distribution

On a decision from March 26, 2018, concerning the distribution of a dividend, that was paid on April 12, 2018, see Note 9 to the Financial Statements.

2.1.5 Group long-term care (LTC) insurance

On insurance in a group LTC policy for members of Clalit Health Services, see Section 2.6.4 below.

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

2.2.1 Annual General Meeting

On May 2, 2018, an annual general meeting of the Company took place, with the following items on the agenda: (1) discussion of the Periodic Report for 2017; (2) appointment of external auditors for 2018 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, Ben Hamburger, Yoav Manor, Doron Cohen and Yosef Ciechanover); (4) appointment of Mr. Eli Dapas as a director in the Company. The general meeting approved all the items on the agenda.

2.2.2 Full early redemption of bonds (Series 2) of Harel Financing & Issuing

On June 13, 2018, Harel Financing & Issuing, an SPC subsidiary of Harel Insurance, intends to make early redemption of the full amount of the Series 2 bonds that it issued, in accordance with an immediate report published by Harel Financing & Issuing on May 27, 2018 Developments in the macroeconomic environment of the Group.

2.3 Developments in the Group's macroeconomic environment

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

Data for the global economy in Q1 2018 indicate further consolidation of the improvement in global growth. The International Monetary Fund revised its growth forecasts for the key economies slightly upwards, mainly in view of the fiscal expansion in the US and continuing growth of demand worldwide. Nevertheless, various indices point to a weakening of the momentum, uncertainty and higher risks. Concerns of a trade war and geopolitical tensions intensified, as tighter financial conditions in the US pose a further threat to the global economy. Prices fell in some of the key stock markets amid high volatility. Most of the main central banks continue to adopt an expansionist monetary policy.

The American economy is close to full employment and is expected to continue to grow steadily against the backdrop of the expansionist fiscal policy which is also expected to lead to rising deficit and debt. The Fed raised the interest rate by 25 base points in the first quarter. In the Eurozone, relatively rapid growth continued with the ECB leaving its expansionist monetary policy unchanged. In Japan, the economy has now expanded for nine consecutive quarters. The emerging markets also recorded improved economic performance, but China was particularly affected by the uncertainty regarding a possible trade war. The price of oil began to climb again, in view of rising demand and geopolitical risk.

2.3.2 Developments in Israel's economy

Initial indicators in Q1 2018 show that the rate of growth in this quarter was high, similar to the previous quarter which was almost 4%. The growth of exports is led by services and there was also a slight improvement in the export of commodities. The labor market remains strong: unemployment is at an all-time low and the participation and employment rates remain high, wages continue to increase, although more moderately. Data from the housing market continue to indicate that activity is slowing.

2.3.3 Stock market

By the end of Q1 2018, the MSCI World Index was 1.2% down (gross, in dollar terms) and the corresponding MSCI Emerging Markets Index rose by 1.5%. Israel's TA-125 index was 3.9% down. The daily turnover of trade in shares and convertible instruments was NIS 1.6 billion in Q1 2018, down 4% compared with the corresponding quarter last year.

2.3.4 Bond market

In Q1 2018, the general bond index was 0.1% down, in the same period the government bond index rose by 0.2% but the corporate bond index was 0.6% down. The daily turnover of trade in bonds was NIS 4.1 billion in the first quarter, up 4% compared with corresponding quarter last year.

2.3.5 Mutual funds

Mutual funds raised a net NIS 2.1 billion in Q1 2018, a decline compared with NIS 6.1 billion in the previous quarter. The amounts raised by mutual funds specializing in bonds (NIS 1.6 billion) and the funds specializing in investments abroad (NIS 1.2 billion) were particularly positive, and after 4 years of continuous redemptions, the money-market funds raised moderate amounts of NIS 190 million.

2.3.6 Index products

According to the Association of ETFs, at the end of Q1 2018 total assets under management in this sector amounted to NIS 91.5 billion, 5.8% down compared with the end of 2017. The decline from the beginning of the year was greatest for ETNs on Israeli share indices which recorded redemptions of NIS 1.9 billion and the foreign share indices with redemptions of NIS 1.4 billion.

2.3.7 Foreign exchange market

In Q1 2018, the shekel weakened 2.8% against the Bank of Israel nominal basket of currencies; it depreciated 1.4% against the dollar (to NIS 3.514 / USD), depreciated 4.2% against the Euro (to NIS 4.3288 / EUR) and 5.6% against the Pound Sterling (to NIS 4.9442 / GBP). The acceleration of foreign currency purchases by the Bank of Israel, together with severe volatility in the financial markets contributed to a depreciation of the shekel during the quarter.

2.3.8 Inflation

According to the last known index at the end of Q1 2018, the CPI declined by 0.3% (December - February) and inflation for the last 12 months was 0.2%. During the quarter, clothing and footwear was the main contributor to the declining index, partially offset by an increase in transport and communications.

2.3.9 Bank of Israel interest

The Bank of Israel interest rate remained unchanged at 0.1% in Q1 2018 as well, and in practice it has not changed since the February 2015 interest rate cut. The reasons for leaving the interest rate unchanged were inflation, that remained lower than the Bank of Israel target, the stronger shekel and positive real (non-financial) activity.

2.4 Legislation and regulation in the Group's operating segments

Description of 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

On April 25, 2018, Supervision of Financial Services (Insurance) (Minimum Equity Required for Obtaining an Insurer's License) Regulations, 2018, were published, which repeal and replace the Supervision of Financial Services (Insurance) (Minimum Equity Required of Insurers) Regulations, 1998 ("The Capital Regulations"). The regulations reduce 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 published by the Commissioner. The regulations take effect on their date of publication.

2.4.1.2 Circulars

2.4.1.2.1 On March 4, 2018, the Commissioner published a circular concerning provisions regarding the solvency capital requirements for insurers. The circular includes provisions as they appeared in the Capital Regulations, with adjustment for the changes in the draft regulations and it determines that an insurance company that controls a management company, provident fund activity or 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 subsidiary 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 subsidiaries. The provisions of the circular apply from its date of publication.

2.4.1.2.2 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 March 15, 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 March 15, 2018, the Commissioner published draft provisions for the implementation of a know-your customer (KYC) process for financial institutions. The draft proposes that by September 15, 2018, financial institutions will be deemed to have satisfied their obligations to perform the KYC process, if they enter into life assurance contracts with insureds or open accounts for members by way of a pension advice procedure conducted by a banking corporation, and if they believe, according to the information in their possession, that the customer is not a high-risk customer with respect to money laundering and terrorism financing.

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 are applicable from February 18, 2018.

On February 1, 2018, the Commissioner published a circular concerning the management of money laundering and terror financing risks by financial institutions. The circular prescribes provisions for the implementation of the Prohibition on Money Laundering Order by financial institutions, including that financial institutions must define a policy for the management of money laundering and terror financing risks and will formulate procedures and tools for implementing the policy which will address, among other things, the identification of money laundering and terror financing risks, measures for mitigating these risks, including by performing a know-your-customer (KYC) process, oversight, control and reporting.

2.4.1.3 Draft circulars

2.4.1.3.1 On March 4, 2018, the Commissioner published a draft circular on “The board of directors of financial institutions”. The draft circular proposes updating the provisions of the consolidated circular on this subject and replacing the provisions prescribed in the Supervision of Financial Services (Insurance) (Board of Directors and its Committees), 2007, and in Circular 2006-9-7 “Procedure for the Work of the Board of Directors and its Committees”. Among other things, the draft circular sets out provisions on the composition of the board of directors, including the number of board members; the expertise of the board members, including their qualifications and experience in a variety of the financial institution’s areas of activity; conditions and restrictions on the appointment and service of the chairman of the board, including not appointing the controlling shareholder or his relative as chairman of the board in the financial institution, subject to a 9-year transitional provision from the date of publication; conditions and restrictions on the appointment and term of office of board members, including full segregation between those serving as directors in the financial institution and the company that controls the financial institutions, which itself is not a financial institution, as well as partial segregation between those serving as directors in the financial institution and any other financial institution which is controlled by the controlling shareholder; the functions of the board of directors; the manner in which it conducts its business and its powers as well as a requirement to establish a committee to find directors.

2.4.1.3.2 On February 1, 2018, the Commissioner published a draft circular concerning investment committees for non-yield-dependent investments. The draft circular proposes adding provisions pertaining to investment committees for non-yield-dependent investments to the provisions which currently appear in the Supervision of Financial Services (Insurance) (Ways of Investing the Capital and Reserves of an Insurer and Management of its Obligations) Regulations, 2001, as well as, among other things, provisions concerning the composition of the committee, qualifications of the committee members, restrictions on the appointment of committee members, appointment of the chairman, functions of the committee and its work methods.

2.4.1.3.3 On February 1, 2018, the Commissioner published a draft amendment to the circular on customer service provided by financial institutions, in part taking note of the direct service channels through which customers are served, including details of the information to be included in any notice sent to customers by financial institutions, the duty to respond to customers using the same means of communication through which the request was made, and provisions concerning replying to telephone inquiries by customers.

2.4.1.3.4 On February 1, 2018, the Commissioner published a draft circular on confirmation of insurance, which proposes determining provisions to regulate the conduct of insurance companies and insurance agents in issuing confirmation of insurance. Under the provisions, insurance companies will be required to issue, at the insured's request, a specific or general standard confirmation of insurance, using the wording set out in the draft circular, that does not contradict the information in the policy and does not include instructions that do not correspond with the policy instructions.

2.4.1.3.5 On January 1, 2018, the Commissioner published a draft amendment to the circular on enrollment in insurance. The draft amendment proposes that in the process of customizing insurance policies to insurance candidates, the insurance companies or insurance agencies must review the list of insurance products held by the insurance candidate on the interface to locate insurance policies on the Ministry of Finance website, and allow the insured to refuse to give his consent to using the information provided in the enrollment process for purposes that are not for that transaction. The draft circular also proposes that insureds will not be enrolled in personal lines policies that provide compensation if they have another policy with any other insurance company, that provides compensation for a similar insured event, unless they have given their approval or asked to cancel the existing policy, and that when the marketing entity obtains the insured's approval to draw up the insurance contract, it must ask the insured for information about any commitments that he has and submit them to the insurance company.

2.4.1.4 Commissioner's position

On March 4, 2018, the Commissioner published a position on the definition of recognized capital and required capital in hybrid capital instruments. In view of the expected repeal of the Supervision of Financial Services (Insurance) (Minimum Equity Required of Insurers) Regulations, 1999, and the entering into force of new regulations replacing these regulations, the Commissioner's position clarifies the meaning of the terms "required capital" and "recognized capital" in conditions of hybrid capital instruments that were issued in the past, with respect to delaying circumstances, which when satisfied, defer payment of the principal / interest in such hybrid capital instruments. Pursuant to the Commissioner's position, the proper meaning of these terms will be according to their definition in the regulations which replace the Capital Regulations. Consequently, for insurance companies that received the Commissioner's approval to conduct an audit of the implementation of the provisions of Insurance Circular 2017-1-9 "Provisions for the Implementation of an Economic Solvency Regime based on Solvency II" ("Solvency Circular"), the term "required capital" (including "Minimum Capital Requirement" and similar terms) will be interpreted according to the definition of the term "Minimum Capital Requirements (MCR)" in that circular on its upper limit (45% of SCR), calculated excluding the provisions in the Scheduling Period, and without adjustment for a share-price scenario, and the term "Equity / Capital" (including "recognized capital" and similar terms) will be interpreted according to the definition of the term "Equity" in that circular. For insurance companies that did not receive the Commissioner's approval, as noted above, the terms "Equity" and "Solvency Capital Requirement" will be interpreted according to their definition in the circular "Provisions concerning the solvency capital requirement of Insurers" ("SCR").

2.4.2 Life assurance and long-term savings

2.4.2.1 Provisions of law

2.4.2.1.1 On December 3, 2017, draft Supervision of Financial Services (Provident Funds) (Direct Expenses for Performing Transactions) (Amendment no. ___) Regulations, 2017 ("the Draft Regulations"), were published in which it was proposed, among other things, that the temporary provision which stipulates that certain direct expenses will be limited to 0.25% of the total estimated value of the provident fund's assets ("the Temporary Provision"), should become a permanent statutory provision. It was also proposed that an expense arising from an investment in a high-tech fund, according to its definition in the Joint Investment Trust Law, may be deducted as a direct expense under the aforementioned 0.25% limit. On December 31, 2017, the Temporary Provision expired. On May 14, 2018, the Draft Regulations were approved with various changes made by the Knesset Finance Committee, including, among others, that the Temporary Provision will not become permanent but will be extended to the end of 2019. The final text of the regulations has not yet been published.

2.4.2.1.2 On May 14, 2018, a draft Equal Rights for People with Disabilities Bill (Amendment no. __), 2018 was passed for a second and third reading. The bill stipulates that financial institutions will not refuse to give a housing loan (mortgage) for the purchase of a sole apartment to a person with life-shortening disabilities (as defined in the bill), and insurers will not refuse to sell life assurance policies to such persons. It is also proposed that insurers must inform persons with disabilities on the date stipulated in the bill of their agreement or refusal to provide life assurance with underwriting, that such refusal must be accompanied by an explanation that includes an abridged version of the database, and that if an insurer refuses to sell a person with life-shortening disabilities such life assurance, it must provide life assurance without underwriting under the conditions set out in the bill, including with respect to the maximum sum insured, maximum policy period and that the policy includes a qualifying period of two and a half years.

2.4.2.1.3 On March 26, 2018, a draft Protection of Privacy (Determination of Public Entities) (Amendment) Order, 2018, was published. The draft order proposes amending the Protection of Privacy (Determination of Public Entities) Order, 1986, and determining that a pension fund will be considered a financial institution and will be entitled to receive information for the purpose of examining a recipient's eligibility to continue to receive an annuity from the pension fund, based on the data held by the Population and Immigration Authority, as to whether the annuity recipient resides outside Israel for a defined period of more than six months.

2.4.2.2 Circulars

2.4.2.2.1 On May 1, 2018, the Commissioner published a circular on service provided by agents and advisors to customers, which replaces an existing circular on the same subject and stipulates, among other things, that the Service Level Agreement (SLA) will also address waiting times for customer inquiries. In addition, the time periods in which the license holders must respond or take action which are specified in the existing circular were revised and the circular also stipulates that if a financial institution, employer or customer informs a license holder that the customer's status in relation to the pension product has changed, it must initiate a service meeting with the customer to examine whether the pension product conforms with his needs, and that pension insurance agents who collect a fee from the customer or refund expenses must draw up an agreement with the customer specifying the amounts, ways of calculating them and collecting them. The circular will become applicable on January 1, 2019.

2.4.2.2.2 On May 1, 2018, the Commissioner published a circular concerning the components of provident fund accounts. The circular sets out provisions regarding the recording of provident fund account components, maintaining separate records for provident funds and education funds, recording the components of accounts for salaried members and self-employed members, and provisions concerning the recording and allocation of payments, profits, deposits, expenses and premiums. The provisions of the circular become applicable on September 1, 2018.

2.4.2.2.3 On May 1, 2018, the Commissioner published a circular concerning the marketing of work disability insurance plans (P.H.I.). The circular sets out provisions for clarifying information prior to selling the plan, the obligation to provide customers with an explanatory document, and a provision whereby the insurance contract will be drawn up only if it is found that the insured has income which is not covered by an existing policy. The circular also stipulates that insurance companies must update the work disability cover purchased by wan of a provident fund so that the cumulative cost of all the insurance coverage purchased as part of the provident fund and incidental to the provident fund during the policy period does not exceed 35% of all the amounts deposited in the retirement benefits component. The circular becomes applicable on August 1, 2018, and it will apply to personal lines and group work disability policies to be marketed from the commencement date. Nevertheless, the provisions of the circular will not apply to group work disability policies that were marketed before the commencement date (except with respect to new insureds who enroll in such a plan as of May 1, 2019), and to group work disability policies that are paid for by the employer, over and above the maximum rate of deposits for pension savings stipulated in the regulations.

Together with the publication of the aforementioned circular, the Commissioner published an amendment to a circular on guidelines for work disability (P.H.I.) policies which includes additional provisions regarding conditions for the marketing of insurance cover to members of pension funds and riders to the insurance cover that insurers may offer. The provisions of the circular will apply to work disability policies that are marketed from the commencement date, and to policy renewals, including extensions, in group policies, from the commencement date. Nevertheless, the provisions of the circular will not apply to new insureds in work disability policies that were marketed before the commencement date, and to existing insureds in group policies that were marketed before the commencement date and up to the end of the policy period.

2.4.2.2.4 On March 4, 2018, the Commissioner published a circular on obtaining information and confirmation from employers. The circular stipulates that financial institutions will not ask a member's employers to approve documents, to submit information or provide their agreement in connection with the member's pension product, including a request to transfer ownership, unless there is a specific statutory provision that requires such approval, consent or information to be obtained. The provisions of the circular apply from its date of publication.

2.4.2.2.5 On March 4, 2018, the Commissioner published a circular concerning the withdrawal of money from small accounts in provident funds - amendment. The circular sets out provisions for sending notification to members who hold accounts with an accrued balance of retirement benefits money only of at least NIS 50 and at most NIS 1,350 (excluding the small accounts of members with whom contact has been lost), of their right to withdraw the money, together with a redeemable check so that the money can be withdrawn. Furthermore, financial institutions must submit to the Commissioner a report on small accounts for which such checks were sent. The provisions of the circular apply from its date of publication.

2.4.2.2.6 On January 1, 2018, the Commissioner published an update to the circular on provisions relating to the rights and obligations of members in new, comprehensive pension fund articles. The update prescribes provisions concerning mailing the articles to members, submitting the articles for the Commissioner's approval, and publishing them on the website. The update also stipulates that management companies may establish a provision in the articles of association whereby if the rate of deposits in the benefits component is less than 12.5%, then based on the member's choice, the rates set out in the circular for insurance cover for disability and for survivors will be tailored to the member's requirements. The provisions of the update apply from its date of publication.

2.4.2.3 Draft circulars

2.4.2.3.1 On May 1, 2018, the Commissioner published a draft circular concerning an explanatory document which proposes amending and replacing the existing circular with the same name. The draft circular also determines that the default option whenever making a recommendation to a customer will be to fill out a full explanatory document, and that customer retention calls made by a license holder or financial institution regarding cancelling a decision to transfer money from one pension product to another will be deemed making a recommendation to the customer. The draft circular also proposes that when making a recommendation with respect to an annuity provident fund, the license holder must prepare a comparison of the other types of annuity provident funds, and that the considerations set out in the explanatory document will address, among others, the customer's personal specifications and requirements as well. Additionally, the draft circular proposes adding an appendix which illustrates the costs of the pension product and their impact on the projected balance and annuity for the customer, detailing standard assumptions to be used by all the financial institutions and license holders for all pension products.

2.4.2.3.2 On May 1, 2018, the Commissioner published a draft amendment to the circular on stipulations in pension arrangements that include insurance cover. The draft amendment proposes that a benefit may not be offered for the purchase of a pension product if it is conditional on the purchase of other insurance cover, and a discount on the cost of the insurance cover, or a benefit for the purchase of the insurance cover may not be offered if it is conditional on the purchase of a pension product from that financial institution.

2.4.2.4 Instructions and clarifications

2.4.2.4.1 On February 4, 2018, the Commissioner published a clarification regarding pension marketing procedures during enrolment in a pension product whereby, in accordance with the Pension Advice and Marketing Law, pension insurance agents who perform transactions relating to pension products, including 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 most appropriate for the customer and they must also provide a written explanation of their recommendation. Financial institutions may pay agents a distribution fee only if the agent performed the transaction as part of a pension marketing procedure. It was also stipulated that the Commissioner will not apply her powers of enforcement with respect to the activity of the financial institutions and pension insurance agents in relation to distribution fees that were paid prior to publication of the clarification.

On March 20, 2018, the Commissioner stipulated that she would not treat as a breach, a situation in which a management company pays a distribution fee to a pension insurance agency, up to September 30, 2018, on account of a transaction which did not involve a pension marketing procedure, which was performed prior to publication of the clarification, provided that the Company takes action to refund the distribution fee paid in the deployment period for persons in respect of whom a pension marketing procedure is not performed prior the end of the deployment period.

That same day, following the Commissioner's clarification from February 4, 2018, the Association of Insurance Brokers & Agents in Israel filed a petition in the High Court of Justice to grant a decree nisi instructing the Commissioner to explain why the clarification instructions should not be cancelled or, alternatively, why she should not apply it to enrollment to a large number of entities after the date of the clarification only, or prescribe proportional transitional provisions according to which the entering into force of the clarification will be postponed by a year and a half; an interim order was also filed to freeze implementation of the Commissioner's clarification until a final ruling is handed down on the petition.

2.4.3 Health insurance

2.4.3.1 Provisions of law

2.4.3.1.1 On May 27, 2018, the ministerial committee for legislation approved the proposed Supervision of Financial Services (Insurance) (Amendment - Permit to Market and Sell Travel Insurance) Law, 2017, which proposes allowing travel agents to engage in the sale and marketing of travel insurance. As far as we understand and in light of various publications, following approval of the bill by the ministerial committee, the entering into force of an insurance circular on the involvement of entities that are not licensed to market and sell insurance products that are not group insurance is expected to be postponed, for the purpose of completing the legislative processes. The circular limits the involvement of insurance agents in the marketing of travel insurance.

2.4.3.1.2 On March 5, 2018, the Supervision of the Prices of Products and Services (Application of the Law on Privately Financed Surgery and Determination of the Level of Supervision) Order, 2018, was published. The Order applies the Supervision of Prices of Products and Services Law, 1996, to a service for surgery which is paid for privately and is also provided as part of the Second Schedule to the National Health Insurance Law, 1994. The Order stipulates that insurance companies must report their prices in accordance with the law, regarding profits and prices for service involving surgery which is financed privately, based on the dates set out in the Order, and that this obligation will apply for two years from the commencement of the Order, for the price paid to the medical staff or a medical institution for the surgery, including the price of medical devices, detailed according to the types of surgery and quantity. The Order becomes applicable on March 31, 2018.

2.4.3.1.3 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.

On February 14, 2018, the Commissioner published a further amendment to the Supervision of Financial Services (Insurance) (Group Long-term Care Insurance for HMO Members) Regulations, 2015. The amendment adjusts the age of eligible insureds, granting them entitlement to enroll in long-term care insurance for HMO members without a review of a pre-existing medical condition, from 60 to 55; it determines that the most recent policy for entitlement will relate to long-term care policies in which the end of the policy period is on or after August 31, 2017; and the date until which insureds may enroll in the group long-term care insurance for HMO members without a review of a pre-existing medical condition was extended to the end of July 2018 and the date until which insureds who have enrolled in the insurance must produce confirmation of basic insurance was changed from 90 days from the date on which the request was sent to 180 days from this date.

On May 1, 2018, the Commissioner published draft Supervision of Financial Services (Insurance) (Group Long-term Care Insurance for HMO Members) (Amendment no. 3) Regulations, 2018. The draft regulations propose that insurers will enroll HMO members where the HMO asks to enroll such members in the group LTC insurance when they are born, without the need to obtain their consent for the enrollment and without a review of any pre-existing medical condition, and that insureds will be required to pay premiums at the latest from date on which on which they reach the age of 5. Furthermore, it is proposed that separate continuity provisions will be prescribed for when the insurance agreement period ends for all insureds in the policy and the failure by any insurer to renew the policy for all the insureds. In this case, the insurance company will be obligated, as proposed in the draft provisions, to automatically transfer the insureds to a designated personal lines policy, in accordance with the provisions of the draft.

2.4.3.2 Circulars

2.4.3.2.1 On May 1, 2018, the Commissioner published a circular amending the provisions of the Consolidated Circular - Deductible in Insurance for Surgery. The circular stipulates that insurance companies will be permitted to offer insureds insurance for surgery that includes a deductible of NIS 3,000 for performing surgery, and that insureds with insurance for surgery will be able at any time to move over to insurance for surgery with a deductible without a repeat review of their medical condition and without an additional qualifying period. The insurance for surgery with a deductible will include a condition whereby if the cost of the surgery according to 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 the insurance companies with the said service provider. The provisions of the circular will apply to insurance for surgery that is sold or renewed from the publication date.

2.4.3.2.2 On March 4, 2018, the Commissioner published a draft amendment to the Consolidated Circular, Chapter 6 Section 3 - the drawing up of personal lines insurance plans, so that notification about the renewal of insurance policies can also be sent to insureds by electronic mail together with an SMS to their mobile phones, and that insureds will be allowed to agree or refuse to renew the insurance or ask for a representative of the insurer to get back to the insured using digital methods. The provisions of the circular apply from its date of publication.

2.4.3.2.3 On February 1, 2018, the Commissioner published a circular amending the Consolidated Circular - Disclosure and Reporting to Insureds in Health Insurance. The circular amends 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. It was also determined that the insurance companies must contact insureds who have reached the age of 18, or the age of 25, the earlier of the two, and ask them to choose how they wish to receive the reports, and if the insurance company does not have the insured’s information, it must contact the primary insured and ask for the relevant information. The provisions of the circular will apply with respect to sending a partial annual report, from the annual report for 2018, and with respect to the other provisions, from September 2018. Temporary provisions were also prescribed whereby the insurance companies must send the holders of personal accident insurance monthly SMS messages reporting to them about the monthly payment made to the insurance companies for the policy, by September 2020.

2.4.3.2.4 On January 1, 2018, the Commissioner published a circular amending the Consolidated Circular - Section 6, Part 3 - Long-term Care Insurance. The amendment stipulates 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. The amendment becomes applicable on January 1, 2018.

2.4.4 Non-life insurance

2.4.4.1 Provisions of law

2.4.4.1.1 On March 11, 2018, a bill amending the Motor Vehicle Insurance Ordinance (Allocation Component in the Insurance Tariff), 2017, was approved for a first reading. The amendment proposes that the anticipated allocation component in the compulsory insurance tariff for motorcycles will be 8.5% of the of the cost of the pure risk.

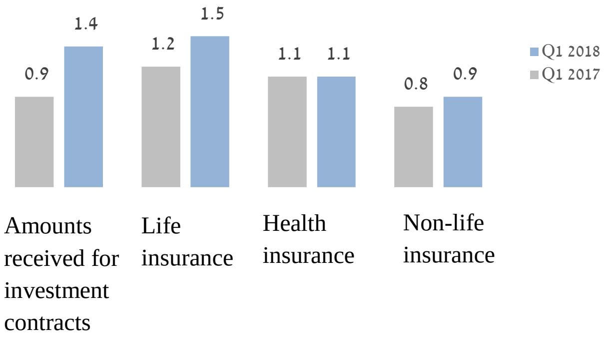
2.4.4.1.2 On March 22, 2018, the Economic Efficiency (Legislative Amendments to Achieve Budget Targets for 2019) Law, 2018, was published in the Official Gazette. The memorandum changes the mechanism for the settlement of accounts between the NII and the insurance companies regarding road accidents, so that instead of the NII's existing right to subrogation for road accidents, a comprehensive arrangement for the settlement of accounts was established under which the insurance companies will transfer a fixed amount to the NII every year. The Minister of Finance, with the approval of the Knesset Labor and Welfare Committee, will promulgate regulations regarding the amount to be transferred to the NII.

2.4.5 Financial services and capital market activity

On August 3, 2017, the Joint Investment Trust (Amendment No. 28) Law, 2017, was published in the Official Gazette. According to the amendment, the ETNs will become closed (traded) tracker mutual funds, and the provisions of the Joint Investment Trust Law will apply to these funds, *mutatis mutandis*, together with special arrangements to be prescribed in the regulations or instructions of the Israel Securities Authority with respect to ETFs. The law will take effect when the regulations promulgated by virtue of the law enter into force (the regulations are expected to enter into force on October 3, 2018). On the date of the entering into force of the amendment, Harel Sal will cease to consolidate the ETN assets and liabilities in its financial statements. Consequently, from this date, the assets and liabilities of Harel Sal are expected to diminish significantly.

2.5 Condensed data from the consolidated financial statements of Harel Investments

2.5.1 Data on earned premiums, gross by operating segment and amounts received in respect of investment contracts (NIS billion):

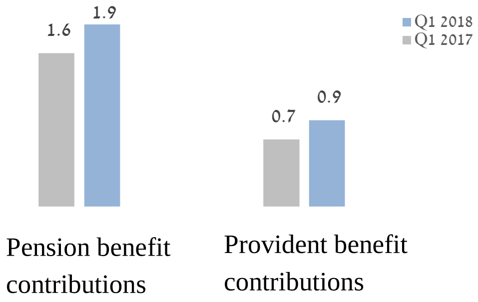


Non-life insurance - the data include premiums in the insurance companies overseas segment, which account for 3% of all the Group's gross earned premiums

Life assurance - single deposits for savings increased by NIS 137 million in the Reporting Period, compared with the corresponding period last year.

Amounts received in respect of investment contracts are not included under premiums but are recognized directly in liabilities for insurance contracts and investment contracts. In the Reporting Period, the amounts received for investment contracts recognized directly in insurance reserves increased by NIS 472 million, compared with the corresponding period last year.

2.5.2 Data on benefit contributions (NIS billion):

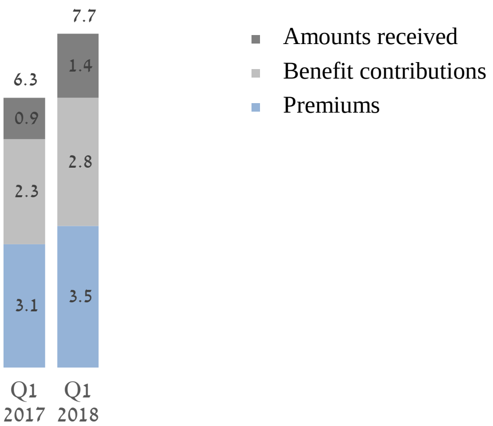


The benefit contributions in the provident funds and pension funds are not included in the Company's consolidated financial statements

A. Provident - the data presented include lump-sum deposits, mainly for Amendment no. 190 to the Income Tax Ordinance in the amount of NIS 267 million in the Reporting Period, compared with NIS 97 million in the corresponding period last year.

B. Pension - the increase in benefit contributions compared with the corresponding period last year, is mainly attributable to the enrollment of new members.

2.5.3 Premiums, benefit contributions and amounts received for investment contracts (NIS billion):



2.5.4 Comprehensive income by segment (NIS million):

	Comments	For the three months ended March 31 2018	2017	change in %	2017
Life assurance and long-term savings segment					
Life assurance	A	(12)	187	-	486
Pension	B	18	11	64	69
Provident		10	9	11	39
Total life assurance and long-term savings segment		**16**	**207**	(92)	**594**
Non-life insurance segment					
Compulsory motor		7	15	(53)	(22)
Motor property	C	23	7	-	52
Property and other branches		20	24	(17)	104
Liabilities and other branches		4	3	33	15
Mortgage insurance		11	13	(15)	56
Total non-life insurance segment		**65**	**62**	5	**205**
Health insurance segment	D	22	23	(4)	110
Insurance companies overseas		3	2	50	6
Finance	E	9	8	13	34
Not attributed to segments of operation		(10)	69	-	285
Total		**105**	**371**	(72)	**1,234**
Tax expenses		25	118	(79)	388
Total		**80**	**253**	(68)	**846**
Return on Equity in annual terms in percent		6%	19%		16%

Results in the Reporting Period were affected by yields in the capital market which were lower than in the corresponding period last year. For additional information on special effects on profit, see Table 2.5.5.

A. Results in the Reporting Period were affected by an increase in the insurance liabilities in the amount of NIS 59 million, due to a decline in the fair value of the non-marketable assets. The results in the corresponding period were affected by a reduction of the insurance liabilities in the amount of NIS 46 million, due to an increase in the risk-free interest curve.

   Additionally, income from management fees amounted to NIS 93 million in the Reporting Period, as against NIS 132 million in the corresponding period last year. Most of the decrease in the management fees is attributable to a decrease of the variable management fees, which amounted to NIS 2 million in the Reporting Period, as against NIS 55 million in the corresponding period last year. The increase in the variable management fees was recorded following a decrease in the real yields attained by the Company compared with the corresponding period last year.

B. The increase in comprehensive income was mainly the result of an increase in AUM.

C. The increased comprehensive income in the motor property sector is mainly attributable to improved underwriting performance.

D. Results in the health insurance segment in the Reporting Period were affected by continuing poor underwriting performance in the group long-term care sector due to an increase in claims for previous years (claims for the period up to December 31, 2017). The Company believes that in view of the discontinuation of group long-term insurance, these losses, arising from previous periods, will moderate significantly in the forthcoming reporting periods.

E. The change in profit is mainly attributable to an increase in AUM in mutual fund and portfolio activity, which was offset by an erosion of the management fees and change in the asset mix. Furthermore, increased costs were recorded in respect of holding the backing asset in the ETN activity.

F. The results in the Reporting period were affected by capital market yields that were lower than those in the corresponding period last year.

2.5.5 Special effects on comprehensive income in the Reporting Period (NIS million):

		For the three months ended March 31			2017
	Comments	**2018**	**2017**	**Change**	**annual**
Comprehensive income for the period as published in the report		80	253	(173)	846
Life assurance and long-term savings segment					
Effect resulting from the due diligence of the reserves	A	(59)	46	(105)	(50)
Revised morbidity research assumptions		-	-	-	59
Non-life insurance segment					
Effect of the risk-free interest rate	B	-	-	-	(8)
Health insurance segment					
Revised assumptions in personal lines health liabilities	C	-	-	-	(98)
Revised assumptions in personal lines LTC liabilities	C	-	-	-	(4)
Total effects, before tax		(59)	46	(105)	(101)
Effect of tax		(20)	16	(36)	(35)
Total effects, after tax		(39)	30	(69)	66
Total comprehensive income after adjustment for special effects		119	223	(104)	912

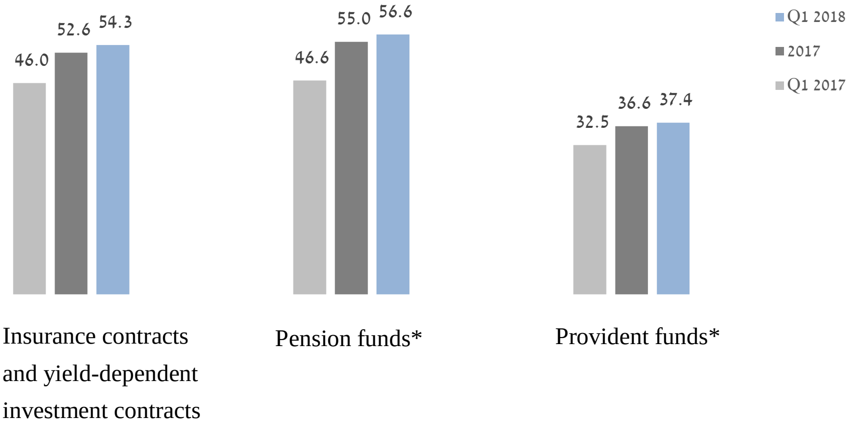
A. In the Reporting Period an increase of NIS 59 million was recorded in the insurance liabilities, due to a decline in the fair value of the non-marketable assets. In the corresponding period, the insurance liabilities declined by NIS 46 million, due to an increase in the risk-free interest curve.

B. 2017 was affected by a decline in the long-term risk-free interest rate used to assess the discounting interest for the insurance liabilities in the third party and employers liability sectors in the non-life segment in the amount of NIS 8 million.

C. The insurance liabilities increased by NIS 98 million in 2017 due to revised assumptions for cancellations and expenses in the personal lines health sector. Additionally, the insurance liabilities increased by NIS 4 million in 2017 due to revised assumptions for morbidity and cancellations in the personal lines LTC sector.

2.6 Other key effects and influences by segment

Assets managed for the Group's members and policyholders in the life assurance and long-term savings segment (NIS billion):



* The assets managed by the provident funds and pension funds are not included in the Company's consolidated financial statements

A. Pension funds - most of the increase in AUM relative to the corresponding period last year is attributable to positive accrual and capital market yields.

B. Provident funds - at the date of the report, the Group manages 11 provident funds (provident funds, education funds, central and personal severance pay funds, provident fund for sick pay, and a fund for non-contributory pension). Some of the provident funds offer several investment tracks for members to choose from. In all, at March 31, 2018, the Group operates 45 tracks in its provident funds. Most of the increase in AUM relative to the corresponding period last year is attributable to positive accrual and capital market yields.

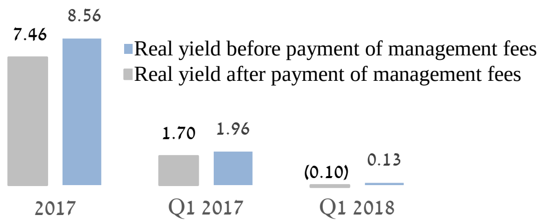
2.6.1 Life assurance

A. Redemptions in the Reporting Period amounted to NIS 339 million, accounting for 2.8% of the average reserve in life assurance, compared with redemptions of NIS 303 million in the corresponding period last year, which accounted for 2.7% of the average reserve last year, and compared with redemptions of NIS 1,183 million in 2017, which accounted for 2.6% of the average reserve in 2017.

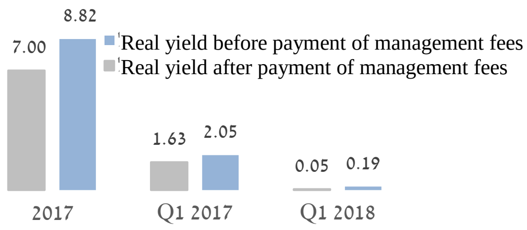
B. On January 31, 2018, Harel Insurance entered into an agreement whereby part of the arrangement for early retirement by a large employer will be made through a yield-guaranteed, variable monthly income policy to be issued by Harel Insurance. The policies are paid for in lump-sum deposits on the date of the employee's early retirement and are designed to pay the retiree a monthly income for a limited period until the official age of retirement. Over the coming five years, deposits in the amount of NIS 300 million are expected to be received. Total deposits received in the Reporting Period amounted to NIS 99 million.

Yield-dependent policies:

Policies issued in or after 2004
(percent)



Policies issued from 1992-2003
(percent)



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 Commissioner's instructions, on the basis of the quarterly yield and balances of the average insurance reserves, is as follows (NIS million):

	For the three months ended March 31		2017
	2018	**2017**	**annual**
Profit after management fees	(176)	539	2,985
Total management fees	93	132	569

2.6.2 Pension funds

No significant yields were recorded in most of the investment channels in the capital market in the Reporting Period. The nominal yield rate attained by the new pension fund Harel Pension in the Reporting Period is negligible.

Total management fees collected from the pension funds managed by the Group amounted to NIS 78 million in the Reporting Period, compared with NIS 73 million in the corresponding period last year.

2.6.3 Provident funds

The provident funds accrued a net, positive amount (excluding investment profit) of NIS 970 million in the Reporting Period, compared with a positive accrual of NIS 360 million in the corresponding period last year.

Management fee revenues collected from the pension funds managed by the Group amounted to NIS 59 million in the Reporting Period, compared with NIS 53 million in the corresponding period last year. The increase in management fees is mainly attributable to an increase in AUM, net of the effect of the erosion in the management fee rate.

2.6.4 Health insurance

On December 31, 2017, group long-term insurance cover was discontinued. The insureds for whom the group long-term care insurance was discontinued are eligible to enter into a personal lines long-term care policy with Harel, without underwriting (under conditions of insurance continuity), within the time period specified in the conditions of the insurance. The right to exercise this continuity of insurance was not expected to significantly affect the Company's financial results in the Reporting Period. The Company believes that in view of the discontinuation of group long-term insurance, these losses, arising from previous periods, will moderate significantly in the forthcoming reporting periods.

Harel Insurance is the insurer in a group LTC policy for members of Clalit Health Services. In May 2018, Clalit Health Services and Maccabi Healthcare Services published a tender for group LTC insurance for HMO members.

2.6.5 Non-life insurance

For information about additional financial data relating to the non-life insurance segment by sector, see Note 4(B) to the Financial Statements.

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

	For the three months ended March 31		2017
	2018	**2017**	**annual**
Compulsory motor	13%	24%	11%
Motor property	3%	6%	1%
Property and other branches	9%	10%	7%
Compulsory motor and other branches	2%	5%	3%

* Non-life insurance activity typically takes the form of policies with a term 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 was performed for a policy with a term 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.

On October 2, 2017, Harel Insurance was informed that it had 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.

2.6.5.1 Compulsory motor

The increase in gross premiums compared with the corresponding period last year is attributable to the increased premium in several group policies (collectives) and to the fact that the renewal date for the state employees' transaction was brought forward and the gross premium for 2017 was included in Q4 2016.

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.

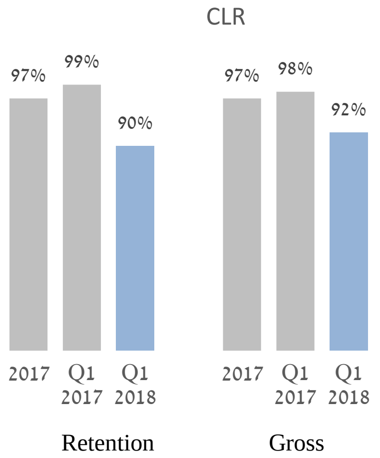
A letter from the Pool's CEO set the temporary share of Harel Insurance in the net premiums for 2018 at 10.86% (as against 11.04% which was the share of Harel Insurance in 2017).

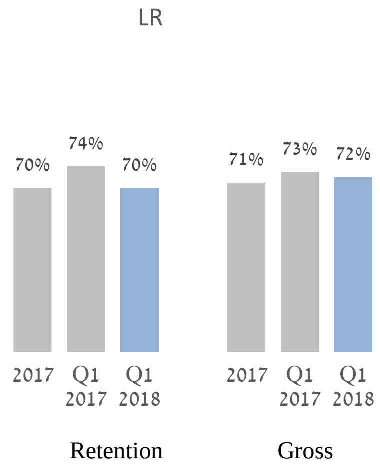
2.6.5.2 Motor property

The increase in gross premiums compared with the corresponding period last year is attributable to the increased premium in several group policies (collectives) and to the fact that the renewal date for state employees' transaction was brought forward and the gross premium for 2017 was included in Q4 2016.

Loss ratio in motor property insurance:

Loss ratio in:



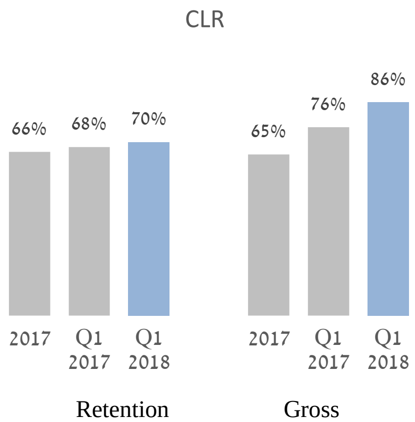


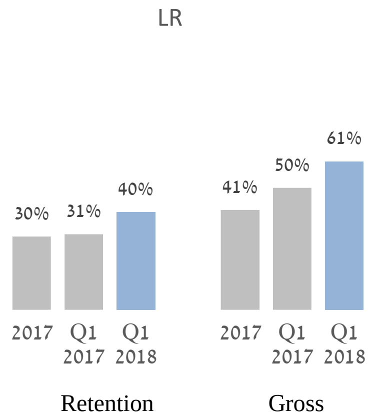
2.6.5.3 Property and other branches

The results in the Reporting Period compared with last year are explained by a negative development in several claims for the property loss sector.

Loss ratio in property and other sectors:

Loss ratio in





2.6.5.4 Liabilities and other branches

No significant change was recorded in the results of activity compared with the corresponding period last year.

2.6.5.5 Credit insurance for mortgages

The premiums earned in credit insurance for residential mortgages are not for new sales, but in respect of sales made in the past for which the premiums are recognized as earned premiums based on the period of coverage. EMI has no reinsurance agreements in this branch of insurance.

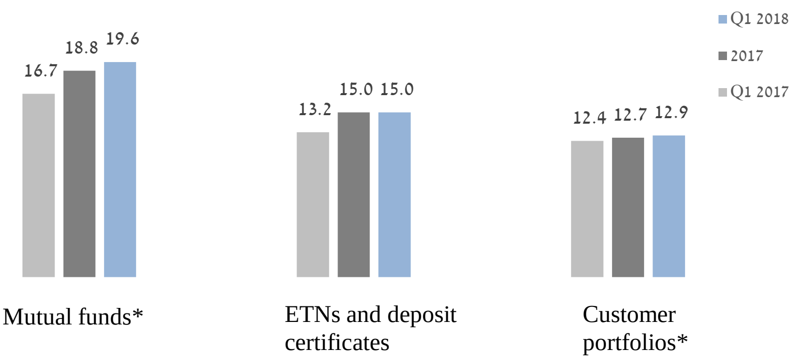
2.6.6 Insurance companies overseas

The Company is the controlling shareholder (with a 94% stake) of Interasco, 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.

There is no material difference between profit in the Reporting Period and last year's profit.

2.6.7 Capital market and financial services

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

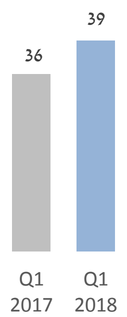


* The assets managed by the mutual funds and in customers' portfolios are not included in the Company's consolidated financial statements.

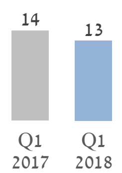
The assets managed in the customer portfolios include financial assets that were issued by the Group and are managed in the portfolios.

Revenues in the capital market and financial services segment amounted to NIS 52 million in the Reporting Period, compared with NIS 50 million in the corresponding period last year.

Management fees from mutual funds and managed portfolios (NIS million):



Revenues from ETN and deposit certificate activity and related activity in connection with financial products (NIS million):



2.7 Liquidity and sources of finance

2.7.1 Cash flows

Net cash flows used in ongoing activity were NIS 1,128 million in the Reporting Period. Net cash flows used in investment activity amounted to NIS 37 million. Net cash flows provided by financing activity were NIS 350 million. The effect of fluctuating exchange rates on the cash balances was a negative NIS 40 million. The outcome of all the above activity is a decrease of NIS 855 million in the cash balances.

2.7.2 Financing of operations

The Company and its subsidiaries generally finance their on-going operations from their own sources. In view of the capital requirements applicable to the Company's subsidiaries that are insurers, and pursuant to the Capital Regulations, the regulatory capital required of an insurer may comprise tier-1 capital, hybrid tier-1 capital, hybrid tier-2 capital, and hybrid tier-3 capital. Additionally, pursuant to the circular on implementation of the economic solvency regime for insurance companies based on Solvency II, an insurer’s equity may comprise Tier-1 capital, Tier-2 capital and Tier-3 capital.

During the Reporting Period, Harel Insurance raised a debt which serves as Tier-2 capital. On the issuance of Series 14 and 15 bonds of Harel Financing & Issuing, see Note 6C 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

On January 16, 2018, Mr. Moshe Nissan terminated his term of office as CEO of the subsidiary, Harel Hamishmar Computers Ltd., and deputy CEO of Harel Insurance. Mr. Eyal Efrat was appointed to replace Mr. Nissan commencing on that date.

4.2 Board of Directors

4.2.1 On January 1, 2018, Mr. Miri Lent-Sharir took up her position as an external director in the Company.

4.2.2 On May 2, 2018, Mr. Eli Defes began his term of office as an external director in the Company.

5 Disclosure regarding the economic solvency ratio

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

The capital surplus of Harel Insurance as at December 31, 2016, on a consolidated basis and before the transitional provisions (in terms of 100% SCR), is NIS 1.9 billion. This capital surplus takes into account the changes made in the directives of the Solvency Circular during the course of 2016, compared with the assumptions of the IQIS exercise, the effects 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 December 31, 2017, Harel Insurance must meet 65% of the total capital requirements under the revised solvency requirements, as approved by the Finance Committee, this for the calculation for December 31, 2017, to be published in the Q2 2018 periodic report. The capital required to ensure the solvency of insurance companies will increase gradually by 5% each year, beginning with 65% 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 was submitted to the Commissioner on January 28, 2018, (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 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%.

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.

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 at report date	**1,903,697**
Solvency ratio at date of the report[1]	**123%**

[1] Taking into account a dividend distribution by Harel Insurance applicable until August 2017 in the amount of NIS 250 million, the capital surplus will be reduced from NIS 1.9 billion to NIS 1.65 billion, and the capital surplus rate will be 120%. Taking into account net raisings of liability notes and the distribution of the aforesaid dividend, the capital surplus will be reduced by NIS 55 million to NIS 1.85 billion, and the capital surplus rate will be 122%.

Compliance with milestones in the Scheduling Period:

	December 31 2016
	(Unaudited)
	NIS thousand
Equity for the purpose of solvency capital requirement (SCR) in the Scheduling Period	9,814,586
Solvency Capital Requirement in the Scheduling Period	4,758,167
Surplus in the Scheduling Period	5,056,419

Minimum Capital Requirement (MCR)

	December 31 2016
	(Unaudited)
	NIS thousand
Minimum Capital Requirement (MCR)	1,826,410
Equity for the purpose of MCR	7,800,785

Creation of a "safety cushion"

On December 27, 2017, the Board of Directors of Harel Insurance resolved to establish a safety cushion in accordance with Section 1(A)(2) of a letter addressed to managers of the insurance companies published by the Commissioner of the Capital Market, Insurance and Savings on October 1, 2017. The safety cushion will increase gradually so that at the end of the adjustment period (2024) it will be NIS 1 billion, growing from NIS 0.65 billion in 2017 to NIS 1 billion in 2024 and thereafter.

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

Yair Hamburger	Michel Siboni
Chairman of the Board of Directors	CEO

May 30, 2018

HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at March 31, 2018

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

Introduction

We have reviewed the attached financial information of Harel Investments in Insurance and Financial Services Ltd. and its subsidiaries (hereinafter: "the Group") which include the condensed consolidated interim statement of financial position as at March 31, 2018 and the condensed consolidated interim statements of income, comprehensive income, changes in capital and cash flows for the three months ended on that date. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with International Accounting Standard IAS 34 "Interim Financial Reporting", 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 15.00% of all the consolidated assets as at March 31, 2018 and whose revenues included in the consolidation comprise 3.59% of all the consolidated revenues for the three months ended on that date. Furthermore, we did not review the condensed financial information for the interim period of equity accounted investees, in which the investment is NIS 125,422 thousand as at March 31, 2018, and the Group's share of their profits is NIS 3,279 thousand for the three months ended on that date. The condensed financial information for the interim periods for those companies was reviewed by other auditors whose review reports were furnished to us and our conclusions, to the extent that they relate to financial information for those companies, are based on the review reports of the other auditors.

Scope of the review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel "Review of Interim Financial Information Performed by the Entity's Auditor". A review of the interim financial information comprises clarifications, mainly with persons responsible for financial and accounting matters, and applying analytical review procedures. A review is considerably more limited in scope than an audit conducted in accordance with generally accepted auditing standards in Israel, and therefore does not enable us to be obtain assurance that we would become aware of all 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 attention that might cause us to believe that the above financial information is not prepared, in all material 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 has come to our attention that might cause us to believe that the accompanying financial information does not comply, in all material respects, with the provisions of the Pronouncement under Chapter D of the Securities (Periodic and Immediate Reports) Regulations, 1970, to the extent that these regulations apply to a corporation that consolidates insurance companies and subject to the disclosure requirements issued by the Commissioner of the Capital Market, Insurance and Savings pursuant Supervision of Financial Services (Insurance) Law, 1981.

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

Somekh Chaikin
Certified Public Accountants (Isr)

May 30, 2018

Condensed consolidated interim statements of financial position at

	March 31		December 31
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Intangible assets	**1,490**	1,454	1,463
Deferred tax assets	**11**	14	12
Deferred Acquisition Costs	**2,430**	2,260	2,340
Fixed assets	**1,330**	1,225	1,299
Investments in equity accounted investees	**1,462**	1,366	1,479
Investment property for yield-dependent policies	**1,541**	1,408	1,502
Other investment property	**1,794**	1,677	1,742
Reinsurance assets	**4,512**	4,635	4,545
Current tax assets	**17**	23	24
Trade and other receivables	**1,593**	1,227	1,088
Premium due	**1,534**	1,405	1,330
Financial investments for yield-dependent policies	**49,536**	41,696	47,771
Financial investments for holders of ETNs and deposit certificates	**7,387**	6,630	7,133
Other financial investments			
Marketable debt assets	**7,819**	7,355	7,080
Non-marketable debt assets	**13,859**	12,504	13,707
Shares	**924**	823	918
Other	**2,306**	2,535	2,399
Total other financial investments	**24,908**	23,217	24,104
Cash, cash equivalents and deposits pledged for bearers of ETNs and deposit certificates	**7,957**	6,859	8,109
Cash and cash equivalents for yield-dependent contracts	**2,302**	2,331	2,758
Other cash and cash equivalents	**1,160**	1,342	1,559
Total assets	**110,964**	98,769	108,258
Total assets for yield-dependent contracts	**54,335**	46,035	52,550

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

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

	March 31		December 31
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Equity and liabilities			
Equity			
Share capital and share premium	**333**	351	339
Treasury shares	**(124)**	(149)	(131)
Capital reserves	**523**	331	529
Retained earnings	**4,800**	4,783	4,821
Total equity attributed to shareholders of the Company	**5,532**	5,316	5,558
Non-controlling interests	**6**	6	6
Total equity	**5,538**	5,322	5,564
Liabilities			
Liabilities for non yield-dependent insurance policies and investment contracts	**27,612**	26,258	26,939
Liabilities for yield-dependent insurance policies and investment contracts	**53,485**	45,339	51,997
Deferred tax liabilities	**898**	787	923
Liabilities for employee benefits, net	**256**	255	252
Current tax liabilities	**57**	21	61
Trade and other payables	**3,023**	3,064	3,137
Liabilities for ETNs and deposit certificates	**14,967**	13,167	14,997
Financial liabilities	**5,128**	4,556	4,388
Total liabilities	**105,426**	93,447	102,694
Total equity and liabilities	**110,964**	98,769	108,258

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

Date of approval of the financial statements: May 30, 2018

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

Condensed consolidated interim statements of income

	For the three months ended March 31		For the year ended
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Premiums earned, gross	**3,505**	3,174	13,091
Premiums earned by reinsurers	**364**	334	1,442
Earned premiums in retention	**3,141**	2,840	11,649
Profit from investments, net, and financing income	**164**	1,108	5,163
Income from management fees	**273**	298	1,257
Income from commissions	**88**	86	339
Other income	**-**	-	7
Total income	**3,666**	4,332	18,415
Payments and changes in liabilities for insurance policies and investment contracts, gross	**2,824**	3,208	14,833
Reinsurers' share of payments and change in liabilities for insurance policies	**206**	187	952
Payments and changes in liabilities for insurance policies and investment contracts in retention	**2,618**	3,021	13,881
Commissions, marketing expenses and other purchasing expenses	**603**	582	2,386
General and administrative expenses	**311**	288	1,155
Other expenses	**4**	10	44
Financing expenses, net	**32**	14	122
Total expenses	**3,568**	3,915	17,588
Company's share of profits of equity accounted investees	**17**	14	163
Profit before taxes on income	**115**	431	990
Taxes on income	**30**	140	306
Profit for period	**85**	291	684
Attributed to:			
Shareholders of the Company	**85**	291	684
Non-controlling interests	**-***	-*	-*
Profit for period	**85**	291	684
Basic earnings per share (in NIS)	**0.40**	1.38	3.21
Diluted earnings per share (in NIS)	**0.40**	1.38	3.21

* Less than NIS 1 million.

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

Condensed consolidated interim statements of comprehensive income

	For the three months ended March 31		For the year ended
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profit for period	**85**	291	684
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	**(44)**	20	332
Net change in fair value of financial assets classified as available-for-sale carried over to income statement	**(22)**	(39)	(153)
Loss from impairment of available-for-sale financial assets carried over to income statement	**16**	8	41
Foreign currency translation differences for foreign activity	**35**	(52)	(62)
Tax benefits (taxes on income) attributable for available-for-sale financial assets	**17**	9	(70)
Tax benefits for other items of comprehensive income that after initial recognition as part of comprehensive income were or will be transferred to profit or loss	**(11)**	13	13
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	**(9)**	(41)	101
Other items of comprehensive income that will not be transferred to profit or loss			
Capital reserve for revaluation of fixed assets	**4**	3	88
Remeasurement of a defined benefit plan	**1**	-	(2)
Taxes on income for other items of comprehensive income that will not be transferred to profit or loss	**(1)**	-	(25)
Other comprehensive income for period that will not be transferred to profit or loss, net of tax	**4**	3	61
Total other comprehensive income (loss) for period	**(5)**	(38)	162
Total comprehensive income for period	**80**	253	846
Attributed to:			
Shareholders of the Company	**80**	253	846
Non-controlling interests	**-***	-*	-*
Total profit for period	**80**	253	846

* Less than NIS 1 million.

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 million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
For the three months ended March 31, 2018 (Unaudited)											
Balance as at January 1, 2018	339	480	(129)	1	(131)	(49)	226	4,821	5,558	6	5,564
Total comprehensive income (loss) for period											
Profit for period	-	-	-	-	-	-	-	85	85	-*	85
Total other comprehensive income (loss)	-	(33)	24	-	-	-	3	1	(5)	-*	(5)
Total comprehensive income (loss) for period	-	(33)	24	-	-	-	3	86	80	-*	80
Transactions with owners credited directly to equity											
Dividend distributed	-	-	-	-	-	-	-	(107)	(107)	-	(107)
Purchase of treasury stock	-	-	-	-	(3)	-	-	-	(3)	-	(3)
Reissuing of treasury stock	(6)	-	-	-	10	-	-	-	4	-	4
Balance As at March 31, 2018	333	447	(105)	1	(124)	(49)	229	4,800	5,532	6	5,538

* Less than NIS 1 million.

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 million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
For the three months ended March 31, 2017 (Unaudited)											
Balance as at January 1, 2017	351	330	(80)	4	(158)	(49)	164	4,599	5,161	6	5,167
Total comprehensive income (loss) for the period											
Profit for the period	-	-	-	-	-	-	-	291	291	-*	291
Total other comprehensive income (loss)	-	(2)	(39)	-	-	-	3	-	(38)	-*	(38)
Total comprehensive income (loss) for period	-	(2)	(39)	-	-	-	3	291	253	-	253
Transactions with owners credited directly to equity											
Dividend announced	-	-	-	-	-	-	-	(107)	(107)	-	(107)
Purchase of treasury shares	-	-	-	-	(12)	-	-	-	(12)	-	(12)
Reissuing of treasury shares	-	-	-	-	21	-	-	-	21	-	21
Balance As at March 31, 2017	351	328	(119)	4	(149)	(49)	167	4,783	5,316	6	5,322

* Less than NIS 1 million.

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 million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
For the year ended December 31, 2017 (Audited)											
Balance as at January 1, 2017	351	330	(80)	4	(158)	(49)	164	4,599	5,161	6	5,167
Total comprehensive income (loss) for year											
Profit for year	-	-	-	-	-	-	-	684	684	-*	684
Total other comprehensive income (loss)	-	150	(49)	-	-	-	62	(1)	162	-*	162
Total comprehensive income (loss) for period	-	150	(49)	-	-	-	62	683	846	-*	846
Transactions with owners credited directly to equity											
Dividend paid	-	-	-	-	-	-	-	(461)	(461)	-	(461)
Purchase of Treasury shares	-	-	-	-	(18)	-	-	-	(18)	-	(18)
Reissuing of treasury stock	(15)	-	-	-	45	-	-	-	30	-	30
Exercising of options	3	-	-	(3)	-	-	-	-	-	-	-
Balance as at December 31, 2017	339	480	(129)	1	(131)	(49)	226	4,821	5,558	6	5,564

* Less than NIS 1 million.

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

Condensed consolidated interim statements of cash flows

	Note	For the three months ended March 31		For the year ended
		2018	2017	2017
		(Unaudited)	(Unaudited)	(Audited)
		NIS million	NIS million	NIS million
Cash flows from operating activity				
Before taxes on income	A	**(1,118)**	411	1,216
Income tax received paid		**(10)**	(131)	(189)
Net cash from current operations		**(1,128)**	280	1,027
Cash flows from investing activity				
Investment in investees, net		**(31)**	(13)	(64)
Proceeds from the sale of an investment in an equity accounted investee		**92**	23	48
Investment in fixed assets		**(48)**	(28)	(79)
Investment in intangible assets		**(58)**	(42)	(169)
Dividend and interest received from an investee		**8**	5	29
Proceeds from sale of fixed assets		**-**	1	12
Net cash used for investment activity		**(37)**	(54)	(223)
Cash flows from financing activities				
Issuance of liability notes		**250**	247	247
Purchase of treasury shares, net		**1**	9	12
Payment for the purchase of ETNs and covered warrants, net		**131**	(290)	312
Short-term credit from banks, net		**20**	(1)	(3)
Repayment of loans from banks and others		**(52)**	(52)	(104)
Dividend paid to the Company's shareholders		**-**	-	(461)
Net cash provided by financing activity (used for financing activity)		**350**	(87)	3
Effect of exchange rate fluctuations on cash balances and cash equivalents		**(40)**	(68)	(92)
Net increase (decrease) in cash and cash equivalents		**(855)**	71	715
Cash and cash equivalents at beginning of the year	B	**4,317**	3,602	3,602
Cash and cash equivalents at end of the year	C	**3,462**	3,673	4,317

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

Condensed consolidated interim statements of cash flows (contd.)

	For the three months ended March 31		For the year ended
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
(Annex A - Cash flows from operating activities before taxes on income (1), (2), (3			
Profit for the period	**85**	291	684
Items not involving cash flows:			
Company's share of profit of equity accounted investees	**(17)**	(14)	(163)
Net losses (profits) from financial investments for yield-dependent insurance policies and investment contracts	**348**	(541)	(2,907)
Net profits (losses) from other financial investments			
Marketable debt assets	**(15)**	80	40
Non-marketable debt assets	**2**	31	6
Shares	**(2)**	(6)	(30)
Other investments	**114**	(211)	(321)
Financing expenses for financial liabilities	**309**	57	1,348
Change in fair value of investment property for yield-dependent contracts	**(10)**	6	(46)
Change in fair value of other investment property	**(36)**	(66)	(101)
Depreciation and amortization			
Fixed assets	**22**	19	81
Intangible assets	**31**	38	138
Change in liabilities for non yield-dependent insurance policies and investment contracts	**681**	271	972
Change in liabilities for yield-dependent insurance policies and investment contracts	**1,488**	1,784	8,442
Change in reinsurance assets	**31**	87	171
Change in DAC	**(90)**	(79)	(160)
Income tax expenses	**30**	140	306
Changes in other statement of financial position items:			
Financial investments and investment property for yield-dependent insurance policies and investment contracts			
Purchase of investment property	**(29)**	(2)	(44)
Net acquisitions of financial investments	**(2,207)**	(794)	(4,541)
Other financial investments and investment property			
Purchase of investment property	**(16)**	(2)	(34)
Proceeds from the sale of investment property	**-**	-	3
Net acquisitions of financial investments	**(884)**	(583)	(1,204)
Premiums due	**(206)**	(8)	61
Trade and other receivables	**(405)**	(90)	85
Financial investments for holders of ETNs	**(254)**	259	(245)
Cash and cash equivalents pledged for holders of ETNs	**152**	(349)	(1,599)
Trade and other payables	**(245)**	90	276
Liabilities for employee benefits, net	**5**	3	(2)
Total adjustments required to present cash flows from operating activity	**(1,203)**	120	532
Total cash flows provided by (used for) operating activity before taxes on income	**(1,118)**	411	1,216

(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 371 million (for the three months ended March 31, 2017 an amount of NIS 340 million and for 2017 an amount of NIS 1,582 million) and interest was paid in the amount of NIS 4 million (for the three months ended March 31, 2017 an amount of NIS 1 million and for 2017 an amount of NIS 157 million).
(3) As part of the operating activity, a dividend received from other financial investments was presented in the amount of NIS 73 million (for the three months ended March 31, 2017, an amount of NIS 53 million and for 2017 an amount of NIS 287million).

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

Condensed consolidated interim statements of cash flows (contd.)

	For the three months ended March 31		For the year ended
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Annex B - Cash and cash equivalents at beginning of period			
Cash and cash equivalents for yield-dependent contracts	**2,758**	1,848	1,848
Other cash and cash equivalents	**1,559**	1,754	1,754
Retained cash and cash equivalents at beginning of the period	**4,317**	3,602	3,602
Annex C - Cash and cash equivalents at end of period			
Cash and cash equivalents for yield-dependent contracts	**2,302**	2,331	2,758
Other cash and cash equivalents	**1,160**	1,342	1,559
Retained cash and cash equivalents at end of the period	**3,462**	3,673	4,317

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

Note 1 - General

The reporting entity

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

The Company is a holding company whose main holdings are in subsidiaries comprising insurance and finance companies. The condensed consolidated interim financial statements, as at March 31, 2018, include those of the Company and its subsidiaries ("the Group"), the Company's rights in jointly controlled entities and the Group's rights in affiliated companies.

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

Note 2 - Basis of preparation

A. Statement of compliance with International Financial Reporting Standards

The condensed consolidated interim financial statements were prepared in accordance with IAS 34 - Financial Reporting for Interim Periods and in accordance with the requirements of the Pronouncements issued by the Commissioner of Insurance and in accordance with the Supervision of Financial Services (Insurance) Law, 1981 ("the Supervision Law"), and they do not include all the information required in full annual financial statements. They should be read them together with the financial statements as at and for the year ended December 31, 2017 ("the Annual Financial Statements"). Moreover, these statements were prepared in accordance with the provisions of Chapter D of the Securities (Periodic and Immediate Reports) Regulations, 1970, insofar as these regulations apply to a company that consolidates insurance companies.

The condensed consolidated interim financial statements were approved for publication by the Company's Board of Directors on May 30, 2018.

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, 2017, and except for the information below, there was no change in the actuarial assumptions that significantly affect the reserves. In connection with the revised discounting interest rates used for calculating the insurance liabilities and with the Liability Adequacy Test (LAT), see also Note 9.

Note 2 - Basis of preparation (Contd.)

C. Reclassification

In the Notes to these interim consolidated financial statements, comparison numbers were reclassified for the sake of consistency and to reflect the provisions of the circular published by the Commissioner of the Capital Market, Insurance and Savings on January 1, 2018, 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)". These reclassifications did not have any effect on the Group's equity and/or on profit or loss.

D. Functional and presentation currency

The condensed interim consolidated financial statements are presented in New Israel Shekels (NIS), which is the Company's functional currency. Commencing with these financial statements, the Company presents its financial information in NIS million. The financial information is rounded to the nearest million.

Note 3 - Significant accounting principles

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

A. Initial application of IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15")

IFRS 15 presents a new model for recognizing revenue from contracts with customers and provides two approaches for recognizing revenue: at a point in time or over time. The model includes five steps for analyzing transactions so as to determine when to recognize revenue and at what amount. IFRS 15 also provides new and more extensive disclosure requirements than those that were in place previously. The Company began to apply the Standard on January 1, 2018. Application of the Standard has no significant effect 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 (Casco): includes the Group's activities in the sale of insurance policies in the motor vehicle insurance branch ("motor property"), which covers loss sustained by a vehicle owner due to an accident, and/or theft and/or liability of the vehicle owner or the driver for property damage caused to a third party in an accident.

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

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

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

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

4. Insurance companies overseas

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

Note 4 - Operating segments (contd.)

5. Financial services

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

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

6. Not attributed to operating segments and other

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

Note 4 - Operating segments (Contd.)

A. Information about reportable segments

	For the three months ended March 31, 2018 (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 million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Premiums earned, gross	1,454	1,103	829	120	-	-	(1)	3,505
Premiums earned by reinsurers	35	49	253	28	-	-	(1)	364
Premiums earned in retention	1,419	1,054	576	92	-	-	-	3,141
Net profit from investments and financial income	23	41	47	7	13	36*	(3)	164
Income from management fees	230	1	-	-	39	3	-	273
Income from commissions	7	16	52	6	-	58**	(51)	88
Total income	1,679	1,112	675	105	52	97	(54)	3,666
Payments and changes in liabilities for insurance and investment contracts, gross	1,314	786	640	85	-	-	(1)	2,824
Reinsurers' share in payments and changes for insurance contracts liabilities	22	(10)	181	14	-	-	(1)	206
Payments and changes in liabilities for insurance and investment contracts, in retention	1,292	796	459	71	-	-	-	2,618
Commission, marketing and other acquisition expenses	232	225	141	26	-	30***	(51)	603
General and administrative expenses	149	72	9	4	42	36****	(1)	311
Other expenses	2	-	-	1	1	-	-	4
Financing expenses, net	1	1	3	-	-	27	-	32
Total expenses	1,676	1,094	612	102	43	93	(52)	3,568
Company's share of profits of equity accounted investees	2	2	4	-	-	9	-	17
Profit before income taxes	5	20	67	3	9	13	(2)	115
Other comprehensive income (loss), before income tax	11	2	(2)	-	-	(21)	-	(10)
Total comprehensive income (loss), before income tax	16	22	65	3	9	(8)*****	(2)	105
Liabilities in respect of non-yield dependent insurance and investment contracts	11,939	4,977	10,130	570	-	-	(4)	27,612
Liabilities in respect of yield dependent insurance and investment contracts	48,937	4,548	-	-	-	-	-	53,485

* 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 51 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 26million 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 4 million.

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Contd.)

	For the three months ended March 31, 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 million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Premiums earned, gross	1,248	1,078	753	96	-	-	(1)	3,174
Premiums earned by reinsurers	33	41	240	21	-	-	(1)	334
Premiums earned in retention	1,215	1,037	513	75	-	-	-	2,840
Net profit from investments and financial income	833	92	66	7	13	99*	(2)	1,108
Income from management fees	258	-	-	-	36	4	-	298
Income from commissions	9	20	46	5	1	53 **	(48)	86
Total income	2,315	1,149	625	87	50	156	(50)	4,332
Payments and changes in liabilities for insurance and investment contracts, gross	1,743	857	549	60	-	-	(1)	3,208
Reinsurers' share in payments and changes for insurance contracts liabilities	13	21	146	8	-	-	(1)	187
Payments and changes in liabilities for insurance and investment contracts, in retention	1,730	836	403	52	-	-	-	3,021
Commission, marketing and other acquisition expenses	218	213	150	23	-	26 ***	(48)	582
General and administrative expenses	135	65	8	4	41	35 ****	-	288
Other expenses	9	-	-	-	1	-	-	10
Financing expenses (incomes), net	1	2	(19)	-	-	30	-	14
Total expenses	2,093	1,116	542	79	42	91	(48)	3,915
Company's share of profits of equity accounted investees	4	1	2	-	-	7	-	14
Profit before income taxes	226	34	85	8	8	72	(2)	431
Other comprehensive losses, before income tax	(19)	(11)	(23)	(6)	-	(1)	-	(60)
Total comprehensive income before income tax	207	23	62	2	8	71*****	(2)	371
Liabilities in respect of non-yield dependent insurance and investment contracts	11,541	4,593	9,715	412	-	-	(3)	26,258
Liabilities in respect of yield dependent insurance and investment contracts	41,175	4,164	-	-	-	-	-	45,339

* 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 5 million.

Note 4 - Operating segments (Contd.)

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

	For the year ended December 31, 2017 (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 million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Premiums earned, gross	5,078	4,424	3,150	443	-	-	(4)	13,091
Premiums earned by reinsurers	135	199	1,012	100	-	-	(4)	1,442
Premiums earned in retention	4,943	4,225	2,138	343	-	-	-	11,649
Net profit from investments and financial income	4,170	443	230	26	57	251*	(14)	5,163
Income from management fees	1,092	3	-	-	144	18	-	1,257
Income from commissions	30	83	178	23	1	212 **	(188)	339
Other incomes	-	-	-	-	-	7	-	7
Total income	10,235	4,754	2,546	392	202	488	(202)	18,415
Payments and changes in liabilities for insurance and investment contracts, gross	8,404	3,688	2,427	317	-	-	(3)	14,833
Reinsurers' share in payments and changes for insurance contracts liabilities	83	142	673	57	-	-	(3)	952
Payments and changes in liabilities for insurance and investment contracts, in retention	8,321	3,546	1,754	260	-	-	-	13,881
Commission, marketing and other acquisition expenses	859	866	646	100	-	103 ***	(188)	2,386
General and administrative expenses	542	263	36	15	164	139 ****	(4)	1,155
Other expenses	34	-	-	4	4	2***	-	44
Financing expenses (incomes), net	7	10	(33)	-	-	138	-	122
Total expenses	9,763	4,685	2,403	379	168	382	(192)	17,588
Company's share of profits of equity accounted investees	31	22	50	-	-	60	-	163
Profit before income taxes	503	91	193	13	34	166	(10)	990
Other comprehensive income (loss), before income tax	91	19	12	(7)	-	129	-	244
Total comprehensive income before income tax	594	110	205	6	34	295*****	(10)	1,234
Liabilities in respect of non-yield dependent insurance and investment contracts	11,808	4,978	9,610	546	-	-	(4)	26,938
Liabilities in respect of yield dependent insurance and investment contracts	47,508	4,489	-	-	-	-	-	51,997

* 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 187 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 96 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 25 million.

Note 4 - Operating segments (Contd.)

B. Additional information about the non-life insurance segment

	For the three months ended March 31, 2018 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	Mortgage insurance	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Gross premiums	344	346	286	334	(2)	1,308
Reinsurance premiums	1	9	213	94	-	317
Premiums in retention	343	337	73	240	(2)	991
Change in outstanding unearned premium, in retention	180	142	16	83	(6)	415
Premiums earned in retention	163	195	57	157	4	576
Profits from investments, net, and financing income	17	4	3	21	2	47
Commission income	-	2	43	7	-	52
Total income	180	201	103	185	6	675
Payments and changes in liabilities for insurance policies and investment contracts, gross	163	144	141	199	(7)	640
Reinsurers' share of payments and change in liabilities for insurance policies	-	7	118	56	-	181
Payments and changes in liabilities for insurance policies and investment contracts in retention	163	137	23	143	(7)	459
Commissions, marketing expenses and other purchasing expenses	9	38	59	35	-	141
General and administrative expenses	2	3	1	2	1	9
Financing expenses, net	1	-	-	2	-	3
Total expenses (incomes)	175	178	83	182	(6)	612
Company's share of profits of equity accounted investees	2	-	-	2	-	4
Profit before income taxes	7	23	20	5	12	67
Other comprehensive loss, before income tax	-	-	-	(1)	(1)	(2)
Total comprehensive income before income tax	7	23	20	4	11	65
Liabilities for insurance contracts, gross, as at March 31, 2018	2,680	711	885	5,491	363	10,130
Liabilities for insurance contracts, in retention, as at March 31, 2018	2,476	677	196	2,895	363	6,607

* Property and other branches primarily include results of property loss insurance and comprehensive homeowners insurance, operations of which account for 77% of total premiums earned from these branches.

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

Note 4 - Operating segments (Contd.)

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

	For the three months ended March 31, 2017 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	Mortgage insurance	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Gross premiums	214	218	256	306	(3)	991
Reinsurance premiums	1	8	183	72	-	264
Premiums in retention	213	210	73	234	(3)	727
Change in outstanding unearned premium, in retention	89	34	13	85	(7)	214
Premiums earned in retention	124	176	60	149	4	513
Profits from investments, net, and financing income	24	5	4	29	4	66
Commission income	-	1	38	7	-	46
Total income	148	182	102	185	8	625
Payments and changes in liabilities for insurance contracts, gross	112	133	115	194	(5)	549
Reinsurer's share of payments and changes in liabilities for insurance contracts	(1)	2	97	48	-	146
Payments and changes in liabilities for insurance contracts, retention	113	131	18	146	(5)	403
Commission, marketing expenses and other acquisition costs	17	42	58	33	-	150
General and administrative expenses	2	2	2	1	1	8
Financing incomes, net	(8)	(2)	(1)	(8)	-	(19)
Total expenses (incomes)	124	173	77	172	(4)	542
Company's share of profits of equity accounted investees	1	-	-	1	-	2
Profit before income taxes	25	9	25	14	12	85
Other comprehensive income (loss), before income tax	(10)	(2)	(1)	(11)	1	(23)
Total comprehensive income before income tax	15	7	24	3	13	62
Liabilities for insurance policies, gross, As at March 31 2017	2,421	628	847	5,412	407	9,715
Liabilities for insurance policies, Retention As at March 31 2017	2,157	599	199	2,623	407	5,985

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

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

Note 4 - Operating segments (Contd.)

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

	For the year ended December 31, 2017 (Audited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	Mortgage insurance	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Gross premiums	545	693	962	901	(8)	3,093
Reinsurance premiums	4	25	722	262	-	1,013
Premiums in retention	541	668	240	639	(8)	2,080
Change in outstanding unearned premium, in retention	13	(57)	(7)	17	(24)	(58)
Premiums earned in retention	528	725	247	622	16	2,138
Profits from investments, net, and financing income	80	19	16	97	18	230
Commission income	-	7	143	28	-	178
Total income	608	751	406	747	34	2,546
Payments and changes in liabilities for insurance contracts, gross	571	528	399	948	(19)	2,427
Reinsurer's share of payments and changes in liabilities for insurance contracts	1	20	324	328	-	673
Payments and changes in liabilities for insurance contracts, retention	570	508	75	620	(19)	1,754
Commission, marketing expenses and other acquisition costs	86	188	222	150	-	646
General and administrative expenses	8	12	8	5	3	36
Financing expenses (income), net	(13)	(3)	(1)	(16)	-	(33)
Total expenses (incomes)	651	705	304	759	(16)	2,403
Company's share of the profits of equity accounted investees	19	5	2	24	-	50
Profit (loss) before taxes on income	(24)	51	104	12	50	193
Other comprehensive income before taxes on income	2	1	-	3	6	12
Total comprehensive income (loss) before taxes on income	(22)	52	104	15	56	205
Liabilities for insurance policies, gross, As at December 31 2017	2,461	553	783	5,437	376	9,610
Liabilities for insurance policies, Retention As at December 31 2017	2,241	524	175	2,774	376	6,090

* 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 78% of total premiums in these branches.

Note 4 - Operating segments (Contd.)

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

	For the three months ended March 31, 2018 (Unaudited)				For the three months ended March 31, 2017 (Unaudited)			
	Provident	Pension	Life assurance	Total	Provident	Pension	Life assurance	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Premiums earned, gross	-	-	1,454	1,454	-	-	1,248	1,248
Premiums earned by reinsurers	-	-	35	35	-	-	33	33
Earned premiums in retention	-	-	1,419	1,419	-	-	1,215	1,215
Profit from investments, net, and financing income	-	-	23	23	1	-	832	833
Income from management fees	59	78	93	230	53	73	132	258
Income from commissions	-	-	7	7	-	-	9	9
Total income	59	78	1,542	1,679	54	73	2,188	2,315
Payments and changes in liabilities for insurance policies and investment contracts, gross	1	3	1,310	1,314	-	3	1,740	1,743
Reinsurers' share of payments and change in liabilities for insurance policies	-	-	22	22	-	-	13	13
Payments and changes in liabilities for insurance policies and investment contracts in retention	1	3	1,288	1,292	-	3	1,727	1,730
Commissions, marketing expenses and other purchasing expenses	22	31	179	232	19	35	164	218
General and administrative expenses	24	26	99	149	23	24	88	135
Other expenses	2	-	-	2	3	-	6	9
Financing expenses, net	-	-	1	1	-	-	1	1
Total expenses	49	60	1,567	1,676	45	62	1,986	2,093
Company's share of profits of equity accounted investees	-	-	2	2	-	-	4	4
Profit (loss) before taxes on income	10	18	(23)	5	9	11	206	226
Other comprehensive income (loss) before taxes on income	-	-	11	11	-	-	(19)	(19)
Total comprehensive income (loss) before taxes on income	10	18	(12)	16	9	11	187	207

Note 4 - Operating segments (Contd.)

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

	For the year ended December 31, 2017 (Audited)			
	Provident	Pension	Life assurance	Total
	NIS million	NIS million	NIS million	NIS million
Premiums earned, gross	-	-	5,078	5,078
Premiums earned by reinsurers	-	-	135	135
Earned premiums in retention	-	-	4,943	4,943
Profit from investments, net, and financing income	1	1	4,168	4,170
Income from management fees	223	300	569	1,092
Income from commissions	-	-	30	30
Total income	224	301	9,710	10,235
Payments and changes in liabilities for insurance policies and investment contracts, gross	2	10	8,392	8,404
Reinsurers' share of payments and change in liabilities for insurance policies	-	-	83	83
Payments and changes in liabilities for insurance policies and investment contracts in retention	2	10	8,309	8,321
Commissions, marketing expenses and other purchasing expenses	79	126	654	859
General and administrative expenses	94	97	351	542
Other expenses	11	1	22	34
Financing expenses, net	-	-	7	7
Total expenses	186	234	9,343	9,763
Company's share of profits of equity accounted investees	-	-	31	31
Profit before taxes on income	38	67	398	503
Other comprehensive income before taxes on income	1	2	88	91
Total comprehensive income before taxes on income	39	69	486	594

Note 4 - Operating segments (Contd.)

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

Results by policy category

For the three months ended March 31, 2018 (Unaudited)	Policies which include a savings component (incl. riders) by date of policy issue				Policies with no savings component		
			from 2004		Risk that was sold as a stand-alone policy		
	Until 1990 (1)	Up to 2003	Not yield-dependent	Yield dependent	Personal lines	Group	Total
	NIS million						
Gross premiums	29	234	99	775	272	47	1,456
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(2)
Total							1,454
Amounts received for investment contracts recognized directly in insurance reserves	-	-	-	1,394	-	-	1,394
Financial margin including management fees - in terms of comprehensive income (2)	34	34	(4)	59	-	-	123
Payments and changes in liabilities for insurance policies gross	149	196	108	711	130	48	1,342
Payments and change in liabilities for investment contracts	-	-	-	(32)	-	-	(32)

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

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

Note 4 - Operating segments (Contd.)

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

Results by policy category (Contd.)

For the three months ended March 31, 2017 (Unaudited)	Policies which include a savings component (incl. riders) by date of policy issue				Policies with no savings component		
			from 2004		Risk that was sold as a stand-alone policy		
	Until 1990 (1)	Up to 2003	Not yield-dependent	Yield dependent	Personal lines	Group	Total
	NIS million						
Gross premiums	29	238	-	694	243	47	1,251
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(3)
Total							1,248
Amounts received for investment contracts recognized directly in insurance reserves	-	-	-	922	-	-	922
Financial margin including management fees - in terms of comprehensive income (2)	49	84	19	48	-	-	200
Payments and changes in liabilities for insurance policies gross	60	580	(10)	808	110	44	1,592
Payments and change in liabilities for investment contracts	-	-	-	148	-	-	148

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

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

Note 4 - Operating segments (Contd.)

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

Results by policy category (Contd.)

	Policies which include a savings component (incl. riders) by date of policy issue				Policies with no savings component		
			from 2004		Risk that was sold as a stand-alone policy		
For the year ended December 31, 2017 (Audited)	**Until 1990 (1)**	**Up to 2003**	**Not yield-dependent**	**Yield dependent**	**Personal lines**	**Group**	**Total**
	NIS million						
Gross premiums	118	953	-	2,802	1,029	186	5,088
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(10)
Total							5,078
Amounts received for investment contracts recognized directly in insurance reserves	-	-	-	4,162	-	-	4,162
Financial margin including management fees - in terms of comprehensive income (2)	190	356	(8)	213	-	-	751
Payments and changes in liabilities for insurance policies gross	512	2,736	91	3,746	466	188	7,739
Payments and change in liabilities for investment contracts	-	-	1	652	-	-	653

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

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

Note 4 - Operating segments (Contd.)

D. Additional information about the health insurance segment

Results by policy category

For the three months ended March 31, 2018 (Unaudited)	Long-term care (LTC)		Other health*		
	Personal lines	Group	long-term **	short-term **	Total
	NIS million				
Gross premiums	168	295	544	92	1,099
Payments and changes in liabilities for insurance policies gross	114	259	333	80	786

For the three months ended March 31, 2017 (Unaudited)	Long-term care (LTC)		Other health*		
	Personal lines	Group	long-term **	short-term **	Total
	NIS million				
Gross premiums	151	306	522	114	1,093
Payments and changes in liabilities for insurance policies gross	147	312	327	71	857

For the year ended December 31, 2017 (Audited)	Long-term care (LTC)		Other health*		
	Personal lines	Group	long-term **	short-term **	Total
	NIS million				
Gross premiums	590	1,278	2,102	460	4,430
Payments and changes in liabilities for insurance policies gross	466	1,517	1,415	290	3,688

* Of this, personal lines premiums in the amount of NIS 406 million (for the three-month period ended March 31, 2017, an amount of NIS 416 million, and for 2017 as a whole, an amount of NIS 1,678 million) and group premiums in the amount of NIS 230 million (for the three-month period ended March 31, 2017, an amount of NIS 221 million and for 2017, an amount of NIS 884 million)..

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

Note 5 - Taxes on income

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

On 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
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.

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 March 31		As at December 31
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Investment property	**1,541**	1,408	1,502
Financial investments			
Marketable debt assets	**18,712**	15,628	18,115
Non-marketable debt assets (*)	**12,425**	10,098	12,300
Shares	**8,255**	7,603	8,227
Other financial investments	**10,144**	8,367	9,129
Total financial investments	**49,536**	41,696	47,771
Cash and cash equivalents	**2,302**	2,331	2,758
Other	**956**	600	519
Total assets for yield-dependent contracts **	**54,335**	46,035	52,550
Payables	**21**	188	162
Financial liabilities ***	**459**	100	114
Financial liabilities for yield-dependent contracts	**480**	288	276
(*) Assets measured at adjusted cost	**669**	701	671
Fair value of debt assets measured at adjusted cost	**718**	743	729

** Including assets in the amount of 4,192 million, NIS 3,798 million, and NIS 4,107 million as at March 31, 2018 and 2017, and December 31, 2017 respectively, for a liability attributable to a group long-term care portfolio in which most of the investment risks are not imposed on the insurer.

*** Mainly derivatives and futures contracts.

Note 6 - Financial instruments (Contd.)

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

2. Fair value hierarchy of financial assets

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

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

	As at March 31, 2018 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	**15,558**	**3,154**	**-**	**18,712**
Non-marketable debt assets	**-**	**11,278**	**478**	**11,756**
Shares	**6,065**	**7**	**2,183**	**8,255**
Other	**6,762**	**86**	**3,296**	**10,144**
Total	**28,385**	**14,525**	**5,957**	**48,867**

	As at March 31, 2017 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	12,563	3,065	-	15,628
Non-marketable debt assets	-	8,555	842	9,397
Shares	5,688	9	1,906	7,603
Other	4,857	453	3,057	8,367
Total	23,108	12,082	5,805	40,995

	As at December 31 2017 (Audited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	15,202	2,913	-	18,115
Non-marketable debt assets	-	11,163	466	11,629
Shares	6,182	10	2,035	8,227
Other	5,748	163	3,218	9,129
Total	27,132	14,249	5,719	47,100

Note 6 - Financial instruments (Contd.)

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

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

For three-month period ended March 31, 2018 (Unaudited)

	Fair-value measurement on report date			
	Financial assets at fair value through profit or loss			
	Non-marketable debt assets	Shares	Other	Total
	NIS million	NIS million	NIS million	NIS million
Balance as at January 1, 2018	466	2,035	3,218	5,719
Total profits (losses) that were recognized:				
In profit and loss	(2)	69	205	272
Interest and dividend receipts	(7)	(7)	(54)	(68)
Purchases	76	87	155	318
Sales	(3)	(1)	(211)	(215)
Redemptions	(52)	-	(17)	(69)
Balance As at March 31, 2018	478	2,183	3,296	5,957
Of which total profits (losses) for the period that has not yet been exercised for financial assets held correct to March 31, 2018	(2)	69	207	274

* For securities whose rating changed
** Reclassified

For three-month period ended March 31, 2017 (Unaudited)

	Fair-value measurement on report date			
	Financial assets at fair value through profit or loss			
	Non-marketable debt assets	Shares	Other	Total
	NIS million	NIS million	NIS million	NIS million
Balance as at January 1, 2017	807	1,956	3,047	5,810
Total profits (losses) that were recognized:				
In profit and loss	-	(50)	5	(45)
Interest and dividend receipts	(4)	(10)	(48)	(62)
Purchases	161	11	139	311
Sales	(9)	(1)**	(81)	(91)
Redemptions	(114)	-**	(5)	(119)
Transfers from Level 3 *	1	-	-	1
Balance As at March 31, 2017	842	1,906	3,057	5,805
Of which total profits (losses) for the period that has not yet been exercised for financial assets held correct to March 31, 2017	(3)	(51)	5	(49)

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, 2017 (Audited)

	Fair-value measurement on report date			
	Financial assets at fair value through profit or loss			
	Non-marketable debt assets	Shares	Other	Total
	NIS million	NIS million	NIS million	NIS million
Balance as at January 1, 2017	807	1,956	3,047	5,810
Total profits (losses) that were recognized:				
In profit and loss	29	112	133	274
Interest and dividend receipts	(51)	(45)	(156)	(252)
Purchases	343	178	558	1,079
Sales	(12)	(166)	(333)	(511)
Redemptions	(199)	-	(31)	(230)
Transfers to Level 3 *	17	-	-	17
Transfers from Level 3 *	(468)	-	-	(468)
Balance as at December 31, 2017	466	2,035	3,218	5,719
Of which total profit for the period that has not yet been exercised for financial assets held correct to December 31, 2017	22	111	133	266

* Mainly for securities whose rating changed.

Note 6 - Financial instruments (Contd.)

B. Other financial investments

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

	As at March 31		December 31	As at March 31		December 31
	(Unaudited)		(Audited)	(Unaudited)		(Audited)
	Book Value			Fair Value		
	2018	2017	2017	2018	2017	2017
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Loans and receivables:						
Earmarked bonds	**4,943**	4,921	4,893	**6,591**	6,362	6,584
Non-marketable, non-convertible debt assets, excluding bank deposits	**7,750**	6,573	7,832	**8,497**	7,192	8,647
(*) Bank deposits	**1,166**	1,010	982	**1,065**	1,077	1,030
Total non-marketable debt assets	**13,859**	12,504	13,707	**16,153**	14,631	16,261
Investments held to maturity:						
Marketable non-convertible debt assets	**144**	243	159	**152**	254	168
Total Investments held to maturity	**144**	243	159	**152**	254	168
Total	**14,003**	12,747	13,866	**16,305**	14,885	16,429
Impairments recognized in profit and loss (in aggregate)	**14**	13	20			
(*) Of which debt assets measured at fair value	**160**	139	151			

Note 6 - Financial instruments (Contd.)

B. Other financial investments (Contd.)

2. Fair value hierarchy of financial assets

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

	As at March 31, 2018 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	6,359	1,316	-	7,675
Non-marketable debt assets	-	160	-	160
Shares	803	-	121	924
Other	826	36	1,444	2,306
Total	7,988	1,512	1,565	11,065

	As at March 31, 2017 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	5,769	1,343	-	7,112
Shares	760	-	63	823
Other	894	274	1,367	2,535
Total	7,423	1,617	1,430	10,470

	As at December 31, 2017 (Audited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	5,649	1,272	-	6,921
Non-marketable debt assets	-	151	-	151
Shares	801	-	117	918
Other	895	99	1,405	2,399
Total	7,345	1,522	1,522	10,389

Note 6 - Financial instruments (Contd.)

B. Other financial investments (Contd.)

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

For three-month period ended March 31, 2018 (Unaudited)

	Fair-value measurement on reporting date		
	Financial assets at fair value through profit or loss and available-for-sale assets		
	Shares	Other	Total
	NIS million	NIS million	NIS million
Balance as at January 1, 2018	117	1,405	1,522
Total profits (losses) that were recognized:			
In profit and loss	(1)	10	9
In other comprehensive income	2	50	52
Interest and dividend receipts	-	(23)	(23)
Purchases	3	45	48
Sales	-	(40)	(40)
Redemptions	-	(3)	(3)
Balance As at March 31, 2018	121	1,444	1,565
(*) Total profit (loss) for the period included in profit or loss for assets held at March 31, 2018	(1)	10	9

For the three-month period ended March 31, 2017 (Unaudited)

	Fair-value measurement on reporting date		
	Financial assets at fair value through profit or loss and available-for-sale assets		
	Shares	Other	Total
	NIS million	NIS million	NIS million
Balance as at January 1, 2017	47	1,390	1,437
Total profits (losses) that were recognized:			
In profit and loss	2	2	4
In other comprehensive income	(3)	(27)	(30)
Interest and dividend receipts	(2)	(15)	(17)
Purchases	19	47	66
Sales	-	(27)	(27)
Redemptions	-	(3)	(3)
Balance As at March 31, 2017	63	1,367	1,430
(*) Total profit (loss) for the period included in profit or loss for assets held at March 31, 2017	2	2	4

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, 2017 (Audited)

	Fair-value measurement on reporting date		
	Financial assets at fair value through profit or loss and available-for-sale assets		
	Shares	Other	Total
	NIS million	NIS million	NIS million
Balance as at January 1, 2017	47	1,390	1,437
Total profits (losses) that were recognized:			
In profit and loss	4	27	31
In other comprehensive income	(3)	15	12
Interest and dividend receipts	(4)	(60)	(64)
Purchases	57	186	243
Sales	-	(144)	(144)
Redemptions	-	(9)	(9)
Transfers to Level 3 *	16	-	16
Balance as at December 31, 2017	117	1,405	1,522
(*) Total profit (loss) for the period included in profit or loss for assets held at December 31, 2017	4	26	30

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

C. Financial liabilities

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

	As at March 31		December 31	As at March 31		December 31
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	Book Value			Fair Value		
	2018	2017	2017	2018	2017	2017
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Loans from banks *	**478**	498**	478	**505**	514**	505
Loans from non-bank corporations	**30**	60	61	**31**	61	61
Loans from related parties	**11**	11	11	**11**	11	11
Bonds *	**3,101**	2,901**	2,878	**3,472**	3,166**	3,296
Total financial liabilities presented at amortized cost	**3,620**	3,470	3,428	**4,019**	3,752	3,873

* Including subordinate liability notes

** On reclassification, see Note 2C.

Note 6 - Financial instruments (Contd.)

C. Financial liabilities (contd.)

2. Interest rates used to determine the fair value

	As at March 31		As at December 31
	2018	**2017**	**2017**
In percent			
Loans	**2.31%**	2.76% *	2.46%
Bonds	**1.32%**	2.10% *	1.22%

* On reclassification, see Note 2C.

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 March 31, 2018 (Unaudited)		
	Level 1	Level 2	Total
	NIS million	NIS million	NIS million
Loans from banks	-	49	49
Derivatives (1)	375	934	1,309
Short sales (2)	150	-	150
Total financial liabilities	525	983	1,508

	As at March 31, 2017 (Unaudited)		
	Level 1	Level 2	Total
	NIS million	NIS million	NIS million
Loans from banks	-	30	30
Derivatives (1)	55	807	862
Short sales (2)	194	-	194
Total financial liabilities	249	837	1,086

	As at December 31, 2017 (Audited)		
	Level 1	Level 2	Total
	NIS million	NIS million	NIS million
Loans from banks	-	28	28
Derivatives (1)	37	747	784
Short sales (2)	148	-	148
Total financial liabilities	185	775	960

(1) 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 634 million, NIS 588 million and NIS 557 million as at March 31, 2018 and 2017 and at December 31, 2017, 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 its derivative activity. Pursuant to the foregoing, the Group's financial institutions deposited NIS 1,168 million as collateral to cover the liabilities arising from this activity.

(2) 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 2017, the subsidiary deposited an additional NIS 50 million.

Note 6 - Financial instruments (Contd.)

C. Financial liabilities (Contd.)

4. Additional information

1. Financial covenants

For information relating to the financial covenants in respect of significant loans that the Company took from banks and non-bank companies, see Note 25 to the annual financial statements. As at March 31, 2018, the Company is in compliance with the financial covenants that were determined.

2. Maalot Rating

On January 14, 2018, Maalot announced affirmation of an ‘ilAA+’ rating for the subsidiary Harel Insurance and it raised the rating outlook to positive following the establishment of the capital management safety cushion. Maalot’s announcement also included affirmation of the 'ilAA' rating for the Series 1 (non-marketable) liability notes of Harel Insurance and the Series 1 liability notes of Harel Share Issues, a wholly owned subsidiary of Harel Insurance. An 'ilAA-' rating was also affirmed for tier-2 and tier-3 capital issued by Harel Financing & Issuing as part of the Series 2-13 bonds. Maalot also set a rating of ‘ilAA-’ for the issuance of two new series of bonds of Harel Financing & Issuing (Series 14-15), in the total amount of up to NIS 300 million. The Series 14-15 bonds were issued by Harel Insurance, Financing & Issuing Ltd.

3. Issuance of bonds (Series 14-15) through Harel Financing & Issuing

On January 24, 2018, Harel Financing & Issuing published a shelf offering report based on a shelf prospectus dated February 27, 2017. According to the shelf offering report, Harel Financing and Issuing offered the public up to NIS 150 million par value bonds (Series 14), registered in name, NIS 1 par value each, and NIS 150 million par value bonds (Series 15), registered in name, NIS 1 par value each. The Series 14 - 15 bonds are not linked to the CPI or to any currency.

In total, NIS 127 million par value Series 14 bonds and NIS 127 million par value Series 15 bonds, were issued, for a total (gross) consideration of NIS 253.3 million;

The effective interest rate, after costs of the issuance, of the additional Series 14 liability notes is 3.182% and of the additional Series 15 liability notes is 3.174%.

For the purpose of this issuance, on January 14, 2018, Maalot published an affirmation of the ilAA- rating for the Series 14-15 bonds.

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

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

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

Note 7 - Contingent liabilities and commitments

A. Contingent Liabilities

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

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

Among these regulatory changes, in 2011, the Commissioner published a circular concerning data optimization of the rights of members of financial institutions. The circular details the activity framework that a financial institution must carry out to ensure that members' rights are reliably, and fully recorded in the information systems, and that they are available and retrievable. The circular 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, including on matters pending with the Commissioner, *inter alia* in the life assurance sector, might 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

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, including on matters pending before the Ministry, *inter alia* in the life assurance sector, both in the past and in the future. Regarding instructions with respect to past activity, the Capital Market, Insurance and Savings Authority might request the restitution of money or a change in conditions vis-à-vis policyholders and/or fund members which may impose financial liabilities on the Company's subsidiaries and/or increase the exposure of the subsidiaries that are insurers to a broader range of insurance events to be covered on account of these instructions, in policies that were issued.

As part of the audits conducted by the Capital Market, Insurance and Savings Authority, during the Reporting Period several in-depth audits were and are being conducted of the pensions, actuarial practice, life assurance and long-term care, health insurance, customer service, long-term care insurance and life assurance sectors, information and claims systems.

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.

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 52, 53, 54, 55 and 56 below, it is not possible at this early stage to estimate the chances that the applications will be approved as a class action and therefore no provision was included in the financial statements for these claims.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

1. In January 2008, 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 NSI 2.3 billion, of which about NIS 307 million is against Harel Insurance. On February 1, 2010, the court approved a request for a procedural arrangement between the parties, 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. Following a decision of the Supreme Court from January 2017, the respondents responded to the motion for permission to appeal the decision to certify the action as a class action and it was heard by a panel of judges. In April 2017, the Supreme Court accepted the request for a stay of implementation that was filed by the company and it determined that the hearing would be put on hold until a decision has been made on the application for permission to appeal and on the appeal.
2. In April 2008, an action was filed in the Jerusalem District Labor Court against the subsidiary Harel Insurance and against three other insurance companies (hereinafter together: “the Defendants”), together with an application for its certification as a class action. The subject of the action is the allegation that the Defendants generally credit women policyholders, when they reach the age of retirement, for old managers’ insurance policies that were sold until 2000, with a lower monthly benefit than the benefit received by male insureds with the same data, for the reason that women have a higher life expectancy. In contrast, the Defendants collect the same term (pure life) assurance premiums from the women as they collect from the men, despite the fact that the mortality rate for women, during the risk period, is ostensibly lower. The Plaintiffs argue that this conduct discriminates against female policyholders, in contravention of the statutory provisions. On August 17, 2014, the Jerusalem District Labor Court certified the action as a class action. The group that was certified for the class action consists of women who have or had an insurance policy with the four Defendants, and for whom no distinction was made between the tariff for men and women in the calculation of the risk premium. In December 2014, the Defendants filed an application for permission to appeal this ruling in the Jerusalem National Labor Court. Concurrently, the District Labor Court accepted the Defendants’ application for a stay of proceedings until a decision is made on the application for permission to appeal. In April 2015, the National Labor Court decided to grant the Defendants permission to appeal the decision. As part of a hearing on appeal, the court instructed that the material must be submitted to the Commissioner for his opinion. In December 2016, the Commissioner’s position was submitted to the court, supporting the opinion of the insurance companies whereby the action cannot be heard as a class action since there is no unacceptable discrimination involved.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

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

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

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

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

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

Par. 4 (contd.)

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 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. The court instructed that the Commissioner's position on the dispute which is the subject of the action should be accepted.
6. 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.
7. In May 2013, an action was filed in the Tel Aviv District Court together with an application for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel ostensibly refrains from paying insurance benefits to its policyholders together with linkage differences and interest, from the date of occurrence of the insured event up to the payment date of the insurance benefits. The total loss claimed for all members of the group amounts to sums varying from NIS 168 million to NIS 807 million. The mediation process conducted by the parties was unsuccessful and litigation of the action was returned to the court. On August 30, 2015, the Tel Aviv District Court partially accepted the motion for certification, such that conducting of the claim as a class action was approved with respect to the argument concerning non-payment of interest as required under Section 28(A) of the Insurance Contract Law ("the Law"), and the motion was dismissed insofar as it relates to the argument that Harel Insurance does not link the insurance benefits in accordance with the provisions of Section 28(A) of the Law. The plaintiffs estimate that the overall loss claimed for all members of the group in relation to the Company according to the amended statement of claim amounts to NIS 120 million. In October 2015, an application was filed for permission to appeal the decision to certify the application as a class action. In accordance with the court's recommendation, in August 2016 the Defendants withdrew the application for permission to appeal.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

8. 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. In November 2017, the reviewer's opinion was submitted to the court whereby the compensation mechanism defined in the compromise settlement is fair and reasonable. In February 2018, the court instructed the reviewer to complete the reviews on various matters and to submit a revised opinion as part of the settlement and to address the question of whether the compromise settlement is appropriate and reasonable, taking into account the interest of the class members.
9. 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. In November 2017, the reviewer's opinion was submitted to the court whereby the compensation mechanism defined in the compromise settlement is fair and reasonable. In February 2018, the court instructed the reviewer to supplement the reviews on various matters and to submit a revised opinion as part of the settlement and to address the question of whether the compromise settlement is appropriate and reasonable, taking into account the interest of the class members.
10. 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).

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

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 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.
12. In April 2014, an action was filed in the Central Lod 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 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 actual illness 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. In December 2017, Harel Insurance was served with an appeal on the judgment which the Plaintiff filed in the Supreme Court in October 2017.
13. In June 2014, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Dikla Insurance Agency Ltd. (in its previous name Dikla Insurance Company Ltd. ("Dikla")) The subject of the action is the argument that under the provisions of the group long-term care insurance policy for members of Clalit Health Services Supplementary Long-term Care Plus ("the Policy"), Dikla fails to pay insureds who require long-term care insurance benefits for the days in which they were hospitalized in a general or rehabilitation hospital, and that these days are not included in the number of days for calculating the waiting period determined in the policy, and this ostensibly in contravention of the Commissioner' instructions and the provisions of the law. The Plaintiff estimates the total loss claimed for all members of the Group that it wishes to represent at NIS 35 million. The court passed the motion to accept the Commissioner's position regarding the disputes that are the subject of the motion for certification of the action as a class action. In January 2016, the Commissioner's position was submitted which stated that the policy definition of the insured event does not violate the instructions of the Capital Market, Insurance and Savings Authority and that the policy which is the subject of the claim was approved separately by the Capital Market, Insurance and Savings Authority.
14. In 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

Par. 14 contd.

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. The parties informed the court of their agreement to enter into a mediation process.

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.
16. 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.
17. 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. In March 2018, the parties informed the court of their agreement to enter into a mediation process.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

18. 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.
19. 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.
20. In November 2015, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Dikla Insurance Agency Ltd. (in its previous name Dikla Insurance Company Ltd. (“Dikla”))and against Clalit Health Services (“Clalit”) (hereinafter together: “the Defendants”). The subject of the action is the group long-term care insurance policy for members of Clalit Health Services - Supplementary Plus LTC (“the Policy”). The Plaintiff argues that where rights are transferred from one period of entitlement (“the First Entitlement Period”) to another entitlement period, in which the insured is eligible for insurance that are less than the benefits in the First Entitlement Period (“the Second Entitlement Period”), and when the transition between the entitlement periods occurs after the first day of a calendar month, insurance benefits are paid according to the reduced amount, for the entire month in which the transfer took place. The Plaintiff argues that he is therefore deprived of insurance benefits, equal to the amount of the difference between the insurance benefits for the First Period and the insurance benefits for the Second Period, multiplied by the proportional part of the month for which he is entitled to insurance benefits in respect of the First Entitlement Period. The Plaintiff further argues that group members who survived the entire cumulative periods of entitlement did not receive any insurance benefits for the proportional missing part of the first calendar month of their entitlement and that they are entitled to receive insurance benefits for that proportional part of the month. The Plaintiff argues that in this manner, Dikla practices unjust enrichment, is in breach of the provisions of the Supervision of Financial Services (Insurance) Law, 1981 and the provisions of the insurance policy. The personal loss claimed by the Plaintiff is estimated at NIS 540 while the total loss claimed for all members of the Group that the Plaintiff wishes to represent is estimated at NIS 60 million. In November 2016, the plaintiff filed an application for a partial ruling on the motion for certification. In March 2017, the court dismissed the plaintiff’s application for a partial ruling on the motion for certification. 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. In January 2018, the expert’s opinion was submitted to the court.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

21. 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. In April 2018, the parties filed a motion in the court to certify a compromise settlement, in which it was agreed, among other things, that Harel Insurance will send letters to class members setting out the reasons behind the deduction of the insurance benefits on grounds of the contributory negligence. If cases are found in this framework in which it is possible to reduce or cancel the amounts deducted due to contributory negligence, Harel Insurance will take action to refund the relevant amounts to the class members. The validity of the compromise settlement is contingent on the court's approval.
22. 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. In January 2018, the court ordered the transfer of the hearing to the Regional Labor Court.
23. 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. In March 2018, the parties informed the court of their agreement to enter into a mediation process.
24. In February 2016, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against Harel Pension Funds Management Ltd. ("Harel Pension"). The subject of the action is the allegation that Harel Pension ostensibly collects money from its members, who make lump-sum deposits in the pension fund, in respect of insurance for disability risks and insurance for death for a period that has already passed on the collection date in the knowledge that the risk for which the money is collected has not and will not materialize. The Plaintiff argues that in this manner, Harel Pension is in breach of the provisions of the Insurance Contact Law, 1981, the provisions of the Supervision of Financial Services (Insurance) Law, 1981, the voluntary disclosure obligation and the Contracts (General Section) Law, 1973, and that according to the Plaintiff, it practices unjust enrichment and exploits the inexperience of its members. The personal loss claimed by the Plaintiff is estimated at NIS 826 while the total loss claimed for all members of the Group that the Plaintiff wishes to represent is estimated at NIS 5.58 million. In March 2017, the court instructed that the hearing should be transferred to the Regional Labor Court.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

25. 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.
26. 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. The parties are conducting a mediation process.
27. 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

Par. 27 contd.

In July 2017, the court instructed that a reviewer should be appointed to examine the compromise settlement. In January 2018, the reviewer's opinion was submitted to the court whereby it may be determined that the agreement is appropriate, fair and reasonable, given the affairs of the class members. The court instructed the Attorney General to submit his final opinion with respect to the compromise settlement. In April 2018, the Attorney General's position was submitted to the court whereby he opposes the compromise settlement with respect to the reviewer's proposal that Harel will refund amounts individually to class members who incurred a loss of more than NIS 50.

28. In June 2016, an action was filed in the Jerusalem District Court against the subsidiary Harel Insurance ("Harel Insurance"), together with an application for its certification as a class action. The subject of the action is the allegation that Harel Insurance ostensibly collects premiums that include a sub-annual supplement on life assurance policies, without explicitly specifying this supplement in the policy. The Plaintiffs argue that Harel Insurance is therefore in breach of the policy provisions, the Commissioner' instructions, the provisions of the Regulation of Non-banking Loans Law and the duty of disclosure and fairness. The Plaintiff also argues that such conduct is a breach of good faith by Harel Insurance, misleads its insureds and compromises their autonomy. The Plaintiff estimates the loss caused to all members of the group it seeks to represent in the amount of NIS 294 million. In January 2018, the parties filed a motion in the court to certify a compromise settlement, in which it was agreed, among other things, that Harel Insurance will send letters to class members informing them of the collection of the "sub-annual" supplement and the possibility for them to change the format of future premium payments to an annual payment in which the sub-annual supplement is not charged. The validity of the compromise settlement is contingent on the court's approval. In March 2018, opposition to the compromise settlement was filed.

29. 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.

30. In August 2016, an action was filed in the Central Region Lod District Court, together with an application for its certification as a class action, against Harel Pension Funds Management Ltd. ("Harel Pension"). The subject of the action is the allegation that in addition to management fees, Harel Pension ostensibly collects payment from its members for a component relating to investment management expenses (a component of direct expenses for performing transactions), which is permissible by law, although in this case Harel neglected to include provision in the contract allowing it do so. The Plaintiff argues that Harel Pension is therefore in breach of the provisions of the pension fund articles and the onerous fiduciary obligations and duty of disclosure that apply to it, it negotiates in bad faith and gives its customers a misleading description. The Plaintiff estimates the total loss claimed for all members of the group that it wishes to represent amounts to approximately NIS 132 million. In April 2017, the court ordered the transfer of the hearing of the motion to the Tel Aviv District Labor Court. In February 2018, the court instructed the Commissioner to submit his position in relation to the proceeding.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

31. 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.
32. 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.
33. 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. In November 2017, the court appointed a reviewer for the compromise settlement.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

34. 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.

35. 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. In January 2018, it was decided to consolidate the hearing with other pending motions for certification of a class action relating to direct expenses in provident funds and education funds. In February 2018, the court ruled that the Commissioner's position should be accepted regarding the proceeding. In May 2018, the Commissioner's position supporting the Defendants was submitted to the court, in which financial institutions may collect direct expenses from members or insureds even if this is not explicitly noted in the financial institution's articles of association, provided that such action is taken in accordance with the provisions of the Supervision of Financial Services (Provident Funds) (Direct Expenses for Performing Transactions) Regulations, 2008 ("the Regulations"). In his position, the Commissioner noted that it is also relevant, with the necessary changes, for insurance companies that manage yield-dependent insurance.

36. 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 was necessary in view of the role of Harel Pension Funds Management Ltd. ("Harel Pension") together with the Nativ Pension Association, in collecting the monthly premiums from the association's members and in view of Harel Pension's position that it did not receive permission from the association's members to collect higher amounts from their allowances. The Plaintiff estimates the amount of the loss caused to members of the group it seeks to represent in the amount of approximately NIS 90 million.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

37. 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. In April 2018, the parties informed the court of their agreement to enter into a mediation process.
38. 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.
39. 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.
40. 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.
41. 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. The parties are conducting a mediation process.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

42. 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.("Harel Pension & Provident") 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. The parties are conducting a mediation process.
43. 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. In January 2018, it was decided to consolidate the hearing with other pending motions for certification of a class action relating to direct expenses in provident funds and education funds. In February 2018, the court ruled that the Commissioner's position should be accepted regarding the proceeding. In May 2018, the Commissioner's position supporting the Defendants was submitted to the court, in which financial institutions may collect direct expenses from members or insureds even if this is not explicitly noted in the financial institution's articles of association, provided that such action is taken in accordance with the provisions of the Supervision of Financial Services (Provident Funds) (Direct Expenses for Performing Transactions) Regulations, 2008 ("the Regulations"). In his position, the Commissioner noted that it is also relevant, with the necessary changes, for insurance companies that manage yield-dependent insurance.
44. 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.
45. 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

46. 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 and with the agreement of Harel Insurance to pay the Plaintiff and his attorney, subject to the court's approval, compensation and attorney's fees of insignificant amounts. Instead of this motion, in February 2018 the parties filed a motion in the court to certify the compromise settlement in which it was agreed, *inter alia*, that Harel Insurance will pay insurance benefits to the group of insureds whose claim had been dismissed in the circumstances mentioned in the motion for certification and it was also stipulated that Harel Insurance will clarify its procedures so as to prevent a recurrence of such cases in the future. The validity of the compromise settlement is contingent on the court's approval.
47. 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.
48. 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.
49. 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.
50. 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.
51. 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 class it seeks to represent.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

52. In December 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, against two other insurance companies, against Clalit Health Services ("Clalit") and against Maccabi Healthcare Services ("Maccabi") ("the Defendants"). The subject of the action is the allegation that the Defendants ostensibly refuse to provide long-term care insurance for people on the autism spectrum or they set out unreasonable conditions for accepting them to the insurance, without their decisions being based on any statistical actuarial or medical data that is relevant to the insured risk and without providing a reason for their decision, as required by 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 or hundreds of millions of shekels.
53. In December 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 does not comply with the statutory provisions with respect to locating beneficiaries and heirs of deceased insureds in life assurance and that it does not pay the heirs or beneficiaries of insureds with long-term care insurance which includes lump-sum compensation when an insured with a long-term care condition dies, the full amounts to which they are entitled according to the policies. The Plaintiff does not quantify the overall loss caused to all members of the class it seeks to represent but it estimates it to be at least NIS 25 million.
54. In January 2018, an action was filed in the Central District Court against the subsidiary Harel Insurance and against five other insurance companies ("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 unlawfully refrain unlawfully from paying insurance benefits to insureds, to third parties and beneficiaries for the VAT component that applies to the cost of damages in those instances where the damage was not actually repaired. The Plaintiff estimates the overall loss argued for all members of the class that she wishes to represent against Harel Insurance in the amount of NIS 19,381,031 for each year and the period for which it wishes to claim is from June 4, 2001, and alternatively from 7 years before the previous claim was filed and/or 7 years before the date of filing this motion. The grounds of the action and motion for certification are the same as those for which a previous action and motion for its certification were filed against the Defendants. On January 3, 2018 the Supreme Court dismissed an appeal on a ruling of the Central-Lod District Court dated February 20, 2017, in which the motion was struck out.

Actions filed after the Reporting Period

55. In March 2018, an action was filed in the Tel Aviv 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") and against five other management companies ("the Defendants"). The subject of the action is the allegation that the Defendants do not make it clear to members who join the pension funds that they manage, who have no survivors, that they do not need insurance cover for death and there is therefore no reason for them to enroll in the insurance track that includes insurance cover for death; furthermore, they do not clearly inform these new members that two years after the enrolment date they will automatically be transferred to a track that includes cover for death and that if their family status does not change, they must inform the fund that they have no interest in this insurance. The Plaintiffs mention that they are unable to estimate the total loss claimed for all members of the class they wish to represent.
56. In April 2018, 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 ostensibly pays insureds who have policies for surgery that do not provide compensation at a rate of half the expenses saved if the surgery is performed by the HMOs, but they receive an undertaking for payment of this compensation for amounts that are actually less than half of the expenses subsequently saved by the company, and it is therefore ostensibly in breach of its undertaking towards them. The Plaintiff estimates the total loss claimed by all members of the class it wishes to represent to be more than NIS 7 million.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

Summary table:

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

Type	Number of claims	Amount claimed NIS million
Actions certified a class action:		
Amount pertaining to the Company and/ or subsidiaries is specified	4	859
Claim relates to several companies and no specific amount was attributed to the Company and/ or subsidiaries	1	225
Claim amount is not specified	1	
Pending requests for certification of actions as class actions:		
Amount pertaining to the Company and/ or subsidiaries is specified	30	4,463
Claim relates to several companies and no specific amount was attributed to the Company and/ or subsidiaries	8	10,547
Claim amount is not specified	12	
Other significant claims	1	16

The total provision for claims filed against the Company as noted above amounts to NIS 115 million (at December 31, 2017, an amount of NIS 110 million).

Note 7 - Contingent liabilities and commitments (Contd.)

B. Other contingent liabilities

1. In June 2004, a claim was filed in the Tel Aviv District Court and an application to approve it as a derivative claim against the subsidiary Yedidim Holdings Management (1994) Ltd. (hereinafter: "Yedidim"), the former Chairman and CEO of Yedidim, and against an additional subsidiary, Harel Pension Funds Management Services (1987) Ltd., which is the controlling shareholder in Yedidim (hereinafter: “the Defendants”), by the minority shareholders Leatid Pension Fund Management Ltd., a subsidiary of Yedidim (hereinafter: "LeAtid") for an amount of NIS 15,605 thousand. The subject of the claim is compensation for Atidit Pension Fund Ltd. (hereinafter: "Atidit"), a pension fund managed by LeAtid, for the use of Atidit’s various resources, such as: the use of the operating infrastructure and goodwill, the use of Adidit’s property, for taking a continuing pension fund and loss of profits. In addition, the plaintiffs claim royalties of NIS 3,177 thousand as part of their personal claim. On July 29, 2010, after investigations had been conducted and written summaries had been submitted as part of the motion to approve the derivative claim, the Court accepted and granted the Plaintiffs the option of suing the Defendants in LeAtid's name in respect of rights which they claim LeAtid is entitled to. On August 24, 2015, the court dismissed the Plaintiffs’ arguments in the matter of the derivative claim and it ruled that they are precluded from making any claim regarding rights stemming from the establishment of the new pension fund and that LeAtid is not entitled to compensation for the use of Atidit’s resources for the purpose of setting up the new fund. The court accepted the Plaintiffs’ personal claim for royalties. In September-December 2015, LeAtid transferred to the Plaintiffs the amounts that in its opinion reflect the full amount that it owes the Plaintiffs under the provisions of the judgment. However the Plaintiffs argue that the amount transferred is not the final amount to which they are entitled according to the judgment. Accordingly, the court appointed an expert to rule on the financial issues that are in dispute. The main point of the dispute between the parties concerns the interest to be added to the principal. At a meeting held with the appointed expert, additional disagreements emerged between the parties. Accordingly, a petition was filed in the court on behalf of the Plaintiffs in which they asked that the expert also address the issue of commissions on account of which there is a dispute. Following a hearing on the subject, the parties reached agreement whereby the expert will also review the issue of the commissions, and with respect to the interest, the court was asked to rule on the dispute between the parties. On August 22, 2016, the court handed down its decision accepting the position of the Defendants whereby the interest according to which the expert will perform the review and will calculate the royalties is the interest in respect of arrears in transferring money from the banking system. In relation to the personal claim, on January 3, 2017, the court-appointed expert submitted a partial opinion on the subject of royalties and on the subject of directors’ fees. Following the expert’s decision on these matters, an amount of NIS 322,356 was paid to the Plaintiffs. The expert has not yet completed his opinion on the subject of the commissions where the parties have agreed that he will also address this matter. On May 25, 2017, a hearing took place in the District Court on the outline of the expert’s review relating to the commissions, at the end of which the parties agreed on an outline for completion of his position. On February 14, 2018, the expert submitted his final expert opinion to the court in which he dismissed the Defendants arguments on the subject of the commissions. On March 12, 2018, the Plaintiffs appealed the opinion of the court-appointed expert which addresses payment of the commissions to which the Plaintiffs are entitled. On May 1, 2018, the Defendants filed a response to the appeal. The gap between the positions of the parties is NIS 171,000 (including interest). 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.

Note 7 - Contingent liabilities and commitments (Contd.)

C. Claims that were settled during the Reporting Period

1. In May 2015, a claim was filed in the Central Region (Lod) District Court against the subsidiary Harel Insurance and three other insurance companies (hereinafter together: "the Defendants"), together with an application for its certification as a class action. The subject of the action was 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. In a 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 March 2017, the Plaintiffs filed an appeal in the Supreme Court against the ruling of the District Court. At a hearing which took place on January 3, 2018, the Supreme Court dismissed the appeal after the petitioners accepted the Supreme Court's offer and withdrew the appeal.
2. In April 2016, an action was filed in the Jerusalem District Court against the subsidiary Harel Insurance, together with a motion for its certification as a class action. The subject of the action was 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. 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 contact; 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. In January 2018, the Jerusalem District Court validated the compromise as a court ruling.
3. In November 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 was 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. In February 2018, the court approved the petitioners' motion from January 2018 to abandon the motion for certification, in which context Harel Insurance agreed, *ex gratia*, to disclose to the relevant insureds the possibility that insureds who stopped smoking two years ago or more may advise Harel Insurance to this effect with the purpose of examining the option to adjust the insurance tariff for the relevant coverages.
4. 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 and another insurance company (hereinafter together: "the Defendants"). The subject of the action was 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. In February 2018, the court approved the Plaintiffs' motion from February 2018 to abandon the motion for certification, and ordered the dismissal of their personal claim and to strike out the motion for certification.

Note 7 - Contingent liabilities and commitments (Contd.)

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

5. In January 2016, an action was filed in the Tel Aviv District Court against the subsidiary Harel Insurance, together with a motion for its certification as a class action. The subject of the action was the allegation that Harel Insurance requires its insureds who have dental insurance to perform X-rays 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 that the amount of the loss caused to all members of the class that she wishes to represent is NIS 200 million. In February 2018, a joint motion was filed in the court for the Plaintiff to abandon the motion for certification, in which context Harel Insurance agreed to pay the Plaintiff and her attorney, subject to the court’s approval, compensation and attorney’s fees of insignificant amounts. In March 2018, the court approved the motion for the Plaintiff to abandon the motion for certification, and it ordered the dismissal of the Plaintiff’s personal claim and that the motion for certification should be struck out.

6. In June 2011, 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 nine other insurance companies (hereinafter together: “the Defendants”). The subject of the action was the allegation that when, due to attachments imposed on insurance benefits 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. On February 8, 2012, the claimants announced that they were abandoning the allegation that the attachments were imposed unlawfully. On February 12, 2012, the court certified the action as a class action. 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 amount of the total compensation that is retained and 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. The 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 examine the possibility of giving individual refunds. In December 2017, the reviewer’s opinion was submitted to the court supporting the position of the Defendants whereby the Defendants’ information systems make it impossible to make individual automated refunds to those entitled. In January 2018, the reviewer’s opinion was submitted to the Attorney General’s for his opinion. In February 2018, the Attorney General’s position was submitted to the court whereby he leaves the decision relating to the reviewer’s recommendations to the discretion of the court. In March 2018, the Central Region District Court validated the compromise settlement as a court ruling.

Note 7 - Contingent liabilities and commitments (Contd.)

Claims that were settled after the Reporting Period

7. In November 2015, 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 Madanes Insurance Agency Ltd. (“Madanes”) (hereinafter together: “the Defendants”). The subject of the action was the allegation 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. In December 2016, the court appointed a reviewer on behalf of the court to examine whether the defendants’ operating profit in professional liability insurance for the medical and para-medical professionals in the relevant years (2009-2015) is exceptional.
   In July 2017, the reviewer’s opinion was submitted to the court whereby the reviewer believes that the joint profit rate of Harel and Madanes in 2009 - 2015 cannot be considered exceptional when compared with the profitability of other insurance companies in Israel in the professional liability sector or in comparison with the profitability of insurance companies in the USA and Australia that operate in the medical malpractice sector. 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 court instructed that the motion for abandonment should be submitted to the Attorney General for his position on the matter. In March 2018, the Attorney General’s position was submitted to the court according to which he does not oppose the motion for abandonment. In April 2018, the Central Region District Court validated the motion for abandonment as a court ruling. The court also instructed that the motion for certification should be struck out and it dismissed the Plaintiffs’ personal claims.
8. 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 subsidiary Harel Insurance (“Harel Insurance”), against another insurance company and against SHR Group Ltd. (“Shachar Plumbing”) (hereinafter together: “the Defendants”). The subject of the action was the allegation that when an insured event occurs, such as damage due to a leak, the insurance companies ostensibly unlawfully collect a deductible from their insureds at a rate higher than the maximum rate specified 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. 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. In April 2018, the Central District Court approved the Plaintiff’s abandonment of the motion for certification, and it instructed that the motion for certification should be struck out and it dismissed of the Plaintiffs’ personal claim.
9. In November 2016, an action was filed in the Central District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance and against four other insurance companies (hereinafter together: “the Defendants”). The subject of the action is the allegation that in life insurance policies associated with mortgages, in which the loan track is one in which the loan principal is returned at the end of the term, the Defendants ostensibly do not pay the insureds, when the insured event occurs, the full outstanding amount of the mortgage, 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.

Note 7 - Contingent liabilities and commitments (Contd.)

Claims that were settled after the Reporting Period (contd.)

Par. 9 contd.

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. In May 2018, the Central District Court approved the Plaintiffs' abandonment of the motion for certification, and it instructed that the motion for certification should be struck out and it dismissed of the Plaintiffs' personal claim.

10. 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 was 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. In May 2018, the court approved the Plaintiff's motion to abandon the motion for certification, and it instructed that the motion for certification, the class action and the Plaintiff's personal claim should be struck out.
11. 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 a motion for its certification as a class action. The subject of the action was 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. In May 2018, the Central District Court dismissed the motion for certification of the claim as a class action.

D. Transactions with related parties

1. Investment in Fuse 9 fund

In February 2018, Harel Insurance undertook to invest USD 14 million in the Fuse 9 real estate fund, which was established with the purpose of locating investment opportunities in developing neighborhoods in southern Florida. The fund will focus on the purchase of real-estate assets with the potential for significant betterment in specific developing areas that are supported by local authority subsidies to encourage private investment. The fund is managed by an entity owned equally by Dr. Shimon Elkabetz, Eyal Peretz and Ofer Tamir ("the Managing Entity"). Dr. Shimon Elkabetz previously served as Co-CEO of Harel Investments and is currently a senior executive in Harel Group. Notably, individual members of the Hamburger family, who are the controlling shareholders of Harel Group, have negligible holdings in the Fuse 9 real-estate fund and in other products managed by the Managing Entity. The fund will operate within the framework of the pre-defined and agreed investment strategy and investment limitations, including restrictions on geographic exposure, leverage and restrictions on types of assets. It is planned that the raising of the funds will be completed in 2018. Harel has not invested members' monies in the fund.

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 March 31 2018		December 31 2017	
	Harel Insurance	EMI	Harel Insurance	EMI
	NIS million	NIS million	NIS million	NIS million
Amount required according to regulations and Commissioner's directives (A)	**5,966**	**66**	5,927	69
The present amount calculated in accordance with the Capital Regulations:				
Tier-1 capital				
Basic Tier-1 capital	**4,268**	**431**	4,319	432
Hybrid tier-1 capital	**351**	**-**	351	-
Total tier-1 capital	**4,619**	**431**	4,670	432
Tier-2 capital				
Subordinated tier-2 capital (B)	**60**	**-**	90	-
Hybrid tier-2 capital (C)	**2,081**	**-**	2,081	-
Total tier-2 capital	**199**	**-**	-	-
Hybrid tier-3 capital	**738**	**-**	741	-
	3,078	**-**	2,912	-
Total present amount calculated in accordance with the Capital Regulations	**7,697**	**431**	7,582	432
Surplus at report date	**1,731**	**365**	1,655	363
Events after the date of the financial statements				
Obsolescence of tier-2 capital	**-**	**-**	(30)	-
Capital raised after date of the report	**-**	**-**	250	-
Dividend distribution	**-**	**-**	(100)	-
Amount retained taking into account events after the date of the financial statements	**1,731**	**365**	1,775	363
Reduced capital requirements for cost of purchase of provident funds which constitutes a restricted surplus	**89**	**-**	90	-
Surplus taking into account events after the date of the financial statements after deducting restricted surpluses	**1,642**	**365**	1,685	363

	As at March 31 2018		December 31 2017	
	Harel Insurance	EMI	Harel Insurance	EMI
	NIS million	NIS million	NIS million	NIS million
A. The required amount includes, inter alia, capital requirements for:				
Activity in non-life insurance	**836**	**66**	816	69
Activity in long-term care insurance [LTC] *	**126**	**-**	126	-
Capital requirements for yield-guaranteed plans	**42**	**-**	41	-
Investment assets and other assets (D)	**1,538**	**-**	1,533	-
Catastrophe risks in non-life insurance	**97**	**-**	95	-
Operating risks	**327**	**-**	316	-
Deferred acquisition costs in life assurance and insurance against illness and hospitalization	**1,816**	**-**	1,792	-
Investment in consolidated management companies and insurers and in Broadgate	**836**	**-**	823	-
Relief in capital requirements for cost of acquiring provident funds	**(189)**	**-**	(190)	-
Extraordinary risks in life assurance (E)	**459**	**-**	449	-
Unrecognized assets as defined in the Capital Regulations (F)	**78**	**-**	126	-
Total amount required under the amended Capital Regulations *	**5,966**	**66**	5,927	69

* Calculation of the capital requirements for supplementary LTC insurance was revised so as not to include a capital requirement for the outstanding contingent claims.

Note 8 - Capital requirements and management (Contd.)

1. (Contd)

B. Including subordinated promissory notes in the amount of NIS 147 million 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. 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.
3. In March 2012, the ISA published draft Joint Investment Trust (Backing Account) Regulations, 2012 ("Backing Account Regulations"), which regulate the amount that an ETN manager is required to deposit in a backing account as a cushion to meet its obligations to the holders of the ETNs, according to the actual risk components of the ETN manager and based on the definitions prescribed in the Backing Account Regulations. The Backing Account Regulations are expected to be approved and enter into force together with the amended to legislation initiated by the ISA to regulate the ETN market, as part of the Joint Investment Trust Law, 1994. At 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.
4. On August 3, 2017, Amendment no. 28 to the Joint Investment Trust Law (respectively: "the Amendment" and "the Law"), in connection with ETFs, was published in the Official Gazette. According to the Amendment, ETNs will cease to exist as a committed asset and they will become mutual funds which are a financial product based on management of the monies of others with the purpose of achieving a certain result consistent with a chosen investment policy. The ETNs will become "exchange traded funds" (ETFs), namely - traded, tracker mutual funds and the provisions of the Law will apply to these funds with the relevant changes on account of 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. In the first and second quarters of 2018, the ISA published the texts of draft regulations and provisions on various matters, in the context of the Amendment. The Amendment will take effect when the regulations promulgated by virtue of the Law enter into force, which is expected to be on October 3, 2018. At the date of this report, the Company believes that Amendment no. 28 could adversely affect the Company's results, although at this stage, it is unable to estimate this effect. On the date of the entering into force of the amendment, the Company will cease to consolidate the ETN assets and liabilities in its financial statements. Consequently, from this date, the Company's assets and liabilities are expected to diminish significantly.
5. Subsidiaries that manage mutual funds and investment portfolios are obligated to hold minimum equity in accordance with the directives of the Israel Securities Authority. The companies work continuously to comply with this requirement. At March 31, 2018, the subsidiaries are in compliance with these requirements.

Note 8 - Capital requirements and management (Contd.)

6. On March 20, 2018, the Board of Directors of Harel Insurance approved the distribution of a cash dividend in the amount of NIS 100 million. The Board of Directors' decision was made after taking into account the financial results of Harel Insurance at December 31, 2017, presenting the distributable surplus of Harel Insurance at December 31, 2017, and examining the capital surplus and capital requirements of Harel Insurance in accordance with its capital management policy and taking into account the expected adoption of Solvency II. The dividend was paid on March 28, 2018.
7. Information about progress in the deployment for implementing Solvency II:

   On June 1, 2017, The Commissioner published a circular “Provisions for the Implementation of an Economic Solvency Regime for Insurance Companies Based on Solvency II”. In the period commencing June 30, 2017 and ending December 31, 2024, the provisions concerning the required capital for solvency will be applied gradually, so that the capital required for solvency at December 31, 2017 will not be less than 65% of the SCR and the capital required for solvency to be calculated on data at December 31, 2024, will not be less than the SCR.

   On December 3, 2017, the Commissioner published a circular on the disclosure format required in the periodic reports and websites of insurance companies relating to the economic solvency regime based on Solvency II. A report on the economic solvency ratio for data at December 31, 2017 will be published on the website when the periodic report is published at June 30, 2018.
   On April 16, 2018, the Commissioner published a circular on “Amendment of the provisions of the consolidated circular regarding reports to the Commissioner - Solvency reporting template”. The circular updates the files to be used for reporting the results of the solvency ratio based on Solvency II to the Commissioner, similar to the QRT reporting templates in the Solvency II directive.

   Harel Insurance performed the calculations 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.
   On December 27, 2017, the Board of Directors of Harel Insurance resolved to establish a safety cushion in accordance with Section 1(A)(2) of a letter addressed to managers of the insurance companies published by the Commissioner of the Capital Market, Insurance and Savings on October 1, 2017. The safety cushion will increase gradually so that at the end of the adjustment period (2024) it will be NIS 1 billion, growing from NIS 0.65 billion in 2017 to NIS 1 billion in 2024 and thereafter.

Note 9 - Material events in the Reporting Period

1. 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. The capital requirements were calculated accordingly. In May 2018, Clalit Health Services and Maccabi Healthcare Services published a tender for group LTC insurance for HMO members.

1. Dividend distribution by Harel Investments

On March 26, 2018, 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 2017. 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 April 12, 2018.

2. Draft Supervision of Financial Services (Provident Funds) (Direct Expenses on Account of Transactions Performed) (Amendment __) Regulations, 2017

On December 3, 2017, draft Supervision of Financial Services (Provident Funds) (Direct Expenses for Performing Transactions) (Amendment no. ___) Regulations, 2017 (“the Draft Regulations”), were published in which it was proposed, among other things, that the temporary provision which stipulates that certain direct expenses will be limited to 0.25% of the total estimated value of the provident fund’s assets (“the Temporary Provision”), should become a permanent statutory provision. It was also proposed that an expense arising from an investment in a high-tech fund, according to its definition in the Joint Investment Trust Law, may be deducted as a direct expense under the aforementioned 0.25% limit. On December 31, 2017, the Temporary Provision expired. On May 14, 2018, the Draft Regulations were approved with various changes made by the Knesset Finance Committee, including, among others, that the Temporary Provision will not become permanent but will be extended to the end of 2019. The final text of the regulations has not yet been published.

3. Replacement of senior officers serving the subsidiaries

On January 1, 2018, Harel Insurance announced that Mr. Moshe Nissan, CEO of the subsidiary, Harel Hamishmar Computers Ltd., and deputy CEO of Harel Insurance, informed the Company of his intention to resign from the position he has held since 2001. Mr. Eyal Efrat, who has been head of the automation and business information department in the Long-term Savings Division of Harel Insurance since 2008, was appointed to replace Mr. Nissan effective January 16, 2018.

4. Liability Adequacy Test

In the Reporting Period an increase of NIS 59 million was recorded in the insurance liabilities, due to a decline in the fair value of the non-marketable assets. In the corresponding period, the insurance liabilities declined by NIS 46 million, due to an increase in the risk-free interest curve.

The effect on the financial results is set out below:

	For the three months ended March 31		For the year ended December 31
NIS million	**2018**	**2017**	**2017**
Increase (decrease) following due diligence of the reserves	59	(46)	50
Total life assurance	59	(46)	50
Non-life insurance	-	-	8
Total effect of interest before tax	59	(46)	58

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

5. Bonus for 2017 for senior officers

   In April 2018, after receiving the approval of the Compensation Committee, the Company's Board of Directors, approved bonuses for the Company officers and functionaries who are included in the compensation plan. The bonuses were calculated on the basis of actual data and based on estimates relating mainly to comparison figures for the results of the operations of other insurance companies included in the comparison group. On the affirmation of a Maalot rating for the subsidiary Harel Insurance and upgrading of the rating outlook to positive, following the creation of a safety cushion for capital management, and on the determination of a Maalot rating for the issuance of two series of bonds, in the total amount of up to NIS 300 million in the Reporting Period, see Note 6.

6. On the issuance of Series 14 – 15 bonds through Harel Financing & Issuing in the Reporting Period, see Note 6.

7. On January 31, 2018, Harel Insurance entered into an agreement whereby part of the arrangement for early retirement by a large employer will be made through a yield-guaranteed, variable monthly income policy to be issued by Harel Insurance. The policies are paid for in lump-sum deposits on the date of the employee's early retirement and are designed to pay the retiree a monthly income for a limited period until the official age of retirement. Over the next five years, deposits in the amount of NIS 300 million are expected to be received.

Note 10 – Material Events After the Reporting Period

1. Full early redemption of bonds (Series 2) of Harel Financing & Issuing

   On June 13, 2018, Harel Financing & Issuing, an SPC (Special Purpose Company) subsidiary of Harel Insurance, intends to make early redemption of the full amount of the Series 2 bonds that it issued, in accordance with an immediate report published by Harel Financing & Issuing on May 27, 2018.

HAREL INSURANCE INVESTMENTS AND FINANCIAL SERVICES LTD

ANNEXES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

A. Information about other financial investments

	As at March 31, 2018 (Unaudited)				
	Presented at fair value through profit or loss	Available for sale	Held to maturity	Loans and Receivables	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Negotiable debt assets (a1)	**243**	**7,397**	**144**	**-**	**7,784**
Non-negotiable debt assets (*)	**-**	**-**	**-**	**13,495**	**13,495**
Shares (a2)	**-**	**922**	**-**	**-**	**922**
Other (a3)	**113**	**1,705**	**-**	**-**	**1,818**
Total other financial investments	**356**	**10,024**	**144**	**13,495**	**24,019**

	As at March 31, 2017 (Unaudited)				
	Presented at fair value through profit or loss	Available for sale	Held to maturity	Loans and Receivables	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Negotiable debt assets (a1)	388	6,704	243	-	7,335
Non-negotiable debt assets (*)	-	-	-	12,305	12,305
Shares (a2)	-	821	-	-	821
Other (a3)	353	1,785	-	-	2,138
Total other financial investments	741	9,310	243	12,305	22,599

	As at December 31, 2017 (Audited)				
	Presented at fair value through profit or loss	Available for sale	Held to maturity	Loans and Receivables	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Negotiable debt assets (a1)	246	6,640	159	-	7,045
Non-negotiable debt assets (*)	-	-	-	13,527	13,527
Shares (a2)	-	916	-	-	916
Other (a3)	191	1,714	-	-	1,905
Total other financial investments	437	9,270	159	13,527	23,393

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

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

A1. Marketable debt assets

	Book value			Amortized cost		
	As at March 31		As at December 31	As at March 31		As at December 31
	2018	2017	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Government bonds	**3,112**	2,634	2,607	**3,034**	2,589	2,532
Other debt assets:						
Other non-convertible debt assets	**4,672**	4,698	4,438	**4,521**	4,576	4,226
Other convertible debt assets	**-**	3	-	**-**	3	-
Total marketable debt assets	**7,784**	7,335	7,045	**7,555**	7,168	6,758
Impairments recognized in profit and loss (in aggregate)	**1**	3	-			

A2. Shares

	Book value			Cost		
	As at March 31		As at December 31	As at March 31		As at December 31
	2018	2017	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Other non-convertible debt assets	**801**	758	799	**695**	663	659
Other convertible debt assets	**121**	63	117	**116**	61	114
Total marketable debt assets	**922**	821	916	**811**	724	773
Impairments recognized in profit and loss (in aggregate)	**69**	71	83			

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 March 31		As at December 31	As at March 31		As at December 31
	2018	2017	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Marketable shares	**339**	497	401	**284**	451	336
Non-marketable shares	**1,479**	1,641	1,504	**1,128**	1,138	1,132
Total other financial investments	**1,818**	2,138	1,905	**1,412**	1,589	1,468
Impairments recognized in profit and loss (in aggregate)	**135**	130	134			
Derivative financial instruments presented in financial liabilities	**632**	586	553			

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

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HAREL INSURANCE INVESTMENTS AND FINANCIAL SERVICES LTD.

SEPARATE FINANCIAL INFORMATION FROM THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at March 31, 2018

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

Telephone: 03-684 8000
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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 March 31, 2018, for the three months ended on that date. The separate interim financial information is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial information for this interim period, based on our review.

We did not review the separate interim financial information from the financial statements of investee companies, in which the investments amount to NIS 750,864 thousand as at March 31, 2018, and where the Company's profit (loss) from these investee companies amounts to NIS 8,388 thousand for the three months ended on that date. The financial statements of those companies were reviewed by other auditors whose review reports were furnished to us, and our conclusion, to the extent that it relates to the financial statements of those companies, is based on the review reports of the other auditors.

Scope of the review

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

Conclusion

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

Somekh Chaikin
Certified Public Accountants

May 30, 2018

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

	March 31		December 31
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Deferred tax assets	**-**	1	-
Fixed assets	**2**	2	2
Investments in investee companies	**5,194**	5,206	5,232
Loans to investee companies	**351**	351	351
Investment property	**21**	20	21
Other receivables	**14**	12	10
Other financial investments			
Other	**352**	295	363
Total other financial investments	**352**	295	363
Cash and cash equivalents	**161**	41	63
Total assets	**6,095**	5,928	6,042
Capital			
Share capital and premium on shares	**333**	351	339
Treasury stock	**(124)**	(149)	(131)
Capital reserves	**523**	331	529
Retained earnings	**4,800**	4,783	4,821
Total capital	**5,532**	5,316	5,558
Liabilities			
Liabilities for benefits to employees, Net	**17**	17	17
Other payables	**129**	130	14
Current tax liabilities	**6**	6	9
Financial liabilities	**411**	459	444
Total liabilities	**563**	612	484
Total liabilities and capital	**6,095**	5,928	6,042

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

Date of approval of the financial statements: May 30, 2018

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

Financial information from the condensed consolidated interim statements of income

	For the three months ended March 31		For the year ended December 31
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profits from investments, net, and financing revenues	**2**	6	15
Revenues from management fees	**30**	26	103
Total revenues	**32**	32	118
General and administrative expenses	**4**	5	18
Financing expenses	**4**	4	18
Total expenses	**8**	9	36
Company's shares in profits of investee companies	**67**	273	622
Profit before taxes on income	**91**	296	704
Taxes on income	**6**	5	20
Profit for period ended attributed to the Company's shareholders	**85**	291	684

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

Financial information from the condensed consolidated interim statements of comprehensive income

	For the three months ended March 31		For the year ended December 31
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profit for the period	85	291	684
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	-	-	1
Foreign currency translation differences for foreign activity	-	(7)	(7)
Group's share in the comprehensive income of investee companies	(5)	(31)	167
Total other comprehensive income (loss) for the period which after initial recognition under comprehensive income was or will be transferred to profit or loss, net of tax	(5)	(38)	161
Other items of comprehensive income which will not be carried over to profit or loss			
Remeasurement of a defined benefit plan	-	-	2
Taxes on income for other items of comprehensive income which will not be carried over to profit or loss	-	-	(1)
Other comprehensive income for the period which will not be carried over to profit or loss, net of tax	-	-	1
Other comprehensive income (loss) for the period, net of tax	(5)	(38)	162
Total income for the period attributed to the company's shareholders	80	253	846

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

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

	Share capital and premium	Capital reserve for assets available for sale	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling shareholders	Capital reserve for revaluation of fixed assets	Retained earnings	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
For the three months ended March 31, 2018 (Unaudited)									
Balance as at January 1, 2018	339	480	(129)	1	(131)	(49)	226	4,821	5,558
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	-	-	85	85
Other comprehensive income (loss)	-	(33)	24	-	-	-	3	1	(5)
Total comprehensive income (loss) for the period	-	(33)	24	-	-	-	3	86	80
Transactions with owners credited directly to equity									
Dividend distributed	-	-	-	-	-	-	-	(107)	(107)
Purchase of Treasury shares	-	-	-	-	(3)	-	-	-	(3)
Re-issuance of Treasury shares	(6)	-	-	-	10	-	-	-	4
Balance As at March 31, 2018	333	447	(105)	1	(124)	(49)	229	4,800	5,532

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

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

	Share capital and premium	Capital reserve for assets available for sale	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling shareholders	Capital reserve for revaluation of fixed assets	Retained earnings	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
For the three months ended March 31, 2017 (Unaudited)									
Balance as at January 1, 2017	351	330	(80)	4	(158)	(49)	164	4,599	5,161
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	-	-	291	291
Other comprehensive income (loss)	-	(2)	(39)	-	-	-	3	-	(38)
Total comprehensive income (loss) for the period	-	(2)	(39)	-	-	-	3	291	253
Transactions with owners credited directly to equity									
Dividend distributed	-	-	-	-	-	-	-	(107)	(107)
Purchase of Treasury shares	-	-	-	-	(12)	-	-	-	(12)
Re-issuance of Treasury shares	-	-	-	-	21	-	-	-	21
Balance As at March 31, 2017	351	328	(119)	4	(149)	(49)	167	4,783	5,316

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

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

	Share capital and premium	Capital reserve for assets available for sale	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling shareholders	Capital reserve for revaluation of fixed assets	Retained earnings	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
For the year ended December 31, 2017 (Audited)									
Balance as at January 1, 2017	351	330	(80)	4	(158)	(49)	164	4,599	5,161
Total comprehensive income (loss) for the period									
Profit for the year	-	-	-	-	-	-	-	684	684
Other comprehensive income (loss)	-	150	(49)	-	-	-	62	(1)	162
Total comprehensive income (loss) for the year	-	150	(49)	-	-	-	62	683	846
Transactions with owners credited directly to equity									
Dividend distributed	-	-	-	-	-	-	-	(461)	(461)
Purchase of Treasury shares	-	-	-	-	(18)	-	-	-	(18)
Re-issuance of Treasury shares	(15)	-	-	-	45	-	-	-	30
Exercising of options	3	-	-	(3)	-	-	-	-	-
Balance as at December 31, 2017	339	480	(129)	1	(131)	(49)	226	4,821	5,558

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 three months ended March 31		For the year ended December 31
		2018	2017	2017
		(Unaudited)	(Unaudited)	(Audited)
		NIS million	NIS million	NIS million
Cash flows from operating activity				
Before taxes on income	A	**26**	18	77
Income tax paid		**(8)**	(3)	(12)
Net cash provided by current operations		**18**	15	65
Cash flows from investing activity				
Investment in fixed assets		**(1)**	(1)	(1)
Dividend from investees		**100**	-	512
Financial investments, net		**6**	(40)	(108)
Repayment of loans and capital notes provided to investees		**2**	4	15
Net cash provided by (used for) investment activity		**107**	(37)	418
Cash flows from financing activities				
Dividend paid		**-**	-	(461)
Repayment of loans from banks and others		**(27)**	(27)	(49)
Net cash used for financing activity		**(27)**	(27)	(510)
Net increase (decrease) in cash and cash equivalents		**98**	(49)	(27)
Cash and cash equivalents at beginning of the period		**63**	90	90
Cash and cash equivalents at end of the period		**161**	41	63

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

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

	For the three months ended March 31		For the year ended December 31
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Annex A - Cash flows from operating activities before taxes on income			
Profit for the period attributed to the Company's shareholders	**85**	291	684
Items not involving cash flows			
Company's shares in revenues of investee companies	**(67)**	(273)	(622)
Net losses (profits) from financial investments	**3**	(2)	1
Financing income, net	**(11)**	(8)	(1)
Taxes on income	**6**	5	20
Depreciation and amortization	**1**	-	-
Changes in other balance sheet items			
Other receivables	**(4)**	5	7
Other payables	**13**	-	(12)
Total adjustments required to present cash flows from operating activities	**(59)**	(273)	(607)
Total cash flows from operating activities, before taxes on income	**26**	18	77

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

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

A. General

Following is a summary of financial information from the condensed consolidated interim financial statements of the Group as at March 31, 2018 ("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, 2017, and with the consolidated financial statements.

B. Definitions

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

C. Method of preparing the financial information

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

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

1. In accordance with a permit to control and hold the means of control in insurers and management companies, the Company undertook, at all times, to supplement the equity of the insurance companies that are included among the financial institutions it controls, including ICIC, to the amount prescribed in the Supervision of Financial Services (Insurance) (Minimum Equity Required of Insurers) Regulation, 1998, or any other regulation or law that may replace them, and also to supplement at all times the equity of the provident fund and pension fund management companies it controls, to the amount prescribed in the Income Tax (Rules for the Approval and Management of Provident Funds) Regulations, 1965, or any other regulation or law that may replace them. This undertaking is irrevocable and will remain in force as long as the Company controls the financial institutions, directly or indirectly.
2. On March 29, 2018, Yedidim Agency, a wholly owned subsidiary of the Company, repaid a capital note in the amount of NIS 2 million. This repayment was made from Yedidim Agency’s independent sources.

Note 3 - Significant events during the reporting period

1. Dividend distribution

   On March 26, 2018, 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 2017. 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 April 12, 2018.
2. On a changeover of senior officers, see Note 9 to the consolidated financial statements.
3. On a bonus in respect of 2017 paid to senior officers, see Note 9 to the consolidated financial statements.

Harel Insurance Investments and Financial Services Ltd.

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

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

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

In this instance, management consists of:

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

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

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

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

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

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

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

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

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

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

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

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

In the annual report concerning the effectiveness of the internal control over financial reporting and disclosure that was included in the Periodic Report for the period ended December 31, 2017 (hereinafter – the last annual report on internal control), the Board of Directors and management assessed the Company's internal control; based on this assessment, the Board of Directors and management of the Company concluded that this internal control, at December 31, 2017, is effective.

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

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

Certification

I, Michel Siboni, hereby certify that:

1. I have reviewed the quarterly report of Harel Insurance Investments and Financial Services Ltd. (hereinafter - the Company) for Q1 2018 ("the Reports");
2. Based on my knowledge, the Reports contains no misstatement of a material fact nor do they omit any statement of a material fact necessary to ensure that the presentations that they contain, in light of the circumstances under which such presentations were included, shall not be misleading with respect to the period covered in the Reports;
3. Based on my knowledge, the financial statements and other financial information contained in the Reports reasonably reflect, in all material respects, the financial position, results of operations, and cash flows of the Company at the dates and periods covered in the Reports;
4. Based on my most recent assessment of the internal control over financial reporting and disclosure, I disclosed to the auditors, to the Board of Directors and the Audit Committee and Financial Reports Committee of the Company:
   A. Any significant deficiencies and material weaknesses in the determination or application of the internal control over financial reporting and disclosure that might reasonably compromise the Insurance Company's ability to record, process, summarize and report financial information in a manner that may cast doubt on the reliability of the financial reporting and preparation of the financial reports pursuant to the provisions of the law; and –
   B. Any fraud, whether material or immaterial, that involves the General Manager (CEO) or any person directly accountable to him or other employees who hold a significant role in the internal control over financial reporting and disclosure;
5. I, myself or together with others in the Company:
   A. Defined controls and procedures, or ensured that such controls and procedures are determined and in place under my oversight, for the purpose of ensuring that material information relating to the Company, including its subsidiaries as they are defined in the Securities (Annual Financial Reports) Regulations, 2010, is brought to my attention by others in the Company and the subsidiaries, particularly during the preparation of the Report; and -
   B. Defined controls and procedures, or ensured that such controls and procedures are determined and in place under my oversight, for the purpose of providing a reasonable measure of certainty as to the reliability of the financial reporting and to ensure that the financial reports are prepared in accordance with the provisions of the law, including in accordance with generally accepted accounting standards;
   C. No event or matter which took place during the period between the date of the last report (quarterly or periodic, as applicable) and the date of this report was brought to my attention, that might alter the conclusion of the Board of Directors and Management in relation to the effectiveness of the Company's internal control over financial reporting and disclosure.

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

May 30, 2018

Michel Siboni

CEO

Certification

I, Arik Peretz, hereby certify that:

1. I have reviewed the interim financial statements and other financial information contained in the interim financial statements of Harel Insurance Investments and Financial Services Ltd. ("the Company") for Q1 2018 ("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 Corporation's internal control over financial reporting and disclosure.

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

May 30, 2018

Arik Peretz

CFO