Harel Insurance Investments and Financial Services Ltd.

Interim Report as at
March 31, 2019

Condensed Interim Financial Statements as at March 31, 2019

Board of Directors Report

Harel Insurance Investments and Financial Services Ltd.

Board of Directors Report

for the three months ended March 31, 2019

The Board of Directors Report for the three months ended March 31, 2019 ("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 2018 which was published on March 31, 2019 ("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 the following subsidiaries that are provident fund and pension fund management companies: Harel Pension and Provident Ltd. (fully controlled) ("Harel Pension & Provident”), which manages pension and provident funds; Tzva Hakeva Savings Fund - Provident Funds Management Company Ltd. (under full control) (“Tzva Hakeva Saving Fund - Provident Funds Management Company Ltd. (fully controlled) (“Tzva Hakeva”); 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 segment - the Company operates through the subsidiary Harel Finance Ltd. ("Harel Finance") (wholly controlled by the Company) and its key subsidiaries: Harel Mutual Funds Ltd. (“Harel Mutual Funds”) - a mutual fund management company; Harel Finance Investment Management Ltd. (“Harel Finance Investments”) - which is a licensed portfolio manager and manages investment portfolios; Harel Index Trade Ltd. - which is involved in market making for the ETFs managed by Harel Mutual Funds.

The Company's separate operations center on the management, control and supervision of the subsidiaries, on-going planning of the Group's operations, and initiating activity and investments, both directly and through the Group's companies.

1.2 The Company’s shareholders

At the date of publication of the report, Yair Hamburger, Gideon Hamburger and Nurit Manor (in this section: “the Shareholders”), hold 49.49% of the voting rights the issued share capital of the Company.

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 and events in the Reporting Period

2.1.1 Maalot Rating

On the affirmation of a Maalot rating for the subsidiary Harel Insurance, see Note 6.C to the Financial Statements.

2.1.2 Extension of a shelf prospectus

On the extension of a shelf prospectus by the second-tier subsidiary, Harel Insurance, Financing and Issuing Ltd. (Harel Financing & Issuing), see Note 9 to the Financial Statements.

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

2.2.1 Issuance of bonds (Series 16) of Harel Financing & Issuing

On the issuing of a new series of bonds (Series 16) of Harel Financing & Issuing by way of a shelf offering report, see Note 6.C to the Financial Statements.

2.2.2 Full early redemption of bonds (Series 3) of Harel Financing & Issuing

On May 31, 2019, Harel Financing & Issuing, a special purpose subsidiary (SPC) of Harel Insurance, intends to make early redemption of the full amount of the Series 3 bonds that it issued, in accordance with an immediate report published by Harel Financing & Issuing on April 29, 2019.

2.2.3 Convening of an Annual General Meeting

On April 29, 2019, the Company’s Board of Directors resolved to convene an Annual General Meeting of the Company with the following items on the agenda: (1) discussion of the Periodic Report for 2018; (2) appointment of external auditors for 2019 and authorizing 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 Joseph Ciechanover and Eli Defes). The meeting is scheduled for June 4, 2019.

2.2.4 Dividend distribution

On a decision from April 29, 2019, concerning the distribution of a dividend, that was paid on May 20, 2019, see Note 10 to the Financial Statements.

2.2.5 Agreement with a grandson of the Company's controlling shareholder

On the entering into agreement by the subsidiary Harel Finance to employ a grandson of Mr. Yair Hamburger, who is one of the Company's controlling shareholders, see Note 7.D to the Financial Statements.

2.3 Developments in the macroeconomic environment of the Group

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

2.3.1 General

The global macroeconomic picture in the first quarter, indicates a moderation of the growth rate compared with the rate of growth last year. The International Monetary Fund revised the global forecast downwards, and particularly for Europe.

In the financial markets, share indices rose sharply but yields on government bonds dropped in light of the expectation that for the time being, the global monetary squeeze will be halted, the positive progress in talks between the US and China and assessments that the slowdown will not, at the moment, lead to recession.

In the US, the pace of inflation moderated and the Federal Reserve left interest rates as they were, at the same time revising the forecast for growth and interest rates downwards. Additionally, the Fed announced its intention of ending the financial squeeze earlier than expected.

In Europe, economic activity continues to lose momentum and market sentiment indices remain weak. The ECB left the interest rate unchanged and revised the forecast for growth and inflation downwards. The ECB also renewed its plan to provide credit to the commercial banks. In the UK, risk levels remained high due to the uncertainty surrounding Brexit.

In Japan, economic activity moderated in the first quarter after recovering somewhat in the previous quarter.

In the emerging markets, there are signs of relative stability; in China growth remained stable in the first quarter. The price of oil rose rapidly in the first quarter due to a drop in supply.

2.3.2 Developments in the Israeli economy

Growth in Q1 2019 was 5.2% at an annual rate, an acceleration compared with the previous quarters. Some of this rapid growth is attributable to the increase in car imports. Labor market data continue to show a positive picture as the unemployment rate fell to 4.1% in the first quarter and wages continue to increase rapidly, led by the business sector. Nevertheless, the percentage of job openings continued to decline.

2.3.3 Stock market

By the end of Q1 2019, the MSCI World Index was up sharply by 12.6% and the corresponding MSCI Emerging Markets Index rose by 10%, but this followed sharp declines in the previous quarter. In Israel, the TA-125 index rose by 6.4% in that same period while the TA-90 index increases by 10.2%. The average daily turnover of trade in shares and convertible instruments was NIS 1.2 billion in Q1, down 28% compared with the corresponding quarter last year.

2.3.4 Bond market

In Q1 2019, the general bond index was 3.2% up, in the same period the government bond index rose by 2.8% and the corporate bond index rose by 3.8%. During the quarter, the average daily turnover of trade in bonds was NIS 3.5 billion, a 14% decline compared with the corresponding quarter last year.

2.3.5 Mutual funds

The mutual funds raised only NIS 80 million net in Q1 2019, but this followed redemptions of close to NIS 9.5 billion in the previous quarter. In particular, the mutual funds specializing in bonds performed extremely poorly (minus NIS 1.3 billion), but the money market funds continued to raise funds (NIS 2.6 billion).

2.3.6 Foreign exchange market

In Q1 2019, the shekel strengthened 3.5% against the Bank of Israel nominal basket of currencies; it appreciated 3.1% against the dollar, 5% against the Euro, 3.9% against the yen and 1.3% against the Pound Sterling. Sharp price increases in the stock markets during the quarter, together with the surplus in the current account in the balance of payments both contributed to the shekel appreciation.

2.3.7 Inflation

According to the last known index at the end of the quarter (February), the CPI declined by 0.3% in Q1 2019 (December - February) and inflation for the last 12 months was 1.2%. The main items contributing to the declining index were clothing and shoes and transport and communications, and these were partially offset by an increase in the price of fruit and vegetables and home maintenance.

2.3.8 Bank of Israel interest

The Bank of Israel interest rate remained unchanged at 0.25% in Q1 2019 as well, after increasing in the previous quarter.

2.4 Legislation and regulation in the Group's operating segments

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

2.4.1 Life assurance and long-term savings

2.4.1.1 On May 1, 2018, the Commissioner published a circular concerning the marketing of work disability insurance plans (P.H.I.), which sets out provisions for the marketing of work disability insurance and an obligation to clarify particulars, provide information and fill out an explanatory document as well as an obligation to update coverage that is purchased incidental to a provident fund so that the cumulative cost of all the insurance coverage purchased as part of and incidental to the provident fund during the policy period does not exceed 35% of all the amounts deposited in the retirement benefits component (a draft circular dated March 3, 2019, proposes postponing the commencement of this provision to November 1, 2019). At the same time, the Commissioner published an amendment to a circular on guidelines for work disability policies which includes additional provisions for marketing insurance cover to members of pension funds and riders to the insurance cover that insurers may offer.

2.4.1.2 On March 3, 2019, the Commissioner published an amended draft circular concerning the transfer of money between provident funds. The amended draft circular proposes provisions concerning the possibility of splitting the pension savings components when money is transferred from an insurance fund to a provident fund that is not a pension fund, by leaving the insurance cover for work disability in the transferring fund.

2.4.2 Health insurance

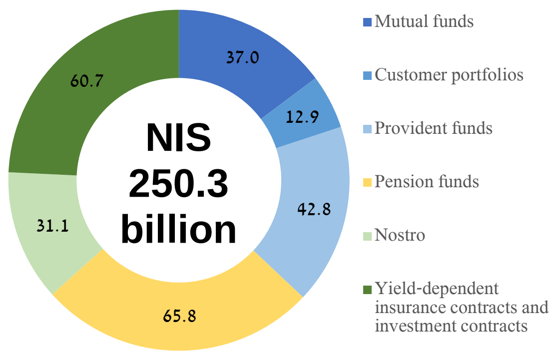
On February 19, 2019, the Commissioner published an amended circular on the involvement of entities that are not licensed to market and sell insurance products that are not group insurance. The amended circular postpones the onset date of the circular on this subject concerning travel insurance to May 1, 2019.

2.4.3 Non-life insurance

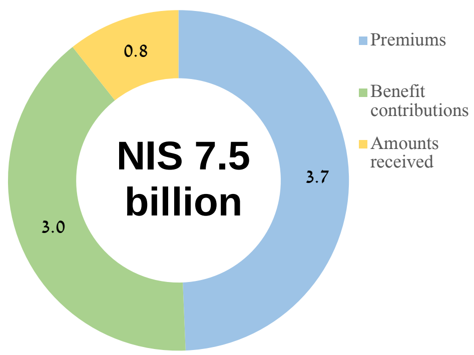
On January 13, 2019, the Committee for the Review of the Discounting Interest Rate for Compensation on account of Bodily Injury in Torts published an interim report for public review. Among other things, the draft report recommends that the standard discounting interest rate will be determined on the basis of the yields of 25-year corporate bonds with a rating of AA and it will be 3%. The draft report also recommends creating an update mechanism according to which every two years the yield received from the investment in these corporate bonds will be assessed, and that to the extent that the review indicates a deviation of more than one percent in any direction, the discounting interest rate will be revised.

2.5 Condensed data from the consolidated financial statements of Harel Investments

Assets managed by the Group:



Data on earned premiums, gross benefit contributions and amounts received for investment contracts:



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

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 amounted to NIS 0.8 billion, as against NIS 1.5 billion in the corresponding period last year.

2.5.1 Comprehensive income (loss) by segment (NIS million):

		For the three-month period ended March 31			For the year ended December 31
	Notes	2019	2018	% change	2018
Life assurance and long-term savings					
Life assurance	A	113	(12)	-	228
Pension	B	20	18	11	81
Provident	C	15	10	50	46
Total life assurance and long-term savings segment		**148**	**16**	-	**355**
Non-life insurance					
Compulsory motor	D	15	7	-	(54)
Motor property (CASCO)	E	52	23	-	93
Property and other branches		25	20	25	92
Other liabilities branches	D	(29)	4	-	(80)
Mortgage insurance	F	19	11	73	31
Total non-life insurance segment		**82**	**65**	26	**82**

	Notes	For the three-month period ended March 31			For the year ended December 31
		2019	2018	% change	2018
Health insurance	D	107	22	-	289
Insurance companies overseas		6	3	-	5
Financial services		5	9	(44)	34
Not attributed to segments of operation	F	149	(10)	-	(25)
Total before tax		**497**	**105**	-	**740**
Tax expenses		157	25	-	198
Total after tax		**340**	**80**	-	**542**
Return on Equity in annual terms		21%	6%		9%

Results in the Reporting Period were affected by a decline in the interest rate curve which led to an increase in the insurance liabilities in the life, non-life and health segments, and by yields in the capital market that were higher than in the corresponding period last year. For additional information on special effects on profit, see the table in Section 2.5.2.

A. Results in the Reporting Period compared with the corresponding period last year, were mainly affected by an increase in the collection of variable management fees and by an increase in the financial margin which is attributable to the investments held against yield-guaranteed policies. Income from management fees amounted to NIS 171 million in the Reporting Period, compared with NIS 93 million in the corresponding period last year. Most of the increase in the management fees is attributable to an increase of the variable management fees, which amounted to NIS 71 million in the Reporting Period, compared with NIS 2 million in the corresponding period last year. The increase in the variable management fees was recorded as a result of an increase in the real yields attained by the Company compared with the corresponding period last year. Management fees in the Reporting Period were presented after supplementing a deficit of NIS 75 million in respect of the investment losses created in 2018 in the profit-sharing policies portfolios.

B. Results in the Reporting Period were mainly affected by an increase in deposits and AUM, after offsetting the effect of the erosion in the management fees rate.

C. Results in the Reporting Period were mainly affected by an increase in AUM, after offsetting the effect of the erosion in the management fees rate.

D. Results in the Reporting Period were affected by yields in the capital market which were higher than in the corresponding period last year. In contrast, results in the Reporting Period were affected by an increase in the insurance liabilities due to a decline in the interest rate curve. For additional information, see the table in Section 2.5.2.

E. Results in the Reporting Period were mainly influenced by improved underwriting performance which was attributable to a decline in the volume of claims and a decline in the cost of the average claim.

F. Results in the Reporting Period were affected by yields in the capital market which were higher than in the corresponding period last year.

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

	Notes	For the three-month period ended March 31 2019	2018	Change	For the year ended December 31 2018
Comprehensive income for the period as published in the report		340	80	260	542
Life assurance and long-term savings					
Effect resulting from the due diligence of the reserves and the effects of interest	A	(59)	(59)	-	59
Revised assumptions for calculating liabilities	B	-	-	-	(38)
Revised TUR assumptions	B	-	-	-	(38)
Non-life insurance					
Effect of the decline in the interest rate curve	C	(99)	-	(99)	-
Health insurance					
Revised assumptions in personal lines LTC liabilities	D	-	-	-	(18)
Revised assumptions in personal lines health liabilities	D	-	-	-	138
Effect of the decline in the interest rate curve	E	(13)	-	(13)	-
Total effects, before tax		(171)	(59)	(112)	103
Effect of tax		(58)	(20)	(38)	35
Total effects, after tax		(113)	(39)	(74)	68
Total comprehensive income after adjustment for special effects		453	119	334	474

A. In the Reporting Period an increase of NIS 59 million was recorded in the insurance liabilities, due to a decline in the risk-free interest rate curve used for the Liability Adequacy Test. In the corresponding period last year, 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.

B. Results in 2018 were affected by a revision of the current and future rates of eligibility to Hetz bonds and by a revision of the rate of expenses in annuity payments. Due to these revisions, a NIS 38 million increase was recorded in the insurance liabilities. Furthermore, results in 2018 were affected by a revised study of assumptions for the percentage of insureds who are expected to exercise their entitlement to an annuity (take-up rate). Due to this revision, an increase of NIS 38 million was recorded in the insurance liabilities.

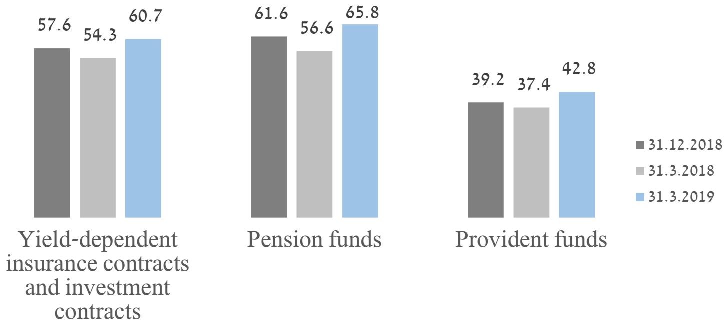
C. Results in the Reporting Period were affected by a decline in the interest rate curve as a result of which the insurance liabilities increased by NIS 99 million (of which NIS 33 million was in the compulsory motor sector and NIS 66 million was in the liabilities and others sector).

D. Results in 2018 were affected by a revised study of morbidity and cancellation assumptions and by an update of expenses in the personal lines long-term care sector. Due to these revisions, an NIS 18 million increase was recorded in the insurance liabilities. Furthermore, results in 2018 were affected by a revised study of morbidity and cancellation assumptions in the personal lines health sector. Due to this revision, a decrease of NIS 138 million was recorded in the insurance liabilities.

E. Results in the Reporting Period were affected by a decline in the interest rate curve as a result of which an increase of NIS 13 million was recorded in the reserve for claims in payment in the personal lines and group long-term care sectors.

2.6 Other key information and influences by segment

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



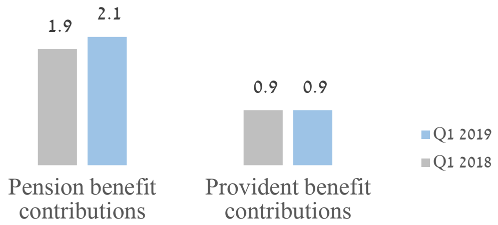
Pension funds - most of the increase in AUM relative to the corresponding period last year is attributable to positive accrual and capital market yields.

Provident funds* - most of the increase in AUM relative to the corresponding period last year is attributable to the merging of the Discount provident fund in the amount of NIS 1.7 billion, positive accrual and capital market yields.

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

* Provident funds, education funds, central and personal severance pay funds, provident fund for sick pay, and a fund for non-contributory pension

2.6.2 Data on benefit contributions (NIS billion):



Provident - the data presented for the Reporting Period include lump-sum deposits of NIS 260 million, mainly in respect of Amendment no. 190 to the Income Tax Ordinance, compared with NIS 399 million in the corresponding period last year.

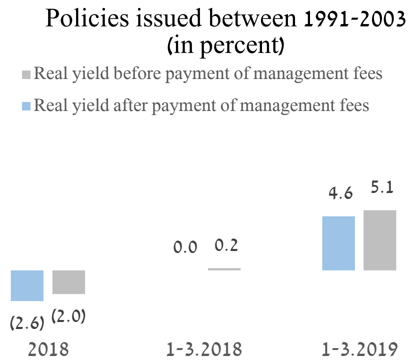
Pension - the increase in benefit contributions compared with the corresponding period last year, is mainly attributable to the enrollment of new members and an increase in the deposits made by existing customers.

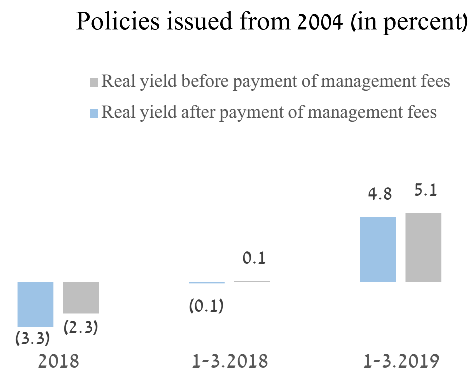
The benefit contributions in the provident funds and pension funds are not included in the Company's consolidated financial statements.

2.6.3 Life assurance

Redemptions as a percentage of the average reserve amounted to 2.8%, similar to the corresponding period last year and 2018 as a whole.

Yield-dependent policies:





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 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-month period ended March 31		**For year ended December 31**
	2019	**2018**	**2018**
Profit (loss) after management fees	2,208	(176)	(966)
Total management fees	171	93	386

2.6.4 Pension funds

The new pension fund Harel Pension attained a nominal yield of 4.47% in the Reporting Period.

Total management fees collected from the pension funds managed by the Group amounted to NIS 80 million in the Reporting Period, compared with NIS 78 million in the corresponding period last year.

2.6.5 Provident funds

The provident funds accrued a net, positive amount (excluding investment profit) of NIS 432 million in the Reporting Period, as against positive accrual of NIS 970 million in the corresponding period last year.

Management fee revenues collected from the pension funds managed by the Group amounted to NIS 63 million in the Reporting Period, compared with NIS 59 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.

2.6.6 Health insurance

In view of the discontinuation of group long-term insurance on December 31, 2017, the losses arising from previous periods have declined significantly. The Company believes that these losses are expected to continue to moderate significantly.

Harel Insurance is the insurer in a group LTC policy for members of Clalit Health Services. In addition to the group long-term care policy for members of Clalit Health Services, Harel provides long-term care insurance for several other groups.

2.6.7 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-month period ended March 31		For the year ended December 31
	2019	**2018**	**2018**
Compulsory motor	(14%)	13%	20%
Motor property (CASCO)	0%	3%	7%
Property and other branches	5%	9%	6%
Other liabilities branches	3%	2%	6%

Number of policies in terms of exposure - non-life insurance activity typically involves policies for a period of up to a year. In view of the nature of the policies, quantity is a multiple of the number of policies within the policy period during the year. This means that if underwriting is carried out for a policy with a period of less than a year, it is multiplied by the relative part of the period so that a policy for six months is half a unit. The number of policies in the Reporting Period was affected in part by the fact that two groups (car fleets) did not renew their compulsory motor policies with the Company.

On September 6, 2018, Harel Insurance was informed that it had been awarded the tender published by the Accountant General for 35% of the scope of motor property insurance and compulsory motor insurance of state employees for 2019-2020. The results of the tender are not expected to significantly affect the financial results of Harel Insurance.

2.6.7.1 Compulsory motor

The decrease in gross premiums compared with the corresponding period last year is mainly attributable to a decreased premium in several group policies.

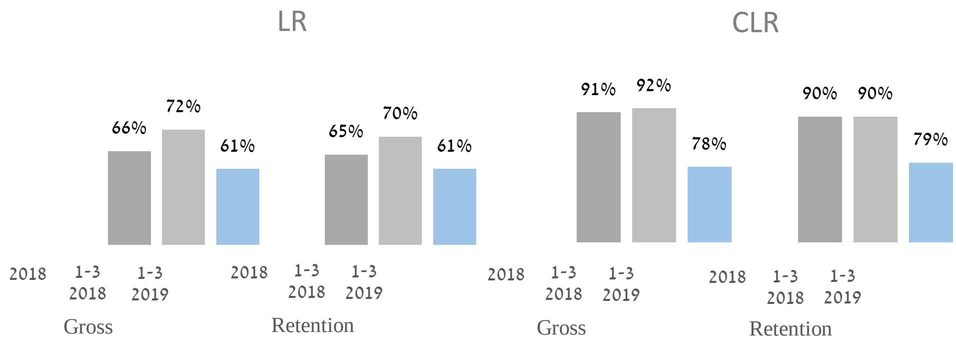
Results in the Reporting Period were affected by yields in the capital market which were higher than in the corresponding period last year. In contrast, results in the Reporting Period were affected by a NIS 33 million increase in the insurance liabilities due to a decline in the interest rate curve.

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 vehicle insurance), which 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 share of the Pool's losses pro rata to its share of the compulsory motor insurance market for the previous year. A letter from the Pool's CEO set the Company's temporary share of the net premiums for 2019 at 12.95% (compared with 12.46% which was the Company's final share for 2018).

2.6.7.2 Motor property (CASCO)

The decrease in gross premiums compared with the corresponding period last year is mainly attributable to a decreased premium in several group policies.

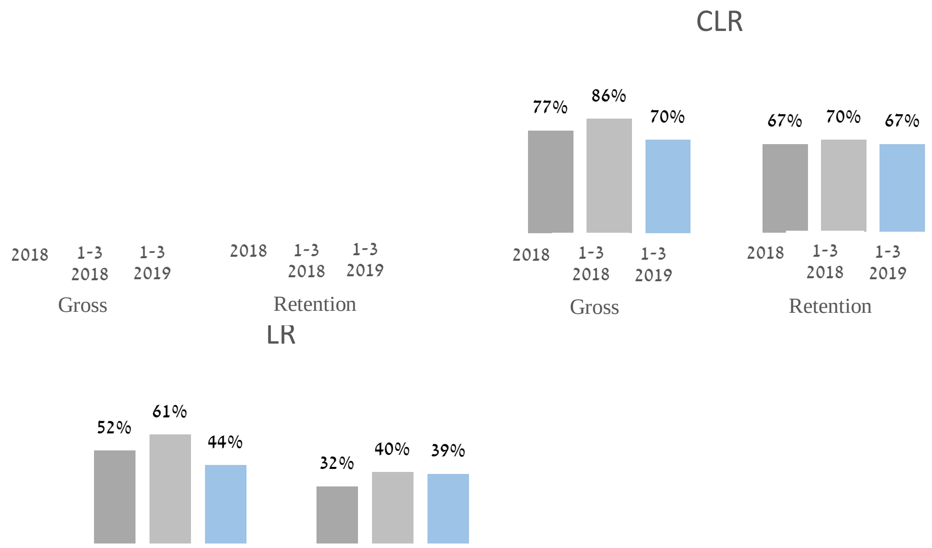
Loss ratio (LR) and combined loss ratio (CLR) in motor property insurance:



2.6.7.3 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 in the corresponding period last year.

Loss Ratio and Combined Loss Ratio in property and other sectors:



2.6.7.4 Liabilities and other branches

Results in the Reporting Period were affected by yields in the capital market which were significantly higher than in the corresponding period last year. In contrast, results in the Reporting Period were affected by a NIS 66 million increase in the insurance liabilities resulting from a decline in the interest rate curve.

2.6.7.5 Credit insurance for mortgages

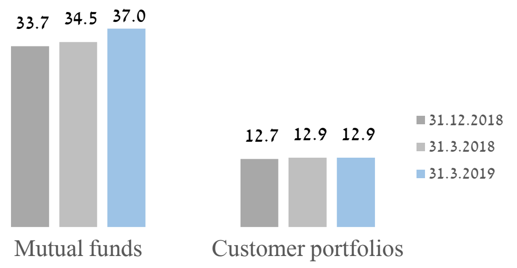
The premiums earned in credit insurance for residential mortgages are not for new sales, but in respect of sales made in the past for which the premiums are recognized as earned premiums according to the period of coverage. EMI has no reinsurance agreements in this line of business.

2.6.8 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 operate in the in non-life insurance and health insurance sectors.

2.6.9 Capital market and financial services

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



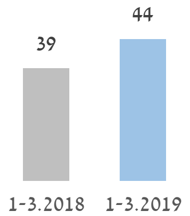
The assets managed in the customer portfolios include financial assets that were issued by the Group and are managed in the portfolios.

Revenues in the capital market and financial services segment amounted to NIS 48 million in the Reporting Period, as against NIS 52 million in the corresponding period last year.

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

Mutual fund assets include data for the mutual funds as well as data for the ETFs and certificates of deposit (CDs), and at March 31, 2018 the mutual fund, ETF and CD data.

Financial services segment – management fees



As part of the restructuring of the Harel Finance group of companies (in light of Amendment no. 28 to the Joint Investment Trust Law), and pursuant to approval given by the board of directors of Harel Index Funds Ltd. on September 26, 2018, in November 2018 a merger agreement was signed between Harel Index Funds Ltd. and a related company, Harel Mutual Funds Ltd. The Company believes that the merger of the companies will provide the merged company with operating advantages and it will also strengthen and position the merged company as the fourth largest manager of mutual fund assets in Israel.

2.7 Liquidity and sources of finance

2.7.1 Cash flows

Net cash flows used in ongoing activity were NIS 622 million in the Reporting Period. Net cash flows used in investment activity amounted to NIS 25 million. Net cash flows used in financing activity were NIS 305 million. The effect of fluctuating exchange rates on the cash balances was a positive NIS 41 million. The outcome of all the above activity is a decrease of NIS 911 million in the cash balances.

2.7.2 Financing of operations

The Company and its subsidiaries generally finance their ongoing operations from their own sources.

In April 2019, Tier-2 capital debt was raised by means of the second-tier subsidiary Harel Financing & Issuing, by way of a public issuance of a new series of bonds (Series 16). For additional information, see Note 6(C)(4)(3) to the Financial Statements.

3 Market risks - exposure and management

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

4 Disclosure regarding the economic solvency ratio

In June 2017, the Commissioner published Insurance Circular 2017-1-9 - "Provisions for the Implementation of an Economic Solvency Regime for Insurance Companies on the Basis of Solvency II" ("Solvency Circular"). The circular prescribes provisions for implementation of an economic solvency regime by insurance companies, based on the Solvency II Directive which was adopted by the European Union and implemented as of January 2016 in all EU member states. This circular imposed on the Company the obligation to establish an economic solvency regime.

Among other things, the circular states that the accounting solvency regime will not apply to insurance companies that the Commissioner has approved as having performed an audit of implementation of the provisions of the Solvency Circular, commencing on the date of the approval and thereafter, subject to cancellation of the old Capital Regulations.

In November 2018, the Company received confirmation from the Commissioner that an external auditor had performed an audit of its implementation of the provisions of the Solvency regime. The external auditor's audit was performed in accordance with ISAE 3400. As a direct consequence, and in view of the repeal of the old Capital Regulations, from December 2018 the Company moved over exclusively to an economic solvency regime. Accordingly, the Company published a report of its economic solvency ratio at December 31, 2017, in the Periodic Report for Q3 2018, in accordance with the requirements of Insurance Circular 2017-1-20 from December 2017, which sets out the structure of the disclosure required in the Periodic Report with respect to an economic solvency regime on the Basis of Solvency II ("the Disclosure Circular").

The capital surplus of Harel Insurance as at December 31, 2017, on a consolidated basis and before the transitional provisions (in terms of SCR of 100%), is NIS 1.3 billion.

Notably, the model in its current format is extremely sensitive to changes in market variables. Consequently, the capital position that it reflects could be extremely volatile. Other factors might also significantly affect the reporting results, so that despite the final instructions, companies were informed that the treatment of these instructions has not yet been finally determined and is subject to change depending on the outcome of the discussions between the Commissioner and the insurance companies in Israel. The data presented below were prepared in accordance with the Commissioner's directives as they were known at the time of preparing the Report. Calculations of the existing economic capital and required capital are based on forecasts and assumptions that rely principally on past experience, and they do not necessarily reflect future performance.

The Best Estimate determination was based on forecasts, assessments and estimates of future events, the materialization of which is uncertain and that are beyond the Company's control, and they should be treated as "forward looking information", according to its definition in Section 32 of the Securities Law, 1968. It is possible that all or some of these forecasts, assessments and estimates may not materialize or they may materialize differently from the manner assumed in calculating the Solvency Report. Actual performance may therefore differ from the forecast.

At December 31, 2017, transitional provisions are in place according to which Harel Insurance must meet 65% of the total capital requirements. The capital required to ensure the solvency of insurance companies will increase gradually by 5% each year, starting with 60% of the SCR until the full SCR is reached in December 2024 (“the Transitional Period”). Furthermore, there is relief in respect of the capital requirements for equity risk.

Information about the solvency ratio and minimum capital requirement (MCR) at December 31, 2017, based on the directives in the Solvency circular published on June 1, 2017:

A. Solvency ratio

	December 31, 2017	December 31, 2016
	NIS million	NIS million
	(Audited)	(Unaudited)
Own funds in relation to the solvency capital requirement (SCR)	**10,812**	10,113
Solvency capital requirement (SCR)	**9,494**	8,459
Surplus (*)	**1,318**	1,654
Solvency ratio	**114%**	120%

(*) Changes in equity (own funds) from the date of the calculation until the first date of publication that were not included in the results:

(a) Tier-2 capital raised in the amount of NIS 250 million. For information about these capital raisings, see Note 25(H) to the annual financial statements.

(b) Tier-2 capital obsolescence in the amount of NIS 78 million.

Taking into account all the aforementioned changes from the cutoff date until the initial date of publication (November 2018) for the solvency ratio in respect of December 31, 2017 data, the capital surplus would have increased from NIS 172 million to NIS 1,490 million, and the solvency ratio would have been 116%.

Compliance with milestones in the Transitional Period:

	December 31, 2017	December 31, 2016
	NIS million	NIS million
	(Audited)	(Unaudited)
Equity (own funds) for the purpose of solvency capital requirement (SCR) in the Scheduling Period	**10,536**	9,564
Solvency Capital Requirement in the Transitional Period	**5,771**	4,758
Surplus in the Transitional Period	**4,765**	4,806

B. Minimum Capital Requirement (MCR)

	December 31, 2017	December 31, 2016
	NIS million	NIS million
	(Audited)	(Unaudited)
Minimum Capital Requirement (MCR)	**1,877**	1,826
Equity for the purpose of MCR	**8,026**	7,551

Creation of a safety net

On December 26, 2018, the Board of Directors of Harel Insurance approved an update to the safety net which had been defined in 2017 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 net will gradually expand so that at the end of the Transitional Period (2024) it will be NIS 1.15 billion (instead of NIS 1 billion as determined in December 2017), increasing from NIS 0.75 billion at the end of 2017 to NIS 1.15 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, 2019

HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at March 31, 2019

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, 2019 and the condensed consolidated interim statements of income, comprehensive income, changes in equity 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 interim financial information in accordance with International Accounting Standard IAS 34 "Interim Financial Reporting", and they are also responsible for the preparation of interim financial information 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 interim financial information of consolidated companies whose assets included in the consolidation comprise 1.69% of all the consolidated assets as at March 31, 2019 and whose revenues included in the consolidation comprise 2.55% of all the consolidated revenues for the three months ended on that date. Furthermore, we did not review the condensed interim financial information of equity accounted investees, in which the investment is NIS 124,141 thousand as at March 31, 2019, and the Group's share of their profits is NIS 2,818 thousand for the three months ended on that date. The condensed interim financial information 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, 2019

Condensed consolidated interim statements of financial position at

	March31		December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Intangible assets	**1,608**	1,490	1,578
Deferred tax assets	**11**	11	13
Deferred Acquisition Costs	**2,515**	2,430	2,475
Fixed assets	**1,381**	1,330	1,326
Investments in equity accounted investees	**1,456**	1,462	1,536
Investment property for yield-dependent policies	**1,644**	1,541	1,628
Other investment property	**1,872**	1,794	1,847
Reinsurance assets	**4,421**	4,512	4,316
Current tax assets	**19**	17	29
Trade and other receivables	**991**	1,593	1,572
Premium due	**1,533**	1,534	1,433
Financial investments for yield-dependent policies	**55,895**	49,536	51,891
Financial investments for holders of ETNs and certificates of deposit	**-**	7,387	-
Other financial investments			
Marketable debt assets	**8,901**	7,819	8,500
Non-marketable debt assets	**13,680**	13,859	13,516
Shares	**1,111**	924	1,164
Other	**2,702**	2,306	2,458
Total other financial investments	**26,394**	24,908	25,638
Cash, cash equivalents and deposits pledged for bearers of ETNs and deposit certificates	**-**	7,957	35
Cash and cash equivalents for yield-dependent contracts	**2,444**	2,302	3,083
Other cash and cash equivalents	**1,349**	1,160	1,621
Total assets	**103,533**	110,964	100,021
Total assets for yield-dependent contracts	**60,679**	54,335	57,630

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

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

	March31		December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Equity and liabilities			
Equity			
Share capital and share premium	**359**	333	359
Treasury shares	**(123)**	(124)	(123)
Capital reserves	**589**	523	431
Retained earnings	**5,429**	4,800	5,247
Total equity attributed to shareholders of the Company	**6,254**	5,532	5,914
Non-controlling interests	**6**	6	6
Total equity	**6,260**	5,538	5,920
Liabilities			
Liabilities for non yield-dependent insurance contracts and investment contracts	**28,330**	27,612	27,634
Liabilities for yield-dependent insurance contracts and investment contracts	**60,144**	53,485	56,742
Deferred tax liabilities	**953**	898	864
Liabilities for employee benefits, net	**262**	256	254
Current tax liabilities	**49**	57	51
Trade and other payables	**3,095**	3,023	3,255
Liabilities for ETNs and certificates of deposit	**-**	14,967	33
Financial liabilities	**4,440**	5,128	5,268
Total liabilities	**97,273**	105,426	94,101
Total equity and liabilities	**103,533**	110,964	100,021

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

Date of approval of the financial statements: May 30, 2019

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
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Premiums earned, gross	**3,696**	3,379 (*)	14,180
Premiums earned by reinsurers	**428**	364	1,518
Earned premiums in retention	**3,268**	3,015	12,662
Profit from investments, net, and financing income	**2,931**	164	560
Income from management fees	**360**	273	1,115
Income from commissions	**94**	88	343
Total income	**6,653**	3,540	14,680
Payments and changes in liabilities for insurance contracts and investment contracts, gross	**5,796**	2,698 (*)	10,890
Reinsurers' share of payments and change in liabilities for insurance contracts	**381**	206	955
Payments and changes in liabilities for insurance contracts and investment contracts in retention	**5,415**	2,492	9,935
Commissions, marketing expenses and other purchasing expenses	**664**	603	2,581
General and administrative expenses	**301**	311	1,200
Other expenses	**4**	4	19
Financing expenses, net	**22**	32	210
Total expenses	**6,406**	3,442	13,945
Company's share of profits of equity accounted investees	**8**	17	144
Profit before taxes on income	**255**	115	879
Taxes on income	**70**	30	245
Profit for period	**185**	85	634
Attributed to:			
Shareholders of the Company	**185**	85	634
Non-controlling interests	**-***	-*	-*
Profit for period	**185**	85	634
Basic earnings per share (in NIS)	**0.86**	0.40	2.98

(*) Reclassified
* 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 (loss)

	For the three months ended March 31		For the year ended
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profit for period	**185**	85	634
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	**305**	(44)	(198)
Net change in fair value of financial assets classified as available-for-sale carried over to income statement	**(27)**	(22)	(100)
Loss from impairment of available-for-sale financial assets carried over to income statement	**3**	16	44
Foreign currency translation differences for foreign activity	**(37)**	35	62
Tax benefits (taxes on income) attributable for available-for-sale financial assets	**(97)**	17	86
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	**9**	(11)	(22)
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	**156**	(9)	(128)
Other items of comprehensive income that will not be transferred to profit or loss			
Capital reserve for revaluation of fixed assets	**3**	4	44
Remeasurement of a defined benefit plan	**(5)**	1	9
Tax benefits (taxes on income) for other items of comprehensive income that will not be transferred to profit or loss	**1**	(1)	(17)
Other comprehensive income (loss) for period that will not be transferred to profit or loss, net of tax	**(1)**	4	36
Total other comprehensive income (loss) for period	**155**	(5)	(92)
Total comprehensive income for period	**340**	80	542
Attributed to:			
Shareholders of the Company	**340**	80	542
Non-controlling interests	**-***	-*	-*
Total profit for period	**340**	80	542

* 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, 2019 (Unaudited)											
Balance as at January 1, 2019	359	312	(89)	1	(123)	(49)	256	5,247	5,914	6	5,920
Total comprehensive income (loss) for period											
Profit for period	-	-	-	-	-	-	-	185	185	-*	185
Total other comprehensive income (loss)	-	184	(28)	-	-	-	2	(3)	155	-*	155
Total comprehensive income (loss) for period	-	184	(28)	-	-	-	2	182	340	-*	340
Balance as at March 31, 2019	359	496	(117)	1	(123)	(49)	258	5,429	6,254	6	6,260

* 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, 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 recognized directly in 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 year ended December 31, 2018 (Audited)											
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 year											
Profit for the year	-	-	-	-	-	-	-	634	634	-*	634
Total other comprehensive income (loss)	-	(168)	40	-	-	-	30	6	(92)	-*	(92)
Total comprehensive income (loss) for the year	-	(168)	40	-	-	-	30	640	542	-*	542
Transactions with owners credited directly to equity											
Dividend paid	-	-	-	-	-	-	-	(214)	(214)	-	(214)
Sale of Treasury shares	19	-	-	-	9	-	-	-	28	-	28
Purchase of Treasury shares	-	-	-	-	(7)	-	-	-	(7)	-	(7)
Reissuing of treasury stock	1	-	-	-	6	-	-	-	7	-	7
Balance as at December 31, 2018	359	312	(89)	1	(123)	(49)	256	5,247	5,914	6	5,920

* 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
		2019	2018	2018
		(Unaudited)	(Unaudited)	(Audited)
		NIS million	NIS million	NIS million
Cash flows from operating activity				
Before taxes on income	A	(554)	(1,118)	1,216
Income tax received paid		(68)	(10)	(206)
Net cash from current operations		(622)	(1,128)	1,010
Cash flows from investing activity				
Investment in investees, net		(9)	(31)	(60)
Proceeds from the sale of an investment in an equity accounted investee		60	92	141
Investment in fixed assets		(19)	(48)	(74)
Investment in intangible assets		(66)	(58)	(254)
Dividend and interest received from an investee		9	8	64
Net cash used for investment activity		(25)	(37)	(183)
Cash flows from financing activities				
Issuance of liability notes		-	250	586
Purchase of treasury shares, net		-	1	28
Proceeds of issuance (payment for purchase) of ETNs and covered warrants, net		(33)	131	(1,286)
Short-term credit from banks, net		(120)	20	179
Repayment of loans from banks and others		(152)	(52)	(129)
Dividend paid to the Company's shareholders		-	-	(107)
Net cash provided by financing activity (used for financing activity)		(305)	350	(729)
Effect of exchange rate fluctuations on cash balances and cash equivalents		41	(40)	289
Net increase (decrease) in cash and cash equivalents		(911)	(855)	387
Cash and cash equivalents at beginning of the year	B	4,704	4,317	4,317
Cash and cash equivalents at end of the year	C	3,793	3,462	4,704

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
	2019	2018	2018
	(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	**185**	85	634
Items not involving cash flows:			
Company's share of profit of equity accounted investees	**(8)**	(17)	(144)
Net losses (profits) from financial investments for yield-dependent insurance policies and investment contracts	**(2,441)**	348	1,460
Net profits (losses) from other financial investments			
Marketable debt assets	**42**	(15)	(145)
Non-marketable debt assets	**31**	2	(141)
Shares	**(25)**	(2)	(19)
Other investments	**(283)**	114	205
Financing expenses for financial liabilities	**(468)**	309	3,117
Change in fair value of investment property for yield-dependent contracts	**(4)**	(10)	(48)
Change in fair value of other investment property	**(19)**	(36)	(60)
Depreciation and amortization			
Fixed assets	**28**	22	91
Intangible assets	**36**	31	139
Change in liabilities for non yield-dependent insurance contracts and investment contracts	**705**	681	605
Change in liabilities for yield-dependent insurance contracts and investment contracts	**3,402**	1,488	4,745
Change in reinsurance assets	**(116)**	31	204
Change in DAC	**(44)**	(90)	(142)
Income tax expenses	**70**	30	245
Changes in other statement of financial position items:			
Financial investments and investment property for yield-dependent insurance contracts and investment contracts			
Purchase of investment property	**(12)**	(29)	(78)
Net acquisitions of financial investments	**(1,506)**	(2,207)	(5,764)
Other financial investments and investment property			
Purchase of investment property	**(6)**	(16)	(45)
Net acquisitions of financial investments	**(253)**	(884)	(1,841)
Premiums due	**(110)**	(206)	(124)
Trade and other receivables	**419**	(405)	(655)
Financial investments for holders of ETNs	**-**	(254)	(2,307)
Cash and cash equivalents pledged for holders of ETNs	**35**	152	1,220
Trade and other payables	**(250)**	(245)	1
Liabilities for employee benefits, net	**38**	5	63
Total adjustments required to present cash flows from operating activity	**(739)**	(1,203)	582
Total cash flows from operating activity before taxes on income	**(554)**	(1,118)	1,216
Material activity not in cash			
Transfer of assets and liabilities of ETNs due to regulatory change	**-**	-	16,294
Initial application of IFRS 16 – Leases (Note 3A)	**63**	-	-

(1) Cash flows from operating activities include net purchases and sales of financial investments and investment property for insurance contracts and investment contracts.

(2) As part of the operating activities, interest received was presented at NIS 324 million (for the three months ended March 31, 2018 an amount of NIS 371 million and for 2018 as a whole an amount of NIS 1,654 million) and interest was paid in the amount of NIS 2 million (for the three months ended March 31, 2018 an amount of NIS 4 million and for 2018 as a whole an amount of NIS 173 million).

(3) As part of the operating activity, a dividend received from other financial investments was presented in the amount of NIS 39 million (for the three months ended March 31, 2018, an amount of NIS 73 million and for 2018 as a whole an amount of NIS 274 million).

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

Condensed consolidated interim statements of cash flows (contd.)

	For the three months ended March 31		For the year ended
	2019	2018	2018
	(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	**3,083**	2,758	2,758
Other cash and cash equivalents	**1,621**	1,559	1,559
Retained cash and cash equivalents at beginning of the period	**4,704**	4,317	4,317
Annex C - Cash and cash equivalents at end of period			
Cash and cash equivalents for yield-dependent contracts	**2,444**	2,302	3,083
Other cash and cash equivalents	**1,349**	1,160	1,621
Retained cash and cash equivalents at end of the period	**3,793**	3,462	4,704

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, 2019, 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, 2018 ("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, 2019.

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, 2018, 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. Functional and presentation currency

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

Note 3 - Significant accounting principles

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

A. Initial application of IFRS 16 – *Leases* ("IFRS 16")

IFRS 16 replaces IAS 17 - *Leases* and its related interpretations. The provisions of IFRS 16 eliminate the existing requirement that lessees must classify a lease as an operating or finance lease. Instead, the standard presents another accounting model for all leases, according to which the lessee must recognize a right-of-use asset and lease liability in its financial statements. Nevertheless, IFRS 16 includes two exceptions to the general model whereby a lessee is entitled to not apply the requirements for recognizing a right-of-use asset and lease liability with respect to short-term leases of up to one year and/or leases where the underlying asset has a low value.

The Company began to apply the Standard on January 1, 2018. The application of IFRS 16 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 the illness and hospitalization branches, personal accident, long-term care, foreign workers, travel insurance and dental insurance. 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.

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, 2019 (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	1,548	1,195	825	129	-	-	(1)	3,696
Premiums earned by reinsurers	39	96	266	28	-	-	(1)	428
Premiums earned in retention	1,509	1,099	559	101	-	-	-	3,268
Net profit from investments and financial income	2,524	202	25	18	4	159*	(1)	2,931
Income from management fees	314	1	-	-	44	1	-	360
Income from commissions	11	16	55	6	-	55**	(49)	94
Total income	4,358	1,318	639	125	48	215	(50)	6,653
Payments and changes in liabilities for insurance contracts and investment contracts, gross	3,921	1,041	722	113	-	-	(1)	5,796
Reinsurers' share in payments and changes for insurance contracts liabilities	46	106	194	36	-	-	(1)	381
Payments and changes in liabilities for insurance contracts and investment contracts, in retention	3,875	935	528	77	-	-	-	5,415
Commission, marketing and other acquisition expenses	266	250	139	31	-	27***	(49)	664
General and administrative expenses	141	74	7	4	42	34****	(1)	301
Other expenses	2	-	-	1	1	-	-	4
Financing expenses (incomes), net	1	1	(10)	-	-	30	-	22
Total expenses	4,285	1,260	664	113	43	91	(50)	6,406
Company's share of profits of equity accounted investees	-	1	3	-	-	4	-	8
Profit (loss) before income taxes	73	59	(22)	12	5	128	-	255
Other comprehensive income (loss), before income tax	75	48	104	(6)	-	21	-	242
Total comprehensive income, before income tax	148	107	82	6	5	149*****	-	497
Liabilities in respect of non-yield dependent insurance contracts and investment contracts	12,140	5,215	10,366	613	-	-	(4)	28,330
Liabilities in respect of yield dependent insurance contracts and investment contracts	55,153	4,991	-	-	-	-	-	60,144

* 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 49 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 25 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 3 million.

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Contd.)

	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	1,328 (*)	1,103	829	120	-	-	(1)	3,379
Premiums earned by reinsurers	35	49	253	28	-	-	(1)	364
Premiums earned in retention	1,293	1,054	576	92	-	-	-	3,015
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	1,553	1,112	675	105	52	97	(54)	3,540
Payments and changes in liabilities for insurance contracts and investment contracts, gross	1,188 (*)	786	640	85	-	-	(1)	2,698
Reinsurers' share in payments and changes for insurance contracts liabilities	22	(10)	181	14	-	-	(1)	206
Payments and changes in liabilities for insurance contracts and investment contracts, in retention	1,166	796	459	71	-	-	-	2,492
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	1,550	1,094	612	102	43	93	(52)	3,442
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 contracts and investment contracts	11,939	4,977	10,130	570	-	-	(4)	27,612
Liabilities in respect of yield dependent insurance contracts and investment contracts	48,937	4,548	-	-	-	-	-	53,485

(*) Reclassified

* 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 agencies by 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 26 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 4 million.

Note 4 - Operating segments (Contd.)

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

	For the year ended December 31, 2018 (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	5,614	4,678	3,415	477	-	-	(4)	14,180
Premiums earned by reinsurers	144	215	1,053	110	-	-	(4)	1,518
Premiums earned in retention	5,470	4,463	2,362	367	-	-	-	12,662
Net profit from investments and financial income	(46)	160	191	36	57	168*	(6)	560
Income from management fees	948	4	-	-	151	12	-	1,115
Income from commissions	32	65	195	24	1	220**	(194)	343
Total income	6,404	4,692	2,748	427	209	400	(200)	14,680
Payments and changes in liabilities for insurance contracts and investment contracts, gross	4,636	3,335	2,558	365	-	-	(4)	10,890
Reinsurers' share in payments and changes for insurance contracts liabilities	82	143	651	83	-	-	(4)	955
Payments and changes in liabilities for insurance contracts and investment contracts, in retention	4,554	3,192	1,907	282	-	-	-	9,935
Commission, marketing and other acquisition expenses	959	917	679	112	-	108***	(194)	2,581
General and administrative expenses	565	281	37	14	169	137****	(3)	1,200
Other expenses	10	-	-	2	6	1***	-	19
Financing expenses, net	11	17	26	-	-	158	(2)	210
Total expenses	6,099	4,407	2,649	410	175	404	(199)	13,945
Company's share of profits of equity accounted investees	23	17	37	-	-	67	-	144
Profit before income taxes	328	302	136	17	34	63	(1)	879
Other comprehensive income (loss), before income tax	27	(13)	(54)	(12)	-	(87)	-	(139)
Total comprehensive income (loss) before income tax	355	289	82	5	34	(24)*****	(1)	740
Liabilities in respect of non-yield dependent insurance contracts and investment contracts	12,040	5,167	9,814	617	-	-	(4)	27,634
Liabilities in respect of yield dependent insurance contracts and investment contracts	51,985	4,757	-	-	-	-	-	56,742

* 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 192 million thereof are commissions paid to these agencies by 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 94 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 18 million.

Note 4 - Operating segments (Contd.)

B. Additional information about the non-life insurance segment

	For the three months ended March 31, 2019 (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	320	331	291	340	(1)	1,281
Reinsurance premiums	2	4	216	97	-	319
Premiums in retention	318	327	75	243	(1)	962
Change in outstanding unearned premium, in retention	169	139	18	81	(4)	403
Premiums earned in retention	149	188	57	162	3	559
Profits from investments, net, and financing income	8	2	3	8	4	25
Commission income	-	1	45	9	-	55
Total income	157	191	105	179	7	639
Payments and changes in liabilities for insurance contracts and investment contracts, gross	175	117	106	331	(7)	722
Reinsurers' share of payments and change in liabilities for insurance contracts	1	2	84	107	-	194
Payments and changes in liabilities for insurance contracts and investment contracts in retention	174	115	22	224	(7)	528
Commissions, marketing expenses and other purchasing expenses	11	32	60	36	-	139
General and administrative expenses	1	2	1	2	1	7
Financing expenses, net	(4)	(1)	-	(5)	-	(10)
Total expenses (incomes)	182	148	83	257	(6)	664
Company's share of profits of equity accounted investees	1	-	-	2	-	3
Profit (loss) before income taxes	(24)	43	22	(76)	13	(22)
Other comprehensive income, before income tax	39	9	3	47	6	104
Total comprehensive income (loss) before income tax	15	52	25	(29)	19	82
Liabilities for insurance policies, gross, as at March 31, 2019	2,866	691	941	5,544	324	10,366
Liabilities for insurance policies, retention as at March 31, 2019	2,712	671	195	3,227	324	7,129

* Property and other branches consist mainly of results from the property loss insurance and comprehensive homeowners branches, where the activity from these branches accounts for 75% of all premiums in these lines of business.

** Other liabilities branches consist mainly of third-party insurance and professional liability branches where the activity from these branches accounts for 80% of all premiums in these lines of business.

Note 4 - Operating segments (Contd.)

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

	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 contracts, gross	163	144	141	199	(7)	640
Reinsurer's share of payments and changes in liabilities for insurance contracts	-	7	118	56	-	181
Payments and changes in liabilities for insurance contracts, in retention	163	137	23	143	(7)	459
Commission, marketing expenses and other acquisition costs	9	38	59	35	-	141
General and administrative expenses	2	3	1	2	1	9
Financing incomes, 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 policies, gross, as at March 31, 2018	2,680	711	885	5,491	363	10,130
Liabilities for insurance policies, retention as at March 31, 2018	2,476	677	196	2,895	363	6,607

* Property and other branches consist mainly of results from 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 year ended December 31, 2018 (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	650	834	971	952	(6)	3,401
Reinsurance premiums	7	26	740	298	-	1,071
Premiums in retention	643	808	231	654	(6)	2,330
Change in outstanding unearned premium, in retention	(25)	4	(2)	7	(16)	(32)
Premiums earned in retention	668	804	233	647	10	2,362
Profits from investments, net, and financing income	68	15	14	84	10	191
Commission income	-	8	156	31	-	195
Total income	736	827	403	762	20	2,748
Payments and changes in liabilities for insurance contracts, gross	665	550	502	865	(24)	2,558
Reinsurer's share of payments and changes in liabilities for insurance contracts	(9)	26	427	207	-	651
Payments and changes in liabilities for insurance contracts, retention	674	524	75	658	(24)	1,907
Commission, marketing expenses and other acquisition costs	95	198	226	160	-	679
General and administrative expenses	8	9	9	7	4	37
Financing expenses (income), net	10	2	1	13	-	26
Total expenses (incomes)	787	733	311	838	(20)	2,649
Company's share of the profits of equity accounted investees	15	3	1	18	-	37
Profit (loss) before taxes on income	(36)	97	93	(58)	40	136
Other comprehensive loss before taxes on income	(18)	(4)	(1)	(22)	(9)	(54)
Total comprehensive income (loss) before taxes on income	(54)	93	92	(80)	31	82
Liabilities for insurance policies, gross, as at December 31, 2018	2,637	581	892	5,369	335	9,814
Liabilities for insurance policies, in retention as at December 31, 2018	2,475	554	171	3,038	335	6,573

* Property and other branches consist mainly of 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 77% 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, 2019 (Unaudited)				For the three months ended March 31, 2018 (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	-	-	1,548	1,548	-	-	1,328 (*)	1,328
Premiums earned by reinsurers	-	-	39	39	-	-	35	35
Earned premiums in retention	-	-	1,509	1,509	-	-	1,293	1,293
Profit from investments, net, and financing income	-	-	2,524	2,524	-	-	23	23
Income from management fees	63	80	171	314	59	78	93	230
Income from commissions	-	-	11	11	-	-	7	7
Total income	63	80	4,215	4,358	59	78	1,416	1,553
Payments and changes in liabilities for insurance contracts and investment contracts, gross	1	3	3,917	3,921	1	3	1,184 (*)	1,188
Reinsurers' share of payments and change in liabilities for insurance contracts	-	-	46	46	-	-	22	22
Payments and changes in liabilities for insurance contracts and investment contracts in retention	1	3	3,871	3,875	1	3	1,162	1,166
Commissions, marketing expenses and other purchasing expenses	24	30	212	266	22	31	179	232
General and administrative expenses	22	30	89	141	24	26	99	149
Other expenses	2	-	-	2	2	-	-	2
Financing expenses, net	-	-	1	1	-	-	1	1
Total expenses	49	63	4,173	4,285	49	60	1,441	1,550
Company's share of profits of equity accounted investees	-	-	-	-	-	-	2	2
Profit (loss) before taxes on income	14	17	42	73	10	18	(23)	5
Other comprehensive loss before taxes on income	1	3	71	75	-	-	11	11
Total comprehensive income (loss) before taxes on income	15	20	113	148	10	18	(12)	16

(*) Reclassified

Note 4 - Operating segments (Contd.)

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

	For the year ended December 31, 2018 (Audited)			
	Provident	Pension	Life assurance	Total
	NIS million	NIS million	NIS million	NIS million
Premiums earned, gross	-	-	5,614	5,614
Premiums earned by reinsurers	-	-	144	144
Earned premiums in retention	-	-	5,470	5,470
Profit (losses) from investments, net, and financing income	-	2	(48)	(46)
Income from management fees	243	319	386	948
Income from commissions	-	-	32	32
Total income	243	321	5,840	6,404
Payments and changes in liabilities for insurance contracts and investment contracts, gross	2	11	4,623	4,636
Reinsurers' share of payments and change in liabilities for insurance contracts	-	-	82	82
Payments and changes in liabilities for insurance contracts and investment contracts in retention	2	11	4,541	4,554
Commissions, marketing expenses and other purchasing expenses	93	123	743	959
General and administrative expenses	92	103	370	565
Other expenses	9	1	-	10
Financing expenses, net	-	-	11	11
Total expenses	196	238	5,665	6,099
Company's share of profits of equity accounted investees	-	-	23	23
Profit before taxes on income	47	83	198	328
Other comprehensive income (loss) before taxes on income	(1)	(2)	30	27
Total comprehensive income before taxes on income	46	81	228	355

Note 4 - Operating segments (Contd.)

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

Results by policy category

	Policies which include a savings component (incl. riders) by date of policy issue				Policies with no savings component		
			from 2004		Risk that was sold as a stand-alone policy		
	Until 1990 (1)	Up to 2003	Not yield-dependent	Yield dependent	Personal lines	Group	Total
For the three months ended March 31, 2019 (Unaudited)	NIS million						
Gross premiums	25	231	-	964	286	44	1,550
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(2)
Total							1,548
Amounts received for investment contracts recognized directly in insurance reserves	-	-	11	784	-	-	795
Financial margin including management fees - in terms of comprehensive income (2)	73	101	(16)	70	-	-	228
Payments and changes in liabilities for insurance contracts, gross	143	1,246	66	1,651	187	52	3,345
Payments and change in liabilities for investment contracts	-	-	(3)	575	-	-	572
Total comprehensive income (loss) from life assurance business	21	84	(15)	46	(15)	(8)	113

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

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

Note 4 - Operating segments (Contd.)

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

Results by policy category (Contd.)

	Policies which include a savings component (incl. riders) by date of policy issue				Policies with no savings component		
			from 2004		Risk that was sold as a stand-alone policy		
	Until 1990 (1)	Up to 2003	Not yield-dependent	Yield dependent	Personal lines	Group	Total
For the three months ended March 31, 2018 (Unaudited)				NIS million			
Gross premiums	29	234	- *	748*	272	47	1,330
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(2)
Total							1,328
Amounts received for investment contracts recognized directly in insurance reserves	-	-	99*	1,421*	-	-	1,520
Financial margin including management fees - in terms of comprehensive income (2)	34	34	(4)	59	-	-	123
Payments and changes in liabilities for insurance contracts, gross	149	196	9*	684*	130	48	1,216
Payments and change in liabilities for investment contracts	-	-	-	(32)	-	-	(32)
Total comprehensive income (loss) from life assurance business	(32)	15	(3)	(1)	14	(5)	(12)

(*) Reclassified

(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 - Risk that was sold as a stand-alone policy		
			from 2004				
For the year ended December 31, 2018 (Audited)	**Until 1990 (1)**	**Up to 2003**	**Not yield-dependent**	**Yield dependent**	**Personal lines**	**Group**	**Total**
	NIS million						
Gross premiums	108	937	-	3,277	1,121	180	5,623
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(9)
Total							5,614
Amounts received for investment contracts recognized directly in insurance reserves	-	-	130	4,788	-	-	4,918
Financial margin including management fees - in terms of comprehensive income (2)	23	129	62	257	-	-	471
Payments and changes in liabilities for insurance contracts, gross	536	717	(46)	2,958	503	156	4,824
Payments and change in liabilities for investment contracts	-	-	1	(202)	-	-	(201)
Total comprehensive income (loss) from life assurance business	24	29	72	(17)	112	8	228

(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, 2019 (Unaudited)	Long-term care (LTC) Personal lines	Long-term care (LTC) Group	Other health* long-term **	Other health* short-term **	Total
	NIS million				
Gross premiums	**187**	**335**	**569**	**99**	**1,190**
Payments and changes in liabilities for insurance contracts, gross	**150**	**497**	**325**	**69**	**1,041**

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

For the year ended December 31, 2018 (Audited)	Long-term care (LTC) Personal lines	Long-term care (LTC) Group	Other health* long-term **	Other health* short-term **	Total
	NIS million				
Gross premiums	726	1,266	2,220	486	4,698
Payments and changes in liabilities for insurance contracts gross	588	1,200	1,223	324	3,335

* Of this, personal lines premiums in the amount of NIS 433 million for the three-month period ended March 31, 2019, (personal lines premiums of NIS 406 million for the three months ended March 31, 2018 and for 2018 as a whole, an amount of NIS 1,797 million) and group premiums in the amount of NIS 235 million for the three months ended March 31, 2019, (group premiums of NIS 230 million for the three months ended March 31, 2018, and for 2018 as a whole an amount of NIS 909 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

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 below.

The statutory tax rates applicable to financial institutions, including the Company's subsidiaries which are financial institutions, commencing 2018 and thereafter, are as follows: corporate tax at a rate of 23%, profit tax at a rate of 17% and financial institutions tax at a rate of 34.19%.

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 March31		As at December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Investment property	**1,644**	1,541	1,628
Financial investments			
Marketable debt assets	**20,388**	18,712	19,309
Non-marketable debt assets (*)	**14,008**	12,425	13,083
Shares	**9,298**	8,255	8,922
Other financial investments	**12,201**	10,144	10,577
Total financial investments	**55,895**	49,536	51,891
Cash and cash equivalents	**2,444**	2,302	3,083
Other	**696**	956	1,028
Total assets for yield-dependent contracts **	**60,679**	54,335	57,630
Payables	**58**	21	119
Financial liabilities ***	**122**	459	517
Financial liabilities for yield-dependent contracts **	**180**	480	636
(*) Assets measured at adjusted cost	**577**	669	593
Fair value of debt assets measured at adjusted cost	**622**	718	615

** Including net assets (assets net of financial liabilities) in the amount of 4,419 million, NIS 4,076 million, and NIS 4,236 million as at March 31, 2019 and 2018, and December 31, 2018 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 March31, 2019 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	17,064	3,324	-	20,388
Non-marketable debt assets	-	12,969	462	13,431
Shares	6,868	6	2,424	9,298
Other	8,222	187	3,792	12,201
Total	32,154	16,486	6,678	55,318

	As at March31, 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 December 31, 2018 (Audited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	16,170	3,139	-	19,309
Non-marketable debt assets	-	11,984	506	12,490
Shares	6,383	8	2,531	8,922
Other	6,716	71	3,790	10,577
Total	29,269	15,202	6,827	51,298

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, 2019 (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, 2019	506	2,531	3,790	6,827
Total profits (losses) that were recognized:				
In profit and loss	5	(45)	(78)	(118)
Interest and dividend receipts	(9)	(7)	(59)	(75)
Purchases	69	37	203	309
Sales	-	(92)	(56)	(148)
Redemptions	(71)	-	(8)	(79)
Transfers from Level 3 *	(38)	-	-	(38)
Balance as at March 31, 2019	462	2,424	3,792	6,678
(*) Of which total profits (losses) for the period that has not yet been exercised for financial assets held correct to March 31, 2019	5	(45)	(80)	(120)

* For securities whose rating changed

* For securities whose rating changed

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

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, 2018 (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, 2018	466	2,035	3,218	5,719
Total profits (losses) that were recognized:				
In profit and loss	25	318	499	842
Interest and dividend receipts	(31)	(73)	(227)	(331)
Purchases	277	325	815	1,417
Sales	(5)	(74)	(464)	(543)
Redemptions	(213)	-	(51)	(264)
Transfers from Level 3 *	(13)	-	-	(13)
Balance as at December 31, 2018	506	2,531	3,790	6,827
(*) Of which total profit for the period that has not yet been exercised for financial assets held correct to December 31, 2018	11	314	499	824

* 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 – book value against fair value

	As at March 31		December 31	As at March 31		December 31
	(Unaudited)		(Audited)	(Unaudited)		(Audited)
	Book Value			Fair Value		
	2019	2018	2018	2019	2018	2018
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Loans and receivables:						
Earmarked bonds	**4,989**	4,943	4,938	**6,645**	6,591	6,405
Non-marketable, non-convertible debt assets, excluding bank deposits	**7,547**	7,750	7,584	**8,262**	8,497	8,027
(*) Bank deposits	**1,144**	1,166	994	**1,210**	1,065	1,046
Total non-marketable debt assets	**13,680**	13,859	13,516	**16,117**	16,153	15,478
Investments held to maturity:						
Marketable non-convertible debt assets	**98**	144	117	**104**	152	121
Total Investments held to maturity	**98**	144	117	**104**	152	121
Total	**13,778**	14,003	13,633	**16,221**	16,305	15,599
Impairments recognized in profit and loss (in aggregate)	**18**	14	17			
(*) Of which debt assets measured at fair value	**266**	160	234			

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 on a timely basis, 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, 2019 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	7,588	1,215	-	8,803
Non-marketable debt assets	-	266	-	266
Shares	831	-	280	1,111
Other	1,078	110	1,514	2,702
Total	9,497	1,591	1,794	12,882

	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 December 31, 2018 (Audited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	7,078	1,306	-	8,384
Non-marketable debt assets	-	234	-	234
Shares	898	-	266	1,164
Other	851	60	1,547	2,458
Total	8,827	1,600	1,813	12,240

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, 2019 (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, 2019	266	1,547	1,813
Total profits (losses) that were recognized:			
In profit and loss	-	19	19
In other comprehensive income	(7)	(53)	(60)
Interest and dividend receipts	-	(23)	(23)
Purchases	22	48	70
Sales	(1)	(21)	(22)
Redemptions	-	(3)	(3)
Balance as at March 31, 2019	280	1,514	1,794
(*) Of which total unrealized profits for the period for financial assets held at March 31, 2019	-	19	19

For the 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
(*) Of which total unrealized profit (loss) for the period for financial assets held at March 31, 2018	(1)	10	9

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, 2018 (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, 2018	117	1,405	1,522
Total profits (losses) that were recognized:			
In profit and loss	(3)	58	55
In other comprehensive income	60	112	172
Interest and dividend receipts	(1)	(75)	(76)
Purchases	125	215	340
Sales	(32)	(144)	(176)
Redemptions	-	(24)	(24)
Balance as at December 31, 2018	266	1,547	1,813
(*) Of which, total unrealized profit (loss) for the period for financial assets held at December 31, 2018	(3)	53	50

C. Financial liabilities

1. Financial liabilities presented at amortized cost – book value against fair value

	As at March 31		December 31	As at March 31		December 31
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	Book Value			Fair Value		
	2019	2018	2018	2019	2018	2018
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Loans from banks *	**359**	478	459	**383**	505	473
Loans from non-bank corporations	**-**	30	31	**-**	31	31
Loans from related parties	**11**	11	11	**11**	11	11
Short-term credit from banks and others	**1**	-	121	**1**	-	121
Bonds *	**3,387**	3,101	3,415	**3,748**	3,472	3,584
Total financial liabilities presented at amortized cost	**3,758**	3,620	4,037	**4,143**	4,019	4,220
Subordinated liability notes issued for compliance with the capital requirements	**3,387**	3,215	3,516			

* Including subordinated liability notes

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
	2019	2018	2018
In percent			
Loans	**2.12%**	2.31%	2.75%
Bonds	**1.35%**	1.32%	2.31%

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, 2019 (Unaudited)		
	Level 1	Level 2	Total
	NIS million	NIS million	NIS million
Derivatives (1)	**10**	**463**	**473**
Short sales (2)	**209**	**-**	**209**
Total financial liabilities	**219**	**463**	**682**

	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 December 31, 2018 (Audited)		
	Level 1	Level 2	Total
	NIS million	NIS million	NIS million
Derivatives (1)	214	810	1,024
Short sales (2)	207	-	207
Total financial liabilities	421	810	1,231

(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 351 million, NIS 634 million, and NIS 507 million as at March 31, 2019 and 2018, and December 31, 2018, 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 collaterals in accordance with the conditions prescribed in the contract. The Group's financial institutions have approved credit facilities for their derivative activity. Accordingly, the Group's financial institutions deposited NIS 538 million, NIS 1,168 million and NIS 1,099 million as at March 31, 2019 and 2018 and December 31, 2018, respectively, as collateral to cover its liabilities attributable to this activity (these collaterals are presented under receivables).

(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 the course of 2017 and 2018, the subsidiary deposited an additional NIS 100 million in aggregate.

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, 2019, the Company is in compliance with the financial covenants that were determined.

2. Maalot Rating

On January 10, 2019, Maalot announced affirmation of the ‘ilAA+' rating for the subsidiary Harel Insurance. 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 Financing & Issuing, 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 3-15 bonds. The rating outlook remained positive.

On April 2, 2019, Maalot determined a rating of ‘ilAA-’ for the issue of tier-2 capital instruments by way of an issue of a new series of bonds (Series 16), in the amount of up to NIS 300 million.

On April 16, 2019, Maalot determined a rating of ‘ilAA-’ for the issue of tier-2 capital instruments by way of an issue of a new series of bonds (Series 16), in the amount of up to NIS 600 million. This amount includes the initial facility given on April 2, 2019, in the amount of up to NIS 300 million.

3. Issuance of bonds (Series 16) through Harel Financing & Issuing

On April 16, 2019, Harel Financing & Issuing published a shelf offering report based on a shelf prospectus dated February 27, 2017, the validity of which was extended through February 27, 2020. According to the shelf offering report, Harel Financing & Issuing offered the public up to NIS 600 million par value bonds (Series 16), registered in name, each of NIS 1 par value. The Series 16 bonds are not linked to the CPI or to any currency.

In total, NIS 600 million par value bonds (Series 16) were issued for a total (gross) consideration of NIS 600 million.

Under the conditions set out in the shelf prospectus and the shelf-offering report, the amount raised was deposited with Harel Insurance, to be used at its discretion and for which it is responsible, and Harel Insurance undertook towards the trustee for the bonds (Series 16) to comply with the payment conditions for the bonds (Series 16).

4. Full early redemption of bonds (Series 3) of Harel Financing & Issuing

On April 29, 2019, the board of directors of Harel Financing & Issuing, a second-tier subsidiary of the Company, resolved to make full, early redemption, of the Series 3 bonds that it issued, to be performed on May 31, 2019.

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. The Group's financial institutions have an enforcement plan according to which they review compliance with the regulatory provisions and take action to correct any deficiencies found.

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 submitted from time to time to the Commissioner of Capital Markets, Insurance and Savings in the Ministry of Finance against the Group's financial institutions, regarding the rights of insureds relating to the insurance policies and/or the law. These complaints are handled on a current basis by the public complaints division within the Company. The decisions of the Capital Market, Insurance and Savings Authority on these complaints, if and to the extent that any decision is made, 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 subject of the purchase of insurance cover from the deposits in the provident fund. Additionally, sometimes, the complaining entities even threaten to take action regarding their complaints in the form of class actions. At this time, it is impossible to estimate whether there is any exposure for such complaints and it is not possible to estimate whether the Capital Market, Insurance and Savings Authority will issue an across-the-board decision on these complaints and/or if class actions will be filed as a result of such processes, and it is impossible to estimate the potential exposure to such complaints. Therefore, no provision for this exposure has been included. Furthermore, as part of the policy applied by the Capital Market, Insurance and Savings Authority to enhance the controls and audits of financial institutions, from time to time the Authority conducts in-depth audits of a variety of activities of the Group's financial institutions.

As a result of these audits, the Ministry of Finance may impose fines and/or financial penalties and it may also order that changes should be made with respect to various operations, both in the past and in the future. Regarding instructions with respect to past activity, the Capital Market, Insurance and Savings Authority might request the restitution of money or a change in conditions vis-à-vis policyholders and/or fund members which may impose financial liabilities on the Company's subsidiaries and/or increase the exposure of the subsidiaries that are insurers to a broader range of insurance events to be covered on account of these instructions, in policies that were issued.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

As part of the audits conducted by the Capital Market, Insurance and Savings Authority, during the Reporting Period several in-depth audits were and are being conducted of the health insurance, non-life insurance, customer service, life assurance sectors, as well as information systems, claims settlement and money laundering.

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 motions to recognize claims as class actions filed against the Company and/or companies in the Group.

For motions 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.

Regarding motions to approve an action as a class action under Sections 50 and 51 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 Defendants and it determined that the hearing would be stayed until a decision has been made on the application for permission to appeal and on the appeal. On May 31, 2018, the Supreme Court accepted the motion for permission to appeal, heard it as an appeal and accepted it, reversing the ruling of the District Court and dismissing the motion for certification of the action as a class action. On June 26, 2018, a motion was served to Harel Insurance to hold a further hearing on the judgment, that the plaintiffs filed in the Supreme Court.
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 undertook to 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 undertook to reduce the future collection for the policy factor from these class members at a rate of 25% relative to the amount actually collected. The Defendants also agreed to bear the compensation to the class plaintiff and cover the cost of his lawyer’s fees, by an amount to be decided upon by the court. 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 the breach by way of revising the insured’s accrued savings by the additional amount of savings that would have been accrued if the policy factor had not been collected or by compensating the insured by the aforesaid amount. In addition, from now on, the policy factor will no longer be collected. The class in whose name the class action is litigated comprises insureds of the Defendants who have combined life assurance and savings policies that were drawn up between 1992-2003, where the savings accrued by the insured were compromised due to the collection of the policy factor. In May 2017, the Defendants filed a motion 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 accepted the Defendants’ petition and instructed that the proceeding in the District Court be suspended. In September 2018, the Attorney General’s response was filed to the motion for permission to appeal, according to which his position is that the Central District Court was correct in its decision not to approve the compromise settlement and to partially approve the motion to certify the action as a class action. In February 2019, the motion for permission to appeal was struck out, after the Defendants accepted the Supreme Court’s recommendation to withdraw the motion for permission to appeal, while maintaining all their arguments and rights.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

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. In September 2018, the Commissioner's position was accepted, whereby given that the dispute relates to the interpretation of the policy documents, the Capital Market Authority does not see fit to express its opinion on the matter.
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. In December 2018, the parties filed a motion in the court to approve a compromise settlement in which it was agreed that insureds in the policy would receive index differences for long-term care benefits that were calculated not in accordance with the base index defined in the policy, and that index differences will be paid in respect of long-term care benefits that were calculated not in accordance with the known index on the date of payment in policies that stipulated that the payment will be linked to the known index on the date of payment. Furthermore, provisions were prescribed concerning the way in which payments to the class members will be made in the future. The validity of the compromise settlement is contingent on the court's approval.
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 Central 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 August 2018, at the court's request, the reviewer's supplementary opinion was submitted on various matters, according to which the compensation mechanism defined in the compromise settlement is fair and reasonable. In March 2019, a revised compromise settlement was submitted for the court's approval.
9. In October 2013, an action was filed in the Lod Central District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance. 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 August 2018, at the court's request, the reviewer's supplementary opinion was submitted on various matters, according to which the compensation mechanism defined in the compromise settlement is fair and reasonable. In March 2019, a revised compromise settlement was submitted for the court's approval.
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. In March 2019, the Tel Aviv District Court certified litigation of the claim as a class action. The class in whose name the class action is to be litigated is all insureds in profit-sharing life-assurance policies managed by Harel Insurance, in which the insurance benefits are paid based on an Rm formula.
12. 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. In December 2018, the court dismissed the motion to certify the claim as a class action on the grounds that non-payment of the insurance benefits in respect of the hospitalization period is contrary to the Commissioner's instructions, but it approved the conducting of the action as a class action on the grounds of a breach of an insurance circular on the subject of fair disclosure to insureds when they are enrolled in a health insurance policy. The class in whose name the class action is to be conducted is all Dikla policyholders who purchased long-term care insurance after October 1, 2001, who were entitled to claim insurance benefits in the period between May 29, 2011 and May 29, 2014, and where the proper disclosure form attached to the purchased policy does not mention or refer to the section that states that the date of occurrence of the insured event is the date on which the insured first becomes eligible, or the date on which the insured was discharged from a general or rehabilitation hospital, whichever is later. In May 2019, Dikla filed a motion in the Supreme Court for permission to appeal the decision.
13. In July 2014, a motion for certification of a claim as a class action was filed in the Lod Central 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

Par. 14 contd.

The post-retirement management fees are reset at the time of retirement and unrelated to the rate prior to retirement. This is therefore not considered an increase in the management fees but rather setting the rate of the management fees for the period of retirement. The "Management Fees Circular" which relates to the management companies' obligation to notify their members does not apply to the setting of management fees for pensioners; and the obligation to give notice of a change in the management fees by virtue of the circular does not apply to the management companies with respect to annuity recipients. The parties are conducting a mediation process.

14. 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 Lod Central District Court. 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. In August 2018, the parties filed a motion in the court to certify a compromise settlement in which it was agreed that Harel Insurance will make available to the eligible class members, as they are defined in the compromise settlement, a defined quantity of days of travel insurance free of charge, that can be utilized in accordance with the provisions of the compromise settlement. The validity of the compromise settlement is contingent on the court's approval.
15. 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.
16. In September 2015, an action was filed in the Lod Central District Court together with a motion 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. The mediation proves conducted by the parties was unsuccessful and the hearing on the action was returned for litigation in the court.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

17. 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.
18. 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.
19. In November 2015, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action, against the subsidiary Dikla Insurance Agency Ltd. (under 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 ("First Cause of the Claim"). 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 ("Second Cause of the Claim"). 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. In October 2018, and further to Dikla's announcement that it had taken action to rectify the fault described in the Cause of the First Claim and to the payment of differences to eligible policyholders and that the parties had agreed to the method of terminating the proceeding, the Tel Aviv District Court certified the action as a class action in the Cause for the First Claim and it dismissed the motion for certification of the action as a class action with respect to the Cause of the Second Claim Additionally, attorneys' fees and compensation of insignificant amounts were awarded to the Plaintiff.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

20. In February 2016, an action and application for its certification as a class action was filed in the Lod Central 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.
21. 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. The parties are conducting a mediation process.
22. 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.
23. 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

24. In March 2016, an action was filed in the Lod Central 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.
25. 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. In June 2018, the position of the Capital Market Authority was submitted supporting the position of Harel Pension.
26. 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 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

27. 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.
28. 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. In August 2018, the reviewer’s opinion was submitted to the court whereby the compensation mechanism defined in the compromise settlement is fair and reasonable. In May 2019, a revised compromise settlement was submitted for the approval of the court.
29. 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

Par. 29 contd.

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. In March 2019, the court ordered the transfer of the application for obtaining the Commissioner's position with respect to the dispute which is the object of the motion for certification.

30. 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.

31. In December 2016, an action was filed in the Lod Central District Court, together with an application 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 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. A mediation process conducted by the parties was unsuccessful and litigation of the action was returned to the court. In April 2019, the Tel Aviv District Labor Court partially approved litigation of the action as a class action on the question of the amount of management fees that were collected from members for whom money was deposited in the general pension fund, as a result of cumulative deposits in the comprehensive pension fund that exceeded the limit prescribed by law, and it dismissed the Plaintiffs' other arguments. The class in whose name the class action is to be conducted is any member of Harel Pension and Provident, for whom a general pension fund was opened in the period from December 12, 2009 through April 30, 2019, after the limit for statutory deposits in the comprehensive pension fund had been exceeded, and who was automatically liable, even without receiving notice of such, for the maximum possible management fees by law for his deposits in the general fund, even if under the discount arrangement that was in force for his affairs, he would have been eligible for a discount on the management fees in the comprehensive fund.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

32. 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.
33. In January 2017, an action was filed in the Lod Central District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance. 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.
34. 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.
35. 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.
36. 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

37. 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.
38. In May 2017, a claim was filed in the Lod Central 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. In May 2019, the parties informed the Central District Court that they accept the court's recommendation to terminate the proceeding by way of abandonment. The parties' abandonment of the motion for certification is subject to the court's approval.
39. 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. In February 2019, the court ordered the transfer of the hearing to the Regional Labor Court.
40. 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. In March 2019, the parties informed the court of their agreement to enter into a mediation process.
41. 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

42. In October 2017, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action 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.

43. In October 2017, 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 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.

44. 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.

45. In January 2018, an action was filed in the Lod 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 million 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.

46. 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.

47. In April 2018, an action was filed in the Lod Central District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance. 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.)

48. In June 2018, a claim 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 another insurance company ("the Defendants'). The subject of the action is the allegation that the Defendants refuse to recognize surgery performed for which there is a medical need as an insured event under the conditions of their health insurance policies, on the grounds that it is preventive surgery. The Plaintiff has not estimated the total loss claimed by all members of the class that he wishes to represent.
49. In September 2018, 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 another insurance company ("the Defendants") and against two insurance agencies ("the Defendant Agencies"). The subject of the action is the allegation that the Defendant Agencies ostensibly market insurance policies, inter alia, for the Defendants during meetings with candidates for insurance through representatives who are not authorized agents. This ostensibly in contravention of the law. The Plaintiffs estimate the total loss claimed for all members of the class they wish to represent at about NIS 80 million.
50. In December 2018, 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 two other insurance companies (together "the Defendant Insurance Companies") and against four banks (together "the Defendant Banks"). The subject of the action is the allegation that the Defendant Insurance Companies ostensibly issue structural insurance policies to the owners of buildings that are pledged for the purpose of a mortgage guarantee, despite the fact that when the policies are issued a policy guaranteeing the same building with respect to the same period already exists, whether through the same insurance company or through another insurance company. This, ostensibly, in breach of the explicit statutory provisions while misleading the insureds. The Plaintiffs estimate the total loss claimed for all members of the class they wish to represent to be a nominal amount of NIS 280 million.

Actions filed during the Reporting Period

51. In February 2019, 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 Insurance. The subject of the action is the allegation that Harel Insurance asked insureds in a group policy for the employees of Israel Electric, who received insurance benefits from which tax was not withheld at source, to return the amounts it had paid for these tax payments. The Plaintiff does not quantify the total loss caused to all members of the class it seeks to represent but it estimates the loss at more than NIS 3 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	5	968
Claim relates to several companies and no specific amount was attributed to the Company and/ or subsidiaries	2	285
Claim amount is not specified	2	
Pending requests for certification of actions as class actions:		
Amount pertaining to the Company and/ or subsidiaries is specified	24	3,985
Claim relates to several companies and no specific amount was attributed to the Company and/ or subsidiaries	7	3,833
Claim amount is not specified	11	
Other significant claims	1	16

The total provision for claims filed against the Company as noted above amounts to NIS 120 million (at December 31, 2018, an amount of NIS 121 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 a motion to certify 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 at the time of filing the claim was the controlling shareholder in Yedidim (“the Defendants”), by the minority shareholders Leatid Pension Fund Management Ltd., which at the time of filing the claim was a subsidiary of Yedidim ("LeAtid") for an amount of NIS 15,605 thousand. The subject of the claim is compensation for Atidit Pension Fund Ltd. ("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. 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 loss. 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 argued 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 concerned 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. At that date, the difference between the positions of the parties was NIS 171,000 (including interest). The appeal was heard on July 12, 2018, after which the parties reached agreements whereby the Company will pay the Plaintiffs NIS 110,000 and the Plaintiffs will waive their claims within the context of the appeal. On October 21, 2018, the Company filed an appeal in the Supreme Court on the section pertaining to the personal claim. The appeal centered on two components - dismissal of the arguments regarding lowering of the interest rates, and dismissal of the arguments regarding the offset.

Note 7 - Contingent liabilities and commitments (Contd.)

C. Claims that were settled in the Reporting Period

1. 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 was 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 a 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. In April 2018, the parties filed a motion in the court to certify a compromise settlement and in July 2018, they filed an amended compromise settlement. In January 2019, and after the Attorney General announced that he does not oppose the amended compromise settlement, the court validated the amended compromise settlement as a judgment in which it was agreed, *inter alia*, that Harel Insurance will send the class members letters detailing the reasons underlying the reduced insurance benefits on grounds of contributory negligence and that if instances are found in this context 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. Furthermore, compensation and lawyers’ fees of insignificant amounts were ruled in favor of the Plaintiff.
2. 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 was 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. In December 2018, the parties filed a motion in the court to approve a compromise settlement in which it was agreed that in those cases in which it neglected to do so, Harel will take action to find the beneficiaries and/or heirs of insureds in long-term care policies who are eligible for payment of lump sum insurance benefits, and of insureds in group term life assurance policies who are eligible for insurance benefits, and for payment of the amounts to which they are entitled, as well as payment of interest and linkage, if they were not paid, to the beneficiaries and/or heirs of insureds in group term life assurance policies where the location process began with a delay. In May 2019, the Central Region District Court validated the compromise settlement as a judgment. Furthermore, compensation and lawyers’ fees of insignificant amounts were ruled in favor of the Plaintiff.
3. In November 2016, the Company was served an amended motion for certification of an action as a class action against the subsidiary Harel Insurance, against Clal Insurance Company Ltd. (“Clal Insurance”), and against the Nativ Pension Fund (South and Center) (“Nativ Pension Association”). The amended motion was filed in the Jerusalem District Court as part of an application to certify an action as a class action, which has been conducted against Clal Insurance and Nativ Pension Association since May 2015. The subject of the action was 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 motion for certification (which in 2017 was replaced with Harel Pension & Provident Ltd. (“Harel Pension & Provident”) 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. On May 22, 2019, the Jerusalem District Court dismissed the motion for certification of the action as a class action against Harel Pension & Provident.

Note 7 - Contingent liabilities and commitments (contd.)

D. Transactions with related parties

1. Entering into an employment agreement with a grandson of the Company's controlling shareholder

Under the provisions of Regulation 1B(a)(4) of the Companies (Relief in Transactions with Interested Parties) Regulations, 2000, ("the Relief Regulations"), on May 27, 2019 and on May 30, 2019, the Company's Compensation Committee and Board of Directors, respectively, approved an agreement between the subsidiary Harel Finance and Mr. Idan Tamir, grandson of Mr. Yair Hamburger, one of the controlling shareholders in the Company who is also Chairman of the Company's Board of Directors. According to this agreement, Mr. Tamir will be employed as an analyst in Harel Finance.

Mr. Tamir's employment in Harel Finance will entitle him to a monthly salary of NIS 8,500 plus a refund for travel expenses and other social benefits as generally applicable to employees of this rank in Harel Group.

In the context of the approval of the agreement, the Compensation Committee and Board of Directors confirmed that the agreement is in compliance with the provisions of Regulation 1B(a)(4) of the Relief Regulations, given that the monthly salary payable to Mr. Tamir does not exceed the average monthly wage in the economy, and that it is reasonable given the scope of employment, nature of the position and Mr. Tamir's qualifications to perform the job.

Note 8 - Capital requirements and management

1. Solvency II based economic solvency regime

   On June 1, 2017, , the Commissioner published an insurance circular on “Provisions for the Implementation of an Economic Solvency Regime for Insurance Companies Based on Solvency II” (“Solvency Circular”), which discusses provisions for the implementation of the economic solvency regime for insurance companies. The circular prescribes that from 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 present ratio of the solvency capital requirement (SCR) at December 31, 2018 will not be less than 70% (at December 31, 2017 - 65%), and the SCR to be calculated on data at December 31, 2024 and thereafter will not be less than 100%.

   On December 3, 2017, the Commissioner published a circular on the disclosure format required in the periodic reports and websites of the insurance companies relating to the Solvency II based economic solvency regime (“the Disclosure”). According to the Disclosure Circular, insurance companies must include in their annual and quarterly reports, and also on the dates to be defined on their websites, a report about the solvency ratio in accordance with the appendix to the Disclosure Circular.

   In accordance with the Commissioner’s instructions, the Company published a report on the economic solvency ratio (“the Solvency Report”) in respect of data at December 31, 2017, on its website: https://www.harel-group.co.il/about/harel-group/harel/investor-relations/Pages/repayment-ability.aspx. According to the report, the Company has a capital surplus even without taking the transitional provisions into account. In accordance with the Disclosure Circular, the Company will publish its Solvency Report for data at December 31, 2018, by July 15, 2019.

   The calculation prepared by the Company for data at December 31, 2017 was reviewed in accordance with ISAE 3400 - Review of Future Financial Information. This standard is relevant for audits of the solvency calculation and it is not part of the auditing standards applicable to financial reports. A special report prepared by the external auditors emphasized that the forecasts and assumptions are based, in principle, on past experience, as it emerges from actuarial studies conducted from time to time. In view of the reforms in the capital market, insurance and savings, and changes in the economic environment, past data do not necessarily reflect future performance. In some cases, the information is based on assumptions about future events and management activity that do not necessarily materialize or that may materialize differently from the assumptions that formed the basis for the information. Moreover, actual performance could differ significantly from the information, given that the combination of scenarios of events could materialize in a significantly different manner from the assumptions in the information. In the external auditors’ report, attention is drawn to the information in the Solvency Report regarding the uncertainty that stems from regulatory changes and exposure to contingent liabilities whose effect on the solvency ratio cannot be estimated.

   In November 2018, the Company received the Commissioner’s approval for the audit that was conducted by the external auditors in accordance with the Commissioner’s said instructions. As a direct consequence, and in view of the repeal of the old Capital Regulations, from December 2018 the new capital requirements concerning an economic solvency regime are the only capital requirements that obligate the Company under the Supervision of Financial Services (Insurance) Law, 1981.

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

Note 8 - Capital requirements and management (contd.)

3. 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, 2019, the subsidiaries are in compliance with these requirements.
4. On April 29, 2019, the Board of Directors of Harel Insurance approved the distribution of a cash dividend in the amount of NIS 125 million. The Board of Directors' decision was made after taking into account the financial results of Harel Insurance at December 31, 2018, presenting the distributable surplus of Harel Insurance at December 31, 2018, and examining the capital surplus and capital requirements of Harel Insurance in accordance with its capital management policy and taking into account the provisions of Solvency II. The dividend was paid on May 15, 2019.

Note 9 - Material events in the Reporting Period

1. Liability Adequacy Test (LAT)

Due to a decrease in the risk-free interest rate used for the LAT, Harel Insurance increased the insurance liabilities in the life assurance and long-term savings segment by NIS 59 million and it reduced pre-tax profit and comprehensive income by this amount in the Reporting Period. In the corresponding period last year, due to a decrease in the fair value of the non-marketable assets, Harel Insurance increased the insurance liabilities in the life assurance and long-term savings segment by NIS 59 million and it reduced profit and comprehensive income by the same amount.

Due to a decrease in the risk-free interest curve, Harel Insurance increased the insurance liabilities in the health insurance segment in the reserve for claims in payment in the personal lines and group long-term care sectors by NIS 13 million and it reduced pre-tax profit and comprehensive income by the same amount.

Due to a decrease in the risk-free interest curve, Harel Insurance increased the insurance liabilities in the non-life insurance segment by NIS 99 million and it reduced pre-tax profit and comprehensive income by the same amount (of which NIS 33 million was in the compulsory motor sector and NIS 66 million was in the liabilities and other sectors).

The effect on the financial results is set out below:

	For the three months ended March 31		For the year ended
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Decrease (increase) in the insurance liabilities as a result of the LAT and the effects of interest - life assurance	**(59)**	(59)	59
Increase in the insurance liabilities due to the effects of interest - health insurance	**(13)**	-	-
Increase in the insurance liabilities due to the effects of interest - non-life insurance	**(99)**	-	-
Total effect of the interest rate on profit and comprehensive income before tax	**(171)**	(59)	59
Total effect of the interest rate on profit and comprehensive income after tax	**(113)**	(39)	39

2. On the affirmation of a Maalot rating for the subsidiary Harel Insurance, see Note 6C4.

3. Extension of a shelf prospectus

On February 26, 2017, Harel Financing & Issuing published a shelf prospectus dated February 27, 2017. On February 12, 2019, Harel Financing & Issuing received approval from the ISA to extend the validity of the shelf prospectus until February 27, 2020.

Note 10 – Material Events after the Reporting Period

1. On April 29, 2019, the Company's Board of Directors approved the distribution of a cash dividend in the amount of NIS 128 million (NIS 0.6 per share). The Board of Directors passed the decision after taking into account the Company's financial results as at December 31, 2018. 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 May 20, 2019.

2. Bonus for 2018 for other senior officers

   In April 2019, 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.

3. On approval granted by the Board of Directors of Harel Insurance to distribute a cash dividend in the amount of NIS 125 million, after the Reporting Period, see Note 8.

4. On the issuing of bonds (Series 16) by means of Harel Financing & Issuing, after the Reporting Period, see Note 6C4.

5. On the full early redemption of bonds (Series 3) of Harel Financing & Issuing, after the Reporting Period, see Note 6C4.

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, 2019 (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)	**210**	**8,521**	**98**	**-**	**8,829**
Non-negotiable debt assets (*)	**-**	**-**	**-**	**13,204**	**13,204**
Shares (a2)	**-**	**1,105**	**-**	**-**	**1,105**
Other (a3)	**188**	**1,905**	**-**	**-**	**2,093**
Total other financial investments	**398**	**11,531**	**98**	**13,204**	**25,231**

	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 December 31, 2018 (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)					
Non-negotiable debt assets (*)	210	8,103	117	-	8,430
Shares (a2)	-	-	-	13,191	13,191
Other (a3)	-	1,055	-	-	1,055
Total other financial investments	129	1,746	-	-	1,875
Total other financial investments	339	10,904	117	13,191	24,551

(*) 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
	2019	2018	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Government bonds	**3,734**	3,112	3,431	**3,652**	3,034	3,451
<u>Other debt assets:</u>						
Other non-convertible debt assets	**5,095**	4,672	4,999	**4,937**	4,521	5,024
Total marketable debt assets	**8,829**	7,784	8,430	**8,589**	7,555	8,475
Impairments recognized in profit and loss (in aggregate)	**1**	1	2			

A2. Shares

	Book value			Cost		
	As at March 31		As at December 31	As at March 31		As at December 31
	2019	2018	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Other non-convertible debt assets	**825**	801	788	**715**	695	714
Other convertible debt assets	**280**	121	267	**224**	116	203
Total marketable debt assets	**1,105**	922	1,055	**939**	811	917
Impairments recognized in profit and loss (in aggregate)	**81**	69	84			

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
	2019	2018	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Marketable shares	**478**	339	283	**426**	284	258
Non-marketable shares	**1,615**	1,479	1,592	**1,174**	1,128	1,152
Total other financial investments	**2,093**	1,818	1,875	**1,600**	1,412	1,410
Impairments recognized in profit and loss (in aggregate)	**143**	135	143			
Derivative financial instruments presented in financial liabilities	**350**	632	505			

Other financial investments include mainly investments in ETNs, ETFs, mutual fund participation notes, investment funds, financial derivatives, forward contracts, options and structured products.

HAREL INSURANCE INVESTMENTS AND FINANCIAL SERVICES LTD.

SEPARATE FINANCIAL INFORMATION FROM THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at March 31, 2019

Somekh Chaikin
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To:

The shareholders of Harel Insurance Investments and Financial Services Ltd.

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

Introduction

We reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970, of Harel Insurance Investments and Financial Services Ltd. (hereinafter: "the Company") as at March 31, 2019, and for the three months ended on that date. The separate interim financial information is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial information for 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 756,239 thousand as at March 31, 2019, and where the profit from these investees amounts to NIS 11,285 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, 2019

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

	March 31		December 31,
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Fixed assets	**1**	2	1
Investments in equity accounted investees	**5,727**	5,194	5,414
Loans to investee companies	**351**	351	351
Investment property	**22**	21	22
Other receivables	**17**	14	13
Other financial investments	**491**	352	419
Cash and cash equivalents	**47**	161	235
Total assets	**6,656**	6,095	6,455
Capital			
Share capital and premium on shares	**359**	333	359
Treasury stock	**(123)**	(124)	(123)
Capital reserves	**589**	523	431
Retained earnings	**5,429**	4,800	5,247
Total capital	**6,254**	5,532	5,914
Liabilities			
Deferred tax liabilities	**1**	-	-
Liabilities for employee benefits, net	**18**	17	17
Other payables	**16**	129	128
Current tax liabilities	**6**	6	4
Financial liabilities	**361**	411	392
Total liabilities	**402**	563	541
Total liabilities and capital	**6,656**	6,095	6,455

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

Date of approval of the financial statements: May 30, 2019

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

Separate financial information from the condensed consolidated interim statements of income

	For the three months ended March 31		For the year ended December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profits from investments, net, and financing revenues	**6**	2	16
Revenues from management fees	**31**	30	111
Total revenues	**37**	32	127
General and administrative expenses	**4**	4	17
Financing expenses	**4**	4	16
Total expenses	**8**	8	33
Company's shares in profits of investee companies	**162**	67	562
Profit before taxes on income	**191**	91	656
Taxes on income	**6**	6	22
Profit for period ended attributed to the Company's shareholders	**185**	85	634

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

Separate financial information from the condensed consolidated interim statements of comprehensive income

	For the three months ended March 31		For the year ended December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profit for the period	185	85	634
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	4	-	(1)
Foreign currency translation differences for foreign activity	(7)	-	(12)
The Group's share of the comprehensive income (loss) of investees	159	(5)	(80)
Taxes on income attributable to available-for-sale financial assets	(1)	-	-
Total other comprehensive income (loss) for the period that after initial recognition as part of comprehensive income was or will be transferred to profit or loss, net of tax	155	(5)	(93)
Other items of comprehensive income that will not be transferred to profit or loss			
Remeasurement of a defined benefit plan	-	-	1
Other comprehensive income for the period that will not be transferred to profit or loss, net of tax	-	-	1
Other comprehensive income (loss) for the period, net of tax	155	(5)	(92)
Total comprehensive income for the period attributed to the Company's shareholders	340	80	542

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

Separate 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, 2019 (Unaudited)									
Balance as at January 1, 2019	359	312	(89)	1	(123)	(49)	256	5,247	5,914
Total comprehensive income (loss)									
Profit for the period	-	-	-	-	-	-	-	185	185
Other comprehensive income (loss)	-	184	(28)	-	-	-	2	(3)	155
Total comprehensive income (loss) for the year	-	184	(28)	-	-	-	2	182	340
Balance as at March 31, 2019	359	496	(117)	1	(123)	(49)	258	5,429	6,254

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

Separate 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, 2018 (Unaudited)									
Balance as at January 1, 2018	339	480	(129)	1	(131)	(49)	226	4,821	5,558
Total comprehensive income (loss)									
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 recognized directly in 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.

Separate 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, 2018 (Audited)									
Balance as at January 1, 2018	339	480	(129)	1	(131)	(49)	226	4,821	5,558
Total comprehensive income (loss)									
Profit for the year	-	-	-	-	-	-	-	634	634
Other comprehensive income (loss)	-	(168)	40	-	-	-	30	6	(92)
Total comprehensive income (loss)	-	(168)	40	-	-	-	30	640	542
Transactions with owners recognized directly in equity									
Dividend distributed	-	-	-	-	-	-	-	(214)	(214)
Sale of Treasury shares	19	-	-	-	9	-	-	-	28
Purchase of Treasury shares	-	-	-	-	(7)	-	-	-	(7)
Re-issuance of Treasury shares	1	-	-	-	6	-	-	-	7
Balance as at December 31, 2018	359	312	(89)	1	(123)	(49)	256	5,247	5,914

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

Separate financial information from the condensed consolidated interim statement of cash flows

		For the three months ended March 31		For the year ended December 31
		2019	2018	2018
		(Unaudited)	(Unaudited)	(Audited)
	Annex	NIS million	NIS million	NIS million
Cash flows from operating activity				
Before taxes on income	A	(93)	26	97
Income tax paid		(3)	(8)	(23)
Net cash provided by (used for) current operations		(96)	18	74
Cash flows from investing activity				
Investment in fixed assets		-	(1)	-
Proceeds from sale of fixed assets		-	-	1
Dividend and interest from investees		-	100	217
Financial investments, net		(65)	6	(62)
Repayment of loans and capital notes provided to investees		-	2	99
Net cash provided by (used for) investment activity		(65)	107	255
Cash flows from financing activities				
Dividend paid		-	-	(107)
Repayment of loans from banks and others		(27)	(27)	(50)
Net cash used for financing activity		(27)	(27)	(157)
Increase (decrease) in cash and cash equivalents		(188)	98	172
Cash and cash equivalents at beginning of the period		235	63	63
Cash and cash equivalents at end of the period		47	161	235

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

Separate 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
	2019	2018	2018
	(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	**185**	85	634
Items not involving cash flows			
Company's share of profits of equity accounted investees	**(162)**	(67)	(562)
Net losses (profits) from financial investments	**(3)**	3	2
Change in fair value of investment property	**-**	-	(1)
Financing income, net	**(8)**	(11)	(3)
Taxes on income	**6**	6	22
Depreciation and amortization	**-**	1	-
Changes in other balance sheet items			
Other receivables	**(4)**	(4)	(3)
Other payables	**(108)**	13	8
Liabilities for employee benefits, net	**1**	-	-
Total adjustments required to present cash flows from operating activities	**(278)**	(59)	(537)
Total cash flows from operating activities, before taxes on income	**(93)**	26	97

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, 2019 ("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, 2018, 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.

Note 3 - Significant events after the Reporting Period

On April 29, 2019, the Company's Board of Directors approved the distribution of a cash dividend in the amount of NIS 128 million (NIS 0.6 per share). The Board of Directors made its decision after taking into account the Company's financial performance as at December 31, 2018. 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 May 20, 2019.

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, 2018 (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, 2018, 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 2019 ("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.

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May 30, 2019	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 2019 ("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, 2019	Arik Peretz
	CFO