Harel Insurance Investments and Financial Services Ltd.

Interim Report as at

September 30, 2019

Contents

Board of Directors Report

Harel Insurance Investments and Financial Services Ltd.

Board of Directors Report

for the nine months ended September 30, 2019

The Board of Directors Report for the nine months ended September 30, 2019 ("the Reporting Period"), reflects the principal changes in the state of business of Harel Insurance Investments & Financial Services Ltd. ("Harel Investments" or “the Company") during this period, and it was prepared assuming that the reader is also in possession of the Group's full Periodic Report for 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 (for additional information about the restructuring of Harel Pension & Provident, see Section 2.1.11 below); 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 holed 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. - a company involved in market making for the ETFs managed by Harel Mutual Funds; Alfa Tech Investment Management Ltd., a licensed portfolio manager which manages investments for funds issued by Harel Mutual Funds using computerized models; Harel Finance Alternative R.E. Ltd., a company that serves as a general partner in the partnership Harel Finance Alternative R.E., a limited partnership registered in the USA; Harel Exchange Traded Deposit Ltd., a company that issued bonds backed by deposits.

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. Investment Management & Economic Consulting 2017 LP., 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.

1.3 Assimilation of strategy and the restructuring of Harel Insurance

In the past few years, the Company has successfully implemented its strategic plan. The plan is based on developing the Company's digital capability while analyzing the data already in the Company's possession. This has enabled the Company to integrate advanced digital tools and processes in all its areas of activity, with a view to the customer's needs. In light of the changes in the patterns of customer consumption, social media activity and the way in which customers communicate and use information, the Company has maintained a strategic process, in which it was decided to take a further, radical step forward as a natural progression of the capabilities it has developed, the most important of which are focusing on the different customers, their needs and profiles in all forms of contact between the customer and the Company and with the Company's agents: the development of personalized products tailored to the needs of specific customers and reinforcing the relationship with the customer, providing customized service, with the emphasis on advanced technology processes.

As part of the assimilation of this strategy, on October 30, 2019, the Board of Directors of Harel Insurance approved a restructuring of Harel Insurance. For additional information, see an Immediate Report of the Company dated October 30, 2019 (Ref.: 2019-01-092178).

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 6C 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.

2.1.3 Issuance of bonds (Series 16) by means of Harel Financing & Issuing

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

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

On May 31, 2019, Harel Financing & Issuing made early redemption of the full amount of the Series 3 bonds it had issued, in accordance with a resolution passed by the Board of Directors of Harel Financing & Issuing on April 29, 2019.

2.1.5 Annual General Meeting

On June 4, 2019, an annual general meeting of the Company took place, with the following items on the agenda: (1) discussion of the Periodic Report for 2018; (2) appointment of external auditors for 2019 and appointing the Company's Board of Directors to determine their fee; (3) reappointment of directors serving the Company, who are not external directors, for a further term of office (Yair Hamburger, Gideon Hamburger, Ben Hamburger, Yoav Manor, Doron Cohen, Josef Ciechanover and Eli Defes). The general meeting approved all the items that were on the agenda.

2.1.6 Dividend distribution

On a decision from April 29, 2019, concerning the distribution of a dividend, that was paid on May 15, 2019, see Note 9 to the Financial Statements.

2.1.7 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 7D to the Financial Statements.

2.1.8 Dividend distribution

On a decision from July 14, 2019, concerning the distribution of a dividend, that was paid on July 30, 2019, see Note 9 to the Financial Statements.

2.1.9 Publication of a circular on revised mortality tables

On the publication of an insurance circular concerning "Amendment of the Provisions of the Consolidated Circular on the measurement of liability - Update of the demographic assumptions in life assurance and updated model for improved mortality for insurance companies and pension funds" and its impact on the Company's financial statements, see Note 9 to the Financial Statements.

2.1.10 Supreme Court judgment concerning the discounting interest rate for compensation due to personal injury in torts litigation.

On a Supreme Court judgment concerning the discounting interest rate for compensation due to personal injury in torts litigation, an immediate report of the Company dated August 11, 2019 (ref.: 2019-01-068616) as well as Note 9 to the Financial Statements).

2.1.11 Restructuring - Harel Pension & Provident

On approval for the restructuring by the Company's Board of Directors - transfer of the rights of Harel Insurance in the customer portfolios and the goodwill of the provident activity, to Harel Pension & Provident, followed immediately by the transfer of all the holdings of Harel Insurance in Harel Pension & Provident to the Company, see Note 9 to the Financial Statements.

2.1.12 Revised policy for compensation policy of financial institutions

On the revised compensation policy for the Group's financial institutions, see Section 4 below and also Note 9 to the Financial Statements.

2.1.13 D&O liability insurance

On the extension of a D&O policy, see Note 9 to the Financial Statements.

2.1.14 Effects of a decline in the interest rate curve

On the effects of a decline in the interest rate curve on results in the nine months ended September 30 2019, and in the third quarter of 2019, see Note 9 to the Financial Statements, Section 3.5.1 below and an Immediate Report of the Company dated November 6, 2019, (Reference: 2019-01-095028).

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

2.2.1 Integration of the strategy and restructuring in Harel Insurance

On the assimilation of strategy and restructuring in Harel Insurance, see Section 1.3 above.

2.2.2 Establishment of Hamazpen - Shutaphim Laderech Ltd. ("Hamazpen") and agreement with the CEO of the Company for the sale of the Company's shares in Hamazpen.

On the establishment of Hamazpen and an agreement to sell 10% of the Company's shares in Hamazpen to the Company's CEO, see Note 10 to the Financial Statements.

2.2.3 Approval in principle to perform a placement of bonds through Harel Financing & Issuing and receiving a rating from the rating company

On the approval in principle for issuing a new series of bonds (Series 16) through Harel Financing & Issuing by way of a shelf offering report and on receipt of a rating for this issue, see Note 10 to the Financial Statements.

2.2.4 Approval in principle to perform an expansion of an existing series of bonds through Harel Financing & Issuing

On the approval in principle to perform an expansion of an existing series of bonds (Series 14) through Harel Financing & Issuing by way of an expansion of the series - see Note 10 to the Financial Statements

2.2.5 Continuing decline in the interest rate curve

After the Reporting Period and until close to the date of its publication, the interest rate curve continued to decline which might lead to a further increase in the insurance liabilities. On the other hand, a further decline in the interest rate curve might have a positive impact on the value of the Group's financial assets in a manner that could reduce this aforesaid impact. It should be noted that the information described above is not an assessment of the expected financial results of the Company. This information is only partial and it does not include other components of profit or loss from investments and other effects – see also Note 10 to the Financial Statements and Section 2.5.1 below. The ongoing decline in the interest rate curve is also likely to affect the Company's Solvency ratio.

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 Q3 2019 shows that risks facing the global economy have intensified, mainly in view of the "trade war" between the USA and China, concern of a slowdown in China, the uncertainty over Brexit, tensions in the Persian Gulf and fears of a slowdown in China. The IMF downgraded the forecast for global growth.

In the financial markets, government bond yields continued to decline, also against the backdrop of monetary expansion in the different economies.

In the US, inflation increased, and the labor market and private consumption both remained strong. But activity in the industrial sector continued to weaken, companies' sentiment weakened and recent indicators point to more moderate growth in Q3 2019. The Federal Reserve lowered the interest rate twice in the quarter to a range of 1.75% - 2.0%.

In Europe, private consumption remained stable but industrial output continued to shrink, casting a shadow over the industry-dependent German economy in particular. Inflation in the Eurozone remained low. The ECB lowered the interest rate by 0.1 percentage points and introduced additional, significant expansionist measures.

2.3.2 Growth in China continued to moderate and the repercussions of the trade war and slower rate of growth led the government to continue its expansionist monetary measures.

2.3.3 Developments in the Israeli economy

According to initial indicators, in Q3 2019, growth accelerated to 4.1% at an annual rate.

The unemployment rate dropped to 3.7% in Q3 2019, but this was accompanied by a decrease in the employment and participation rates.

2.3.4 Stock market

By the end of Q3 2019, the MSCI World Index had risen 0.7% but the corresponding MSCI Emerging Markets Index was 4.1% down. During the same period in Israel, the TA-125 share index rose 3.2% and the TA-90 index increased by 9.2%. The average daily turnover of trade in shares and convertible instruments was NIS 1.4 billion in Q3 2019, an increase of 1% compared with the corresponding quarter last year.

2.3.5 Bond market

In Q3 2019, the general bond index was 2.6% up, in the same period the government bond index rose by 3.5% and the corporate bond index rose by 1.4%. In Q3 2019, the average daily turnover of trade in bonds was NIS 3.7 billion, an increase of 13% compared with the corresponding quarter last year.

2.3.6 Mutual funds

In Q3 2019, the mutual fuds raised a net amount of NIS 5.8 billion. In particular, the mutual funds specializing in foreign activity performed extremely poorly, but the funds specializing in bonds did record raisings.

2.3.7 Foreign exchange market

In Q3 2019, the shekel strengthened by 4.4% against the Bank of Israel nominal basket of currencies (the currencies of Israel's main trading partners), appreciating 2.4% against the dollar, 5.3% against the Pound Sterling (GBP), and 6.3% against the Euro. The key factors contributing to the stronger shekel were the increased surplus in the balance of payments current account, together with the expectation that gas exports would begin and that Israel would be included in the international bond index.

2.3.8 Inflation

According to the last known index, at the end of the quarter (August), the CPI declined by 0.7% in Q3 2019 (June-August), and inflation for the last 12 months (until August 2019) was 0.6%, below the inflation target. Clothing and footwear, and fruit and vegetables were the key factors contributing to the lower index in Q3 2019.

2.3.9 Bank of Israel interest

The Bank of Israel interest rate remained unchanged at 0.25% in Q3 2019 as well.

2.4 Legislation and regulation in the Group's operating segments

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

2.4.1 General

2.4.1.1 Circulars

2.4.1.1.1 On September 8, 2019, the Commissioner published a circular concerning an amendment to the consolidated circular: Provisions relating to investment in loans through a third party. The circular determines that the increased investment ceiling for loans that are underwritten by a third party that is a bank (NIS 5 million) will also apply to loans that are underwritten by license holders with a broad license for the provision of credit, the provision of a deposit and credit or for operating a credit brokerage system. The provisions of the circular apply to all financial institutions from their date of publication.

2.4.1.1.2 On July 16, 2019, the Commissioner published a circular concerning financial institutions and customer service - amendment. The circular adds separate provisions aimed at improving the quality of the service that financial institutions provide to their customers, including the duty of a financial institution which provides telephony service including an automated call distribution system (ACD), to provide customers with a professional, human response within 5 minutes of the end of the distribution (with an option to deviate from this time for 10%, on average, of the number of calls a year, at the most). The provisions of the circular will apply to all financial institutions, except for a central severance pay fund in which the sole member is the bank and a central annuity provident fund, from nine months after the publication date, excluding the provision concerning the response time which will enter into force on July 25, 2019.

2.4.1.2 Draft circular

On October 24, 2019, the Commissioner published a draft position paper concerning investment in insurtech companies. The position sets out guidelines for approval granted by the Commissioner for control by an insurer or for insurers to hold more than 20% of a corporation whose purpose is to invest in insurtech ventures, including that the investment will be made exclusively from the insurer's own (Nostro) funds, that the maximum amount of the insurer's investment will not be more than NIS 100 million or 1% of its assets (whichever is lower) and that insurtech companies will invest in technology or digital activity that relates directly to the insurer's areas of activity and is consistent with its strategy.

2.4.2 Life assurance and long-term savings

2.4.2.1 Circulars

2.4.2.1.1 On November 6, 2019, the Commissioner published a circular entitled "Amendment of the Provisions of the Consolidated Circular on the measurement of liability - Update of the demographic assumptions in life assurance and updated model for improved mortality rates for insurance companies and pension funds". Attached to the circular was a position paper updating the demographic assumptions underlying the assessments relating to annuity coefficients at the time of retirement in life assurance policies and pension funds. For additional information, see Section 3.1.9 above.

2.4.2.1.2 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. On April 7, 2019, the commencement date of this provision was postponed 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.

2.4.2.2 Draft circular

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.

2.4.3 Health insurance

2.4.3.1 Circular

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 commencement date of the circular on this subject with respect to travel insurance to May 1, 2019.

2.4.3.2 Draft circular

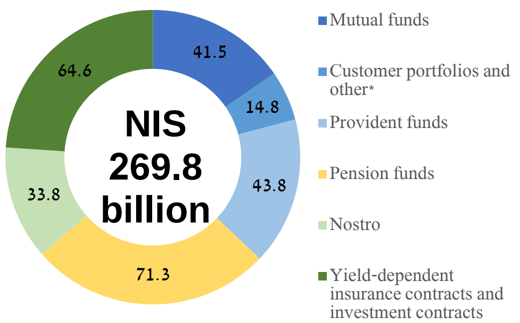
On July 7, 2019, the Commissioner published a draft circular concerning an amendment to the provisions of the Consolidated Circular - Section 6, Part 3, Chapters 2, 3 and 4 - personal accident insurance, which proposes determining provisions aimed at regulating the personal accident sector. Among other things, the draft circular proposes that the marketing of insurance cover for accidents will be sold as a stand-along personal accident policy only, which will include a basic layer of all coverages (death, permanent disability, fractures, hospitalization days and sick days); a uniform definition of an "accident"; the policy period will not be more than two years and it will be renewed at the insured's request with continuity of insurance; provisions concerning the manner of enrolling in the policy, including that it will be marketed directly and exclusively by insurance companies or licensees, and not incidental to the sale of any other insurance or transaction, and that for the purpose of settling a disability claim in the policy, an expert opinion from the NII determining disability will be the effective opinion unless an examination by a specialist on behalf of the Company contradicts the findings in the expert opinion.

2.4.4 Non-life insurance

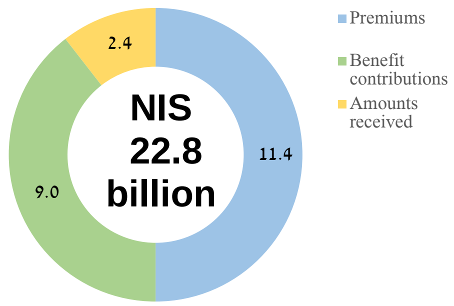
On August 8, 2019, the Supreme Court issued a judgment on Civil Appeal 3751/17, the Israel Motor Insurance Database vs. John Doe ("the Legal Proceeding"). The ruling centered on the question of the need to adjust the discounting interest rate in torts law to that prescribed in the amendment to the National Insurance (Discounting) Regulations, 1978 ("NII Regulations"), which entered into force on October 1, 2017 and lowered the discounting interest rate set in the regulations from 3% to 2% and determined that the discounting interest rate for compensation for personal injury in torts will remain at 3%. This until the legislator decides otherwise and unless a need is proved to change it in accordance with the mechanism that was proposed for this purpose in the report of the committee to review the discounting interest rate for compensation for personal injury in torts ("the Report" and "the Committee"), which was appointed to formulate the State's position on this subject following the Attorney General taking a stand in the Legal Proceeding whereby every two years the yield obtained from the investment in 25-year AA corporate bonds will be reviewed, and if the review indicates a deviation of more than one percent in a particular direction, the discounting interest rate will be revised. On August 25, 2019, the claimant filed a petition for a further hearing on this matter.

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:



* Other – in the current period, including structured bonds and private investment funds in the amount of NIS 1.4 billion.

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 investment contract reserves amounted to NIS 2.4 billion, as against NIS 3.9 billion in the corresponding period last year.

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

		For the nine months ended September 30			For the three months ended September 30		For the year ended December 31
	Notes	**2019**	**2018**	% change	**2019**	**2018**	**2018**
Life assurance and long-term savings							
Life assurance	A	(50)	330	-	(70)	170	228
Pension	B	59	61	(3)	22	23	81
Provident	B	45	34	32	15	12	46
Total life assurance and long-term savings segment		**54**	**425**	(87)	**(33)**	**205**	**355**
Non-life insurance							
Compulsory motor	C	182	(28)	-	(8)	3	(54)
Motor property	D	133	77	73	34	28	93
Property and other branches	E	90	70	29	36	25	92
Other liabilities branches	C	58	(35)	-	(50)	1	(80)
Mortgage insurance	F	49	31	58	18	14	31
Total non-life insurance segment		**512**	**115**	-	**30**	**71**	**82**
Health insurance	G	(326)	97	-	(480)	82	289
Insurance companies overseas		21	(8)	-	10	(11)	5
Financial services	H	20	29	(31)	6	9	34
Not attributed to segments of operation	F	289	97	-	72	63	(25)
Total before tax		**570**	**755**	(25)	**(395)**	**419**	**740**
Tax expenses (benefit)		119	218	(45)	(160)	132	198
Total after tax		**451**	**537**	(16)	**(235)**	**287**	**542**
Return on Equity in annual terms		10%	13%		(15%)	20%	9%

Results in the Reporting Period were affected by yields in the capital market which were higher than in the corresponding period last year. Capital market yields in the third quarter were lower than the yields in the corresponding quarter last year due to the negative index in the third quarter.

Additionally, results in the Reporting Period and in the third quarter were affected by a sharp decline in the interest rate curve which led to an increase in the insurance liabilities of NIS 1,113 million before tax and NIS 923 million before tax, respectively. This compared with an increase in the interest rate curve in the corresponding period last year which lead to a reduction of the insurance liabilities by NIS 51 million before tax. Third quarter results last year were affected by a decline in the interest rate curve which led to an increase in the insurance liabilities of NIS 1 million before tax.

Additionally, results in the Reporting Period and in the third quarter were influenced by the implementation of an insurance circular on “Amendment of the Provisions of the Consolidated Circular on the measurement of liability - Update of the demographic assumptions in life assurance and updated model for improved mortality for insurance companies and pension funds” (“the Circular”).

For additional information on special effects on profit, see the table in Section 2.5.2.

A. In life assurance, results in the Reporting Period were affected by a sharp decline in the interest rate curve used for the Liability Adequacy Test (LAT) and the effect of implementing of the circular, which were partially offset by an increase in the collection of management fees.

   Income from management fees amounted to NIS 465 million in the Reporting Period, compared with NIS 360 million in the corresponding period last year. Most of the increase in the management fees is attributable to an increase of approximately NIS 150 million in the variable management fees in the Reporting Period, compared with NIS 73 million in the corresponding period last year. The increase in the variable management fees was recorded as a result of real yields that were higher than those attained by the Company in 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.

   Income from management fees amounted to NIS 166 million in Q3 2019, as against NIS 173 million in the corresponding period last year. Most of the decrease in the management fees is attributable to a decrease in the variable management fees, which amounted to NIS 58 million in the third quarter, as against NIS 72 million in the corresponding period last year. The decrease in the variable management fees was recorded as a result of real yields that were lower than those attained by the Company in the corresponding quarter last year.

B. In the pension and provident sector, 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. In the compulsory motor and liabilities branches, following a decision of the Supreme Court regarding the discounting interest rate for compensation on account of personal injury in torts, a decrease of NIS 260 million before tax was recorded in the insurance liabilities (of which NIS 158 million before tax was in the compulsory motor sector and NIS 102 million before tax was in the liabilities and others sector).

D. In the motor property sector, results in the Reporting Period were mainly affected by further improvement in underwriting profit, which is attributable to the application of a new motor property tariff and a decline in the frequency of claims.

E. In the property and other branches, results in the corresponding period last year were affected by a negative development in several claims in the property loss sector.

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

G. Results in the Reporting Period and in the third quarter were affected by an increase in the insurance liabilities due to the sharp decline in the interest rate curve, and by an increase in the number of claims for accident cover.

H. The results in the Reporting Period and in the third quarter were affected mainly by conversion of the ETNs to mutual funds at the end of 2018, in light of the entering into force of Amendment 28, which was partially offset by further raising of funds and improved yields.

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

		For the nine months ended September 30			For the three months ended September 30		For the year ended December 31
	Notes	**2019**	**2018**	Change	**2019**	**2018**	**2018**
Comprehensive income (loss) for the period as published in the report		451	537	(86)	(235)	287	542
Life assurance and long-term savings							
Assessment of the adequacy of the reserves and the effects of interest	A	(293)	51	(344)	(179)	(1)	59
Application of a circular on revised mortality tables	B	(91)	-	(91)	-	-	-
Revised assumptions for calculating liabilities	C	-	-	-	-	-	(38)
Revised TUR assumptions	C	-	-	-	-	-	(38)
Non-life insurance							
Effect of the decline in the risk-free interest rate curve	D	(157)	-	(157)	(94)	-	-
Effect of the Supreme Court ruling regarding the discounting rate	E	260	-	260	-	-	-
Health insurance							
Application of a circular on revised mortality tables	B	70	-	70	70	-	-
Revised assumptions in personal lines LTC liabilities	F	-	-	-	-	-	(18)
Revised assumptions in personal lines health liabilities	F	-	-	-	-	-	138
Assessment of the adequacy of the reserves and the effects of interest	G	(663)	-	(663)	(650)	-	-
Total effects, before tax		(874)	51	(925)	(853)	(1)	103
Effect of tax		(299)	17	(316)	(292)	-	35
Total effects, after tax		(575)	34	(609)	(561)	(1)	68
Total comprehensive income after adjustment for special effects		1,026	503	523	326	288	474

A. In the Reporting Period and in the third quarter, an increase of NIS 293 million and NIS 179 million, respectively, was recorded in the insurance liabilities, due to the sharp decline in the risk-free interest rate curve used for assessing the adequacy of the reserves (LAT). In the corresponding period last year, the insurance liabilities declined by NIS 51 million, due to an increase in the risk-free interest curve used for assessing the adequacy of the reserves. In the third quarter last year, an increase of NIS 1 million was recorded in the insurance liabilities, due to a decline in the risk-free interest rate curve used for assessing the adequacy of the reserves. In 2018, the insurance liabilities declined by NIS 59 million, due to an increase in the risk-free interest curve used for the LAT.

B. Results in the Reporting Period were influenced by the implementation of an insurance circular on "Amendment of the Provisions of the Consolidated Circular on the measurement of liability - Update of the demographic assumptions in life assurance and updated model for improved mortality for insurance companies and pension funds" ("the Circular"). Following implementation of the Circular, an increase of NIS 91 million was recorded in the life assurance and long-term savings segment in the Reporting Period, and in the third quarter the insurance liabilities in the health insurance segment decreased by NIS 70 million.

C. 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.

D. Due to a decline in the interest rate curve and taking into account the discrepancy between the fair value and book value of the non-marketable assets, an increase in the insurance liabilities was recorded in the Reporting Period and in Q3 2019 in the amount of NIS 157 million and NIS 94 million, respectively (NIS 56 million in the Reporting Period in the compulsory motor sector and NIS 101 million in the liabilities and other sectors; in the third quarter, which NIS 38 million in the compulsory motor sector and NIS 56 million was in the liabilities and other sectors).

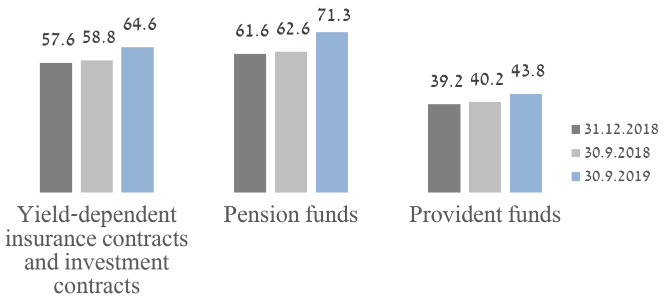
E. Results in the Reporting Period were affected by the Supreme Court decision concerning the discounting interest rate for compensation due to personal injury in torts. For additional information, see Section 2.5.1 C above.

F. 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.

G. In the Reporting Period and in the third quarter, an increase of NIS 650 million was recorded in the insurance liabilities in the personal lines long-term care sector, due to the sharp decline in the interest rate curve. Additionally, in the Reporting Period 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 due to a decline in the interest rate curve.

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):



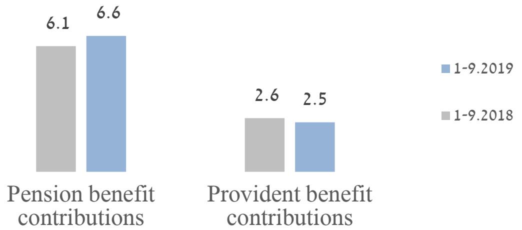
Pension funds - most of the increase in AUM relative to the corresponding period last year is attributable to positive accrual and capital market yields.

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 475 million, mainly in respect of Amendment no. 190 to the Income Tax Ordinance, compared with NIS 983 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.

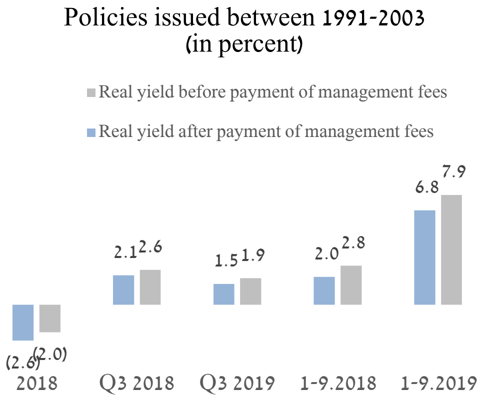
The benefit contributions in the provident funds and pension funds are not included in the Company's consolidated financial statements.

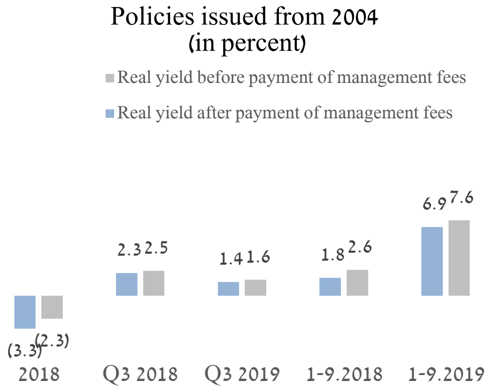
2.6.3 Life assurance

In the Reporting Period, redemptions amounted to 3.1% of the average reserve, compared with 2.6% in the corresponding period last year.

In the current quarter, redemptions amounted to 3.3% of the average reserve, compared with 2.6% in the corresponding quarter last year.

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 nine months ended September 30		**For the three months ended September 30**		**For year ended December 31**
	2019	**2018**	**2019**	**2018**	**2018**
Profit (loss) after management fees	3,744	1,374	441	1,122	(966)
Total management fees	465	360	166	173	386

On August 13, 2019, Harel Insurance entered into an agreement with a large employer whereby part of the arrangement for early retirement will be made through Migvan profit-sharing policies to be issued by Harel Insurance. The policies are paid for with lump-sum deposits and their purpose is to pay the retiree a monthly annuity for life.

2.6.4 Pension funds

The new pension fund Harel Pension attained a nominal yield of 8.26% in the Reporting Period.

Total management fees collected from the pension funds managed by the Group amounted to NIS 245 million in the Reporting Period, compared with NIS 237 million in the corresponding period last year.

Total income from management fees collected by the pension funds managed by the Group amounted to NIS 85 million in the third quarter, compared with NIS 81 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 108 million in the Reporting Period, as against positive accrual of NIS 2,783 million in the corresponding period last year.

Income from management fees collected from the pension funds managed by the Group amounted to NIS 191 million in the Reporting Period, compared with NIS 181 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.

Income from management fees collected from the pension funds managed by the Group amounted to NIS 64 million in the third quarter, compared with NIS 61 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.

After the Reporting Period, Harel Insurance announced that due to the conditions of the existing LTC policies, which in practice embed in their tariffs a guaranteed yield and which the Company is unable to commit to for long periods under present market conditions, and due to the fact that the reinsurers who were active in this sector have announced a discontinuation of their activity in this sector, it was decided to discontinue the sale of new personal lines LTC policies. Harel Insurance will work to obtain approval from the Commissioner of the Capital Market to market new policies that are compatible with present market conditions.

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 nine months ended September 30		For year ended December 31
	2018	**2017**	**2017**
Compulsory motor	(14%)	22%	20%
Motor property	2%	7%	7%
Property and other branches	4%	8%	6%
Liabilities and other branches	2%	5%	6%

Number of policies in terms of exposure – non-life insurance activity typically involved policies for periods 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. In other words, 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 partly affected 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 Company's performance.

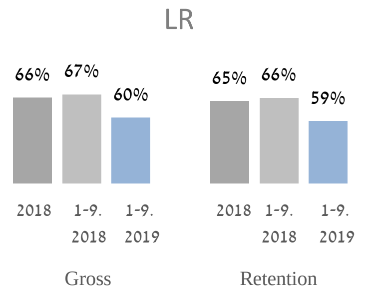
2.6.7.1 Compulsory motor

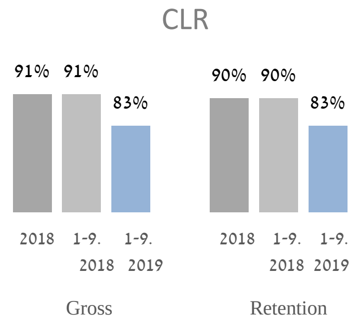
For additional information about the results for compulsory motor insurance, see Sections 2.5.1 and 2.5.2 above.

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

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

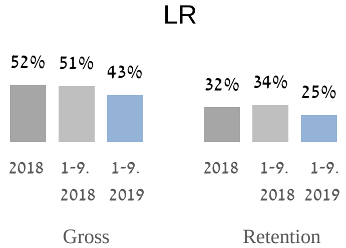


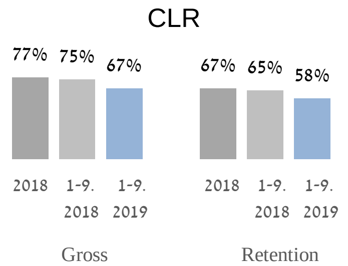


2.6.7.3 Property and other branches

Results in the corresponding period last year were affected by a negative development in several claims in the property loss sector.

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





2.6.7.4 Liabilities and other branches

For information about the results for liabilities and other insurance, see Sections 2.5.1 and 2.5.2 above.

2.6.7.5 Credit insurance for mortgages

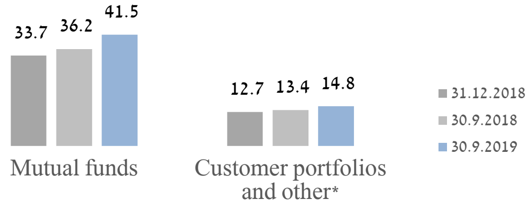
The premiums earned in credit insurance for residential mortgages are not for new sales, but in respect of sales made in the past and for which the premiums are recognized as earned premiums based on the period of coverage. EMI has no reinsurance agreements in this branch of insurance.

2.6.8 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 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.

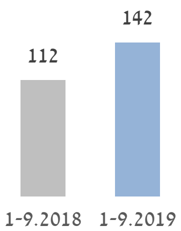
Revenues in the capital market and financial services segment amounted to NIS 150 million in the Reporting Period, as against NIS 161 million in the corresponding period last year.

* Other – in the current period, including structured bonds and private equity funds in the amount of NIS 1.4 billion.

The assets managed by the mutual funds and in customer 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 September 30, 2018, data for the mutual funds, ETFs and CDs.

Management fees in the financial services segment (NIS billion):



2.7 Liquidity and sources of finance

2.7.1 Cash flows

Net cash flows used in ongoing activity were NIS 101 million in the Reporting Period. Net cash flows used in investment activity amounted to NIS 184 million. Net cash flows used in financing activity were NIS 84 million. The fluctuating exchange rates had a positive impact of NIS 77 million on the cash balances. The outcome of all the above activity is a decrease of NIS 292 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.

In November 2019, the Company announced that the Board of Directors of Harel Financing & Issuing and the Board of Directors of Harel Insurance approved in principle the placement of a new bond series the proceeds of which, if the series is in fact issued, will be recognized as Tier-2 capital of Harel Insurance. Furthermore, the Board of Directors of Harel Financing & Issuing and the Board of Directors of Harel Insurance granted approval in principle for the expansion of an existing series of bonds. For additional information, see Note 10 to the Financial Statements.

3 Corporate governance

Revised compensation policy for the Group's financial institutions

On July 11, 2019, the Commissioner published a circular amending the provisions of the Consolidated Circular, Part 1, Section 5, Chapter 5, entitled "Compensation" ("the Circular"), which updates and abolishes the circular "Compensation Policy in Financial Institutions" and the circular "Compensation Policy in Financial Institutions - Amendment" ("Compensation Policy Circular"), and integrates them in the Consolidated Circular, in accordance with the relevant regulations formulated in this sector, including in accordance with the provisions of the Law for the Compensation of Senior Officers in Financial Institutions (Special approval and non-recognition of an expense for tax purposes due to extraordinary compensation), 2016, the amendment to the Companies Law, 1999 and its subsequent regulations, and the directives of the Supervisor of Banks that were revised accordingly.

Further to publication of the circular, on August 25, 2019 and on August 29, 2019, the Compensation Committee of the Group's financial institutions and the Board of Directors of Harel Insurance, respectively, approved the revised compensation policy of Harel Group's financial institutions.

The compensation policy of the financial institutions also applies to some of the executives in the Company who also serve as senior officers in Harel Insurance.

In the policy that was approved, the following subjects, among others, were revised:

(a) The list of functionaries who are subject to the Compensation Policy was cut back, in accordance with the provisions of the circular.

(b) It was determined that an insignificant change in the compensation conditions of an executive who is subject to the CEO, will not require the approval of the board of directors or compensation committee and that the CEO's approval will suffice, to the extent that the change is consistent with the compensation policy.

(c) The obligation to determine the multiplication ratio in the chairman's compensation was eliminated and it was stipulated that compensation for the chairman of the board will be determined taking into account the compensation payable to external directors and the percentage position of the chairman, as well as other considerations set out in the policy.

(d) Criteria for determining the variable component - it was determined that key functionaries may receive a variable component, based on discretion, taking into account the quality and contribution of their work, and provided that the amount of this component is not more than three monthly salaries a year. Furthermore, control functions were excluded from the directive on measuring the variable component using financial variables, market variables and accounting variables.

(e) Deferral - in accordance with the provisions of the circular, it was determined that Harel Insurance will not defer and will not pay in installments the payment of a variable component granted to a key functionary in a specific calendar year, provided that the total compensation for that year does not exceed the maximum amount payable (as defined in the Income Tax Ordinance [New Version]) and that the total variable component is not more than 40% of the fixed component in that year.

(f) It was determined that Harel Insurance may grant a signing-on bonus for the functionary's first year of employment in the financial institution, in the form of variable compensation that is not performance based.

(g) It was determined that Harel Insurance may grant variable compensation that is not performance based also as a retention bonus to employees defined in the compensation policy as "key employees" who are not senior executives, as this term is defined in the Companies Law.

(h) Retirement bonuses - pursuant to the circular, the provision in the policy that requires retirement bonuses to be performance based was deleted, and relief was determined permitting not to defer and pay a retirement bonus in installments (if there was such need under the provisions of the circular and the policy), to the extent that the total retirement bonus is not more than three salaries.

4 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.

5 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.

In November 2018, Harel Insurance received the Commissioner's approval for the audit that was conducted by the external auditors in accordance with the Commissioner's said instructions. 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 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. The capital surplus of Harel Insurance as at December 31, 2018, on a consolidated basis and before the transitional provisions (in terms of SCR of 100%), is NIS 1.9 billion.

Notably, the model in its current format is extremely sensitive to changes in market and other variables, such as changes in the interest rate after the date of the calculation. 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, 2018, transitional provisions are in place according to which Harel Insurance must meet 70% 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, 2018, based on the directives in the Solvency circular published on June 1, 2017:

A. Solvency ratio

	December 31, 2018	December 31, 2017
	NIS million	NIS million
	(Audited)	(Audited)
Own funds in relation to the solvency capital requirement (SCR)	**11,852**	10,812
Solvency capital requirement (SCR)	**9,940**	9,494
Surplus (*)	**1,912**	1,318
Solvency ratio	**119%**	114%

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

(a) Tier-2 capital raised in the amount of NIS 600 million. For information about these capital raisings, see Note 6(C)(4) to the Financial Statements.

(b) Obsolescence of Tier-2 capital in the amount of NIS 141 million.

According to the data at December 31, 2018, the Company has issued capital of NIS 116 million over and above the recognized Tier-2 limit.

Taking into account all the aforementioned changes from the cutoff date until the initial date of publication (July 2019) for the solvency ratio in respect of December 31, 2018 data, the capital surplus would have increased by NIS 343 million to NIS 2,255 million, and the solvency ratio would have been 123%.

Compliance with milestones in the Transitional Period:

	December 31, 2018	December 31, 2017
	NIS million	NIS million
	(Audited)	(Audited)
Equity (own funds) for the purpose of solvency capital requirement (SCR) in the Scheduling Period	**11,551**	10,536
Solvency Capital Requirement in the Transitional Period	**6,663**	5,771
Surplus in the Transitional Period	**4,888**	4,765

B. Minimum Capital Requirement (MCR)

	December 31, 2018	December 31, 2017
	NIS million	NIS million
	(Audited)	(Audited)
Minimum Capital Requirement (MCR)	**2,173**	1,877
Equity for the purpose of MCR	**8,654**	8,026

Further to the information in Section 2.4.2.1.1 above concerning a circular on "Amendment of the Provisions of the Consolidated Circular on the measurement of liability - Update of the demographic assumptions in life assurance and updated model for improved mortality for insurance companies and pension funds", the Company estimates that this effect on the solvency ratio of Harel Insurance will be up to NIS 400 million, and that even after this, Harel Insurance will still have a capital surplus without taking the transitional provisions into account.

Pursuant to the Commissioner's instructions, the Company is required to publish its solvency ratio at June 30, 2019 by December 31, 2019. At the date of publication of this report, the Company has not yet completed the process of calculating its solvency ratio for data at June 30, 2019.

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, growing from NIS 0.805 billion in 2018 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

November 26, 2019

HAREL INSURANCE INVESTMENTS AND FINANCIAL SERVICES LTD

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at September 30, 2019

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

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

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

Introduction

We have reviewed the accompanying financial information of Harel Insurance Investments and Financial Services Ltd. and its subsidiaries (hereinafter: "the Group") which include the condensed consolidated interim statement of financial position as at September 30, 2019 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine and 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 this interim financial information based on our review.

We did not review the condensed interim financial information of consolidated companies whose assets included in the consolidation constitute 2.3% of all the consolidated assets as at September 30, 2019 and whose revenues included in the consolidation comprise 3.05% and 3.71% of all the consolidated revenues for the nine and three months ended on that date. Furthermore, we did not review the condensed financial information for the interim period of equity accounted investees, in which the investment is NIS 118 million as at September 30, 2019, and the Group's share of their profits is NIS 12 million and NIS 4 million for the nine and three months, respectively, 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 interim financial information consists of 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 obtain assurance that we could become aware of all the significant matters that might have been identified in an audit. We therefore do not express an audit opinion.

Conclusion

Based on our review, and on the review report of the other auditors, nothing came to our attention that might cause us to believe that the accompanying financial information was 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 came to our attention that might cause us to believe that the accompanying financial information does not comply, in all significant 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 abovementioned conclusions, we direct attention to Note 7A to the above-mentioned financial information regarding the Group's exposure to contingent liabilities.

Somekh Chaikin
Certified Public Accountants (Isr)

November 26, 2019

Condensed consolidated interim statements of financial position at

	September 30		December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Intangible assets	**1,658**	1,529	1,578
Deferred tax assets	**12**	11	13
Deferred Acquisition Costs	**2,483**	2,443	2,475
Fixed assets	**1,407**	1,336	1,326
Investments in equity accounted investees	**1,512**	1,449	1,536
Investment property for yield-dependent contracts	**1,702**	1,593	1,628
Other investment property	**1,922**	1,835	1,847
Reinsurance assets	**4,304**	4,443	4,316
Current tax assets	**183**	20	29
Trade and other receivables	**1,427**	995	1,572
Premium due	**1,447**	1,381	1,433
Financial investments for yield-dependent contracts	**58,906**	53,544	51,891
Assets designated for disposal	**-**	9,440	-
Other financial investments			
Marketable debt assets	**10,518**	8,120	8,500
Non-marketable debt assets	**14,509**	13,739	13,516
Shares	**1,197**	1,052	1,164
Other	**2,716**	2,521	2,458
Total other financial investments	**28,940**	25,432	25,638
Cash, cash equivalents and deposits pledged for holders of ETNs and Certificates of Deposit	**-**	6,889	35
Cash and cash equivalents for yield-dependent contracts	**2,984**	2,975	3,083
Other cash and cash equivalents	**1,428**	1,527	1,621
Total assets	**110,315**	116,842	100,021
Total assets for yield-dependent contracts	**64,634**	58,790	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.)

	September 30		December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Equity and liabilities			
Equity			
Share capital and share premium	**359**	340	359
Treasury shares	**(123)**	(132)	(123)
Capital reserves	**821**	522	431
Retained earnings	**5,072**	5,258	5,247
Total equity attributed to shareholders of the Company	**6,129**	5,988	5,914
Non-controlling interests	**7**	6	6
Total equity	**6,136**	5,994	5,920
Liabilities			
Liabilities for non yield-dependent insurance contracts and investment contracts	**29,082**	27,773	27,634
Liabilities for yield-dependent insurance contracts and investment contracts	**63,911**	58,197	56,742
Deferred tax liabilities	**1,015**	913	864
Liabilities for employee benefits, net	**292**	258	254
Current tax liabilities	**8**	73	51
Trade and other payables	**3,499**	2,880	3,255
Liabilities for ETNs and covered warrants	**-**	-	33
Liabilities designated for disposal	**-**	16,124	-
Financial liabilities	**6,372**	4,630	5,268
Total liabilities	**104,179**	110,848	94,101
Total equity and liabilities	**110,315**	116,842	100,021

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

Date of approval of the financial statements: November 26, 2019

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

Condensed consolidated interim statements of income

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Premiums earned, gross	**11,377**	10,449	**4,015**	3,660	14,180
Premiums earned by reinsurers	**1,313**	1,119	**448**	383	1,518
Earned premiums in retention	**10,064**	9,330	**3,567**	3,277	12,662
Profit from investments, net, and financing income	**5,648**	2,914	**856**	1,738	560
Income from management fees	**1,051**	901	**369**	353	1,115
Income from commissions	**277**	257	**88**	83	343
Total income	**17,040**	13,402	**4,880**	5,451	14,680
Payments and changes in liabilities for insurance contracts and investment contracts, gross	**14,976**	10,456	**4,786**	4,301	10,890
Reinsurers' share of payments and change in liabilities for insurance contracts	**901**	737	**320**	219	955
Payments and changes in liabilities for insurance contracts and investment contracts in retention	**14,075**	9,719	**4,466**	4,082	9,935
Commissions, marketing expenses and other purchasing expenses	**2,042**	1,917	**691**	667	2,581
General and administrative expenses	**908**	907 (*)	**308**	295 (*)	1,200
Other expenses	**12**	15 (*)	**5**	7 (*)	19
Financing expenses, net	**122**	158	**16**	44	210
Total expenses	**17,159**	12,716	**5,486**	5,095	13,945
Company's share of profits of equity accounted investees	**103**	66	**14**	33	144
Profit (loss) before taxes on income	**(16)**	752	**(592)**	389	879
Taxes on income (tax benefit)	**(86)**	209	**(227)**	112	245
Profit (loss) for period	**70**	543	**(365)**	277	634
Attributed to:					
Shareholders of the Company	**70**	543	**(365)**	277	634
Non-controlling interests	**-***	-*	**-***	-*	-*
Profit (loss) for period	**70**	543	**(365)**	277	634
Basic and diluted earnings (loss) per share (in NIS)	**0.33**	2.55	**(1.70)**	1.30	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

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Profit (loss) for period	**70**	543	**(365)**	277	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	**737**	(8)	**259**	99	(198)
Net change in fair value of financial assets classified as available-for-sale transferred to income statement	**(103)**	(86)	**(35)**	(44)	(100)
Loss from impairment of available-for-sale financial assets transferred to income statement	**26**	27	**10**	4	44
Foreign currency translation differences for foreign activity	**(86)**	24	**(29)**	(22)	62
Tax benefits (taxes on income) attributable to available-for-sale financial assets	**(225)**	19	**(79)**	(25)	86
Tax benefits (taxes on income) for other items of comprehensive income that after initial recognition as part of comprehensive income were or will be transferred to profit or loss	**22**	(13)	**9**	3	(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	**371**	(37)	**135**	15	(128)
Other comprehensive income items that will not be transferred to profit or loss					
Revaluation reserve for fixed asset items	**26**	44	**1**	(6)	44
Re-measurement of a defined benefit plan	**(14)**	2	**(9)**	(1)	9
Tax benefit (taxes on income) for other items of comprehensive income that will not be transferred to profit or loss	**(2)**	(15)	**3**	2	(17)
Other comprehensive income (loss) for period that will not be transferred to profit or loss, net of tax	**10**	31	**(5)**	(5)	36
Total other comprehensive income (loss) for period	**381**	(6)	**130**	10	(92)
Total comprehensive income (loss) for period	**451**	537	**(235)**	287	542
Attributed to:					
Shareholders of the Company	**451**	537	**(235)**	287	542
Non-controlling interests	**-***	-*	**-***	-*	-*
Total profit (loss) for period	**451**	537	**(235)**	287	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 nine months ended September 30, 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	-	-	-	-	-	-	-	70	70	-*	70
Total other comprehensive income (loss)	-	435	(64)	-	-	-	19	(9)	381	-*	381
Total comprehensive income (loss) for period	-	435	(64)	-	-	-	19	61	451	-*	451
Transactions with owners recognized directly in equity											
Dividend distributed	-	-	-	-	-	-	-	(236)	(236)	-	(236)
Non-controlling interests for a newly established consolidated company (see Note 10)	-	-	-	-	-	-	-	-	-	1	1
Balance as at September 30, 2019	359	747	(153)	1	(123)	(49)	275	5,072	6,129	7	6,136

* 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 September 30, 2019 (Unaudited)											
Balance as at July 1, 2019	359	592	(133)	1	(123)	(49)	274	5,550	6,471	7	6,478
Total comprehensive income (loss) for period											
Loss for period	-	-	-	-	-	-	-	(365)	(365)	-*	(365)
Total other comprehensive income (loss)	-	155	(20)	-	-	-	1	(6)	130	-*	130
Total comprehensive income (loss) for period	-	155	(20)	-	-	-	1	(371)	(235)	-*	(235)
Transactions with owners recognized directly in equity											
Dividend distributed	-	-	-	-	-	-	-	(107)	(107)	-	(107)
Balance as at September 30, 2019	359	747	(153)	1	(123)	(49)	275	5,072	6,129	7	6,136

* 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 nine months ended September 30, 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	-	-	-	-	-	-	-	543	543	-*	543
Total other comprehensive income (loss)	-	(48)	11	-	-	-	30	1	(6)	-*	(6)
Total comprehensive income (loss) for period	-	(48)	11	-	-	-	30	544	537	-*	537
Transactions with owners recognized directly in equity											
Dividend distributed	-	-	-	-	-	-	-	(107)	(107)	-	(107)
Purchase of Treasury shares	-	-	-	-	(7)	-	-	-	(7)	-	(7)
Reissuing of Treasury shares	1	-	-	-	6	-	-	-	7	-	7
Balance as at September 30, 2018	340	432	(118)	1	(132)	(49)	256	5,258	5,988	6	5,994

* 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 September 30, 2018 (Unaudited)											
Balance as at July 1, 2018	340	398	(99)	1	(131)	(49)	260	4,982	5,702	6	5,708
Total comprehensive income (loss) for period											
Profit for period	-	-	-	-	-	-	-	277	277	-*	277
Total other comprehensive income (loss)	-	34	(19)	-	-	-	(4)	(1)	10	-*	10
Total comprehensive income (loss) for period	-	34	(19)	-	-	-	(4)	276	287	-*	287
Transactions with owners recognized directly in equity											
Purchase of Treasury shares	-	-	-	-	(2)	-	-	-	(2)	-	(2)
Reissuing of Treasury shares	-	-	-	-	1	-	-	-	1	-	1
Balance as at September 30, 2018	340	432	(118)	1	(132)	(49)	256	5,258	5,988	6	5,994

* 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 recognized directly in equity											
Dividend distributed	-	-	-	-	-	-	-	(214)	(214)	-	(214)
Sale of Treasury shares	19	-	-	-	9	-	-	-	28	-	28
Purchase of Treasury shares	-	-	-	-	(7)	-	-	-	(7)	-	(7)
Reissuing of Treasury shares	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 nine months ended September 30		For the three months ended September 30		For the year ended December 31
		2019	2018	2019	2018	2018
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
		NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows from operating activity						
Before taxes on income	A	60	171	47	1,251	1,216
Income tax received paid		(161)	(216)	(79)	(116)	(206)
Net cash provided by (used for) operating activity		(101)	(45)	(32)	1,135	1,010
Cash flows from investing activity						
Investment in investees, net		(70)	(46)	(39)	(8)	(60)
Proceeds from the sale of an investment in an equity accounted investee		88	132	1	1	141
Investment in fixed assets		(38)	(62)	(9)	(7)	(74)
Investment in intangible assets		(186)	(171)	(68)	(63)	(254)
Dividend and interest received from an investee		22	39	8	21	64
Proceeds from sale of fixed assets		-	1	-	-	-
Net cash used for investment activity		(184)	(107)	(107)	(56)	(183)
Cash flows from financing activities						
Issuance of liability notes		594	250	-	-	586
Issue of treasury shares, net		-	-	-	(1)	28
Proceeds of issuance (payment for purchase) of ETNs and covered warrants, net		(33)	94	-	(104)	(1,286)
Short-term credit from banks, net		(121)	(12)	(1)	-	179
Repayment of loans from banks and others		(181)	(88)	-	-	(129)
Dividend paid to the Company's shareholders		(343)	(107)	(107)	-	(107)
Net cash provided by financing activity (used for financing activity)		(84)	137	(108)	(105)	(729)
Effect of exchange rate fluctuations on cash balances and cash equivalents		77	200	25	193	289
Increase (decrease) in cash and cash equivalents		(292)	185	(222)	1,167	387
Cash and cash equivalents at beginning of the period	B	4,704	4,317	4,634	3,335	4,317
Cash and cash equivalents at end of the period	C	4,412	4,502	4,412	4,502	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 nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
(Annex A - Cash flows from operating activities before taxes on income (1), (2), (3					
Profit (loss) for the period	**70**	543	**(365)**	277	634
Items not involving cash flows:					
Company's share of profit of equity accounted investees	**(103)**	(66)	**(14)**	(33)	(144)
Net losses (profits) from financial investments for yield-dependent insurance contracts and investment contracts	**(3,794)**	(1,073)	**(388)**	(1,187)	1,460
Losses (profits) net, from other financial investments					
Marketable debt assets	**9**	(115)	**49**	(46)	(145)
Non-marketable debt assets	**(5)**	(111)	**90**	(8)	(141)
Shares	**(15)**	(57)	**7**	(50)	(19)
Other investments	**(572)**	99	**(148)**	(63)	205
Financing expenses for financial liabilities	**879**	1,295	**1,242**	597	3,117
Change in fair value of investment property for yield-dependent contracts	**(50)**	(25)	**(41)**	(8)	(48)
Change in fair value of other investment property	**(55)**	(55)	**(34)**	(14)	(60)
Depreciation and amortization					
Fixed assets	**85**	67	**29**	24	91
Intangible assets	**106**	104	**34**	36	139
Change in liabilities for non yield-dependent insurance contracts and investment contracts	**1,530**	680	**780**	(11)	605
Change in liabilities for yield-dependent insurance contracts and investment contracts	**7,169**	6,200	**1,626**	2,613	4,745
Change in reinsurance assets	**(8)**	63	**12**	27	204
Change in DAC	**(15)**	(116)	**10**	3	(142)
Income tax expenses (income)	**(86)**	209	**(227)**	112	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	**(24)**	(66)	**(3)**	(22)	(78)
Net acquisitions of financial investments	**(3,241)**	(4,671)	**(1,133)**	(515)	(5,764)
Other financial investments and investment property					
Purchase of investment property	**(20)**	(38)	**(7)**	(12)	(45)
Net acquisitions of financial investments	**(2,080)**	(1,195)	**(1,440)**	(6)	(1,841)
Premiums due	**(32)**	(88)	**(2)**	3	(124)
Trade and other receivables	**11**	(59)	**(289)**	246	(655)
Financial investments for holders of ETNs, net	**-**	(2,307)	**-**	(1,952)	(2,307)
Cash and cash equivalents pledged for holders of ETNs	**35**	1,220	**-**	1,341	1,220
Trade and other payables	**254**	(274)	**248**	(104)	1
Liabilities for employee benefits, net	**12**	7	**11**	3	63
Total adjustments required to present cash flows from operating activity	**(10)**	(372)	**412**	974	582
Total cash flows from operating activity before taxes on income	**60**	171	**47**	1,251	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 real estate investment resulting from activities in insurance contracts and investment contracts.
(2) As part of the operating activities, interest received was presented at NIS 1,169 million (for the nine months ended September 30, 2018 an amount of NIS 1,185 million and for 2018 an amount of NIS 1,654 million) and interest was paid in the amount of NIS 61 million (for the nine months ended September 30, 2018 an amount of NIS 61 million and for 2018 an amount of NIS 173 million).
(3) As part of the ongoing activity, a dividend received from other financial investments was presented in the amount of NIS 251 million (for the nine months ended September 30, 2018, an amount of NIS 217 million and for 2018 an amount of NIS 274 million).

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

For the nine months ended September 30	For the three months ended September 30	For the year ended December 31

Condensed consolidated interim statements of cash flows (contd.)

	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	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	**2,905**	2,113	2,758
Other cash and cash equivalents	**1,621**	1,559	**1,729**	1,222	1,559
Retained cash and cash equivalents at beginning of the period	**4,704**	4,317	**4,634**	3,335	4,317
Annex C - Cash and cash equivalents at end of period					
Cash and cash equivalents for yield-dependent contracts	**2,984**	2,975	**2,984**	2,975	3,083
Other cash and cash equivalents	**1,428**	1,527	**1,428**	1,527	1,621
Retained cash and cash equivalents at end of the period	**4,412**	4,502	**4,412**	4,502	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 September 30, 2019, include those of the Company and its consolidated 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 format similar to the format in which interim financial statements of insurance companies are prepared.

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 the Capital Market, Insurance and Savings (“the Commissioner”) and in accordance with the Supervision of Financial Services (Insurance) Law, 1981 ("the Supervision Law"), and they do not include all the information required in full annual financial statements. They should be read together with the financial statements as at and for the year ended December 31, 2018 ("the Annual Financial Statements"). Moreover, the interim consolidated financial statements were prepared in accordance with the provisions of Chapter D of the Securities (Periodic and Immediate Reports) Regulations, 1970, insofar as these regulations apply to a company that consolidates insurance companies.

The condensed consolidated interim financial statements were approved for publication by the Company's Board of Directors on November 26, 2019.

B. Use of estimates and discretion

Preparation of the condensed consolidated interim financial statements in accordance with IAS 34 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 Annual Financial Statements, and except for the information below, there was no change in the actuarial assumptions that significantly affect the reserves. Regarding the revised discounting interest rates used for calculating the insurance liabilities, the effect of the Supreme Court ruling in relation to the discounting interest rate for personal injury in torts and application of the circular on the revised mortality tables and future mortality improvements, see also Note 9.

Note 2 - Basis of preparation (Contd.)

C. Reclassification

In some of the items in the Consolidated Interim Financial Statements, insignificant comparison figures have been reclassified. These reclassifications did not have any effect on the Group’s equity and/or on profit or loss and/or comprehensive income.

D. Functional and presentation currency

The condensed consolidated interim 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. IFRS 16 eliminates the existing requirement that lessors must classify a lease as an operating or finance lease. Instead, the standard presents another accounting model for all leases, according to which the lessor 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.

On January 1, 2019, the Group began to apply the standard. The application of IFRS 16 has no significant effect on the financial statements.

B. Seasonality

1. <u>Life assurance, health insurance and financial services</u>

   The revenues from life and health insurance premiums are not characterized by seasonality. Nevertheless, due to the fact that the deposits 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. <u>Non-life insurance</u>

   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 principle with respect to their significance, the way they are distributed, the mix of customers, nature of the regulatory environment and also long-term demographic and economic features that are derived from exposure with features similar to insurance risks. Likewise, the results of the portfolio of investments held against insurance liabilities may significantly affect profitability.

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

1. Life assurance and long-term savings

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

2. Health insurance

This segment includes the Group’s insurance activities in illness and hospitalization branches, personal accidents, 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 treatment. 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.

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.

Note 4 - Operating segments (contd.)

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 nine months ended September 30, 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	4,802	3,664	2,530	384	-	-	(3)	11,377
Premiums earned by reinsurers	119	310	808	79	-	-	(3)	1,313
Premiums earned in retention	4,683	3,354	1,722	305	-	-	-	10,064
Profit from investments, net and financing income	4,731	449	192	52	8	218*	(2)	5,648
Income from management fees	901	3	-	-	142	5	-	1,051
Income from commissions	33	53	155	17	-	162**	(143)	277
Total income	10,348	3,859	2,069	374	150	385	(145)	17,040
Payments and changes in liabilities for insurance contracts and investment contracts, gross	9,370	3,628	1,677	304	-	-	(3)	14,976
Reinsurers' share in payments and changes in liabilities for insurance contracts	90	297	453	64	-	-	(3)	901
Payments and changes in liabilities for insurance contracts and investment contracts, in retention	9,280	3,331	1,224	240	-	-	-	14,075
Commissions, marketing expenses and other acquisition costs	781	737	504	85	-	78***	(143)	2,042
General and administrative expenses	430	207	26	17	125	105****	(2)	908
Other expenses	6	-	-	1	4	1***	-	12
Financing expenses (income), net	6	13	(25)	-	1	127	-	122
Total expenses	10,503	4,288	1,729	343	130	311	(145)	17,159
Company's share of profits of equity accounted investees	9	18	60	-	-	16	-	103
Profit (loss) before income taxes	(146)	(411)	400	31	20	90	-	(16)
Other comprehensive income (loss), before income tax	200	85	112	(10)	-	199	-	586
Total comprehensive income (loss) before income tax	54	(326)	512	21	20	289*****	-	570
Liabilities in respect of non-yield dependent insurance contracts and investment contracts	12,618	5,991	9,818	659	-	-	(4)	29,082
Liabilities in respect of yield dependent insurance contracts and investment contracts	58,683	5,228	-	-	-	-	-	63,911

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

** Income from commissions includes commissions paid to insurance agencies owned by the Group. About NIS 142 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 73 million is for expenses of the activity of the Group's insurance agencies.

***** Total comprehensive income before income tax for the activity of the Group's insurance agencies was approximately NIS 11 million.

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Contd.)

	For the three months ended September 30, 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	1,772	1,256	858	130	-	-	(1)	4,015
Premiums earned by reinsurers	39	106	280	24	-	-	(1)	448
Premiums earned in retention	1,733	1,150	578	106	-	-	-	3,567
Profit from investments, net and financing income	711	63	25	19	2	37*	(1)	856
Income from management fees	315	1	-	-	51	2	-	369
Income from commissions	13	14	49	6	-	54**	(48)	88
Total income	2,772	1,228	652	131	53	93	(49)	4,880
Payments and changes in liabilities for insurance contracts and investment contracts, gross	2,504	1,514	675	94	-	-	(1)	4,786
Reinsurers' share in payments and changes in liabilities for insurance contracts	16	86	209	10	-	-	(1)	320
Payments and changes in liabilities for insurance contracts and investment contracts, in retention	2,488	1,428	466	84	-	-	-	4,466
Commissions, marketing and other acquisition costs	261	244	183	24	-	27***	(48)	691
General and administrative expenses	143	70	9	11	44	32****	(1)	308
Other expenses	2	-	-	-	2	1	-	5
Financing expenses (income), net	(2)	(1)	(9)	-	1	27	-	16
Total expenses	2,892	1,741	649	119	47	87	(49)	5,486
Company's share of profits (losses) of equity accounted investees	10	3	(3)	-	-	4	-	14
Profit (loss) before income taxes	(110)	(510)	-	12	6	10	-	(592)
Other comprehensive income (loss), before income tax	77	30	30	(2)	-	62	-	197
Total comprehensive income (loss) before income tax	(33)	(480)	30	10	6	72*****	-	(395)
Liabilities in respect of non-yield dependent insurance contracts and investment contracts	12,618	5,991	9,818	659	-	-	(4)	29,082
Liabilities in respect of yield dependent insurance contracts and investment contracts	58,683	5,228	-	-	-	-	-	63,911

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

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

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

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

***** Total comprehensive income before income tax for the activity of the Group's insurance agencies was approximately NIS 3 million.

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Contd.)

	For the nine months ended September 30, 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	4,094	3,472	2,532	354	-	-	(3)	10,449
Premiums earned by reinsurers	109	157	773	83	-	-	(3)	1,119
Premiums earned in retention	3,985	3,315	1,759	271	-	-	-	9,330
Profit from investments, net and financing income	2,192	274	195	27	48	183*	(5)	2,914
Income from management fees	778	3	-	-	112	8	-	901
Income from commissions	27	48	144	18	1	169**	(150)	257
Total income	6,982	3,640	2,098	316	161	360	(155)	13,402
Payments and changes in liabilities for insurance contracts and investment contracts, gross	5,506	2,714	1,970	269	-	-	(3)	10,456
Reinsurers' share in payments and changes in liabilities for insurance contracts	63	94	522	61	-	-	(3)	737
Payments and changes in liabilities for insurance contracts and investment contracts, in retention	5,443	2,620	1,448	208	-	-	-	9,719
Commissions, marketing expenses and other acquisition costs	713	697	492	82	-	83***	(150)	1,917
General and administrative expenses	428 (*)	219	27	10	127	98****	(2)	907
Other expenses	7 (*)	-	-	2	5	1***	-	15
Financing expenses, net	9	14	14	-	-	121	-	158
Total expenses	6,600	3,550	1,981	302	132	303	(152)	12,716
Company's share of profits of equity accounted investees	16	8	14	-	-	28	-	66
Profit before income taxes	398	98	131	14	29	85	(3)	752
Other comprehensive income (loss), before income tax	27	(1)	(16)	(22)	-	15	-	3
Total comprehensive income (loss) before income tax	425	97	115	(8)	29	100*****	(3)	755
Liabilities in respect of non-yield dependent insurance contracts and investment contracts	11,984	5,275	10,001	517	-	-	(4)	27,773
Liabilities in respect of yield dependent insurance contracts and investment contracts	53,414	4,783	-	-	-	-	-	58,197

(*) Reclassified

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

** Income from commissions includes commissions paid to insurance agencies owned by the Group. About NIS 148 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 73 million is for expenses of the activity of the Group's insurance agencies.

***** Total comprehensive income before income tax for the activity of the Group's insurance agencies was approximately NIS 15 million.

Note 4 - Operating segments (Contd.)

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

	For the three months ended September 30, 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	1,479	1,209	861	112	-	-	(1)	3,660
Premiums earned by reinsurers	37	55	268	24	-	-	(1)	383
Premiums earned in retention	1,442	1,154	593	88	-	-	-	3,277
Profit from investments, net and financing income	1,451	129	59	10	18	72*	(1)	1,738
Income from management fees	315	1	-	-	36	1	-	353
Income from commissions	9	16	46	5	-	56**	(49)	83
Total income	3,217	1,300	698	103	54	129	(50)	5,451
Payments and changes in liabilities for insurance and investment contracts, gross	2,665	949	605	83	-	-	(1)	4,301
Reinsurers' share in payments and changes in liabilities for insurance contracts	20	42	142	16	-	-	(1)	219
Payments and changes in liabilities for insurance contracts and investment contracts, in retention	2,645	907	463	67	-	-	-	4,082
Commissions, marketing expenses and other acquisition costs	243	243	176	27	-	27***	(49)	667
General and administrative expenses	140 (*)	73	9	4	42	27****	-	295
Other expenses	2 (*)	-	-	1	4	-	-	7
Financing expenses (income), net	2	4	(4)	-	-	42	-	44
Total expenses	3,032	1,227	644	99	46	96	(49)	5,095
Company's share of profits of equity accounted investees	9	5	10	-	-	9	-	33
Profit before income taxes	194	78	64	4	8	42	(1)	389
Other comprehensive income (loss), before income tax	11	4	7	(15)	1	22	-	30
Total comprehensive income (loss) before income tax	205	82	71	(11)	9	64*****	(1)	419
Liabilities in respect of non-yield dependent insurance contracts and investment contracts	11,984	5,275	10,001	517	-	-	(4)	27,773
Liabilities in respect of yield dependent insurance contracts and investment contracts	53,414	4,783	-	-	-	-	-	58,197

(*) Reclassified

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

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

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

**** Of the total general and administrative expenses, NIS 23 million is for expenses of the activity of the Group's insurance agencies.

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

Note 4 - Operating segments (Contd.)

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

	For the year ended December 31, 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 (losses) 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 in liabilities for insurance contrasts	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
Commissions, marketing expenses and other acquisition costs	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 to covert 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 agents from the Group's financial institutions.

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

**** Of the total general and administrative expenses, approximately NIS 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 nine months ended September 30, 2019 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other branches*	Other Liability branches**	Mortgage insurance	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Gross premiums	554	692	778	677	(3)	2,698
Reinsurance premiums	6	10	597	246	-	859
Premiums in retention	548	682	181	431	(3)	1,839
Change in outstanding unearned premium, in retention	88	88	11	(60)	(10)	117
Premiums earned in retention	460	594	170	491	7	1,722
Profits from investments, net, and financing income	69	15	12	82	14	192
Income from commissions	-	4	122	29	-	155
Total income	529	613	304	602	21	2,069
Payments and changes in liabilities for insurance contracts and investment contracts, gross	339	362	313	686	(23)	1,677
Reinsurers’ share of payments and change in liabilities for insurance contracts	(9)	10	270	182	-	453
Payments and changes in liabilities for insurance contracts and investment contracts in retention	348	352	43	504	(23)	1,224
Commissions, marketing expenses and other acquisition costs	69	138	171	126	-	504
General and administrative expenses	6	6	6	5	3	26
Financing income, net	(10)	(2)	(1)	(12)	-	(25)
Total expenses (income)	413	494	219	623	(20)	1,729
Company’s share of profits of equity accounted investees	24	5	2	29	-	60
Profit before income taxes	140	124	87	8	41	400
Other comprehensive income, before income tax	42	9	3	50	8	112
Total comprehensive income before income tax	182	133	90	58	49	512
Liabilities for insurance contracts, gross, as at September 30, 2019	2,676	604	934	5,302	302	9,818
Liabilities for insurance contracts, retention, as at September 30, 2019	2,552	590	175	3,142	302	6,761

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

** Other liabilities branches include mainly results from third-party insurance and professional liability which account for 74% of total premiums in these branches.

Note 4 - Operating segments (Contd.)

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

	For the three months ended September 30, 2019 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other branches*	Other Liability branches**	Mortgage insurance	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Gross premiums	135	185	249	147	(1)	715
Reinsurance premiums	3	2	193	82	-	280
Premiums in retention	132	183	56	65	(1)	435
Change in outstanding unearned premium, in retention	(21)	(22)	(1)	(95)	(4)	(143)
Premiums earned in retention	153	205	57	160	3	578
Profits from investments, net, and financing income	8	2	3	9	3	25
Income from commissions	-	1	38	10	-	49
Total income	161	208	98	179	6	652
Payments and changes in liabilities for insurance contracts and investment contracts, gross	155	126	106	301	(13)	675
Reinsurers' share of payments and change in liabilities for insurance contracts	-	5	100	104	-	209
Payments and changes in liabilities for insurance contracts and investment contracts in retention	155	121	6	197	(13)	466
Commissions, marketing expenses and other acquisition costs	27	54	56	46	-	183
General and administrative expenses	1	1	2	3	2	9
Financing income, net	(3)	(1)	(1)	(4)	-	(9)
Total expenses (income)	180	175	63	242	(11)	649
Company's share of losses of equity accounted investees	(1)	(1)	-	(1)	-	(3)
Profit (loss) before income taxes	(20)	32	35	(64)	17	-
Other comprehensive income, before income tax	12	2	1	14	1	30
Total comprehensive income (loss) before income tax	(8)	34	36	(50)	18	30
Liabilities for insurance contracts, gross, as at September 30, 2019	2,676	604	934	5,302	302	9,818
Liabilities for insurance contracts, retention, as at September 30, 2019	2,552	590	175	3,142	302	6,761

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

** Other liabilities branches include mainly results from third-party insurance and professional liability which account for 64% of total premiums in these branches.

Note 4 - Operating segments (Contd.)

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

	For the nine months ended September 30, 2018 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other branches*	Other Liability branches**	Mortgage insurance	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Gross premiums	560	690	741	647	(5)	2,633
Reinsurance premiums	5	21	561	228	-	815
Premiums in retention	555	669	180	419	(5)	1,818
Change in outstanding unearned premium, in retention	55	69	7	(59)	(13)	59
Premiums earned in retention	500	600	173	478	8	1,759
Profits from investments, net, and financing income	70	16	12	84	13	195
Income from commissions	-	6	117	21	-	144
Total income	570	622	302	583	21	2,098
Payments and changes in liabilities for insurance contracts and investment contracts, gross	518	414	363	691	(16)	1,970
Reinsurer's share of payments and changes in liabilities for insurance contracts	(4)	17	304	205	-	522
Payments and changes in liabilities for insurance contracts and investment contracts in retention	522	397	59	486	(16)	1,448
Commissions, marketing expenses and other acquisition costs	66	139	166	121	-	492
General and administrative expenses	5	8	6	5	3	27
Financing expenses, net	6	1	-	7	-	14
Total expenses (income)	599	545	231	619	(13)	1,981
Company's share of profits of equity accounted investees	6	1	-	7	-	14
Profit (loss) before income taxes	(23)	78	71	(29)	34	131
Other comprehensive loss, before income tax	(5)	(1)	(1)	(6)	(3)	(16)
Total comprehensive income (loss) before income tax	(28)	77	70	(35)	31	115
Liabilities for insurance contracts, gross, as at September 30, 2018	2,703	666	895	5,391	346	10,001
Liabilities for insurance contracts, retention, as at September 30, 2018	2,523	637	183	2,910	346	6,599

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

** Other liabilities branches include mainly results from third-party insurance and professional liability which account for 74% of total premiums in these branches.

Note 4 - Operating segments (Contd.)

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

	For the three months ended September 30, 2018 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other branches*	Other Liability branches**	Mortgage insurance	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Gross premiums	119	173	241	137	(3)	667
Reinsurance premiums	2	5	185	64	-	256
Premiums in retention	117	168	56	73	(3)	411
Change in outstanding unearned premium, in retention	(53)	(36)	(1)	(87)	(5)	(182)
Premiums earned in retention	170	204	57	160	2	593
Profits from investments, net, and financing income	21	5	4	25	4	59
Income from commissions	-	2	36	8	-	46
Total income	191	211	97	193	6	698
Payments and changes in liabilities for insurance contracts and investment contracts, gross	166	136	87	222	(6)	605
Reinsurer's share of payments and changes in liabilities for insurance contracts	1	5	70	66	-	142
Payments and changes in liabilities for insurance contracts and investment contracts, retention	165	131	17	156	(6)	463
Commissions, marketing expenses and other acquisition costs	28	51	54	43	-	176
General and administrative expenses	2	4	2	1	-	9
Financing income, net	(1)	(1)	(1)	(1)	-	(4)
Total expenses (income)	194	185	72	199	(6)	644
Company's share of profits of equity accounted investees	4	1	-	5	-	10
Profit (loss) before income taxes	1	27	25	(1)	12	64
Other comprehensive income, before income tax	2	1	-	2	2	7
Total comprehensive income before income tax	3	28	25	1	14	71
Liabilities for insurance contracts, gross, as at September 30, 2018	2,703	666	895	5,391	346	10,001
Liabilities for insurance contracts, retention, as at September 30, 2018	2,523	637	183	2,910	346	6,599

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

** Other liabilities branches include mainly results from third-party insurance and professional liability which account for 65% 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 branches*	Other Liability branches**	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
Income from commissions	-	8	156	31	-	195
Total income	736	827	403	762	20	2,748
Payments and changes in liabilities for insurance contracts and investment 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 and investment contracts, in retention	674	524	75	658	(24)	1,907
Commissions, marketing expenses and other acquisition costs	95	198	226	160	-	679
General and administrative expenses	8	9	9	7	4	37
Financing expenses, net	10	2	1	13	-	26
Total expenses (income)	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 contracts, gross, as at December 31, 2018	2,637	581	892	5,369	335	9,814
Liabilities for insurance contracts, retention, as at December 31, 2018	2,475	554	171	3,038	335	6,573

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

** Other liabilities branches include mainly results from third-party insurance and professional liability which account for 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 nine months ended September 30, 2019 (Unaudited)				For the nine months ended September 30, 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	-	-	4,802	4,802	-	-	4,094	4,094
Premiums earned by reinsurers	-	-	119	119	-	-	109	109
Earned premiums in retention	-	-	4,683	4,683	-	-	3,985	3,985
Profit from investments, net, and financing income	-	2	4,729	4,731	-	2	2,190	2,192
Income from management fees	191	245	465	901	181	237	360	778
Income from commissions	-	-	33	33	-	-	27	27
Total income	191	247	9,910	10,348	181	239	6,562	6,982
Payments and changes in liabilities for insurance contracts and investment contracts, gross	2	10	9,358	9,370	2	8	5,496	5,506
Reinsurers' share of payments and change in liabilities for insurance contracts	-	-	90	90	-	-	63	63
Payments and changes in liabilities for insurance contracts and investment contracts in retention	2	10	9,268	9,280	2	8	5,433	5,443
Commissions, marketing expenses and other acquisition costs	74	94	613	781	69	91	553	713
General and administrative expenses	67	89	274	430	70	77*	281	428
Other expenses	5	1	-	6	6	1*	-	7
Financing expenses, net	-	-	6	6	-	-	9	9
Total expenses	148	194	10,161	10,503	147	177	6,276	6,600
Company's share of profits of equity accounted investees	-	-	9	9	-	-	16	16
Profit (loss) before taxes on income	43	53	(242)	(146)	34	62	302	398
Other comprehensive income (loss) before taxes on income	2	6	192	200	-	(1)	28	27
Total comprehensive income (loss) before taxes on income	45	59	(50)	54	34	61	330	425

* Reclassified

Note 4 - Operating segments (Contd.)

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

	For the three months ended September 30, 2019 (Unaudited)				For the three months ended September 30, 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	-	-	1,772	1,772	-	-	1,479	1,479
Premiums earned by reinsurers	-	-	39	39	-	-	37	37
Earned premiums in retention	-	-	1,733	1,733	-	-	1,442	1,442
Profit from investments, net, and financing income	-	-	711	711	-	1	1,450	1,451
Income from management fees	64	85	166	315	61	81	173	315
Income from commissions	-	-	13	13	-	-	9	9
Total income	64	85	2,623	2,772	61	82	3,074	3,217
Payments and changes in liabilities for insurance contracts and investment contracts, gross	1	4	2,499	2,504	1	2	2,662	2,665
Reinsurers' share of payments and change in liabilities for insurance contracts	-	-	16	16	-	-	20	20
Payments and changes in liabilities for insurance contracts and investment contracts in retention	1	4	2,483	2,488	1	2	2,642	2,645
Commissions, marketing expenses and other acquisition costs	25	32	204	261	24	31	188	243
General and administrative expenses	23	28	92	143	23	25*	92	140
Other expenses	1	1	-	2	1	1*	-	2
Financing expenses (income), net	-	-	(2)	(2)	-	-	2	2
Total expenses	50	65	2,777	2,892	49	59	2,924	3,032
Company's share of profits of equity accounted investees	-	-	10	10	-	-	9	9
Profit (loss) before taxes on income	14	20	(144)	(110)	12	23	159	194
Other comprehensive income before taxes on income	1	2	74	77	-	-	11	11
Total comprehensive income (loss) before taxes on income	15	22	(70)	(33)	12	23	170	205

* 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 acquisition costs	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 nine months ended September 30, 2019 (Unaudited)				NIS million			
Gross premiums	76	693	-	3,042	868	125	4,804
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(2)
Total							4,802
Amounts received for investment contracts recognized directly in insurance reserves	-	-	15	2,364	-	-	2,379
Financial margin including management fees - in terms of comprehensive income (2)	181	242	(74)	223	-	-	572
Payments and changes in liabilities for insurance contracts, gross	708	2,531	210	4,306	484	128	8,367
Payments and change in liabilities for investment contracts	-	-	(1)	992	-	-	991
Total comprehensive income (loss) from life assurance business	(136)	96	(80)	52	24	(6)	(50)
For the three months ended September 30, 2019 (Unaudited)							
Gross premiums	26	231	-	1,178	292	42	1,769
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							3
Total							1,772
Amounts received for investment contracts recognized directly in insurance reserves	-	-	4	817	-	-	821
Financial margin including management fees - in terms of comprehensive income (2)	93	88	(52)	78	-	-	207
Payments and changes in liabilities for insurance contracts, gross	230	501	94	1,362	144	39	2,370
Payments and change in liabilities for investment contracts	-	-	-	129	-	-	129
Total comprehensive income (loss) from life assurance business	(83)	51	(56)	(2)	19	1	(70)

(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 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. Regarding 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 nine months ended September 30, 2018 (Unaudited)				NIS million			
Gross premiums	82	701	-	2,344	835	138	4,100
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(6)
Total							4,094
Amounts received for investment contracts recognized directly in insurance reserves	-	-	117	3,871	-	-	3,988
Financial margin including management fees - in terms of comprehensive income (2)	37	168	39	192	-	-	436
Payments and changes in liabilities for insurance contracts, gross	367	1,508	(8)	2,789	371	115	5,142
Payments and change in liabilities for investment contracts	-	-	1	353	-	-	354
Total comprehensive income (loss) from life assurance business	99	83	46	(7)	97	12	330
For the three months ended September 30, 2018 (Unaudited)							
Gross premiums	27	234	-	889	285	46	1,481
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(2)
Total							1,479
Amounts received for investment contracts recognized directly in insurance reserves	-	-	12	1,071	-	-	1,083
Financial margin including management fees - in terms of comprehensive income (2)	27	104	3	69	-	-	203
Payments and changes in liabilities for insurance contracts, gross	133	818	11	1,262	115	35	2,374
Payments and change in liabilities for investment contracts	-	-	1	287	-	-	288
Total comprehensive income from life assurance business	26	73	5	6	53	7	170

(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.)

<u>Results by policy category</u> (Contd.)

For the year ended December 31, 2018 (Audited)	Policies which include a savings component (incl. riders) by date of policy issue				Policies with no savings component		
			from 2004		Risk that was sold as a stand-alone policy		
	Until 1990 (1)	Up to 2003	Not yield-dependent	Yield dependent	Personal lines	Group	Total
	NIS 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

	Long-term care (LTC)		Other health*		
	Personal lines	Group	long-term **	short-term **	Total
For the nine months ended September 30, 2019 (Unaudited)	NIS million				
Gross premiums	564	1,018	1,725	356	3,663
Payments and changes in liabilities for insurance contracts, gross	1,044	1,314	1,043	227	3,628
Total comprehensive income (loss) from health insurance business	(435)	(48)	143	14	(326)
For the three months ended September 30, 2019 (Unaudited)					
Gross premiums	189	346	582	152	1,269
Payments and changes in liabilities for insurance contracts, gross	706	375	351	82	1,514
Total comprehensive income (loss) from health insurance business	(534)	(1)	37	18	(480)

	Long-term care (LTC)		Other health*		
	Personal lines	Group	long-term **	short-term **	Total
For the nine months ended September 30, 2018 (Unaudited)	NIS million				
Gross premiums	538	933	1,639	353	3,463
Payments and changes in liabilities for insurance contracts, gross	444	982	1,040	248	2,714
Total comprehensive income (loss) from health insurance business	78	(46)	64	1	97
For the three months ended September 30, 2018 (Unaudited)					
Gross premiums	182	327	552	152	1,213
Payments and changes in liabilities for insurance contracts, gross	157	377	336	79	949
Total comprehensive income from health insurance business	21	-	46	15	82

* Of this, personal lines premiums in the amount of NIS 1,370 million and NIS 494 million for the nine and three months ended September 30, 2019, respectively (personal lines premiums of NIS 1,308 million and NIS 474 million, for the nine and three months ended September 30, 2018, respectively), and group premiums of NIS 711 million and NIS 240 million for the nine and three months ended September 30, 2019, respectively (group premiums in the amount of NIS 684 million and NIS 230 million, for the nine and three months ended September 30, 2018) respectively

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

Note 4 - Operating segments (Contd.)

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

Results by policy category (contd.)

For the year ended December 31, 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
Total comprehensive income (loss) from health insurance business	86	(53)***	255***	1***	289

* Of this, personal lines premiums in the amount of NIS 1,797 million, and group premiums in the amount of NIS 809 million.

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

*** Reclassified

Note 5 - Taxes on income

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

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

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

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

In the third quarter, Harel Insurance recognized current tax income of NIS 64 million in respect of receivable wage tax.

Note 6 - Financial instruments

A. Assets for Yield-dependent contracts

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

	As at September 30		As at December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Investment property	**1,702**	1,593	1,628
Financial investments			
Marketable debt assets	**22,159**	19,733	19,309
Non-marketable debt assets (*)	**14,393**	13,394	13,083
Shares	**10,324**	9,500	8,922
Other financial investments	**12,030**	10,917	10,577
Total financial investments	**58,906**	53,544	51,891
Cash and cash equivalents	**2,984**	2,975	3,083
Other	**1,042**	678	1,028
Total assets for yield-dependent contracts **	**64,634**	58,790	57,630
Payables	**169**	27	119
Financial liabilities ***	**194**	211	517
Financial liabilities for yield-dependent contracts **	**363**	238	636
(*) Of which assets measured at adjusted cost	**554**	608	593
Fair value of debt assets measured at adjusted cost	**617**	651	615

** Including net assets (assets net of financial liabilities) in the amount of NIS 4,486 million, NIS 4,399 million, and NIS 4,236 million as at September 30, 2019 and 2018, and at 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 September 30, 2019 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	**18,954**	**3,205**	**-**	**22,159**
Non-marketable debt assets	**-**	**13,075**	**764**	**13,839**
Shares	**7,823**	**8**	**2,493**	**10,324**
Other	**7,758**	**377**	**3,895**	**12,030**
Total	**34,535**	**16,665**	**7,152**	**58,352**

	As at September 30, 2018 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	16,610	3,123	-	19,733
Non-marketable debt assets	-	12,293	493	12,786
Shares	7,051	9	2,440	9,500
Other	7,192	108	3,617	10,917
Total	30,853	15,533	6,550	52,936

	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 the nine and three month periods ended September 30, 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 (*)	4	(41)	(107)	(144)
Interest and dividend receipts	(25)	(56)	(162)	(243)
Purchases	558	211	633	1,402
Sales	-	(152)	(215)	(367)
Redemptions	(170)	-	(44)	(214)
Transfers from Level 3 *	(109)	-	-	(109)
Balance as at September 30, 2019	764	2,493	3,895	7,152
(*)Of which total unrealized profits (losses) for the period for financial assets held correct to September 30, 2019	4	(25)	(108)	(129)

* For securities whose rating changed.

	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 July 1, 2019	614	2,347	3,924	6,885
Total profits (losses) that were recognized:				
In profit and loss (*)	(10)	22	(94)	(82)
Interest and dividend receipts	(10)	(5)	(54)	(69)
Purchases	215	131	219	565
Sales	-	(2)	(93)	(95)
Redemptions	(45)	-	(7)	(52)
Balance as at September 30, 2019	764	2,493	3,895	7,152
(*)Of which total unrealized profits (losses) for the period for financial assets held correct to September 30, 2019	(5)	23	(90)	(72)

Note 6 - Financial instruments (Contd.)

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

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

For the nine and three month periods ended September 30, 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 (*)	18	210	357	585
Interest and dividend receipts	(24)	(34)	(170)	(228)
Purchases	220	272	641	1,133
Sales	(4)	(43)	(386)	(433)
Redemptions	(170)	-	(43)	(213)
Transfers from Level 3 *	(13)	-	-	(13)
Balance as at September 30, 2018	493	2,440	3,617	6,550
(*)Of which total unrealized profits for the period for financial assets held correct to September 30, 2018	11	204	356	571

	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 July 1, 2018	498	2,336	3,422	6,256
Total profits (losses) that were recognized:				
In profit and loss (*)	4	49	69	122
Interest and dividend receipts	(8)	(22)	(68)	(98)
Purchases	97	87	300	484
Sales	-	(10)	(102)	(112)
Redemptions	(92)	-	(4)	(96)
Transfers from Level 3 *	(6)	-	-	(6)
Balance as at September 30, 2018	493	2,440	3,617	6,550
(*)Of which total unrealized profits for the period for financial assets held correct to September 30, 2018	3	49	69	121

* Mainly for securities whose rating changed.

Note 6 - Financial instruments (Contd.)

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

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

For the year ended December 31, 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 unrealized profit for the period 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 September 30		As at December 31	As at September 30		As at 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	**4,993**	4,989	4,938	**6,992**	6,622	6,405
(*) Non-marketable, non-convertible debt assets, excluding bank deposits	**7,216**	7,636	7,584	**8,197**	8,337	8,027
Bank deposits	**2,300**	1,114	994	**2,368**	1,187	1,046
Total non-marketable debt assets	**14,509**	13,739	13,516	**17,557**	16,146	15,478
Investments held to maturity:						
Marketable non-convertible debt assets	**98**	135	117	**102**	142	121
Total investments held to maturity	**98**	135	117	**102**	142	121
Total	**14,607**	13,874	13,633	**17,659**	16,288	15,599
Impairments recognized in profit and loss (in aggregate)	**21**	16	17			
(*) Of which debt assets measured at fair value	**1,530**	213	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 periodic basis, using a valuation method based on the fair value hierarchy. See Note 6A.2 for a definition of the different levels.

	As at September 30, 2019 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	**9,276**	**1,144**	**-**	**10,420**
Non-marketable debt assets	**-**	**1,530**	**-**	**1,530**
Shares	**869**	**-**	**328**	**1,197**
Other	**973**	**190**	**1,553**	**2,716**
Total	**11,118**	**2,864**	**1,881**	**15,863**

	As at September 30, 2018 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	6,683	1,302	-	7,985
Non-marketable debt assets	-	213	-	213
Shares	877	-	175	1,052
Other	930	69	1,522	2,521
Total	8,490	1,584	1,697	11,771

	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 nine and three-month periods ended September 30, 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 (*)	(3)	39	36
In other comprehensive income	9	(72)	(63)
Interest and dividend receipts	(1)	(50)	(51)
Purchases	59	168	227
Sales	(2)	(70)	(72)
Redemptions	-	(9)	(9)
Balance as at September 30, 2019	328	1,553	1,881
(*) Of which total unrealized profits (losses) for the period for financial assets held at September 30, 2019	(3)	39	36

	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 July 1, 2019	314	1,568	1,882
Total profits (losses) that were recognized:			
In profit and loss (*)	(4)	10	6
In other comprehensive income	3	(39)	(36)
Interest and dividend receipts	-	(13)	(13)
Purchases	16	56	72
Sales	(1)	(26)	(27)
Redemptions	-	(3)	(3)
Balance as at September 30, 2019	328	1,553	1,881
(*) Of which total unrealized profits (losses) for the period for financial assets held at September 30, 2019	(4)	10	6

Note 6 - Financial instruments (Contd.)

B. Other financial investments (Contd.)

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

For nine and three-month periods ended September 30, 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)	35	34
In other comprehensive income	9	83	92
Interest and dividend receipts	(1)	(53)	(54)
Purchases	51	156	207
Sales	-	(90)	(90)
Redemptions	-	(14)	(14)
Balance as at September 30, 2018	175	1,522	1,697
(*) Of which total unrealized profits (losses) for the period for financial assets held at September 30, 2018	(1)	30	29

	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 July 1, 2018	147	1,498	1,645
Total profits (losses) that were recognized:			
In profit and loss (*)	-	11	11
In other comprehensive income	6	15	21
Interest and dividend receipts	(1)	(18)	(19)
Purchases	23	58	81
Sales	-	(34)	(34)
Redemptions	-	(8)	(8)
Balance as at September 30, 2018	175	1,522	1,697
(*) Of which total unrealized profits for the period for financial assets held at September 30, 2018	-	6	6

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 profits (losses) for the period for financial assets held at December 31, 2018	(3)	53	50

Note 6 - Financial instruments (Contd.)

C. Financial liabilities

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

	As at September 30		December 31	As at September 30		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 *	**349**	531	459	**376**	551	473
Loans from non-bank corporations	**-**	31	31	**-**	31	31
Loans from related parties	**12**	11	11	**12**	11	11
Short-term credit from banks and others	**-**	-	121	**-**	-	121
Bonds *	**5,225**	3,096	3,415	**5,791**	3,396	3,584
Total financial liabilities presented at amortized cost	**5,586**	3,669	4,037	**6,179**	3,989	4,220
Subordinated liability notes issued for compliance with the capital requirements	**3,986**	3,216	3,516			

* Including subordinated liability notes

2. Interest rates used to determine the fair value

	As at September 30		As at December 31
	2019	2018	2018
In percent			
Loans	**1.96%**	2.62%	2.75%
Bonds	**0.87%**	1.36%	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 September 30, 2019 (Unaudited)		
	Level 1	Level 2	Total
	NIS million	NIS million	NIS million
Derivatives (1)	**71**	**464**	**535**
Short sales (2)	**251**	**-**	**251**
Total financial liabilities	**322**	**464**	**786**

	As at September 30, 2018 (Unaudited)		
	Level 1	Level 2	Total
	NIS million	NIS million	NIS million
Loans from banks	-	66	66
Derivatives (1)	26	680	706
Short sales (2)	189	-	189
Total financial liabilities	215	746	961

	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 340 million, NIS 460 million and NIS 507 million as at September 30, 2019 and 2018 and at 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 collateral in accordance with the conditions set out in the contract. The Group's financial institutions have approved credit facilities for their derivative activity. Pursuant to the foregoing, the Group's financial institutions deposited NIS 818 million, NIS 597 million and NIS 1,099 million as at September 30, 2019 and 2018 and at December 31, 2018, respectively, as collateral to cover the liabilities attributable to this activity (these collaterals are presented under trade 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 deposited NIS 100 million with the bank until the bonds mature. In 2017 and 2018, the subsidiary deposited, in aggregate, an additional NIS 100 million.

Note 6 - Financial instruments (Contd.)

C. Financial liabilities (Contd.)

4. Additional information

1. Financial covenants

For information relating to the financial covenants in respect of significant loans that the Company took from banks and non-bank corporations, see Note 25 to the annual financial statements. As at September 30, 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), for 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), for up to NIS 600 million. This amount includes the initial facility provided 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, 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, Harel Financing & Issuing, a second-tier subsidiary of the Company, resolved to make full, early redemption, of the Series 3 bonds it had issued, which was implemented 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 issued from time to time to the Commissioner of Capital Markets, Insurance and Savings in the Ministry of Finance against institutional bodies in the Group, regarding the rights of insured relating to the insurance policies and/or the law. These complaints are handled on a current basis by the public complaints division within the financial institutions. The decisions of the Capital Market, Insurance and Savings Authority on these complaints, if and to the extent that any decision is made, might be made across the board and apply to large groups of insureds. 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 and non-life insurance sectors, customer service, life assurance, information systems, claims settlement, money laundering and actuarial practice.

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 certify legal actions as class actions as detailed below, where, 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 motions to approve a legal action, fully or partly, as class action with respect to a claim, where it is more reasonable than not that the Company's defense arguments are likely to be rejected, the financial statements include provision to cover the exposure estimated by the Company's management and/or the managements of subsidiaries. In the opinion of the Company's management, based, *inter alia*, on legal opinions it received, the financial statements include adequate provision, where such provision is necessary, to cover the estimated exposure by the Company and/or subsidiaries.

For motions to approve actions as class actions under Sections 46, 48, 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, a motion 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 put on hold until a decision has been made on the motion 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. In its decision from July 2, 2019, the Supreme Court instructed that another hearing on the judgment should take place before a panel of seven judges. In November 2019, the Attorney General announced that he would present himself at the proceeding

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 District Court against the subsidiary Harel Insurance and against four additional insurance companies (hereinafter together: “the Defendants”). The subject of the legal action is the allegation that in the event of a discontinuation of insurance in any month, after the insurance premium for that month was collected by the Defendants in advance, the defendants allegedly did not reimburse the insured the proportionate, surplus share of the premiums for that month, or alternatively they allegedly repaid the insurance premium in nominal values only. In the opinion of the applicants, the total damages to all members 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 a motion 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 deduct the future collection for the policy factor from the members of this group at a rate of 25% relative to the actual amount collected. The Defendants also undertook to pay compensation to the class plaintiff and cover the cost of his lawyer’s fees, of 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 of the breach by way of revising the insured’s accrued savings by the additional amount of savings that would have been accrued if the policy factor had not been collected or by compensating the insured by the aforesaid amount. In addition, from now on, the policy factor will no longer be collected. The class in whose name the class action is litigated comprises insureds of the Defendants who have combined life assurance and savings policies that were drawn up between 1992-2003, where the savings accrued by the insureds was compromised on account of the collection of the policy factor. In May 2017, the Defendants filed 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 acceded to 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. 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. Validity of the compromise settlement is contingent on the court’s approval. In July 2019, the Attorney General submitted his position on the compromise settlement. The opinion includes various comments including, among others, that a reviewer should be appointed to review the compromise settlement before it is approved and comments relating to the way in which the refund will be made to the class members, and he also requested submittal of an additional opinion after the professional opinion of the reviewer has been received and examined.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

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.
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. In August 2019, the Attorney General's position was submitted to the court, in which he repeated some of the comments he had made in his position from September 2016 and he also included additional comments regarding the way in which the refund to the class members should be made.
9. In October 2013, an action was filed in the Lod District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action is an allegation that Harel Insurance ostensibly refrains from paying compensation to insureds who performed surgery that was fully or partially paid for by their healthcare providers, at a rate of half the amount that it saved from the full cost of the surgery, due to the participation of the health funds. The total loss claimed for all members of the group amounts to NIS 14 million. In March 2016, a compromise settlement was submitted for the court's approval. In June 2016, an amended compromise agreement was submitted for the court's approval, in accordance with the court's comments. In September 2016, the Attorney General's position was submitted to the court whereby he does not oppose the compromise settlement and he leaves approval of the decision in the court's hands.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

Par. 9 (contd.)

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. In August 2019, the Attorney General's position was submitted to the court, in which he repeated some of the comments he had made in his position from September 2016 and he also included additional comments regarding the way in which the refund to the class members should be made.

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).

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 Decision"). 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. On July 17, 2019, Harel Insurance filed an application for permission to appeal the decision in the Supreme Court. On July 22, 2019, Harel Insurance was served with an appeal in the Supreme Court which was filed by the plaintiff in the motion for certification, on that part of the decision in which the District Court ruled not to certify litigation of the claim as a class action on the grounds of deception and that the definition of the class in the class action did not also include past insureds, including beneficiaries and heirs of insureds in the insurance policies in respect of which the claim had been certified as a class action. In October 2019, the Supreme Court ordered a stay of proceedings before the District Court until further notice.

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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

Par. 12 (contd.)

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. In June 2019, the plaintiff in the motion for certification filed an appeal in the Supreme Court against the District Court's ruling not to certify litigation of the claim as a class action on the grounds that non-payment of the insurance benefits for the hospitalization period contravenes the Commissioner's instructions and also that, as argued by the plaintiff, the court did not rule on the additional argument of breach of contract.

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. 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 mediation process that the parties conducted was not successful and hearing of the action was returned to the court.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

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. 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. In November 2019, the Attorney General submitted his position in relation to the compromise settlement, whereby the compromise settlement should not be approved in its present format and that it must be amended in conformity with his comments.
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 an application for its certification as a class action against the subsidiaries Harel Insurance and Dikla Insurance Agency Ltd. (in its previous name Dikla Insurance Company Ltd. ("Dikla")) and against three other insurance companies (henceforth together: "the Defendants"). The subject of the action is the allegation that the Defendants allegedly adopted an interpretive approach whereby in order to recognize an insured in the investigation of a claim for long-term care as one who suffers from incontinence, this condition must be the outcome of a urological or gastroenterological illness or ailment only. This, ostensibly, in contravention of the provisions of the insurance policy. The Plaintiffs have not quantified the loss claimed for all members of the group they wish to represent, but they estimate it to be hundreds of millions of shekels. The mediation process conducted by the parties was unsuccessful and the hearing of the action was returned to 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 November 2015, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Dikla Insurance Agency Ltd. (in its previous name Dikla Insurance Company Ltd. ("Dikla"))and against Clalit Health Services ("Clalit") (hereinafter together: "the Defendants"). The subject of the action is the group long-term care insurance policy for members of Clalit Health Services - Supplementary Plus LTC ("the Policy"). The Plaintiff argues that where rights are transferred from one period of entitlement ("the First Entitlement Period") to another entitlement period, in which the insured is eligible for insurance that are less than the benefits in the First Entitlement Period ("the Second Entitlement Period"), and when the transition between the entitlement periods occurs after the first day of a calendar month, insurance benefits are paid according to the reduced amount, for the entire month in which the transfer took place ("Cause of the First 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. ("Cause of the Second 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 Grounds 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.)

19. 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.
20. 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 have entered into a mediation process.
21. 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.
22. 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. 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

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

Par. 22 (contd.)

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.

23. In August 2016, an action was filed in the Lod Central 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.

24. In September 2016, an action was filed in the Central Region District Court together with a motion for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly collects payment from the holders of the Harel savings policy "Harel Varied Personal Investments" for a component relating to investment management expenses which may be collected by law, but without contractual agreement in the policy conditions allowing it to collect this component. According to the Plaintiff, Harel Insurance is therefore fundamentally in breach of the policy provisions, in breach of the fiduciary obligation applicable to it and misleads its policyholders. The Plaintiff estimates the overall loss caused to all members of the group it seeks to represent in the amount of NIS 27.8 million. In May 2019, the Tel Aviv Central District Court approved litigation of the claim as a class action on the grounds of a breach of the insurance policy due to the unlawful collection of investment management expenses. The class in whose name the class action is to be litigated is all holders of the Migvan Personal Investment policy of Harel Insurance at the present time and in the seven years preceding the date of filing the motion. In September 2019, Harel Insurance filed a motion for permission to appeal the decision in the Supreme Court. In November 2019, the Supreme Court ruled that a response must be submitted to the motion for permission to appeal and it instructed the Attorney General to submit his position on the motion in writing.

25. 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

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 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 court's approval. In November 2019, the Attorney General's position was submitted to the court according to which the State's professional entities did not see fit to express an opinion, either positive or negative, in relation to the motion to approve the compromise settlement.
27. In October 2016, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action against the consolidated subsidiary Harel Insurance Company Ltd. The subject of the action is the allegation that until the annual report for 2015, Harel Insurance ostensibly neglected to disclose to its policyholders, who purchased long-term care insurance with a variable premium, what premium they will be charged from the age of 65, despite the fact that, according to the Plaintiff, the premium on this policy increases by hundreds of percent at the age of 65. The Plaintiff argues that Harel Insurance is therefore in breach of a statutory obligation and in breach of the obligation to provide disclosure, in breach of agreement, acts in bad faith, practices unjust enrichment and acts negligently. The Plaintiff further argues that charging insureds for future premiums based on tariffs that are unknown to them is a discriminatory condition in a standard contract. The Plaintiff has not quantified the total loss claimed for all members of the group that she wishes to represent against Harel Insurance, although she estimates it to be millions of shekels. In July 2017, the court approved the Plaintiff's application to amend the motion for certification so that it also addresses the claim whereby Harel Insurance ostensibly neglected to present to its policyholders before the date of enrolment in the policy, the premium they would pay from the age of 65, despite the fact that it is obligated to do so according to the Commissioner's circular. In August 2017, an amended motion was filed for certification of the action as a class action. The subject of the amended motion is the allegation that Harel Insurance ostensibly neglected to present to its policyholders who have long-term care insurance with a variable premium, in the enrolment form and/or in the general conditions of the policy, the premium they would pay from the age of 65 onwards, before they enrolled in the insurance. 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 subject of the motion for certification. In November 2019, the Commissioner's position was received according to which the provisions of Circular 2001/9 "Fair Disclosure for Insureds Enrolling in Health Insurance Policies" ("the Circular") issued by the Authority as well as the statutory provisions, obligate insurers to inform candidates for insurance at the time of purchasing the insurance of the way in which premiums may change, but the text of the Circular does not address the question of how this obligation must be fulfilled prior to enrollment and whether the obligation must be fulfilled in writing.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

28. 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.
29. In December 2016, an action was filed in the Lod Central District 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 Harel Pension and Provident ostensibly increases the management fees collected from its members in the comprehensive pension fund without giving them due notice, and that when their money is deposited in the general pension fund due to cumulative deposits in the comprehensive fund that exceed the limit prescribed by law, it allegedly collects management fees from them at a rate that is higher than the management fees paid in the comprehensive pension fund, without informing them of this. The personal loss claimed by the Plaintiff is estimated at NIS 265 and he mentions that he is unable to estimate the overall loss claimed for all members of the class that he seeks to represent. The hearing on the motion for certification was transferred to the Labor Court. In April 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. The parties are conducting a mediation process.
30. In December 2016, 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 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

31. In January 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 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.
32. In January 2017, an action was filed in the Tel Aviv District Labor Court, together with a motion 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.
33. 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 Commissioner'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. In October 2019, the parties informed the court that they had reached a final, agreed text of the compromise agreement and that they would submit it within the time frame set out in the motion for its certification.
34. In February 2017, an action was filed in the Tel Aviv District Court ("the Economic Department") 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 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. In October 2019, the parties informed the court that they had reached a final, agreed text of the compromise agreement and that they would submit it within the time frame set out in the motion for its certification.
35. 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)

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

Par. 35 (contd.)

(Direct Expenses for Performing Transactions) Regulations, 2008 ("the Regulations"). In his position, the Commissioner noted that it is also relevant, with the necessary changes, for insurance companies that manage yield-dependent insurance.

36. In 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 hearing to be transferred to the Regional Labor Court.

37. 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 (hereinafter together: "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. The parties are conducting a mediation process.

38. 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.

39. 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 to hundreds of millions of shekels. In June 2019, the court ordered the application to be submitted for obtaining the Commissioner's position on questions arising from the application for certification.

40. In January 2018, an action was filed in the Central District Court against the subsidiary Harel Insurance and against five other insurance companies (hereinafter together: "the Defendants"), together with a motion for its certification as a class action. The subject of the action is the allegation that the Defendants ostensibly unlawfully refrain unlawfully from paying insurance benefits to insureds, to third parties and beneficiaries for the VAT component that applies to the cost of damages in those instances where the damage was not actually repaired. The Plaintiff estimates the overall loss argued for all members of the class that she wishes to represent against Harel Insurance in the amount of NIS 19,381,031 for each year and the period for which it wishes to claim is from June 4, 2001, and alternatively from 7 years before the previous claim was filed and/or 7 years before the date of filing this motion. The grounds of the action and motion for certification are the same as those for which a previous action and motion for its certification were filed against the Defendants. On January 3, 2018 the Supreme Court dismissed an appeal on a ruling of the Lod Central District Court dated February 20, 2017, in which the motion was struck out.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

41. 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 (hereinafter together: "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.
42. In April 2018, 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 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.
43. 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 (hereinafter together: "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 it wishes to represent. The parties are conducting a mediation process.
44. 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 (hereinafter 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.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

Actions filed in the Reporting Period

45. 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.
46. In May 2019, an action was filed in the Tel Aviv Magistrates 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 refuses to give insureds who have received insurance cover for a test through the Oncotest laboratory in connection with cancer once, insurance cover for an additional test in the Oncotest labs. The plaintiff estimates the total loss claimed for all members of the group it wishes to represent to be NIS 1.8 million.
47. In June 2019, an action was filed in the Tel Aviv Labor Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly collects payment from insureds in life assurance policies that include insurance in the event of death and a savings component (managers insurance), for a component relating to “investment management expenses”, the collection of which is permissible by law, but without contractual agreement in the policy conditions allowing it to collect this component. The applicant estimates the overall loss caused to all members of the class it seeks to represent in the amount of NIS 365.3 million.
48. In June 2019, an action was filed in the Tel Aviv-Jaffa District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance and against three other insurance companies (hereinafter together: “the Defendants”). The subject of the action is the allegation that the Defendants ostensibly refrain from paying interest on insurance benefits to their insureds, from 30 days after the claim is filed. This action and application covers the same grounds as those in a previous action and application for certification as a class action (“the First Claim”) which was partially certified as a class action on August 30, 2015 (“the Certification Decision”) by the Tel Aviv District Court and is currently being heard in its own right (see Section 7(A)(7) above), but they refer to a different period from the one for which the First Claim was certified and it was filed by the plaintiffs for reasons of caution and in parallel with their request to broaden the group represented in the First Claim also to the period from the issuing of the Certification Decision until the judgment is actually given. The applicants estimate the total loss claimed for all members of the class they wish to represent against Harel Insurance at about NIS 90 million, and against all the Defendants in the amount of NIS 264.4 million.
49. In July 2019, an action was filed in the Jerusalem District Labor 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 in addition to management fees, Harel Pension & Provident ostensibly collects payment from the members of Harel Education Fund for a component relating to investment management expenses, which is permissible by law, but is not supported in the agreement in the education fund articles. The applicant estimates the overall loss caused to all members of the class it seeks to represent in the amount of NIS 56.8 million.
50. In August 2019, an action was filed against the Company 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 the Company does not, ostensibly, comply with the statutory provisions relating to the location of members with whom contact has been lost and relating to the location and notification of beneficiaries and heirs of members who are deceased. It is further alleged the Company ostensibly collected excess management fees in a manner contrary to the statutory provisions. The applicants do not quantify the overall loss claimed for all members of the class they wish to represent, but they estimate it to be tens or even hundreds of millions of shekels.

Note 7 - Contingent liabilities and commitments (Contd.)

A. Contingent Liabilities (Contd.)

Actions filed in the Reporting Period (Contd.)

51. In August 2019, 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 and against two other insurance companies (hereinafter: "the Defendants"). The subject of the action is the allegation that in property insurance policies for mechanical engineering equipment ("the Equipment"), the Defendants ostensibly determine the value of the Equipment for the purpose of calculating the insurance premium without considering the age of the Equipment, whereas in cases of total loss they ostensibly determine the amount of the insurance compensation according to the real value of the Equipment on the date of occurrence of the insured event, taking into account the age of the Equipment. The applicants do not quantify the overall loss claimed for all members of the class they wish to represent, but they estimate it to be millions of shekels.

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	6	996
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	3,987
Claim relates to several companies and no specific amount was attributed to the Company and/ or subsidiaries	5	3,598
Claim amount is not specified	12	
Other significant claims	1	16

The total provision for claims filed against the Company as noted above as at September 2019 and December 31, 2018 amounts to NIS 132 million and NIS 130 million, respectively.

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

1. In November 2015, 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 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, for collecting the monthly premiums 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 annuities. In May 2019, the Jerusalem District Court dismissed the motion for certification of the action as a class action against Harel Pension & Provident.
4. In September 2018, 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, against another insurance company ("the Defendants") and against two insurance agencies (hereinafter together: "the Defendant Agencies"). The subject of the action was the allegation that the Defendant Agencies ostensibly market insurance policies, inter alia, for the Defendant insurance companies at meetings with candidates for the insurance through representatives who are not authorized agents. This ostensibly in contravention of the law. In June 2019 the court acceded to the request of the Defendant insurance companies and agencies to dismiss outright the application to certify the action as a class action and it instructed dismissal of the action and the application to certify it as a class action outright due to an absence of factual and/or legal basis and/or grounds for an established claim justifying litigation of the action.

Note 7 - Contingent liabilities and commitments (Contd.)

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

5. In May 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 and two other insurance companies (hereinafter together: “the Defendants”). The subject of the action was 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 comprehensive motor premiums, and that the insurance premiums paid by the class members 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. In July 2019, the court approved the plaintiffs’ application to abandon the application for certification, and it ordered the dismissal of their personal claim and to strike out the application for certification. Furthermore, the court ruled compensation and lawyers’ fees for the plaintiffs of insignificant amounts.
6. In September 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 was the allegation that, contrary to the provisions of the insurance policies, Harel Insurance ostensibly 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. In July 2019, the court approved the plaintiff’s application to abandon the motion for certification, and it ordered the dismissal of her personal claim and to strike out the application for certification. Furthermore, the court awarded the plaintiff and her attorney compensation and lawyers’ fees of insignificant amounts.
7. 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 was the allegation 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. In August 2019, the Tel Aviv District Court denied the application for certification of the action as a class action.
8. 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 was 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 despite the fact that there is no exclusion in relation to these tests in the Service Note. In September 2019, the Central District Court approved the Plaintiff’s abandonment of the motion for certification, and it instructed that the motion for certification should be struck out and it dismissed the Plaintiff’s personal claim.
9. 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 was the allegation that Harel Pension ostensibly collects money from its members, who deposit lump-sum amounts 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. In March 2017, the court instructed that the hearing should be transferred to the District Labor Court. In September 2019, the Tel Aviv District Labor Court denied the motion for certification of the action as a class action.

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.

As part 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%, 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 Circular"). According to the Disclosure Circular and its amendments, insurance companies must include a report about the solvency ratio in accordance with the appendix to the Disclosure Circular in their annual and quarterly reports, and also on the dates to be specified on their websites.

In November 2018, Harel Insurance 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 Harel Insurance under the Supervision of Financial Services (Insurance) Law, 1981.

On July 15, 2019, in accordance with the Commissioner's instructions, Harel Insurance published a report on the economic solvency ratio ("the Solvency Report") in respect of data at December 31, 2018, 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.

The calculation prepared by Harel Insurance for data at December 31, 2018 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, such as a decrease in the interest rate in the Reporting Period, 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.

Pursuant to the Commissioner's instructions, the Company is required to publish its solvency ratio at June 30, 2019 by December 31, 2019. At the date of publication of this report, the Company has not yet completed the process of calculating its solvency ratio for data at June 30, 2019.

Note 8 - Capital requirements and management (contd.)

2. In accordance with a permit to control and hold the means of control in insurers and management companies, the Company undertook, at all times, to supplement the equity of the insurance companies that are included among the financial institutions it controls, including ICIC, to the amount prescribed in the Supervision of Financial Services (Insurance) (Minimum Equity Required of Insurers) Regulation, 1998, or any other regulation or law that may replace them, and also to supplement at all times the equity of the provident fund and pension fund management companies it controls, to the amount prescribed in the Income Tax (Rules for the Approval and Management of Provident Funds) Regulations, 1965, or any other regulation or law that may replace them. This undertaking is irrevocable and will remain in force as long as the Company controls the financial institutions, directly or indirectly.
3. Subsidiaries that manage mutual funds and investment portfolios are obligated to hold minimum equity in accordance with the directives of the Israel Securities Authority. The companies work continuously to comply with this requirement. At September 30, 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. Revision of the discounting interest rates used to calculate the insurance liabilities

Life assurance

Due to a decline in the risk-free interest rate curve used for Liability Adequacy Test (LAT), Harel Insurance increased the insurance liabilities in the life assurance and long-term savings segment in the Reporting Period and in Q3 2019 by NIS 293 and NIS 179 million, respectively, and it reduced pre-tax profit and comprehensive income before tax by the same amounts.

In the corresponding period last year, due to an increase in the risk-free interest curve, Harel Insurance decreased the insurance liabilities in the life assurance and long-term savings segment by NIS 51 million and it increased pre-tax profit and comprehensive income before tax by the same amount. In the third quarter last year, due to a decline in the risk-free interest curve, Harel Insurance increased the insurance liabilities in the life assurance and long-term savings segment by NIS 1 million and it reduced pre-tax profit and comprehensive income before tax by the same amount.

Health

Due to a decrease in the interest rate curve, Harel Insurance increased the insurance liabilities in the health insurance segment in the personal lines LTC sector in the Reporting Period and in Q3 2019 by NIS 650 million and it reduced pre-tax profit and comprehensive income before tax by the same amount. Additionally, due to a decrease in the interest rate curve, in the Reporting Period, Harel Insurance increased 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 before tax by the same amount.

Non-life insurance

Commencing December 31, 2015, Harel Insurance tests the adequacy of the liabilities in non-life insurance based on the best practice principles which are set out in Note 3C2(g) to the Financial Statements.

Due to a decrease in the interest rate curve and taking into account the difference between the fair value and book value of the non-marketable assets, Harel Insurance increased the insurance liabilities in the non-life insurance segment in the Reporting Period and in Q3 2019 by NIS 157 million and NIS 94 million, respectively, and it reduced pre-tax profit and comprehensive income before tax by the same amounts (in the Reporting Period NIS 56 million in the compulsory motor sector and NIS 101 million in the liabilities and other sectors; in Q3 2019 NIS 38 million was in the compulsory motor sector and NIS 56 million was in the liabilities and other sectors).

The effect on the financial results is set out below:

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Decrease (increase) in the insurance liabilities as a result of the LAT and effects of the interest rate - life assurance	(293)	51	(179)	(1)	59
Increase in the insurance liabilities due to the effects of the interest rate - health insurance	(663)	-	(650)	-	-
Increase in the insurance liabilities due to the effects of the interest rate - non-life insurance	(157)	-	(94)	-	-
Total effects of interest on profit and comprehensive income before tax	(1,113)	51	(923)	(1)	59
Total effects of interest on profit and comprehensive income after tax	(732)	34	(607)	(1)	39

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

2. Circular on revised mortality tables

   On November 6, 2019, the Capital Market, Insurance and Savings Authority ("the Authority") published Insurance Circular 2019-1-10 concerning "Amendment of the Provisions of the Consolidated Circular on the Measurement of Liability - Update of the demographic assumptions in life assurance and updated mortality improvements model for insurance companies and pension funds" ("the Circular"). Attached to the circular was a position paper updating the demographic assumptions underlying the assessments relating to annuity coefficients at the time of retirement in life assurance policies and pension funds.

   The key changes in the Circular include, among others, reducing the mortality rates for active insureds up to the commencement date of annuity payments, revised mortality rates from the onset of annuity payments and a change in the method relating to future mortality improvements. The Circular also includes mortality tables that were prepared by the Authority, based on the experience of the insurance and pension companies.

   Following implementation of the Circular in the Reporting Period, Harel Insurance increased the insurance liabilities in the life assurance and long-term savings segment by NIS 91 million and it reduced pre-tax profit and comprehensive income before tax by the same amount and in the health insurance segment, in Q3 2019, Harel Insurance reduced the insurance liabilities by NIS 70 million and increased pre-tax profit and comprehensive income before tax by the same amount.

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

4. 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.

5. On April 29, 2019, the Company's Board of Directors approved the distribution of a cash dividend in the amount of NIS 129 million (NIS 0.6 per share). The Board of Directors made its decision after taking into account the Company's 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.

6. On July 14, 2019, the Company's Board of Directors approved the distribution of a cash dividend in the amount of NIS 107 million (NIS 0.5 per share). The Board of Directors made its decision after taking into account the Company's financial performance at March 31, 2019. The Board of Directors was presented with information on the distributable profits, capital surpluses of the Company's subsidiaries and the Group's cash requirements, in various scenarios. The Board of Directors reviewed the Company's compliance with the profit test and solvency test prescribed in Section 203(a) of the Companies Law. Following this review, the Board of Directors confirmed that the Company was in compliance with the distribution test. The dividend was paid on July 30, 2019.

7. Bonus for 2018 for other senior executives

   In April 2019, after receiving the approval of the Compensation Committee, the Company's Board of Directors, approved bonuses for the Company executives 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.

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

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

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

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

11. Implementation of the recommendations of the Winograd Committee

In June 2014, an inter-ministerial committee headed by retired Justice Eliahu Winograd, was appointed to review a correction of the life expectancy tables and interest rates used for discounting annuities under the National Insurance (Capitalizing) Regulations, 1978 ("the Capitalization Regulations" and "the Committee"). In June 2016, an amendment was published to the regulations ("the Amendment") which includes, inter alia, an update of the mortality tables and the capitalization rates used for calculating these annuities.

Among other things, the Capitalization Regulations regulate the discounting interest rate used for calculating subrogation claims that the National Insurance Institute ("NII") submits regarding third parties, based on the right conferred upon it in the National Insurance (Consolidated Version) Law, 1995 ("the Law") for cases in which the event serves as grounds to obligate a third party under the Torts Ordinance or the Compensation for Road Accident Victims Law.

Pursuant to the Amendment, the rate of interest used for discounting annual benefits will be 2% instead of 3%, as prescribed in the Capitalization Regulations immediately prior to their amendment. The Amendment also stipulates that the mortality tables and rate of discounting the annuities will be revised again on January 1, 2020, and thereafter every four years. Following the Amendment and until Q2 2019, the discounting rates that were used for calculating the insurance liabilities are as follows: for payments through December 2019 - 2% (as recommended by the Committee), for payments from January 2020 through December 2023 - 1% (the emerging average for 2016-2019 is less than 1% and as noted, the reduction in the discounting interest rate is limited to 1%), and for payments in the period commencing January 2024 - 2% (based on the trend of rising interest rates and subject to that the increase in the discounting interest rate is limited to 1%).

At the request of the Supreme Court, in April 2018, an inter-ministerial committee was formed under the leadership of Mr. Erez Kaminetz, the Deputy Attorney General (Civil Law), to assess all the ramifications of the issue of discounting in torts compensation ("Kaminetz Committee"). In June 2019, the final conclusions of the Kaminetz Committee were published, which determined, among other things, a standard discounting rate of 3% (the yield given on low-risk investment channels), and it also determined an interest rate band of +/-1% with the standard 3% discounting rate in the middle. Any deviation from this band will trigger an almost automatic adjustment of the discounting interest rate.

On June 24, 2019, a hearing took place in the Supreme Court at which the court proposed that (1) the discounting interest rate according to the NII regulations will be 3%; (2) the Finance Minister will promulgate regulations whereby the NII will receive a fixed amount from the insurers that takes into account a discounting interest rate of 3%; (3) until the NII's Capitalization Regulations are enacted, insurance companies that belong to the Association are willing to take upon themselves the court's proposal, to the effect that the NII annuities will be deducted from the compensation they pay to injured parties at the rate of interest used for discounting the compensation, namely 3%, this with respect to claims on which no ruling has been given and as long as the discounting rate under the NII regulations is 2%.

On August 8, 2019, the Supreme Court issued its ruling with respect to the discounting interest rate for compensation for bodily injuries in torts whereby the said discounting rate will continue to be 3% until the legislator decides otherwise and unless a need for changes is proved in accordance with the mechanism proposed for this purpose in the aforementioned Kaminetz Committee report. Following this decision, in the Reporting Period a decrease of NIS 260 million in retention before tax was recorded in the insurance liabilities (of which the amount in the compulsory motor sector is NIS 158 million in retention, and in the other liabilities sector is NIS 102 million in retention).

On August 18, 2019, the claimant filed a motion to extend the date for filing a petition for a further hearing on this matter.

12. Restructuring - Harel Pension & Provident

On August 29, 2019, the Boards of Directors of the Company and Harel Insurance (and at almost the same time, the Board of Directors of Harel Pension & Provident Ltd.) approved the transfer of the rights of Harel Insurance in the customer portfolios and the goodwill in the provident activity, to Harel Pension & Provident Ltd., followed immediately by the transfer of all the holdings of Harel Insurance in Harel Pension & Provident to the Company (hereinafter in this paragraph: "the Restructuring"). The transfer of these holdings to the Company as part of the Restructuring will be accounted for as a dividend in kind from Harel Insurance to the Company, from distributable profits. The Restructuring will be implemented in accordance with the provisions of Section 104A and 104C of the Income Tax Ordinance, subject to obtaining all the necessary approvals, including approval from the Tax Authority. If all the necessary approvals are received, as noted above, the Restructuring is expected to enter into force on January 1, 2020.

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

13. Revised compensation policy for the Group's financial institutions

On July 11, 2019, , the Commissioner published a circular amending the provisions of the Consolidated Circular, Part 1, Section 5, Chapter 5, entitled "Compensation" ("the Circular"), which updates and abolishes the circular "Compensation Policy in Financial Institutions" and the circular "Compensation Policy in Financial Institutions - Amendment" ("Compensation Policy Circular"), and integrates them in the Consolidated Circular, in accordance with the relevant regulations formulated in this sector, including in accordance with the provisions of the Law for the Compensation of Senior Officers in Financial Institutions (Special approval and non-recognition of an expense for tax purposes due to extraordinary compensation), 2016, the amendment to the Companies Law, 1999 and its subsequent regulations, and the directives of the Supervisor of Banks that were revised accordingly.

Further to publication of the circular, on August 25, 2019 and on August 29, 2019, the Compensation Committee of the Group's financial institutions and the Board of Directors of Harel Insurance, respectively, approved the revised compensation policy of Harel Group's financial institutions.

The compensation policy of the financial institutions also applies to some of the executives in the Company who also serve as senior officers in Harel Insurance.

In the policy that was approved, the following subjects, among others, were revised:

(A) The list of functionaries who are subject to the Compensation Policy was cut down, in accordance with the provisions of the circular.

(B) It was determined that an insignificant change in the compensation conditions of an executive who is subject to the CEO, will not require the approval of the board of directors or compensation committee and that the CEO's approval will suffice, to the extent that the change is consistent with the compensation policy.

(C) The obligation to determine the multiplication ratio in the chairman's compensation was eliminated and it was stipulated that compensation for the chairman of the board will be determined taking into account the compensation payable to external directors and the percentage position of the chairman, as well as other considerations set out in the policy.

(D) Criteria for determining the variable component - it was determined that key functionaries may receive a variable component, based on discretion, taking into account the quality and contribution of their work, and provided that the amount of this component is not more than three monthly salaries a year. Furthermore, control functions were excluded from the directive on measuring the variable component using financial variables, market variables and accounting variables.

(E) Deferral - in accordance with the provisions of the circular, it was determined that Harel Insurance will not defer and will not pay in installments the payment of a variable component granted to a key functionary in a specific calendar year, provided that the total compensation for that year does not exceed the maximum amount payable (as defined in the Income Tax Ordinance [New Version]) and that the total variable component is not more than 40% of the fixed component in that year.

(F) It was determined that Harel Insurance may grant a signing-on bonus for the functionary's first year of employment in the financial institution, in the form of variable compensation that is not performance based.

(G) It was determined that Harel Insurance may grant variable compensation that is not performance based also as a retention bonus to employees defined in the compensation policy as "key employees" who are not senior executives, as this term is defined in the Companies Law.

(H) Retirement bonuses - pursuant to the circular, the provision in the policy that requires retirement bonuses to be performance based was deleted, and relief was determined permitting not to defer and pay a retirement bonus in installments (if there was such need under the provisions of the circular and the policy), to the extent that the total retirement bonus is not more than three salaries.

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

14. D&O liability insurance

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

    On August 25, 2019 and August 29, 2019, in accordance with the provisions of the Company's compensation policy, the Company's Compensation Committee and Board of Directors, respectively, approved the renewal of a D&O liability insurance policy commencing October 1, 2019 for one year, so that the sum insured will be USD 220 million and the premium will not exceed USD 1 million.

15. Issuance of bonds by a second-tier subsidiary of the Company

    On August 5, 2019, Harel Index Trade Ltd., which is a wholly owned second-tier subsidiary of the Company, issued Series 1 bonds in the amount of NIS 810 million by means of a prospectus ("the Bonds"). The bonds, which received a preliminary rating of Aaa from Midroog, are not linked to the CPI and bear interest at the Bank of Israel rate plus 0.24%, and they are due for repayment as a lump sum on August 5, 2024. As collateral for the bonds, the proceeds of the issue are held in deposits in pledged accounts in banks in Israel, in accordance with the conditions of the prospectus. As part of the conditions of the bonds, the bond holders may perform a forced sale of the bonds to Harel Index Trade Ltd., after giving advance notice and payment of a conversion fee, as specified in the Deed of Trust. On September 12, 2019, the bond series was expanded by NIS 429 million and after the Reporting Date, on November 7, 2019, the bond series was expanded by a further NIS 110 million.

Note 10 – Material Events after the Reporting Period

1. Continuing decline in the interest rate curve

   After the Reporting Period, After the Reporting Period and until close to its date of publication, the interest rate curve continued to decline which could lead to a further increase in the insurance liabilities. On the other hand, a further decline in the interest rate curve might have a positive impact on the value of the Group's financial assets in a manner that could reduce this aforesaid impact. It should be noted that the information described above is not an estimate of the expected financial results of the Company. This information is only partial and it does not include other components of profit or loss from investments and other effects.

2. Assimilation of strategy and the restructuring of Harel Insurance

   In the past few years, the Company has successfully implemented its strategic plan. The plan is based on developing the Company's digital capability while analyzing the data already in the Company's possession. This has enabled the Company to integrate advanced digital tools and processes in all its areas of activity, with a view to the customer's needs. In light of the changes in the patterns of customer consumption, social media activity and the way in which customers engage and use information, the Company has maintained a strategic process, in which it was decided to take a further, radical step forward as the natural progression of the abilities it has developed, the most important of which are focusing on the different customers, their needs and profiles in all forms of contact between the customer and the Company and with the Company's agents: the development of personalized products tailored to the needs of specific customers and reinforcing the relationship with the customer, providing customized service, with the emphasis on advanced technology processes.

   As part of the assimilation of this strategy, on October 30, 2019, the Board of Directors of Harel Insurance approved a restructuring of Harel Insurance.

3. On the expansion of the Series 1 bond series by a second-tier subsidiary of the Company, see Note 9(15).

4. Establishment of Hamazpen and entering into agreement with the CEO of the Company in the "Hamazpen - Shutaphim Laderech Ltd." transaction.

   In the Reporting Period, the Company entered into an agreement with "Alon Hamazpen Limited Partnership" ("Alon Partnership") to establish "Hamazpen - Shutaphim Laderech Ltd." ("Hamazpen"). The Company's share of Hamazpen is 80% of the issued and paid-up share capital and the Alon Partnership will hold the remaining 20% of the issued and paid-up capital. Hamazpen was established with the purpose of operating in the small and medium business financing sector, including the provision of mezzanine loans for small or medium businesses.

   After the Reporting Period, the Company entered into agreement with its CEO, Mr. Michel Siboni whereby the Company sold shares in Hamazpen to Michel Siboni that account for 10% of the issued and paid-up up capital of Hamazpen, including the rights and obligations attached to them under the provisions of the founders agreement that was signed by the shareholders of Hamazpen, as amended following the entry of Mr. Michel Siboni as a shareholder in Hamazpen. After this sale, the Company holds 70% of the issued and paid-up capital of Hamazpen. Since Hamazpen has not yet commenced operations and at the date of signing the agreement it has no business activity, and the equity in respect of the sold shares has not yet been provided, Michel Siboni's investment in Hamazpen was made according to the value of the shareholders' equity of Hamazpen, based on an expert economic opinion received by the Company. Mr. Michel Siboni's investment in Hamazpen based on the value of the equity does not constitute a benefit.

   As part of the above agreement, the shareholders of Hamazpen signed a new founders agreement in which Mr. Michel Siboni was added as an additional shareholder in Hamazpen and he received the rights and obligations of a minority shareholder in Hamazpen, similar to the conditions to which the Alon Partnership is entitled.

   In this context, Mr. Michel Siboni is entitled to the right of refusal and tag-along rights if Hamazpen shares are sold by the Company (after the first four years in which none of the shareholders is entitled to sell its shares in Hamazpen), he has the right to appoint a director in Hamazpen and Michel Siboni was also given a Put option to sell his shares in Hamazpen to the Company, and in parallel the Company was given a Call option to acquire Michel Siboni's shares in Hamazpen, similar to the options given to the Alon Partnership, which can be exercised in the periods and under the conditions specified in the agreements.

Note 10 – Material Events after the Reporting Period (contd.)

(Par. 4 contd.)

Concurrently, Mr. Michel Siboni will be appointed as Chairman of the Board of Hamzpen, without being entitled to any further consideration whatsoever for this office.

As part of the founders' agreement, the parties also agreed on a mechanism according to which Hamazpen will finance its activity whereby the parties undertook, in the initial stage, to inject NIS 40 million into Hamazpen by way of providing shareholders loans, pro rata to their share in Hamazpen. Mr. Michel Siboni's share of this shareholders' loan is NIS 4 million. The Alon Partnership and Michel Siboni will be entitled to receive from the Company, in order to provide the above-mentioned shareholders' loan , non-recourse loans of NIS 5.4 million for the Alon Partnership and NIS 2.7 million for Michel Siboni, where the loan that the Company gives the Alon Partnership will bear interest at an annual rate of 1.8% and the loan that Mr. Michel Siboni receives from the Company will bear interest at an annual rate of 3.8%.

Additionally, if the board of directors of Hamzpen determines that the shareholders equity of Hamazpen must be increased over and above the foregoing, in order to expand its business activity, the shareholders of Hamazpen will provide this required capital, where the Company will provide the Alon Partnership and Mr. Michel Siboni with their relative share of the required amounts as additional non-recourse loans, so that the equity of Hamazpen meets the capital requirements for the provision of a credit portfolio by Hamazpen in the amounts determined in the new founders agreement. These additional loans will bear interest at an annual rate of 1.8% when they refer to loans for the provision of a credit portfolio by Hamazpen in the amounts determined in the new founders agreement, and when they refer to loans for the provision of a credit portfolio by Hamazpen over and above these amounts, the interest will be set by the Company based on an external appraisal to be commissioned at that time, if and when, by the Company.

The founders' agreement also prescribes provisions for the provision of additional finance to Hamazpen, whereby if the board of directors of Hamazpen decides that the additional finance will be raised from the founders, they will provide their share pro rata to their holdings in Hamazpen, and should any of the founders fail to provide its share, the other founders will be entitled to provide its share instead, and to dilute its holdings in Hamazpen based on a company value of 90% of the estimated value of Hamazpen at that time. This, based on the mechanism set out in the founders' agreement in this matter.

All the non-recourse loans will be repaid from dividends and other payments to which the Alon Partnership and Mr. Michel Siboni are entitled from Hamazpen or from the proceeds of the sale of their shares in Hamazpen. Additionally, to secure repayment of the loans, all the shares of the Alon Partnership and Michel Siboni in Hamazpen will be pledged in a senior lien and a collateral assignment, which will also apply to the profits and rights owed by virtue of these shares.

According to an external expert economic opinion received by the Company, the non-recourse loan bearing 3.8% interest received by Mr. Michel Siboni is considered a benefit compared with an ordinary loan at a similar rate in which there is no non-recourse component. The value of the benefit to Michel Siboni is in the range of between NIS (3,959) and NIS 249,480. The Company estimated the value of the benefit at NIS 180,000. Mr. Michel Siboni will bear the cost of this benefit in a manner that its entire cost will be subtracted from the overall cost of Michel Siboni's salary.

This engagement was approved by the Audit Committee, the Compensation Committee and the Board of Directors of the Company, as well as by the general meeting of the Company which took place on October 31, 2019.

5. Approval in principle for filing an application to publish a shelf prospectus of Harel Financing & Issuing

The Board of Directors of Harel Financing & Issuing approved the filing of a notice to the Securities Authority that Harel Financing & Issuing intends to file an application for permission to publish a shelf prospectus based on its financial statements as at September 30, 2019, as part of the process of the publication of a new shelf prospectus for Harel Financing & Issuing, by virtue of which Harel Financing & Issuing will be able to issue various securities in connection with the capital requirements of Harel Insurance and where Harel Insurance will guarantee the repayment of the securities (insofar as this is necessary), and the proceeds of which is deposited with Harel Insurance for its use at its discretion and under its responsibility.

Note 10 – Material Events after the Reporting Period (contd.)

(Par. 5 contd.)

On November 13, 2019, the Board of Directors of Harel Financing & Issuing and the Board of Directors of Harel Insurance approved in principle a public placement of a new bond series of Harel Financing & Issuing, the proceeds of which will be recognized as tier-2 capital of Harel Insurance. The scope of the issuance, the conditions of the bonds and the interest and/or linkage they will bear, if and to the extent they bear any interest or linkage, will be as prescribed in the shelf-offering report according to which the bonds are to be issued, if and to the extent they are issued.

On November 13, 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 17), for up to NIS 500 million.

6. Debt raised for the Company

Pursuant to a decision of the Company's Board of Directors from August 29, 2019 concerning the raising of debt for the Company in the amount of up to NIS 190 million, on November 25, 2019, the Company took two loans from a bank in the total amount of NIS 190 million: one loan in the amount of NIS 90 million, bearing fixed interest of 2.55% a year, and a second loan of NIS 100 million, bearing variable interest of Prime +0.3% per year. The principal and the interest in respect of these two loans, are payable in 14 equal, consecutive semi-annual payments commencing May 25, 2020. As part of the aforementioned loan agreements, the Company undertook to meet certain financial covenants, as follows: (1) an undertaking not to pledge material assets; (2) not to transfer control in material companies; (3) the ratio of net financial debt to investment in investee companies will not be more than 0.35; (4) the ratio of net financial debt to equity will not be more than 0.5; (5) cash balances, Makam (short-term) investments, shekel and/or government funds and government bonds must be maintained in the amount of NIS 100 million; if the Company falls below this amount, it undertakes to deposit within seven business days from the date of breach of this undertaking, shekel deposits the principal of which is not less at any time than the amount equal to the limit of the current maturities (principal and interest) for the 12 months following the date of the breach. At the date of publication of the financial statements, the Company is in compliance with the prescribed financial covenants.

7. Approval in principle for the expansion of an existing series of bonds of Harel Financing & Issuing

On November 26, 2019, the Board of Directors of Harel Financing & Issuing and the Board of Directors of Harel Insurance, gave their approval in principle for the issuing of a listed series of Harel Financing & Issuing on the Tel Aviv Stock Exchange, by way of an expansion of this series, in accordance with a shelf prospectus of Harel Financing & Issuing which bear the date February 27, 2017. The proceeds of the bonds to be issued are designated to be recognized as Tier-2 capital of Harel Insurance. The issuance is subject to obtaining the relevant statutory approvals.

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 September 30, 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
Marketable debt assets (a1)	**196**	**10,100**	**98**	**-**	**10,394**
Non-Marketable debt assets (*)	**-**	**-**	**-**	**12,746**	**12,746**
Shares (a2)	**-**	**1,195**	**-**	**-**	**1,195**
Other (a3)	**255**	**1,946**	**-**	**-**	**2,201**
Total other financial investments	**451**	**13,241**	**98**	**12,746**	**26,536**

	As at September 30, 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
Marketable debt assets (a1)	230	7,698	135	-	8,063
Non-Marketable debt assets (*)	-	-	-	13,358	13,358
Shares (a2)	-	981	-	-	981
Other (a3)	151	1,794	-	-	1,945
Total other financial investments	381	10,473	135	13,358	24,347

	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
Marketable debt assets (a1)	210	8,103	117	-	8,430
Non-Marketable debt assets (*)	-	-	-	13,191	13,191
Shares (a2)	-	1,055	-	-	1,055
Other (a3)	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 September 30		As at December 31	As at September 30		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	**5,278**	3,204	3,431	**5,016**	3,175	3,451
<u>Other debt assets:</u>						
Other non-convertible debt assets	**5,116**	4,859	4,999	**4,808**	4,768	5,024
Total marketable debt assets	**10,394**	8,063	8,430	**9,824**	7,943	8,475
Impairments recognized in profit and loss (in aggregate)	**-**	1	2			

A2. Shares

	Book value			Cost		
	As at September 30		As at December 31	As at September 30		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	**867**	806	788	**677**	666	714
Non-marketable shares	**328**	175	267	**256**	163	203
Total shares	**1,195**	981	1,055	**933**	829	917
Impairments recognized in profit and loss (in aggregate)	**104**	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 September 30		As at December 31	As at September 30		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 financial investments	**470**	358	283	**452**	281	258
Non-marketable financial investments	**1,731**	1,587	1,592	**1,233**	1,167	1,152
Total other financial investments	**2,201**	1,945	1,875	**1,685**	1,448	1,410
Impairments recognized in profit and loss (in aggregate)	**148**	139	143			
Derivative financial instruments presented in financial liabilities	**340**	442	505			

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

For your peace of mind | HAREL Insurance & Finance

HAREL INSURANCE INVESTMENTS AND FINANCIAL SERVICES LTD.

SEPARATE FINANCIAL INFORMATION FROM THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at September 30, 2019

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arbaa Street, P.O. Box 609
Tel-Aviv 61006
Telephone: 03-684 8000
Fax: 03-684 8444
Internet: www.kpmg.co.il

To:

The shareholders of Harel Insurance Investments and Financial Services Ltd.

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

Introduction

We have reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970, of Harel Insurance Investments and Financial Services Ltd. (hereinafter: "the Company") as at September 30, 2019, for the nine and three month periods ended on that date. The separate interim financial information is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial information for these interim periods, based on our review.

We did not review the separate interim financial information from the financial statements of investee companies, in which the investments amount to NIS 752 million as at September 30, 2019, and where the Company's profit from these investee companies amounts to NIS 42 million and NIS 15 million for the nine and three months, respectively, ended on that date. The financial statements of those companies were reviewed by other auditors whose review reports were furnished to us, and our conclusion, to the extent that it relates to 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 Independent 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 considerably more limited in scope than an audit conducted in accordance with generally accepted auditing standards, and therefore does not enable us to obtain assurance that we would become aware of all the significant matters that might be identified in an audit. We therefore do not express an audit opinion.

Conclusion

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

Somekh Chaikin
Certified Public Accountants

November 26, 2019

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

	September 30		December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Fixed assets	**29**	1	1
Investments in equity accounted investees	**5,638**	5,583	5,414
Loans to investee companies	**353**	350	351
Investment property	**23**	22	22
Other receivables	**12**	12	13
Other financial investments	**398**	439	419
Cash and cash equivalents	**98**	36	235
Total assets	**6,551**	6,443	6,455
Capital			
Share capital and premium on shares	**359**	340	359
Treasury stock	**(123)**	(132)	(123)
Capital reserves	**821**	522	431
Retained earnings	**5,072**	5,258	5,247
Total capital	**6,129**	5,988	5,914
Liabilities			
Deferred tax liabilities	**1**	-	-
Liabilities for employee benefits, net	**18**	17	17
Other payables	**47**	32	128
Current tax liabilities	**5**	5	4
Financial liabilities	**351**	401	392
Total liabilities	**422**	455	541
Total liabilities and capital	**6,551**	6,443	6,455

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

Date of approval of the financial statements: November 26, 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 nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Profits from investments, net, and financing revenues	**21**	12	**5**	4	16
Revenues from management fees	**89**	84	**30**	27	111
Total revenues	**110**	96	**35**	31	127
General and administrative expenses	**12**	13	**3**	4	17
Financing expenses	**11**	11	**4**	3	16
Total expenses	**23**	24	**7**	7	33
Company's shares in profits (losses) of investee companies	**2**	488	**(387)**	259	562
Profit (loss) before taxes on income	**89**	560	**(359)**	283	656
Taxes on income	**19**	17	**6**	6	22
Profit (loss) for period ended attributed to the Company's shareholders	**70**	543	**(365)**	277	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 nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Profit (loss) for the period	**70**	543	**(365)**	277	634
Other comprehensive income items that 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	**8**	1	**2**	1	(1)
Net change in fair value of financial assets classified as available-for-sale transferred to income statement	**(1)**	-	**(1)**	-	-
Foreign currency translation differences for foreign activity	**(12)**	(21)	**-**	(14)	(12)
Group's share in the comprehensive income (loss) of investee companies	**387**	13	**129**	23	(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	**381**	(7)	**130**	10	(93)
Other items of comprehensive income that will not be transferred to profit or loss					
Remeasurement of a defined benefit plan	**-**	1	**-**	-	1
Other comprehensive income for the period that will not be transferred to profit or loss, net of tax	**-**	1	**-**	-	1
Other comprehensive income (loss) for the period, net of tax	**381**	(6)	**130**	10	(92)
Total comprehensive income (loss) for the period attributed to the Company's shareholders	**451**	537	**(235)**	287	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 nine months ended September 30, 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	-	-	-	-	-	-	-	70	70
Other comprehensive income (loss)	-	435	(64)	-	-	-	19	(9)	381
Total comprehensive income (loss) for the period	-	435	(64)	-	-	-	19	61	451
Transactions with owners recognized directly in equity									
Dividend distributed	-	-	-	-	-	-	-	(236)	(236)
Balance as at September 30, 2019	359	747	(153)	1	(123)	(49)	275	5,072	6,129

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 September 30, 2019 (Unaudited)									
Balance as at July 1, 2019	359	592	(133)	1	(123)	(49)	274	5,550	6,471
Total comprehensive income (loss)									
Loss for the period	-	-	-	-	-	-	-	(365)	(365)
Other comprehensive income (loss)	-	155	(20)	-	-	-	1	(6)	130
Total comprehensive income (loss)	-	155	(20)	-	-	-	1	(371)	(235)
Transactions with owners recognized directly in equity									
Dividend distributed	-	-	-	-	-	-	-	(107)	(107)
Balance as at September 30, 2019	359	747	(153)	1	(123)	(49)	275	5,072	6,129

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 nine months ended September 30, 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	-	-	-	-	-	-	-	543	543
Other comprehensive income (loss)	-	(48)	11	-	-	-	30	1	(6)
Total comprehensive income (loss) for the period	-	(48)	11	-	-	-	30	544	537
Transactions with owners recognized directly in equity									
Dividend distributed	-	-	-	-	-	-	-	(107)	(107)
Purchase of Treasury shares	-	-	-	-	(7)	-	-	-	(7)
Re-issuance of Treasury shares	1	-	-	-	6	-	-	-	7
Balance as at September 30, 2018	340	432	(118)	1	(132)	(49)	256	5,258	5,988

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 September 30, 2018 (Unaudited)									
Balance as at July 1, 2018	340	398	(99)	1	(131)	(49)	260	4,982	5,702
Total comprehensive income (loss)									
Profit for the period	-	-	-	-	-	-	-	277	277
Other comprehensive income (loss)	-	34	(19)	-	-	-	(4)	(1)	10
Total comprehensive income (loss) for the period	-	34	(19)	-	-	-	(4)	276	287
Transactions with owners recognized directly in equity									
Purchase of Treasury shares	-	-	-	-	(2)	-	-	-	(2)
Re-issuance of Treasury shares	-	-	-	-	1	-	-	-	1
Balance as at September 30, 2018	340	432	(118)	1	(132)	(49)	256	5,258	5,988

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

	Annex	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
		2019	2018	2019	2018	2018
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
		NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows from operating activity						
Before taxes on income	A	**78**	85	**27**	43	97
Income tax paid		**(17)**	(18)	**(7)**	(5)	(23)
Net cash provided by (used for) operating activity		**61**	67	**20**	38	74
Cash flows from investing activity						
Investment in investees		**(5)**	-	**(1)**	-	-
Investment in fixed assets		**-**	(1)	**-**	(1)	-
Proceeds from sale of fixed assets		**1**	1	**1**	-	1
Dividend and interest from investees		**142**	116	**-**	-	217
Financial investments, net		**35**	(79)	**80**	(64)	(62)
Loans and capital notes of investee companies that were settled (provided)		**(2)**	16	**2**	12	99
Repayment of loans and capital loans provided to investees		**15**	-	**15**	-	-
Net cash provided by (used for) investment activity		**186**	53	**97**	(53)	255
Cash flows from financing activities						
Dividend paid		**(343)**	(107)	**(107)**	-	(107)
Repayment of loans from banks and others		**(41)**	(40)	**-**	-	(50)
Net cash used for financing activity		**(384)**	(147)	**(107)**	-	(157)
Increase (decrease) in cash and cash equivalents		**(137)**	(27)	**10**	(15)	172
Cash and cash equivalents at beginning of the period		**235**	63	**88**	51	63
Cash and cash equivalents at end of the period		**98**	36	**98**	36	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 nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Annex A - Cash flows from operating activities before taxes on income					
Profit (loss) for the period attributed to the Company's shareholders	**70**	543	**(365)**	277	634
Items not involving cash flows					
Company's share of profits of equity accounted investees	**(2)**	(488)	**387**	(259)	(562)
Net losses (profits) from financial investments	**(7)**	1	**(4)**	-	2
Change in fair value of investment property	**(1)**	(1)	**-**	-	(1)
Financing expenses, net	**(4)**	(8)	**(3)**	(4)	(3)
Taxes on income	**19**	17	**6**	6	22
Depreciation and amortization	**1**	-	**-**	1	-
Changes in other balance sheet items					
Other receivables	**1**	(2)	**3**	5	(3)
Other payables	**-**	23	**3**	17	8
Liabilities for employee benefits, net	**1**	-	**-**	-	-
Total adjustments required to present cash flows from operating activities	**8**	(458)	**392**	(234)	(537)
Total cash flows from operating activities, before taxes on income	**78**	85	**27**	43	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 separate financial information from the condensed consolidated interim financial statements of the Group as at September 30, 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 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 preparation pf 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 - Material relationships, commitments and transactions with investee companies

1. In accordance with a permit to control and hold the means of control in insurers and fund management companies, the Company undertook, at all times, to supplement the equity of the insurance companies included among the financial institutions that it controls, including ICIC, to the amount prescribed in the Supervision of Financial Services (Insurance) (Minimum Equity Required of Insurers) Regulation, 1998, or any other regulation or law that may replace them, and also to supplement at all times the equity of the provident fund and pension fund management companies it controls, to the amount prescribed in the Income Tax (Rules for the Approval and Management of Provident Funds) Regulations, 1965, or any other regulation or law that may replace them. This undertaking is irrevocable and will remain in force as long as the Company controls the financial institutions, directly or indirectly.
2. On August 13, 2019, Harel Finance, a company wholly owned by the Company, made partial repayment of a capital note in the amount of NIS 15 million. The repayment was made from the independent sources of Harel Finance.

NOTE 3 – Material events during 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 129 million (NIS 0.6 per share). The Board of Directors made its decision after taking into account the Company's 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. On July 14, 2019, the Company's Board of Directors approved the distribution of a cash dividend in the amount of NIS 107 million (NIS 0.5 per share). The Board of Directors made its decision after taking into account the Company's results as at March 31, 2019. The Board of Directors was presented with information on the distributable profits, capital surpluses of the Company's subsidiaries and the Group's cash requirements, in various scenarios. The Board of Directors reviewed the Company's compliance with the profit test and solvency test prescribed in Section 203(a) of the Companies Law. Following this review, the Board of Directors confirmed that the Company was in compliance with the distribution test. The dividend was paid on July 30, 2019.
3. On a restructuring - Harel Pension & Provident, see Note 9 to the consolidated financial statements.
4. On the revised compensation policy for the Group’s financial institutions, see Note 9 to the consolidated financial statements.
5. On Directors and Officers liability insurance (D&O), see Note 9 to the consolidated financial statements.
6. On an issuance and expansion of Series 1 bonds by a second-tier subsidiary of the Company, see Note 9 to the consolidated financial statements.

NOTE 4 – Material events after the Reporting Period

1. On a restructuring in Harel Insurance, see Note 10 to the consolidated financial statements.
2. On the expansion of the Series 1 bond series by a second-tier subsidiary of the Company, see Note 9 to the consolidated financial statements.
3. On the establishment of Hamazpen and entering into agreement with the CEO of the Company in the Hamazpen - Shutaphim Laderech Ltd. transaction, see Note 10 to the consolidated financial statements.
4. On approval in principle for filing an application to publish a shelf prospectus, see Note 10 to the consolidated financial statements.
5. On approval in principle for the issue of a new series of bonds through Harel Financing & Issuing, see Note 10 to the consolidated financial statements.
6. On the raising of debt for the Company, see Note 10 to the consolidated financial statements.
7. On approval in principle for the expansion of an existing series of bonds through Harel Financing & Issuing, see Note 10 to the consolidated financial statements.

Harel Insurance Investments and Financial Services Ltd.

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

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

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

In this instance, management consists of:

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

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

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

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

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

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

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

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

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

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

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

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

In the quarterly report concerning the effectiveness of the internal control over financial reporting and disclosure that was included in the quarterly report for the period ended June 30, 2019 (hereinafter – the last quarterly report on internal control), the internal control was found to be effective.

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

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

<u>Certification</u>

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 Q3 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.

____

November 26, 2019	Michel Siboni CEO

<u>Certification</u>

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 Q3 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.

November 26, 2019

Arik Peretz

CFO