Harel Insurance & Finance

Harel Insurance Investments and Financial Services Ltd.

Periodic Report for 2019

Harel Insurance Investments and Financial Services Ltd.

Periodic Report for 2019

Chapter 1	**Description of the Company's Business**
Chapter 2	**Board of Directors Report**
Chapter 3	**Financial Statements**
Chapter 4	**Separate Financial Information for the Company**
Chapter 5	**Additional Information about the Company** **Corporate governance questionnaire**
Chapter 6	**Report concerning the effectiveness of the internal control over financial reporting and disclosure**
Chapter 7	**Annexes**

Harel Insurance Investments and Financial Services Ltd.

Members of the Board of Directors

Yair Hamburger - Chairman of the Board
Gideon Hamburger
Yoav Manor
Ben Hamburger - Deputy Chairman of the Board
Doron Cohen
Joseph Ciechanover
Eli Defes
Prof. Israel Gilad (External Director)
Hava Friedman Shapira (External Director)
Prof. Udi Nissan (External Director)
Miri Lent-Sharir (External Director)

Harel Insurance Investments and Financial Services Ltd.

Chapter 1

Description of the Company's Business

Description of the Company's Business

- Note concerning implementation of the provisions of the Securities (Periodic and Immediate Reports) Regulations, 1970 (“Securities Regulations”) in this report:

  Pursuant to Regulation 8C of the Securities Regulations, the provisions of Regulation 8A of the Securities Regulations in relation to the Periodic Report do not apply to a corporation that consolidated or proportionally consolidated an insurer or where the insurer is its affiliate.

  The Company is a holding company, whose principal holdings are subsidiaries which are insurance companies, provident fund management companies, pension fund management companies, a mutual fund management company, and companies engaged in finance.

  This report, in relation to the insurance, pension and provident business, is prepared in accordance with Section 42 of the Supervision of Financial Services (Insurance) Law, 1981, and the instructions of the Commissioner of Insurance by virtue of his powers under the aforementioned section concerning a description of company business in the periodic report of insurance companies, which prescribes, inter alia, the structure of the report and the information to be contained in the periodic report of insurance companies.
- This chapter is an inseparable part of the Periodic Report and the entire Periodic Report should be read as a single document.
- This chapter of the Periodic Report, which provides a description of the Company, its development, business and operating segments, also includes 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 cases, it is possible to identify sections containing forward-looking information by the appearance of the following words or phrases: "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. Forward-looking information which appears in this report refers exclusively to the date on which it was written. The Company makes no undertaking to revise or change this information insofar as additional or different information in relation to the aforesaid information becomes available.
- For the avoidance of doubt, it is stipulated that the description presented in this report concerning the insurance products is a condensed description for the purpose of the report only, and that the conditions of the insurance products which are binding on the Group's insurers are those stipulated in the relevant policies which they have drawn up. Accordingly, the description presented in this report is not to be used to interpret the policies nor will it constitute a source of authority of any kind regarding the conditions of the insurance.
- For the avoidance of doubt, it is stipulated that the description presented in the report concerning the conditions of the various pension and provident products is a condensed description for the purposes of the report only, and that their binding conditions are those prescribed in The Supervision of Financial Services (Provident Funds) Law, 2005 and subsequent regulations and in the pension fund and provident fund articles.

- For the avoidance of doubt, it is stipulated that the description presented in the report concerning the various mutual funds is a condensed description for the purpose of the report only, and that the binding conditions are those prescribed in the fund prospectuses and in any updates issued.
- For the avoidance of doubt it is stipulated that the description presented in the report concerning the various exchange traded notes and/or certificates of deposit is a condensed description for the purpose of the report only, and that the binding conditions are those prescribed in the prospectuses and/or revised prospectuses of the exchange traded notes and/or deposit certificates and in the immediate reports published by the issuers of these products.

Abridged Table of Contents

For the Chapter - Description of the Company's Business

Subject			Page
Foreword			
1.	**Part 1 - The Company's activities and description of business development**		**1-5**
2.	**Part 2 - Description of and information about the Company's operating segments**		**1-17**
	2.1	Life assurance and Long-term Savings	1-17
	2.2	Health insurance	1-46
	2.3	Non-life (general) insurance	1-51
	2.4	Insurance companies overseas	1-71
	2.5	Financial services and capital market activity	1-78
3.	**Part 3 - Information about the Group's activity in its entirety**		**1-92**
4.	**Part 4 - Corporate governance**		**1-135**

Contents

Foreword to Chapter 1 of the Periodic Report 1-1

1. The Company's activity and a description of its business development 1-5

1.1 The Company's activity and a description of its business development 1-5

1.1.1 Diagram of holdings 1-5

1.1.2 Changes in the holding structure in 2019 1-6

1.1.3 Incorporation and form of incorporation 1-6

1.1.4 Control structure 1-6

1.1.5 Condensed description of operations 1-6

1.1.6 Main points in the history of the Company's development 1-7

1.1.7 Main points in the Group's development in 2019 1-8

1.1.8 Changes after the Reporting Period 1-10

1.1.9 Structure of the Group's operations 1-10

1.2 The Group's operating segments 1-13

1.2.1 Life assurance and long-term savings 1-13

1.2.2 Health insurance 1-13

1.2.3 Non-life insurance 1-14

1.2.4 Insurance companies overseas 1-15

1.2.5 Capital market and financial services 1-15

1.2.6 Another operating segment of the Company 1-16

1.3 Investments in the Company's equity and transactions in its shares 1-16

1.4 Dividend distribution 1-16

2. Description of and information about the Company's areas of activity 1-17

2.1 Life assurance and long-term savings 1-17

2.1.1 Products and services 1-17

2.1.2 Substitute products 1-41

2.1.3 Competition 1-41

2.1.4 Customers 1-45

2.2 Health insurance 1-46

2.2.1 Products and services 1-46

2.2.2 Changes and trends in this segment 1-48

2.2.3 Competition 1-48

2.2.4 Customers 1-50

2.3 Non-life insurance segment 1-51

2.3.1 Products and services 1-51

2.3.2 Trends and changes in the segment of operations 1-62

2.3.3 Competition ... 1-62
2.3.4 Customers ... 1-66
2.4 Insurance companies overseas ... 1-71
2.4.1 Products and services ... 1-71
2.4.2 Changes and trends in this area of activity ... 1-75
2.4.3 Competition ... 1-75
2.4.4 Customers ... 1-76
2.5 Financial services and capital market activity ... 1-78
2.5.1 Financial information about the capital market and financial services segment ... 1-78
2.5.2 General information about this area of activity ... 1-78
2.5.3 Structure of the segment and the applicable changes ... 1-78
2.5.4 Legislative restrictions, regulations and special constraints that apply to this operating segment ... 1-79
2.5.5 Changes in the scope of operations and in profit in this segment ... 1-79
2.5.6 Developments in the markets of this operating segment, or changes in the characteristics of its customers ... 1-80
2.5.7 Critical success factors in this area of activity and the applicable changes ... 1-80
2.5.8 Substitutes for products in this segment and the applicable changes ... 1-81
2.5.9 Products and services ... 1-81
2.5.10 Segmentation of income for products and services ... 1-85
2.5.11 New products ... 1-86
2.5.12 Customers ... 1-86
2.5.13 Marketing and distribution ... 1-87
2.5.14 Competition ... 1-87
2.5.15 Seasonality ... 1-89
2.5.16 Service providers ... 1-89
2.5.17 Restrictions and supervision of this area of activity ... 1-89
2.5.18 Material agreements ... 1-91
2.5.19 Joint ventures ... 1-91
3. Information about the Group's overall operations ... 1-92
3.1 Restrictions and supervision which apply to the operations of the Group's companies ... 1-92
3.1.1 In the life assurance and long-term savings segment ... 1-93
3.1.2 In the health insurance segment ... 1-93
3.1.3 In the non-life insurance segment ... 1-94
3.1.4 In the insurance companies overseas segment ... 1-94
3.1.5 Summary of the legislative arrangements and provisions of law ... 1-94

Life assurance and long-term savings 1-98
3.1.6 Financial services and activity in the capital market 1-101
3.2 Entry and exit barriers 1-101
3.2.1 Entry and exit barriers 1-101
3.2.2 Exit barriers 1-102
3.3 Critical success factors 1-103
3.3.1 General success factors 1-103
3.3.2 Success factors specific to the insurance and long-term savings wing 1-104
3.3.3 Success factors specific to the health insurance segment 1-104
3.3.4 Success factors specific to the non-life insurance segment 1-104
3.3.5 Factors specific to the success of the capital market and financial services segment1-105
3.4 Investments 1-105
3.4.1 Investment management policy 1-106
3.5 Reinsurance 1-107
3.5.1 General explanation about the categories of reinsurance treaties 1-107
3.5.2 Life assurance and long-term savings 1-108
3.5.3 Health Insurance 1-109
3.5.4 Non-life insurance 1-109
3.5.5 Insurance companies overseas 1-110
3.5.6 Changes in reinsurance arrangements 1-111
3.5.7 Changes in reinsurance arrangements after the reporting period 1-111
3.5.8 Policy of exposure to reinsurers 1-112
3.5.9 Life assurance and long-term savings 1-114
3.5.10 Health insurance 1-114
3.5.11 Non-life insurance 1-115
3.5.12 Insurance companies overseas 1-115
3.5.13 Exposure of the reinsurers to earthquakes 1-116
3.5.14 Global Partner agreements 1-116
3.5.15 Additional information 1-117
3.5.16 Reinsurance results in non-life insurance (NIS million) (1) 1-117
3.5.17 Reinsurance results in the insurance companies overseas segment 1-118
3.6 Human Capital 1-119
3.6.1 Material changes in the list of senior officers 1-120
3.6.2 Terms of engagements with employees 1-120
3.6.3 Employee stock options 1-121
3.6.4 Information about directors and officers 1-121

3.6.5 Employee training ... 1-121
3.6.6 Code of Conduct for the Group's employees ... 1-122
3.7 Marketing and distribution ... 1-122
3.7.1 Life assurance and long-term savings ... 1-122
3.7.2 Health Insurance ... 1-124
3.7.3 Non-life insurance ... 1-124
3.7.4 Insurance companies overseas ... 1-126
3.7.5 Material changes in laws relating to distribution channels that were published during the Reporting Period ... 1-127
3.7.6 Key agencies controlled by the Group ... 1-127
3.7.7 Dependence on a marketing factor ... 1-127
3.8 Suppliers and service providers ... 1-127
3.8.1 Life assurance and long-term savings ... 1-127
3.8.2 Health Insurance ... 1-127
3.8.3 Non-life insurance ... 1-127
3.8.4 Computer and software services ... 1-129
3.8.5 Dependence on suppliers ... 1-129
3.9 Fixed assets ... 1-129
3.9.1 Offices and real estate assets ... 1-129
3.9.2 Computer and IT systems ... 1-129
3.10 Seasonality ... 1-130
3.10.1 Life assurance and long-term savings ... 1-130
3.10.2 Health insurance ... 1-130
3.10.3 Non-life insurance ... 1-130
3.11 Intangible assets ... 1-132
3.12 Risk factors ... 1-133
3.12.1 Table of risk factors ... 1-133
3.13 Material agreements and Cooperation agreements ... 1-134
3.14 Goals and Business Strategies ... 1-134
4. Corporate governance ... 1-135
4.1 External directors ... 1-135
4.1.1 Changes in the Company’s external directors in 2019 and up to the date of publication of this report ... 1-135
There were no changes in the external directors serving the Company in 2019 and up to the date of publication of this report ... 1-135
4.2 Internal auditor ... 1-135
4.2.1 Information about the internal auditor and commencement of his term of office: ... 1-135

4.2.2 The audit plan ... 1-136
4.2.3 Professional practices ... 1-136
4.2.4 Scope of employment ... 1-136
4.2.5 Compensation ... 1-136
4.2.6 Access to information ... 1-137
4.2.7 The Internal Auditor's report ... 1-137
4.2.8 Board of Directors assessment of the Internal Auditor's work ... 1-137
4.3 External Auditor ... 1-137
4.3.1 Particulars of the external auditor ... 1-137
4.3.2 Disclosure concerning the fee paid to the auditors ... 1-138
4.3.3 Disclosure concerning the process of application and assimilation of IFRS 17, Insurance Contracts ("IFRS 17" or "the Standard") ... 1-139
4.4 Report concerning the effectiveness of the internal control over financial reporting and disclosure ... 1-139
4.5 Information about progress on the deployment for Solvency II ... 1-139

Foreword to Chapter 1 of the Periodic Report

Chapter 1 of the Periodic Report contains a description of the Company's business at December 31, 2019, and its business development during the course of 2019 ("the Reporting Period"). The report was prepared in accordance with the Securities (Periodic and Immediate Reports) Regulations, 1970 ("Periodic and Immediate Reports Regulations"), and in accordance with the instructions of the Commissioner of Insurance under Section 42 of the Supervision of Financial Services (Insurance) Law, 1981.

With respect to the holding of shares in the Group's companies which are mentioned in this report, information about holdings in any company include all the holdings in that company, including through wholly owned subsidiaries of the holding company. The percentage holdings are presented in round figures to the nearest whole percent, unless specified otherwise.

The materiality of the information contained in this chapter of the Periodic Report, including the description of material transactions, is examined from the Company's perspective, where in certain instances a broader description was given to provide a comprehensive picture of the subject matter.

Definitions

For the reader's convenience, the following terms or abbreviations will, in this chapter, have the meaning that appears alongside them, unless stated otherwise.

Alfa Tech	Alfa Tech Investment Management Ltd.
ICIC	ICIC - Israel Credit Insurance Company Ltd.
Financial institution	An insurer or management company.
Insurance premiums	The sum total of premiums and fees which an insured/policyholder pays an insurer according to a policy which is not an investment contract.
Benefit contributions	The amounts which a member deposits (or which are deposited on his behalf) in a pension fund or provident fund.
Fees	Amounts included in the insurance premiums whose purpose is to cover the insurer's expenses (e.g. registration fees).
Dikla	Dikla Insurance Agency Ltd. (previously: Dikla Insurance Company Ltd.).
The Commissioner	The Commissioner of the Capital Market, Insurance and Savings, according to its meaning in the Supervision Law.
The Group	Harel Insurance Investments and Financial Services Ltd. and its subsidiaries.

Harel Finance Alternative	Harel Finance Alternative Ltd.
Harel Insurance	Harel Insurance Company Ltd.
Harel Finance & Issuing	Harel Insurance, Finance and Issuing Ltd.
Harel Investments or the Company	Harel Insurance Investments and Financial Services Ltd.
Harel Index Funds	Harel Index Funds Ltd. (previously - Harel Financial Products Ltd.).
Harel Traded Indexes	Harel Finance Traded Indexes Ltd.
Harel Investment Management	Harel Finance Investment Management Ltd.
Harel Sal	Harel Sal Ltd.
Harel Sal Currencies	Harel Sal Currencies Ltd.
Harel Mutual Funds	Harel Mutual Funds Ltd. (previously - Harel-Pia Mutual Funds Ltd.).
Harel Finance	Harel Finance Holdings Ltd.
Harel Exchange Traded Deposit	Harel Exchange Traded Deposit Ltd.
Harel Index Trade	Harel Index Trade Ltd.
Harel Pension & Provident	Harel Pension and Provident Ltd.
Management company	A company engaged in the management of provident funds or pension funds and which has received a license to do so from the Commissioner, pursuant to Section 4 of the Provident Funds Law.
Companies Law	The Companies Law, 1999.
Supervision Law	The Supervision of Financial Services (Insurance) Law, 1981.
Joint Investment Trust Law	Joint Investment Trust Law, 1994.
Investment Advice Law	Regulation of Investment Advice, Investment Marketing, and Portfolio Management Law, 1995.
Pension Advice and Marketing Law	Supervision of Financial Services (Advice, Marketing and Pension Clearing Systems) Law, 2005.
Securities Law	The Securities Law, 1968.

Provident Funds Law	Supervision of Financial Services (Provident Funds) Law, 2005.
Underwriting	The process of approving an insurance proposal and setting the premium, based on actuarial assumptions, for the information specified in the insurance proposal and additional information in the insurer's possession.
LeAtid	LeAtid Pension Funds Management Company Ltd.
Long-term savings assets	Assets comprising the assets of the provident and pension funds, excluding old funds, assets held by insurers to cover the yield-dependent liabilities in life assurance, assets held by insurers to cover their liabilities pursuant to life assurance plans that provide the insured with a guaranteed yield and regarding which the insurer is not entitled to earmarked debentures for some or all of the funds deposited in them.
Insurance sectors / **Lines of insurance business**	As referred to in the Supervision of Insurance Business (Insurance Branches) Notice, 1985.
Income Tax Ordinance	The Income Tax Ordinance [New Version].
Individual/personal line	Individual policyholders or small business customers who enter into agreement with the insurance company on an individual basis.
Premium	Insurance premiums including fees.
Earned premium	The premiums relating to the reporting year.
Accrual	The amounts accrued to the credit of members of the provident fund, pension fund or life assurance policies with some form of savings component.
Collective or Group (including their variations)	A group of people (usually associated with a common work place, or who belong to a particular organization or share supplier-customer relations with any corporation or organization), who enter into a single agreement with the insurance company whereby all those who belong to the group are insured or are eligible to be insured (and not through separate agreements with the Group's individual members).
Insurance fund	An insurance plan that is approved as a benefits/pension provident fund, fund for severance pay or annuity, under the Provident Funds Law and under the Provident Funds Regulations.

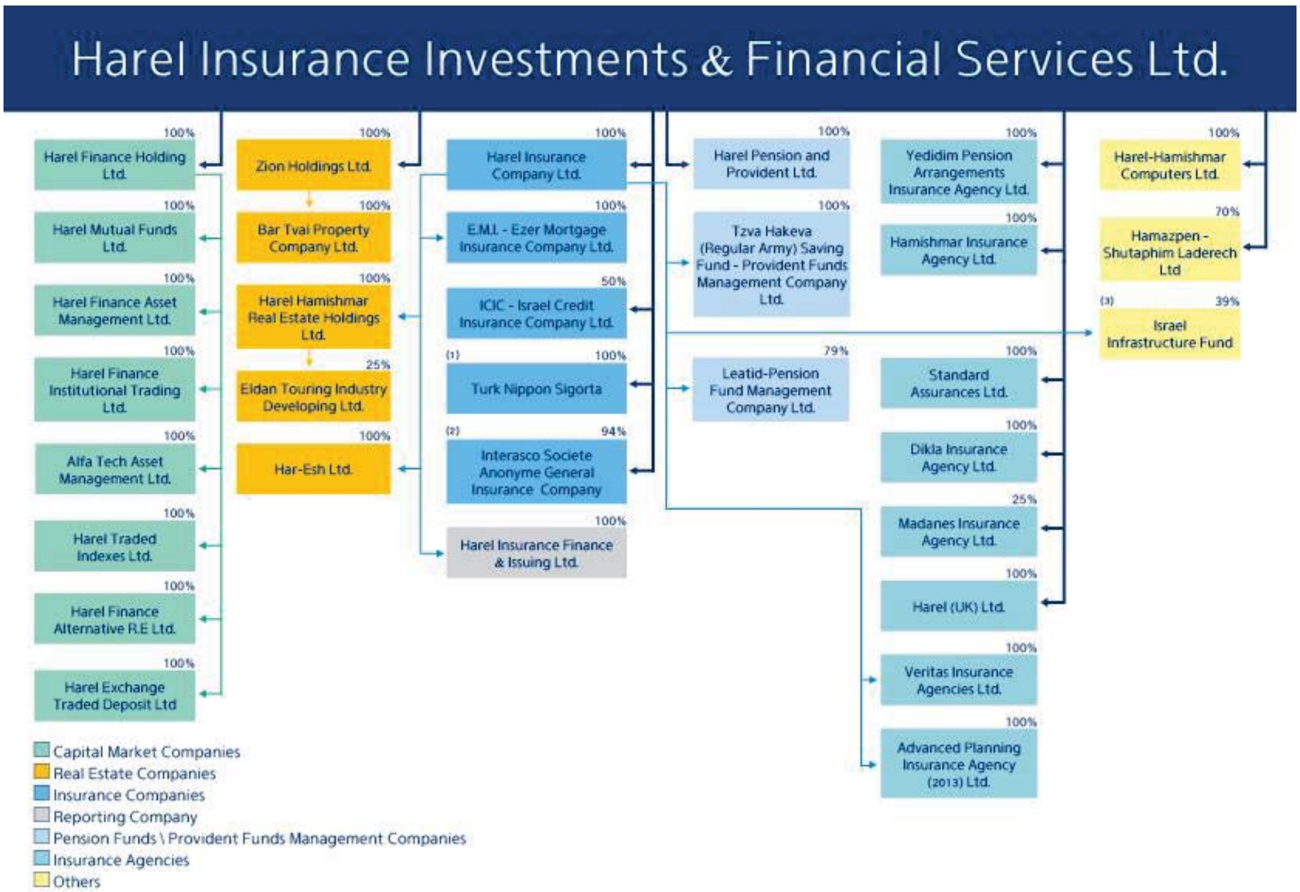
Provident fund	A provident fund according to its meaning in the Provident Funds Law, which is not a pension fund.
Tzva Hakeva Fund	Tzva Hakeva Saving Fund - Provident Fund Management Company Ltd.
Mutual fund	A fund for joint investments in trust, according to its meaning in Section 3 of the Joint Investment Trust Law.
Old pension fund	A pension fund which was first approved before January 1, 1995.
New pension fund	A pension fund which was first approved on or after January 1, 1995.
Pension fund	A provident fund for annuity according to its meaning in the Provident Funds Law, which is not an insurance fund.
Retention	That part of the insurance transaction which is not covered by reinsurance.
Insurance benefits	Amounts payable when an insured event occurs under the policy conditions.
Investment Regulations	Supervision of Financial Services (Provident Funds) (Investment Rules Applicable to Financial Institutions) Regulations, 2012.
Provident Fund Regulations	Income Tax (Rules for the Approval and Management of Provident Funds) Regulations, 1964.
Interasco	Interasco Societe Anonyme General Insurance Company S.A.G.I. - a company incorporated in Greece which has a license to operate as an insurer in Greece.
Turk Nippon	Turk Nippon Sigorta A.S. - a company incorporated in Turkey which has an insurer's license in Turkey.
EMI	EMI - Ezer Mortgage Insurance Company Ltd.

1. The Company's activity and a description of its business development

1.1 The Company's activity and a description of its business development

1.1.1 Diagram of holdings

Diagram of the Company's principal holdings at the date of preparation of this report. A complete list of the Company's subsidiaries and affiliates at the date of this report appears in Chapter 5 of the Periodic Report (Additional information about the Company), under Regulation 11 of the Periodic and Immediate Report Regulations.



Comments:

(1) Insurance company in Turkey.

(2) Insurance company in Greece.

(3) Three funds: in the Israel Infrastructure Fund I and in the Israel Infrastructures Fund II, Harel Insurance owns some of the shares in the General Partner and in Infrastructures Fund III the Company owns some of the shares in the General Partner.

1.1.2 Changes in the holding structure in 2019

1.1.2.1 Addition of Hamatzpen Shutaphim Laderech Ltd. For further information, see Section 1.2.6.

1.1.2.2 Addition of Harel Exchange Traded Deposit Ltd. For additional information, see Section 2.5.

1.1.3 Incorporation and form of incorporation

The Group has operated in the insurance industry since 1933, when the subsidiary Harel Insurance was incorporated (under its then previous name - Shiloah Insurance Company Ltd.). Harel Investments was incorporated in Israel in 1982 as a private company. That same year the Company issued 25% of its stock to the public and became a public company whose shares are traded on the Tel Aviv Stock Exchange.

1.1.4 Control structure

At the date of the report, Yair Hamburger, Gideon Hamburger and Nurit Manor (in this section below: “the Final and Controlling Shareholders in the Company”), hold the Company principally through G.Y.N. Financial Consulting and Investment Management 2017 LP (“the GYN Partnership”), a partnership which they fully own and control, which they hold as limited partners through private companies fully owned by them, and they also hold the general partner in the GYN Partnership. The Final and Controlling Shareholders in the Company hold 46.49% of the voting rights in the Company and about 46.49% of the Company’s issued share capital. For additional information about the holding structure, see Note 38(A) to the Financial Statements.

1.1.5 Condensed description of operations

At the reporting date, most of the Company's activity is in the following areas:

1.1.5.1 In the various insurance sectors and in long-term savings - through the subsidiaries: Harel Insurance, Interasco which operates in Greece, Turk Nippon which operates in Turkey, ICIC and EMI.

In the long-term savings segment, the Company also operates through the subsidiaries: Harel Pension & Provident, a company that manages pension funds, provident funds and education funds, Tzva Hakeva, a company that manages an education fund, and LeAtid, a company that manages an old pension fund.

1.1.5.2 In the financial services and capital market sector, the Company operates through the subsidiary Harel Finance Holdings Ltd. and its principal subsidiaries.

The Group has been active in the insurance industry for more than 80 years. According to the financial statements for Q3 2019, the Group is Israel's largest insurance company with respect to volume of premiums, with a market segment of 22.1%. In health insurance, Harel Group dominates the market as Israel’s largest insurer, with a market segment of 37.3%. In general (non-life) insurance, the Group is the largest insurance group with a market segment of 15%, and with respect to premiums in life assurance, the Group is second largest, with a market segment of 19.7%. In the new pension fund management sector, the Group has a market segment of about 18.1% correct to September 30, 2019.

In the provident fund management sector, the Group has a market segment of 8.5% correct to September 30, 2019. In the mutual fund management sector, the Group has a market segment of 12.2% correct to September 30, 2019.

Data on the volume of assets managed by the Group (AUM) (in NIS billion):

	As at December 31	
	2019	2018
Insurance (including yield- dependent liabilities)	103	88.2
Pension funds	75.9	61.6
Provident funds	44.9	39.2
Mutual funds	43.6	33.7
Portfolio management	15.4	12.7
Total	**282.8**	**235.4**

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

1.1.6 Main points in the history of the Company’s development

In 1982, the Company was floated on the Tel Aviv Stock Exchange (TASE). At that time, the Company held the shares of Harel Insurance Company Ltd. (“First Harel”). Subsequently, it expanded its activity through several significant acquisitions, including: in 1984 it acquired the full ownership of Harel Insurance (under its then name, Shiloah Insurance Company Ltd.) (“Shiloah”). At the time of this acquisition, Shiloah was involved in health insurance and life assurance; in 1985, Shiloah acquired 50% of the life assurance portfolio of Yardenia Insurance Company Ltd.; in 1989 the Company acquired 82% of the shares of Sahar Israel Insurance Company Ltd. ("Sahar") and over time it acquired the outstanding shares of Sahar; in 1993 it acquired, through Mor-Har Investments Ltd., the control of Dikla Insurance Company Ltd.; in 1999 the Company acquired control of Zion Holdings Ltd. which held all the shares of Zion Insurance Company Ltd. ("Zion"). Over time, as a result of mergers and restructuring, First Harel, Sahar and Zion were concentrated in Shiloah, which later on changed its name to Harel Insurance.

In 2006 Harel-Mutual Funds acquired the mutual fund activity of Bank Leumi LeIsrael Ltd. and Leumi-Pia Mutual Fund Management Company Ltd.; also in 2006 Harel Insurance acquired the activity of 5 provident funds from Bank Leumi (the most important of which are Otzma and Taoz); in 2006, the Company, together with Bituach Haklai and Euler Hermes, acquired control of ICIC; in 2010 Harel Insurance acquired all the share capital of EMI; In addition, over a period of several years, various provident funds, mutual funds and portfolio management activity were acquired on different dates. In 2013, Harel Insurance acquired the life assurance and health insurance activity of Eliahu Insurance Company Ltd., and Harel Finance acquired the portfolio management and mutual fund management activities of Clal Finance Investment House.

On January 1, 2016, the insurance activity of Dikla Insurance Company Ltd. was merged into Harel Insurance, and Dikla received a license to operate as an insurance agency.

1.1.7 Main points in the Group's development in 2019

1.1.7.1 Significant developments in the Group's various operating segments

On significant developments in the Group's various operating segments, see sections 2.1.1.2, 2.2.2, 2.3.1, 2.4.2 and 2.5.9 below.

1.1.7.2 Maalot rating

On the affirmation of a Maalot rating for the subsidiary Harel Insurance, see Note 25J to the Financial Statements.

On determining a Maalot Rating for an issue of bonds (Series 16, 17 & 14) – see Note 25K to the Financial Statements.

1.1.7.3 Issue of bonds (Series 16) by means of Harel Finance & Issuing

On the issuing of a new series of bonds (Series 16) by means of Harel Finance & Issuing by way of a shelf offering report, see Note 25H to the Financial Statements.

1.1.7.4 Full early redemption of bonds (Series 3) of Harel Finance & Issuing

On a full early redemption of Series 3 bonds that were issued by Harel Finance & Issuing, see Note 25H to the Financial Statements.

1.1.7.5 Issue of Series 17 bonds and Series 14 bonds by means of Harel Finance & Issuing

On the issuing of a new series of bonds (Series 17) and expansion of a listed series (Series 14) by means of Harel Finance & Issuing by way of a shelf offering report, see Note 25H to the Financial Statements.

1.1.7.6 Annual General Meeting

On June 4, 2019, an annual general meeting of the Company was held, 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, Joseph Ciechanover and Eli Defes). The general meeting approved all the items on the agenda.

1.1.7.7 Dividend distributions

On a decision from April 29, 2019, concerning a dividend distribution in the amount of NIS 129 million, that was paid on May 20, 2019, see Note 15D to the Financial Statements.

On a decision from July 14, 30, concerning a dividend distribution in the amount of NIS 107 million, that was paid on July 30, 2019, see Note 15D to the Financial Statements.

1.1.7.8 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 mortality improvements for insurance companies and pension funds” and its impact on the Company’s financial statements, see Note 37E(2) to the Financial Statements.

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

On a Supreme Court judgment concerning the discounting interest rate for compensation due to personal injury in torts litigation, see an immediate report of the Company dated August 11, 2019 (ref.: 2019-01-068616) as well as Note 3C2I to the Financial Statements.

1.1.7.10 Revised compensation policy for financial institutions

On the revision of the compensation policy for the Group’s financial institutions, see Note 38B2 to the Financial Statements.

1.1.7.11 D&O liability insurance

On the extension of a D&O policy, see Note 38E to the Financial Statements.

1.1.7.12 Effects of a decline in the interest rate curve

On the effects of a decline of the interest rate curve on results in the Reporting Period, see Note 38E(4) to the Financial Statements.

1.1.7.13 Assimilation of strategy and the restructuring of Harel Insurance

On the assimilation of strategy and restructuring in Harel Insurance, see an Immediate Report of the Company dated October 30, 2019 (Ref.: 2019-01-092178).

1.1.7.14 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 38E(9) to the Financial Statements.

1.1.7.15 Changes in the holdings of interested parties

On changes in the holdings of interested parties, see Note 38A to the Financial Statements.

1.1.7.16 Extension of an engagement with an architect - agreement relating to a non-extraordinary transaction

On the extension of the period of the engagement with Miki Kornhauser, see Note 38E1 to the Financial Statements.

1.1.7.17 Agreement with the grandson of the Company's controlling shareholder

On entering into an employment agreement between the subsidiary Harel Finance and the grandson of Mr. Yair Hamburger, who is one of the Group’s controlling shareholders, see Note 38E(7) to the Financial Statements.

1.1.7.18 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 40C to the Financial Statements

1.1.8 Changes after the Reporting Period

1.1.8.1 Restructuring – merger of Standard into Harel Insurance

On approval of the merger in which all the Company’s holdings in Standard will be transferred to Harel Insurance against an allocation of shares of Harel Insurance to the Company, see Note 40D to the Financial Statements.

1.1.8.2 Publication of a shelf prospectus of Harel Finance & Issuing

On the publication of a shelf prospectus of Harel Finance & Issuing in February 2020, see Note 40E to the Financial Statements.

1.1.8.3 Fluctuations in the interest rate curve

After the Reporting Period, extreme fluctuations were recorded in the interest rate curve. This volatility could affect the insurance liabilities as well as the value of the Company’s financial assets. Immediately prior to the date of publication of the financial statements, the risk-free interest rate curve rose to above its level at December 31, 2019.

1.1.8.4 Effect of the spread of the Corona virus on the Company’s activity

After the Reporting Period, the Corona virus began to spread all over the world. On the effect of the spread of the virus on the Company’s activity, see Section 2.3.10 in the Board of Directors’ report.

1.1.9 Structure of the Group's operations

The Group's principal activity takes place through two arms: insurance and long-term savings, and finance.

The insurance and long-term savings arm is divided into the following divisions:

A. Long-term savings division, which consists of the following departments:
   1. Life assurance
   2. Harel Pension and Provident

B. Health insurance division, which consists of the following departments:
   1. Group health and dental insurance.
   2. Personal lines health insurance, travel insurance and foreign residents insurance.
   3. Health and overseas claims department.

C. Dikla, Long-term care claims, Life claims and Personal accident claims Division, which includes the following departments:
   1. Long-term care, Life and Personal Accident Claims Department.
   2. Service and Operations Department
   3. Sales Department.
   4. Clalit Supplementary Health Services Department - operation of sales, operations and supplementary health services claims.

D. Non-life (general) insurance division - consists of the following activities:
   1. HQ and business development.
   2. Personal lines non-life insurance.
   3. General business insurance.
   4. Non-life insurance actuary department.
   5. Industry and special and marine risks insurance.
   6. Reinsurance in non-life insurance.
   7. Compulsory motor and motor property claims.
   8. Property and liabilities claims.

E. HQ division, consists of the following activities:
   1. HQ and management
   2. Regions
   3. Sales in the Company's distribution channels

F. Service division, consists of the following activities:

1. Customer service call centers
2. Customer service on digital media
3. Public complaints

G. Digital division, consists of the following activities:

4. Management of the data department
5. Advertising and marketing
6. Digital customer experience
7. Communications and customer relations

The Group has additional insurance activity which takes place through the subsidiaries – Interasco, which operates in Greece in non-life and health insurance; Turk Nippon, which operates in Turkey in non-life and health insurance; EMI which provides credit insurance for mortgages; and ICIC, which is involved in insuring credit risks.

H. The Investment Division, comprising investment management in insurance and long-term savings and management of nostro investment monies.

I. Finance and Resources Division.

J. Actuary and Risk Management Division.

K. HR Division.

L. Legal Division

Harel Hamishmar Computers Ltd. (“HHM”) is responsible for providing various automation services to the different divisions.

The financial services arm ("Harel Finance") coordinates the Group's capital market and finance activity. Activity in the financial services arm takes place, or in the Reporting Period was performed, through the following principal companies:

A. Harel Mutual Funds

B. Harel Investment Management

C. Harel Traded Indexes

D. Alfa Tech

E. Harel Index Trade

F. Harel Finance Alternative

G. Harel Exchange Traded Deposit

Additionally, Hamazpen, which began to operate in November 2019, is involved in providing credit to small and medium businesses.

1.2 The Group’s operating segments

The Group operates in the insurance, provident and pension fund industries and in the capital market and financial services industry. The Group has five operating segments, as specified below:

1.2.1 Life assurance and long-term savings

This segment consists of the Group's insurance activity in the life assurance sectors as well as its activity in the management of pension and provident funds.

Life assurance policies are generally long-term products and guarantee insurance benefits upon the death of the insured or when he reaches the age stipulated in the policy, or at an earlier date depending on the policy conditions. Riders may be added to the policy to cover additional risks, principally work disability, illness or disability. Depending on the insured's choice, these policies may include combinations of savings and risk and they may consist of just one component. Some of the life assurance policies are recognized as an insurance fund under the provisions of the law, and provide a tax benefit as defined in the Provident Funds Law .

Life assurance policies are offered to employers and individuals as insurance funds in accordance with the Provident Fund Regulations. Additionally, this segment includes policies offered to groups, the main purpose of which is risk insurance against death and work disability insurance without savings and for a short period. Likewise, personal lines policies are offered for savings purposes (policies that include a savings component only) ("investment contracts"),as well as personal lines policies that cover risk of death, disability, work disability, disclosure of critical illness, etc.).

In addition to life-assurance policies which include a savings component, as noted above, the Group also manages other long-term savings products in the form of pension funds and provident funds. Pension fund members are eligible to a monthly allowance (annuity) when they retire, a monthly annuity in the event of disability and a monthly annuity for survivors if the member dies. Provident fund members, upon or prior to their retirement, as defined in the Provident Fund Regulations, are eligible to receive a lump sum with respect to money which has been accrued for them in respect of deposits made until December 31, 2007, and to receive an annuity with respect to money that was deposited from January 1, 2008. Additionally, the Group manages education funds, central severance pay provident funds, a central fund for sick pay, a central fund for participation in a non-contributory pension and investment provident funds.

Life assurance activity, including long-term savings based on insurance and investment contracts, is handled by Harel Insurance. The long-term savings activity in provident funds that are not insurance funds, including in pension funds, is managed by the subsidiaries which are management companies.

1.2.2 Health insurance

This segment consists of the Group's insurance activity in the illness and hospitalization and personal accident sectors. The policies sold through these sectors cover the range of losses sustained by the insured resulting from illness and/or accident, including long-term care and dental treatment. Health insurance policies are offered to individual policyholders and groups.

During the period until December 2015, the Group's health insurance activity was conducted through the health insurance division of Harel Insurance and Dikla Insurance Company Ltd.

As of January 1, 2016, Dikla is no longer an insurer and its insurance activity was merged into Harel Insurance and takes place as part of the Dikla, LTC claims, life and personal accident Division. Dikla received an agent's license for non-life and pension insurance and it continues to manage the activities relating to the rendering of operating services for the supplementary health services plan of Clalit Health Services as well as providing claims settlement services in its areas of activity for Harel Insurance.

1.2.3 Non-life insurance

This segment consists of five sub-segments:

1.2.3.1 **Motor property (CASCO)**

Motor property includes the Group's activity in the sale of policies in the motor vehicle insurance branch ("motor property") which cover losses sustained by the vehicle owner due to an accident and/or theft and/or the liability of the owner or driver of the vehicle for loss caused to third-party property in an accident.

This sub-segment also includes policies for insuring vehicles weighing up to 3.5 tons. These policies are in accordance with the conditions of the standard policy prescribed in the Supervision of Insurance Business (Conditions of a Contract to Insure a Private Vehicle) Regulations, 1986 (“the Standard Policy"). The Group's activity in the motor-property sector is handled by Harel Insurance

1.2.3.2 **Compulsory motor**

Includes the Group's activity in providing insurance cover pursuant to requirements of the Motor Vehicle Insurance Ordinance) (New Version), 1970 ("compulsory motor” and “Motor Vehicle Insurance Ordinance”, respectively), which covers physical injury sustained by the owner of the vehicle, any passengers in the vehicle and pedestrians injured by the vehicle, resulting from the use of a motorized vehicle, under the Law to Compensate Road Accident Victims, 1975 (“CRAV Law”). As its name implies, this insurance is mandatory for all owners and drivers of vehicles under the Motor Vehicle Insurance Ordinance.

The conditions of the insurance cover correspond with the text of the Standard Policy prescribed in the Supervision of Financial Services (Insurance) (Conditions of a Compulsory Motor Vehicle Insurance Contract) Regulations, 2010. The Group's activity in the compulsory motor sector is handled by Harel Insurance.

1.2.3.3 **Other liabilities sectors**

Include the Group's activity in the sale of policies which cover the insured's liability towards a third party (excluding cover for compulsory motor liabilities as described above). The following sectors of insurance, inter alia, are included in this framework: insurance for employers' liability, insurance for third-party liability (which includes professional liability insurance and directors and officers (D&O) insurance), and product liability insurance. The Group's activity in the other liabilities sector takes place through Harel Insurance.

1.2.3.4 **Property and other sectors**

This segment includes the Group's insurance activity in all the property sectors (excluding motor property) as detailed in the Supervision of Insurance Business (Branches of insurance) Notice, 1985. The Group's activity in property and other branches takes place through Harel Insurance.

This sub-segment also includes the operations of Harel Insurance with respect to insuring the investments of home buyers.

1.2.3.5 **Credit insurance for mortgages**

Activity in this branch takes place through EMI, which is engaged in mortgage-related insurance in the housing sector, as a monoline branch .

On November 1, 2012, the Bank of Israel published a directive limiting the LTV (loan-to-value) ratio in housing loans commencing November 1, 2012, according to which a bank may not approve a mortgage with an LTV ratio of more than 70%, except for a loan for the purchase of a borrower's only apartment, for which the maximum LTV ratio is 75%.

Consequently, in 2013, the operations of EMI were almost completely discontinued with regard to the issue of new policies for insuring mortgage credit. Additionally, the format of EMI's operations was adjusted to the existing scope of activity, at the same time continuing to deal with policies which are in force and preserving the knowledge in this sector, which will facilitate a return to full operations in the event of a change in regulation.

1.2.4 Insurance companies overseas

The Company is the controlling shareholder of Interasco, an insurance company operating in Greece in the health and non-life insurance sectors (94% control), and it holds the full controlling interest in Turk Nippon, which operates in Turkey and engages in non-life and health insurance.

1.2.5 Capital market and financial services

The Group's activity in the capital and finance market takes place through Harel Finance, a private company wholly owned by the Company.

Through companies which it controls, Harel Finance is engaged mainly in the following activities:

Management of mutual funds through Harel Mutual Funds.

Management of investment portfolios through Harel Investment Management.

Investment management using computerized models, through Alfa Tech.

Management of private equity funds through Harel Finance Alternative.

Issue of marketable certificates of deposit (CDs) by means of Harel Exchange Traded Deposit

1.2.6 Another operating segment of the Company

On February 28, 2019, Hamazpen - Shutaphim Laderech Ltd. (“Hamazpen”) was established which is involved in the creation of innovative financing solution for excellent entrepreneurs in the small and medium business sector, including the providing of mezzanine loans. Hamazpen is a subsidiary (70%) of the Company and its shareholders are: Alon Hamzpen Limited Partnership, which is controlled by Mr. Alon Nissan, who is also the CEO of Hamazpen, and Mr. Michel Siboni (10%), who in addition to his position as Company CEO and CEO of Harel Insurance also serves as chairman of the board of directors of Hamazpen.

Hamazpen’s activity is based on a full business analysis of the entrepreneur and his various activities as well as support for and follow-up of his business over time. From October 28, 2019, Hamzpen holds an extended license to provide credit according to the meaning of this term in the Supervision of Financial Services (Regulated Financial Services) Law, 2016, and it is supervised by virtue of this law. Hamazpen began to operate on November 1, 2019. In December 2019, a framework agreement was signed for the provision of loans to Hamazpen by Harel Insurance

1.3 Investments in the Company's equity and transactions in its shares

In the last two years and up to publication of the report, no investments were made in the Company’s capital.

For information about the control structure of the Company - see Section1.1.4 above.

1.4 Dividend distribution

- On the distribution of a dividend during the reporting year, see the Note on Equity, Note 15 to the Financial Statements.
- The Company has not passed any resolution concerning a fixed dividend distribution policy.
- For additional information about the decision of Harel Insurance on the creation of a safety cushion, see Note 8F(8) to the Financial Statements.

2. Description of and information about the Company’s areas of activity

2.1 Life assurance and long-term savings

2.1.1 Products and services

2.1.1.1 General

This segment consists of life assurance, and the management of pension funds and provident funds.

Life assurance and long-term savings mainly concerns saving for retirement and cover for various risks. The different products in this sector include a full or partial combination of savings and insurance cover for risks such as death, disability, work disability, and critical illness.

Products in this area of activity target salaried employees, the self-employed and for customers who wish to purchase private cover (unrelated to their occupation). In some of the products the contributions deposited by salaried employees and self-employed workers entitle them to tax benefits at three levels: at the time of the deposit - a tax credit/rebate, exemption from tax on profits from the accrual of the money, and tax benefits when the money is released. In certain instances, there may also be tax benefits for deposits made by individuals.

Pursuant to the provisions of the law, there must be full segregation between the assets and liabilities of the pension fund or provident management company and the members' assets which are accrued in the fund, as well as segregation between the insurer’s assets and policyholders’ monies in yield-dependent life assurance. The assets of members in the pension funds and provident funds are not included in the financial statements of the management company (or in the Company's consolidated financial statements).

2.1.1.2 Changes and trends in this segment

The life assurance and long-term savings segment has undergone far-reaching changes, particularly in light of government policy which resulted in the enactment of the Law to Encourage Competition and Reduce Concentration and Conflict of Interests in Israel’s Capital Market (Legislative Amendments), 2005, the Provident Funds Law, the Pension Advice and Marketing Law, and the amendment to the Supervision Law ("Bachar legislation" which entered into force in November 2005), as well as the promulgation of a series of regulations and directives by the Superintendent which were designed, inter alia, to encourage pension savings, to increase competition and transparency in the pension savings market, to reduce the management fee rates and encourage customers to be involved in choosing their pension savings.

Additionally, in recent years, this operating segment has gradually adapted itself to digital and online processes performed with savers, distributing entities and other financial institutions.

Encouragement of savings for annuity (pension)

The reasoning behind the policy of the Capital Market Authority in recent years, is the desire to encourage pension savings among the population at large in an effort to ensure that Israeli citizens are able to maintain a reasonable standard of living after retirement, and to encourage competition in this area of activity, including by limiting the differences between products and allowing people to move their pension savings between the different products.

These changes have been reflected in a change in the structure of the products which were previously available and changes in the tax benefits given to long-term savers, including change within the context of Amendment no. 3 to the Provident Funds Law which gives preference to savers on an annuity track and establishing an obligation to withdraw monies in the form of payment of an annuity, insofar as the annuity available to the saver is up to the minimum amount of annuity for all long-term pension savings products. In this context, the tax benefits applicable to these products were standardized with respect to money deposited for members as of January 1, 2008.

Until that date, the different products in this sector - life assurance, pension funds and provident funds - were divided into two main channels: a channel which guarantees payment of an annuity (commonly known as a pension), and a channel which guarantees a lump-sum (capital) payment, with the possibility of combining these channels. The aforementioned amendment eliminated the division between the capital and annuity channels with respect to money deposited from January 2008 onwards so that this money may only be withdrawn as a first layer (minimum annuity amount) by way of a monthly payment. Money which has accumulated over and above the amount required to pay the minimum annuity, may be withdrawn by capitalizing the annuity or by way of payment of a monthly amount, as decided by the member or policyholder.

Encouragement of competition in this segment

Pursuant to the trends reviewed above, over the last few years various provisions have been published the purpose of which is to increase the possibility of moving money between different products and to standardize the different products (provident funds, pension funds and life assurance), including with regard to the insurance cover sold as part of the pension savings products and the application of a standard management model for the collection of management fees, at the same time reducing the maximum management fees that may be collected in provident funds and insurance funds.

Furthermore, provisions were published with the purpose of making it easier for insureds or members to compare different products by standardizing the products marketed by the companies in this area of activity. For example: the Commissioner’s instructions concerning the rights and obligations of members in the articles of a new, comprehensive pension fund which set out a binding text for the pension fund’s articles, as well as guidelines for work disability (P.H.I.) policies. Additionally, provisions were prescribed pertaining to the choice of a default pension fund, that were intended, among other things, to increase competition in the pension savings market, as will be described in greater detail below.

Reduction of management fees

In recent years, several legislative provisions entered into force that are designed, among other things, to reduce the management fees paid by policyholders and fund members on their pension savings products.

Amendment no. 13 to the Provident Funds Law prescribes a provision which, among other things, stipulates that when a saver joins a new pension fund, savings that he holds in inactive accounts in other new pension funds will be transferred to the pension fund that he wishes to join. Insofar as the member does not object, the pension fund that he joins will submit a request to all the funds to locate inactive accounts and move any such savings. When the savings in the inactive accounts have been moved to the active accounts, the management fees that will apply to these members will be management fees from the accrued balance agreed upon with the members in their active accounts. This amendment led, on the one hand, to a reduction in income from management fees for inactive insureds in the pension funds, and at the same time led to an increase in management fees for active insureds whose balances were transferred to the pension fund from other pension funds, and also to a reduction in the number pension fund accounts.

On March 13, 2016, a Commissioner’s circular was published which prescribes provisions on choosing a default fund and the conditions required of a provident fund management company that enrolls members in accordance with the provisions of Section 20(B) of the Provident Funds Law. The circular stipulates that employees will enroll in a provident fund by actively choosing their own provident fund or through the employer in a provident fund of his choice, pursuant to Section 20(B) of the Provident Funds Law, and that insofar as the employee does not choose a provident fund and a provident fund is not chosen by the employer under Section 20(B) of the Provident Funds Law, the employer will enroll the employee in the provident fund of the Commissioner’s choice. The management fees to be offered by the chosen pension funds will be in force for 10 years from the date of enrolment in the fund. The pension funds will be chosen by the Commissioner once in three years. Employers or Employers or workers’ organizations (unions) will choose a default fund in a tender process, based on the criteria prescribed in the circular. The existing default option arrangements ended in March 2019, with the exception of an arrangement that was specifically excluded by the Commissioner.

Commencing November 1, 2018, the pension funds that serve as the default option funds are: (1) Altshuler Shaham Provident and Pension Ltd. and Halman Aldubi Provident and Pension Funds Ltd. These funds collect management fees at an annual rate of no more than 0.1% of the accrual (annual rate) and 1.49% of the deposits; (2) Meitav Dash Provident Funds and Pension Ltd., which collects management fees at a rate of no more than 0.05% of the accrual (annual rate) and 2.49% of the deposits; (3) Psagot Provident Funds and Pension Funds Ltd., which collects management fees at a rate of no more than 0.0905% of the accrual (annual rate) and 1.68% of the deposits. Additionally, the management fees for new old-age pension recipients, including existing members in a fund who retire, will not be more than an annual rate of 0.3%.

The change in the enrollment procedure described above significantly affected the further enrollment of new employees from among employers with an extremely high turnover rate of employees who typically earn low salaries. The new provisions have also had an indirect impact among businesses that pay high salaries in which there are structured enrollment processes that enable employees to exercise their right to choose their own pension product and pension manufacturer. The impact in these businesses is significantly lower than among businesses in which the employees earn low salaries. In addition to the foregoing, the Company works to create alternative enrollment platforms to the default arrangements, which are based on digital, efficient and available work processes, while at the same time enhancing activity in the field by means of the traditional distribution channels in a manner that will ensure further growth of the Company and its dominance in the pension sector.

Digital operations

Further to the establishment of the pension clearing house, in accordance with the Commissioner’s instructions and as part of the Company’s policy, in the past few years a series of changes have been made facilitating the performance of digital operations by the Company’s customers, distributing entities and with other financial institutions. In this context, among other things, processes for enrollment in the different pension products were regulated, automatic billing and collection processes were formalized as part of the employers’ interface, procedures for sending reports digitally to insureds and members were regulated and an infrastructure for taking loans digitally was established. The Company believes that these processes are likely to intensify in coming years and will expand so that more activities are performed in this segment, which is expected to lead to improved customer service and streamlining of operations.

Development of savings products in this operating segment

In addition to products designated for retirement age, this operating segment also includes products for medium-term or private savings. In the past few years, the volume of money managed in these products has grown together with the range of products that serve this purpose in this operating segment. These products include education funds which provide various tax benefits and from which the accrued balance can be withdrawn after a 6-year saving period with the tax benefits in force at the time of withdrawal; investment contracts that are a capital savings product and provide a substitute for the savings products offered by the banks, mutual funds and investment portfolios; deposits paid into an annuity provident fund by individuals in which, based on Amendment 190 to the Income Tax Ordinance from 2012, amounts may be deposited in an annuity provident fund by self-employed members who wish to receive an annuity in the future or to withdraw the money as a lump sum when certain conditions are met; investment provident funds - a savings product designed to pay a lump sum (capital amount) to self-employed members or from which tax-exempt annuity payments may be received from the age of 60. Members will be allowed to deposit up to NIS 70,000 a year, CPI-linked, in an investment provident fund. Investment provident funds are also the default option for money deposited by the National Insurance Institute for parents of children as part of the new “Savings Plan for Each Child” scheme.

2.1.1.3 Principal distinctions between the different products

	Life assurance*	New pension funds	Provident funds
Agreement category	Contractual obligation between insurer and insured. This undertaking can only be changed in line with the provisions of the policy and the law.	The saver is a member of the fund (provident fund or pension fund) that is managed by the management companies in accordance with the articles. The articles may be changed subject to obtaining the Commissioner's approval.	
Insurance cover	Insurance cover as chosen by the insured for death or for work disability (P.H.I.).	Structured insurance cover for death and disability, in accordance with the provisions of the articles.	Insurance cover may be purchased for death or disability, when the conditions prescribed in the Supervision of Financial Services (Provident Funds) (Insurance Cover in Provident Funds) Regulations, 2012, are satisfied.
Annuity conversion factor	In group policies, in some instances, the annuity conversion factors are based on a guaranteed longevity coefficient that does not change (GAO). For guaranteed yield policies, the annuity conversion factor is based on a guaranteed yield that remains unchanged.	The annuity conversion factor might change from time to time, within the context of changes in the fund's articles.	Do not pay an annuity and therefore do not incorporate a GAO.
Mutual insurance	None	Mutual insurance fund Members' rights are affected, in part, by demographic data for all the fund's members, for example, their medical condition and life expectancy. The actuarial assumptions are reviewed from time to time and affect the rights of all members in the fund, and they may change accordingly.	None

	Life assurance*	New pension funds	Provident funds
		Reinsurance may be acquired to reduce the exposure to the mutual risk.	
Designated / earmarked bonds	In guaranteed yield policies only, until 1991.	In a comprehensive fund, at a rate of 30% of all the assets (with the allocation - 60% of the pensioners assets and the balance from the members' assets).	None
Management fees	Percentage of the accrual and/or the deposits, depending on the policy conditions	Percentage of the accrual and the deposits	Percentage of the accrual and the deposits
Those eligible when the saver dies	Benefits as determined by the insured If no determination is made - heirs in accordance with an inheritance order or probation of a will Severance pay - survivors under the Severance Pay Law.	Survivors as defined the articles. If there are no survivors - the beneficiaries determined by the insured. If there are no survivors and beneficiaries have not been defined, then in accordance with an inheritance order or probation of a will.	Benefits as determined by the insured If no determination is made - heirs in accordance with an inheritance order or probation of a will Severance pay - survivors under the Severance Pay Law.
Regulatory restriction on the amount of the premium	None	In a comprehensive fund - a monthly limit on the shekel amount which is the equivalent of 20.5% of twice the average wage in the economy (cumulative review from the beginning of the year). In a general fund - none.	None

* The comparison refers to life assurance products sold as a provident fund.

2.1.1.4 Life assurance

General

Life assurance includes plans for a variety of risks (such as death), plans for saving for retirement, and plans combining riders for additional cover (term assurance, disability, work disability, critical illness, etc.). This sector also includes personal-lines policies with a savings component only, which are considered "investment contracts" (in contrast with insurance contracts).

At the end of the policy period, insureds are entitled to insurance benefits, consistent with the policy conditions, for the amounts accrued in the policy's savings component. The policy conditions stipulate whether the insurance benefits will be paid as a lump sum, as an annuity over the life of the insured, or as a combination of the two.

If an insured event occurs before the end of the policy period (death or another event covered in the policy), insurance benefits are paid to the insured, the beneficiaries or the survivors (depending on the type of insured event), in line with the scope of cover purchased and the amount of savings accumulated in the policy, if accumulated.

Sectors of insurance and insurance coverages included in the life assurance segment

(a) Comprehensive life assurance - all categories of life insurance which include savings, with or without risk, including payment of severance pay and annuity insurance.

(b) Life assurance - term risk only.

(c) Mutual group life assurance.

Structure of profitability in this segment

Profitability on life assurance derives principally from the following components, after offsetting the expenses attributed to the area of activity: (a) the margin between the yield received on the investment portfolio for guaranteed-yield life assurance and the yield promised to policyholders; (b) management fees from premiums and from the accrual in policies that include savings, including fixed and variable management fees (variable - as a rate of positive, cumulative real yield only), in yield-dependent policies that were marketed up to the end of December 2003; (c) the margin between the premium collected on life assurance policies designated to cover risks (death and other) and the payment of insurance benefits by virtue of these policies. Among other things, this margin is affected by the tariffs collected and the mortality rates (for term assurance), life expectancy (for annuity payments), reinsurance costs and morbidity rates; (d) investment profits in the Nostro portfolio

An important factor in the level of insurance companies' profitability over time is their ability to maintain and retain existing policies.

Profitability in life assurance which is reported by the insurance companies in their financial statements is also influenced by accounting standards with respect to revenue recognition, deferment of expenses and revaluation of assets, as well as the determination of actuarial reserves and changes in actuarial assumptions.

Information about the different products managed by the Group in the life assurance segment

There are two categories of insurance policy: policies recognized as a provident fund (insurance funds), in accordance with the Provident Funds Law (managers' insurance or retirement benefits for the self-employed); and policies which are not recognized as provident funds and are called personal lines policies.

<table>
<tr><th>Policy category</th><th>Product description</th><th>Key premium components</th><th>Designated bonds</th><th>Management fee</th></tr>
<tr><td colspan="5">A. Policies that include a savings component (irrespective of whether or not they are recognized as provident funds)</td></tr>
<tr><td colspan="5">A1. Guaranteed yield policies sold until December 1990</td></tr>
<tr><td>Guaranteed yield “Meurav” (mixed) policies</td><td>The sum insured is defined in advance in the policy and is CPI linked. It will be paid when the insured dies or at the end of the policy period.
The savings amount is paid out as a lump sum or lump sum combined with annuity (monthly) payments.
These policies were marketed as provident funds and policies that are not recognized as provident funds.</td><td rowspan="2">Savings component, term life component (to cover death) and riders for the insured, if purchased.</td><td rowspan="2">The commitment to a guaranteed yield was backed partially by designated bonds issued by the State of Israel to the insurance companies.</td><td rowspan="2">No management fees.</td></tr>
<tr><td>Guaranteed yield “Gimla” policies</td><td>The amount of the monthly benefit payable at the end of the policy period is defined in advance in the policy and is CPI-linked. At the end of the policy period the amount saved is paid out as an annuity. Before the end of the policy period, a lump sum will be paid as prescribed in the policy.
These policies were marketed as both a provident fund and as a policy not recognized as a provident fund.</td></tr>
</table>

Policy category	Product description	Key premium components	Designated bonds	Management fee
Guaranteed yield "Adif" policies	Guaranteed yield policies where the yield is defined in the policy. The policy defined the ratio between the savings part and the part allocated to risk and expenses as chosen by the policyholder. The premium is CPI linked or linked to rates of the employee's insurable wage. The savings amount is paid out as a lump sum or an annuity or as combined lump sum/annuity payments. This policy was marketed as both a provident fund and as a policy not recognized as a provident fund.			
	A2. Profit-sharing policies that were sold during the period 1991-2003			
"Meurav" profit-sharing policy	The future savings is determined according to the actual investment performance. If the insured dies before the end of the policy period, a lump sum will be paid as prescribed in the policy conditions. The periodic premium is prescribed in the policy and is CPI-linked, and it might also be affected by investment performance. The policy is paid out as a lump sum or as combined lump sum/annuity payments. These policies were marketed as both a provident fund and as a policy not recognized as a provident fund.	The policies include a savings component, term life component (to cover death) and riders for the insured, if purchased.	The policies are not entitled to designated bonds for policies that were marketed as of 1992. (1)	The management fees were prescribed in the Supervision of Insurance Business (Conditions of Insurance Contracts) Regulations, 1981. (2) In insurance plans which were approved until 2003, fixed and variable management fees are collected from the cumulative savings, based on the real yields attained.

Policy category	Product description	Key premium components	Designated bonds	Management fee
"Gimla" profit-sharing policies	The future savings is determined according to the actual investment performance. If the insured dies before the end of the policy period, a lump sum will be paid as prescribed in the policy conditions. The periodic premium is prescribed in the policy and is CPI-linked, and it might also be affected by investment performance. The savings amount is to be paid as an annuity (monthly) payment at the end of the policy period. These policies were marketed as both a provident fund and as a policy not recognized as a provident fund.			
"Adif" profit-sharing policy	These policies defined the ratio between the savings part and the part allocated to risk against death and expenses as chosen by the policyholder. The premium is CPI linked or linked to rates of the employee's insurable wage. The savings amount is paid out as a lump sum or annuity or as combined lump sum/annuity payments. These policies were marketed as both a provident fund and as a policy not recognized as a provident fund.			

Policy category	Product description	Key premium components	Designated bonds	Management fee
	A3. Yield-dependent policies sold as of January 2004:			
Policies that include investment tracks	Policies with a savings component in which context insurance cover for death (term assurance) and/or P.H.I. (work disability) may be purchased. The savings amount is paid out as a lump sum or an annuity or as combined lump sum/annuity payments. These policies are marketed as provident funds and policies that are not recognized as provident funds. The savings, risk and management fee components are segregated.	Term (risk) component, savings component and management fees on policies recognized as provident funds. Term life insurance and/or work disability insurance may be purchased at a rate of up to 35% of the contributions for retirement benefits.	None	Policies that were issued up to and including 2012 - up to 2% of the accrual or a lower percentage of the accrual and a percentage of the deposits (0%-13%). Policies that were issued during 2013 - up to 1.1% of the accrual and up to 4% of the on-going deposits. Commencing in 2014 - up to 1.05% of the accrual and up to 4% of the on-going deposits.
B. Policies which do not include a savings component				
Term life (pure risk) in the event of death - personal lines	Policies that are marketed to individuals or as group policies and guarantee coverage in the event of death for any reason (including term life policies to guarantee mortgage repayments). These policies are sometimes sold as a supplementary product to the pension component and to managers insurance and retirement benefits policies for the self-employed, including for payment from the compensation component in the policy.	A term life component only for the coverages it includes.	Not relevant	No management fees

Policy category	Product description	Key premium components	Designated bonds	Management fee
Work disability insurance (P.H.I.)	A policy sold as a stand-alone policy or as a rider to life assurance policies or as group policies. The policies guarantee a monthly payment in the event of a partial or full loss of the ability to work due to an accident or illness. These policies are sometimes sold as a supplementary product to the pension component and to managers insurance and retirement benefits policies for the self-employed, including for payment from the benefits component in the policy.	Term (risk) component only for the coverages it includes.	Not relevant.	No management fees
C. Policies consisting exclusively of savings				
Investment contracts ("Migvan / More" policies)	Pure savings policies which are offered on several investment tracks (general track, share-based track, shekel track, etc.). On-going and/or lump-sum deposits may be made. These policies are marketed as provident funds and policies that are not recognized as provident funds.	Savings component only.	None	In personal lines Migvan policies - up to 2% per annum of the accrual. In the other policies, including policies that are recognized as a provident fund, like the management fees collected on policies that include investment tracks (see Section A3 in this table, above).

Policy category	Product description	Key premium components	Designated bonds	Management fee
D. Group policies				
Group policy	Policies that are marketed to defined population groups in an agreement for a specific period and offer to insure all members of the group. The policies are not recognized as a provident fund, except P.H.I. which is sold incidentally to pension savings.	Term life component only for the coverages it includes.	Not relevant	No management fees
E. Other				
Critical illness insurance	Sold as a personal lines policy as a rider to other personal lines policies that guarantee compensation to the insured if a critical illness defined in the policy is diagnosed. The policies are not recognized as a provident fund.	Term life component only for the coverages it includes.	Not relevant	No management fees
"Hosen" policies	The insurance is sold as a stand-alone policy or as a rider, and it insures against total disability due to illness and/or accident. The policies are not recognized as a provident fund.	Term life component only for the coverages it includes.	Not relevant	No management fees
Riders	Other insurance products, which are offered as riders to life assurance policies, for example: cover for "accidental death", "accidental disability" (which are additional coverages for death or permanent disability from an accident). The policies are not recognized as a provident fund.	Term life component only for the coverages it includes.	Not relevant	No management fees

* When referring to management fees from the accrual, the information relates to annual management fees.
** The implication of the recognition of a policy as provident funds, is, in part, the tax benefits which are given to provident fund members.

1. In 1991, the maximum rate permitted for the purchase of designated bonds was 40%.
2. Pursuant to the mechanism for collecting management fees as set forth in the legislative arrangement, the insurer may not collect variable management fees in respect of yield-dependent policies which were sold between 1991 and 2003, until investment profits are attained in respect of assets held against yield-dependent liabilities, to cover the real accrued investment losses.

Material changes anticipated by the Company in the markets and the mix of products

Pursuant to the Commissioner's instructions on the subject of work disability policies, the Commissioner granted Harel Insurance permission to market a new work disability policy from November 2017. The structure of the new product could affect the scope of the Company's activity in this sector, although the Company is unable to estimate the extent of this impact. From April 2019, the Company is obligated to market work disability cover with a compensation rate to be determined at the time of enrollment in the policy entered into force. The implication is that the cumulative cost of the purchased insurance coverages from the benefit components will not exceed 35% of the sum total of the deposits in the benefits component up to that date. The rate will be determined on the basis of assumptions prescribed in the policy. This change could affect the volume of sales of work disability products and as a direct result, the volume of sales of managers' insurance.

An audit report issued by the Commissioner regarding tariffs in insurance policies for death, requires the Company to approve new tariffs for these products by February 14, 2019. Subsequently, the Company took action to approve revised tariffs for insurance policies in the event of death that are not within the framework of pension savings policies and mortgage-related life assurance, and from February 15, 2019, the Company markets these policies with new tariffs. The Commissioner's approval for marketing the policies includes a condition whereby the Company must offset a certain percentage of the non-recurring commissions paid to agents for sale of the products if the policy is cancelled within six years of its sale or when certain conditions are satisfied involving the giving of discounts to insureds if the policy is cancelled within three years after the sale of the policy. The longer the time period to cancellation of the policy, the lower the percentage commission to be offset by the Company. The Company has not yet approved tariffs for life assurance policies that are sold as part of pension savings policies, and this product cannot be sold until it is approved.

The change of tariffs and conditions with respect to the aforementioned conditions, caused, in the short term, a certain drop in the volume of sales and amount of the premium collected on the insurance product in the event of death and life assurance for mortgages. Nevertheless, it is still too early to estimate the full impact of the above changes in connection with these products. The absence of approval to sell insurance in the event of death in pension savings policies contributed to a decline in the volume of sales of policies that include pension savings.

New products

In the reporting year, the Company received approval to sell an umbrella insurance policy for the pension fund. The umbrella policy includes three coverages the purpose of which is to supplement the insurance cover for the pension fund member.

Furthermore, during the year of the report, the Company received approval to market a policy in the event of death - "family income". The policy includes compensation for the insured's beneficiaries in the event of his death, in the form of a monthly payment and up to the time stipulated by him in advance.

2.1.1.5 Pension funds

General

The pension fund sector includes new comprehensive pension funds, new general pension funds, and old pension funds.

Pension funds pay their members a monthly old-age annuity when they retire or an annuity in the event of disability and they also pay a survivors' allowance if the member or pensioner dies, in accordance with their articles of association.

Pension funds operate by means of a mechanism of mutual insurance between the members. The actuarial assumptions which form the basis for the members' rights are reviewed from time to time. If any changes have occurred, the members' rights may change and they bear joint responsibility for any actuarial surplus or deficit in the fund.

Relations between the pension fund and its members are regulated in the articles of association which essentially are the rules for determining entitlement to payment, the rate of payment, etc., and rules which regulate membership of the fund. When the company is required or wishes to make changes in the articles of association, it adjusts the articles and as a result the members' rights may also change, all subject to approval from the Commissioner. When an entitlement event occurs, the rights are defined in accordance with the provisions of the fund's articles of association as they are in force on the date of the event.

New comprehensive pension funds

The new, comprehensive pension funds which have been operating since January 1995 are allowed to invest 30% of their assets in designated government bonds. The balance of the assets of the new funds is invested in other investments in line with the Investment Regulations. The purpose of issuing designated bonds to pension funds is to provide a safety cushion guaranteeing the members' pension rights. As of July 2017, the method of allocating the earmarked bonds within the new comprehensive pension funds changed, so that the Company allocates designated bonds at a rate of 60% of the pensioners' assets to the pensioners' accounts and the balance is allocated to the members' accounts.

Moreover, the maximum deposit in these funds is limited to 20.5% of twice the average wage in the economy. Insurance cover for disability or survivors before the age of 60 cannot be waived in these funds, excluding waiver of cover for survivors for persons with no spouse, in accordance with the articles of the pension fund.

<u>The insurance tracks in the comprehensive pension funds</u>

Commencing January 1, 2016, the Group manages a new comprehensive pension fund (Harel Pension), a general pension fund, and an old pension fund.

Members of comprehensive pension funds can choose insurance tracks where the difference between the tracks is the balance between the entitlement to old-age pension, disability pension and survivors' pension.

The default option track in the fund's articles, which entered into force in February 2018 (and is based on the standard articles) is the track of 75% for disability and 100% for survivors (excluding mend who enroll from the age of 41).

Active members may move from one channel to another as specified in the provisions of the fund's articles.

General pension fund

The General Pension Fund, which does not benefit from designated bonds, is not limited with respect to the amount or class of deposits.

In the event of disability, insured members are entitled to receive a disability pension, in accordance with the fund’s articles. Additionally, at retirement age members receive an old-age pension and after the death of the member, his survivors are eligible to receive a survivor's pension, under the member’s pension arrangement.

Insurance tracks in the general pension fund

The general pension fund has a basic pension track which is a track that provides a right only to receive old-age pension, without cover for disability pension and survivors pension. Additionally, in the general pension fund, members may join insurance tracks that include cover for survivors pension and disability pension, similar to the tracks in the comprehensive fund as described above, as well as a track that includes cover for survivors only.

Main distinctions between a general pension fund and a comprehensive pension fund:

	Comprehensive pension fund	General pension fund
Designated / earmarked bonds	Provides entitlement to invest in Arad designated government bonds bearing a yield of 4.86% CPI-linked, at a rate of 30% of the fund's total assets. For more information about the allocation of designated bonds among members and pensioners, see Section 2.1.1.5 above.	Does not benefit from designated bonds
Contributions	Maximum monthly deposit limit of an amount equal to 20.5% of twice the average wage in the economy.	No limit to the maximum contribution or type of deposit.
Insurance cover	All the insureds in the fund have insurance cover for disability and death (survivors' pension) in the various insurance tracks. On all the tracks, the insurance cover for survivors may be reduced so that cover remains only for disability for a single person (namely: where there are no survivors) and for an individual with children (namely: there is no spouse).	Membership of the fund is possible as part of a track that does not include any insurance or in a track that does not include insurance in the event of death.

Investment tracks

Investment tracks in the comprehensive pension fund (Harel Pension) - until January 1, 2020, 16 investment tracks were managed in Harel Pension, as follows:
5 age-adjusted investment tracks (default option tracks), Gilad General and Manof General that were closed to new members from January 2016, a track that includes bonds but no shares, shares, *Halacha* (adheres to Jewish law) and short-term shekel, and five investment tracks for pensioners: annuity for existing eligible persons, basic for annuity recipients, *Halacha* (adheres to Jewish law) for annuity recipients, and two designated annuity tracks for those who were eligible to receive an annuity from the fund before January 1, 2018: persons already receiving an annuity and Halacha track for persons already receiving an annuity.

From January 1, 2020, the model in the pension fund's age-dependent investment tracks was changed so that instead of designated channels for members whose date of birth falls within a 10-year range, the investment policy in the investment tracks will be determined in accordance with the age of the members as follows: members below the age of 50, members in the 50-60 age range, and members who are over the age of 60. Following the change, the fund currently manages 14 investment tracks.

<u>Investment tracks in the general pension fund (Harel General Pension)</u>

Until January 1, 2020, 8 investment tracks were managed in Harel Pension as follows: 5 age-adjusted investment tracks (default option tracks), a general track that was closed to new members from January 2016, basic track for annuity recipients and a basic track for existing annuity recipients which is for those who were eligible to receive an annuity from the fund before January 1, 2018.

From January 1, 2020, the model in the pension fund's age-dependent investment tracks was changed so that instead of designated channels for members whose date of birth falls within a 10-year range, the investment policy in the investment tracks will be determined in accordance with the age of the members as follows: members below the age of 50, members in the 50-60 age range, and members who are over the age of 60. Following the change, the fund currently manages 6 investment tracks.

Old pension fund

As noted above, the Group also manages an old pension fund. From April 1995 these funds may no longer enroll new members. The activity of the company that manages the old pension fund centers on the rendering of services and dealing with existing customers.

<u>The insurance tracks in the old pension fund</u>

Members of the old pension fund may choose a basic track that provides the right to receive old-age pension only, without cover for disability and survivors pension, or a comprehensive pension track, which provides a right to receive an old-age pension, disability and survivors pension

Structure of profitability in this segment

The profitability of the management companies in the pension fund sector derive from the margin between the management fees which they collect (from the contributions and the accrual) and the operating and marketing expenses (including insurance benefits offered to members) of the pension funds.

Material changes anticipated by the Company in the markets and the mix of products

On the effect of the above-mentioned regulations concerning the choice of a default option fund, see Section 2.1.1.2.

New products

No new products were marketed during the Reporting Period.

Further to the approval received from the Commissioner on September 9, 2019, the articles of Harel Pension were amended.
Following are the key amendments in the Fund's articles:

The scope of the definition of the term “orphan” was broadened so that “a child with a disability” will also be considered a pensioner's orphan , and upon retirement, the retiring member may choose the cover for a child with a disability who is eligible to an old-age pension and the annuity conversion factors will be as defined in the articles..

On November 11, 2019, the Commissioner approved an additional amendment to the articles of Harel Pension in which the principal change is a change in the model for the pension fund's age-dependent investment tracks. The change entered into force on January 1, 2020.

2.1.1.6 Provident funds

General

Commencing January 1, 2008, money deposited in provident funds is designated for payment of an annuity. Benefit contributions that have accumulated over and above the amount required to pay the minimum annuity may be withdrawn as decided by the member, by way of a capitalized annuity or by way of payment of an annuity after it has been transferred to a provident fund which pays an annuity. Money deposited before December 31, 2007 may be withdrawn as a lump-sum capital amount. Additionally, Harel Group's provident fund management companies also manage education funds and investment provident funds which are an intermediate savings instrument and benefit from tax breaks.

Provident funds do not have an actuarial risk component and members are entitled to the yield which is actually attained, net of management fees.

One may enroll as a member of one of the provident funds managed by the Group: funds for the self-employed, funds for salaried employees, investment provident funds and education funds, all of which have different investment tracks.

According to the Provident Funds Law, a member may move from one fund to another, and in a multi-track fund - between one track and another.

A variety of provident funds are managed by the Group, in which employers and/or the employees or individual self-employed persons may deposit contributions designated for the payment of severance pay, retirement benefits, sick pay, education, and annuity.

The Group manages a range of provident funds in which the employer and/or employee or individual self-employed workers may deposit monies for severance pay, retirement benefits, sick pay, education and annuity:

	Product description	Conditions for withdrawing the money	Management fees
Retirement benefit funds / savings provident funds	Money deposited for long-term savings for self-employed and salaried members.	Money deposited up to December 31, 2007 may be withdrawn as a lump-sum (capital) amount at the age of 60 or on other dates in line with the statutory provisions. Money deposited on or after January 1, 2008 may be withdrawn as an annuity (monthly benefit). Money that has accumulated over and above the amount required to pay the minimum annuity, may be withdrawn as decided by the member by way of a capitalized annuity or by way of payment of an annuity after it has been transferred to a provident fund which pays an annuity. Entitlement to redeem severance-pay money upon termination of employer-employee relations is subject to the statutory provisions.	Up to 4% of the deposits and up to 1.05% per annum of the accrual.
Education funds	Provident funds which are designed for savings for education/studies to maintain the employee's professional standard.	The amounts saved may be withdrawn for any purpose after six years of saving.	Up to 2% per annum of the accrual.
Investment Provident Funds[1]	Provident funds designated for capital savings by self-employed individuals. The amount of the deposit is limited to NIS 70,000 a year, CPI linked.	The savings may be withdrawn as a lump sum at any time upon payment of 25% tax on the real capital gains. An exemption from capital gains tax applies to money withdrawn by way of an annuity after the age of 60.	Up to 4% of the deposits and up to 1.05% per annum of the accrual.

[1] Investment provident funds also serve as the product for money deposited by the National Insurance Institute in the “Savings Plan for Each Child” scheme, and in this context specific rules prescribed in the provisions are applicable.

Central funds for severance pay	Provident funds in which the employer accumulates amounts to guarantee the rights of his employees to receive termination benefits. From the end of 2010, money may no longer be deposited in these funds.	Entitlement to redeem severance-pay money upon termination of employer-employee relations is subject to the statutory provisions.	Up to 2% per annum of the accrual.
Sick pay funds	Provident funds in which the employer accumulates amounts to guarantee the rights of his employees to receive sick pay.	In the event of illness, subject to the statutory provisions.	Up to 2% per annum of the accrual.
Central fund for non-contributory pension	A fund designated for the accrual of amounts deducted from the employee’s wage by an employer where the applicable pension arrangement is that of a non-contributory pension.	When an employee retires who is eligible for non-contributory pension from the employee, subject to the statutory provisions.	Up to 2% per annum of the accrual.

Structure of profitability in this segment

Profitability of the management companies in the provident fund sector derives from the margin between the management fees collected from members and the operating and marketing expenses of the provident funds.

Material changes anticipated by the Company in the markets and the mix of products

See details regarding the significant changes that are expected, in Section 2.1.1.2 above.

New products

No new products were marketed in the Reporting Period.

January 1, 2019, management of the Provident Fund for Discount Bank Employees was transferred to Harel Pension and Provident Ltd. under an agreement that was signed on September 17, 2018, between the company that manages the Provident Fund for Discount Bank Employees and Harel Pension and Provident Ltd. The fund is a sector-based provident fund for salaried employees and self-employed workers of the bank. According to the transfer agreement, the existing members of the transferring fund continue to enjoy the benefits they were entitled to before the transfer of management.

Under the provisions of the management transfer agreement, Harel Pension and Provident Ltd. operated to merge the Provident Fund for Discount Bank Employees into the provident fund of Harel Pension and Provident Ltd. ("the Merger"). The Merger of the funds and the tracks that it manages took place on January 1, 2020.

As part of the Merger process, on November 13, 2019, the Commissioner approved an amendment to the articles of Harel Provident Fund. The amendment stipulates that Harel Provident Fund will be entitled to insure its members who had been members of the Provident Fund for Discount Bank Employees, who were part of a group life assurance policy on December 31, 2019, with group life assurance.

Additional changes in the articles of provident funds

On July 10, 2019, the Commissioner approved an update to the articles of Harel Provident Fund. The articles were revised in accordance with the provisions of Circular 2017-9-8 concerning the withdrawal of money from the account of a deceased member in which there is a small balance, so that money may be withdrawn from the account of a deceased member without the need to produce an inheritance order or probate of a will, if the balance in the account does not exceed NIS 8,000.

On July 10, 2019, the Commissioner approved an amendment to the articles of Harel Investment Provident Fund. In this amendment, commencing October 1, 2019, the "short-term shekel track" investment track was replaced with the "Harel Investment Provident Fund *LeHalacha*" track (a track that operates in accordance with Jewish Law). Under the investment policy for this track, the track's assets will be exposed to various categories of assets subject to the statutory provisions and to the rules of Jewish law (*Halacha*) only, where the investments in the track will be as decided by the investment committee.

Information about provident funds and pension funds managed by the Group (correct to December 31, 2019) (NIS million):

	Old pension funds	New pension funds		Provident fund for retirement benefits and severance pay	Education fund	Other	Total
		Comprehensive	Supplementary				
Managed assets	1,245	73,274	1,349	25,390	19,047	510	120,815
Benefit contributions	20	8,660	258	1,299	2,172	2	12,411
Net accrual	(2)	6,638	209	(271)	713	(236)	7,051
Management fees from assets	0.66%	0.2%	0.37%	0.61%	0.59%	0.57%	-
Management fees from deposits	-	2.01%	1.15%	0.25%	-	-	-

Information about provident funds and pension funds managed by the Group (correct to December 31, 2018) (NIS million):

	Old pension funds	New pension funds		Provident fund for retirement benefits and severance pay	Education fund	Other	Total
		Comprehensive	Supplementary				
Managed assets	1,043	59,578	1,012	21,864	16,610	692	100,799
Benefit contributions	21	8,070	216	1,534	2,044	2	11,887
Net accrual	3	6,738	183	1,451	1,791	48	10,214
Management fees from assets	0.66%	0.22%	0.45%	0.64%	0.61%	0.55%	-
Management fees from deposits	-	2.20%	1.22%	0.22%	-	-	-

Information about provident funds and pension funds managed by the Group (correct to December 31, 2017) (NIS million):

	Old pension funds	New pension funds		Provident fund for retirement benefits and severance pay	Education fund	Other	Total
		Comprehensive	Supplementary				
Managed assets	1,047	53,056	859	20,797	15,154	660	91,573
Benefit contributions	21	7,031	169	1,428	1,821	5	10,475
Net accrual	4	6,612	153	1,240	1,599	(32)	9,576
Management fees from assets	0.65%	0.23%	0.51%	0.66%	0.62%	0.55%	-
Management fees from deposits	-	2.42%	1.16%	0.28%	-	-	-

2.1.2 Substitute products

The products in this area of activity are interchangeable, as they meet similar needs for the same target population. Thus for example, life assurance policies, pension fund and provident fund products are interchangeable as they provide long-term savings solutions for retirement and entitle the plan holder to standard tax benefits.

Products in this area of activity are interchangeable with other financial products, such as long-term deposits, although this is to a lesser extent, as such products generally do not include two significant elements that are present in the products in this area of activity: tax benefits and a combination of insurance against risks together with savings. Notwithstanding the foregoing, savings and investment products such as bank savings schemes and, investment in mutual funds could be a substitute for investment contracts and investment provident funds and for depositing monies available in a recognized annuity under Regulation 190 of the Income Tax Ordinance.

2.1.3 Competition

General:

Competition in the life assurance and long-term savings sector between the different products in this segment and between the different producers (insurance companies and investment houses) is extremely strong.

Given that investment contract policies and investment provident funds can be substituted with a variety of financial products (savings products, bank deposits, mutual funds, etc.), there is also competition with the producers and marketers of the different financial products.

In recent years, the level of competition in the market has been affected by regulatory policy aimed at increasing competition, reducing the management fees, improving transparency, options for portability, giving preference to annuity-type products and by the various reforms which have been introduced in this segment in recent years. On this, see also Section 2.1.1.2.

Competition among the different products is reflected, in part, in the rates of management fees in the various products, the range of investment tracks, the yield attained with respect to the level of risk and the quality of service provided to customers and agents.

The principal methods of addressing the competition in this area of activity are: the creation of synergy between the Group's different activities, maintaining a high level of customer service, customer retention, improving the marketing and distribution departments, streamlining of operations and technologies, exploiting economies of scale, etc.

Life assurance:

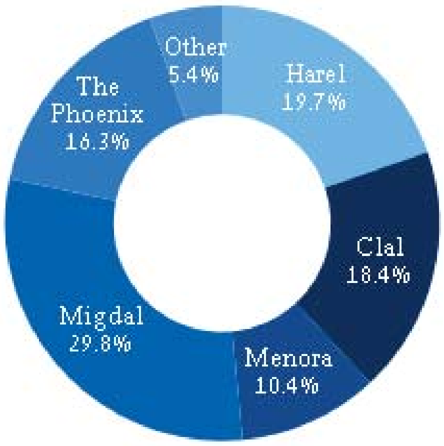
According to figures published by the Ministry of Finance, total assets in profit-sharing policies in the life assurance market increased by 18% to NIS 371 billion at December 31, 2019, compared with NIS 315 billion at December 31, 2018.

Most of the premiums in the life assurance market in Israel are paid to the five largest insurance groups (Migdal, Harel, Clal, The Phoenix, and Menora) and consequently in this segment, Harel Group competes with the other insurance companies.

Regarding life assurance products which include long-term savings, the competition is also against the provident funds and pension funds, which offer substitute products or partial substitutes for these products. In the investment contract policies, the Group competes with the other insurance companies and investment houses that offer similar products.

The Group is the second largest in total premiums collected from life assurance in 2019 (based on published figures relating to the end of Q3 2019), where according to the financial reports of Israel's insurance companies at September 30, 2019, Harel's share of the total premiums in this sector was 19.7%. The stronger competition in the life assurance sector can be attributed to greater customer awareness, more involvement by insurance advisors, as well the options for alternative products, mainly in the pension sector.

The following diagram shows segmentation of the life assurance market between the insurance companies (based on figures published at the end of Q3 2019):

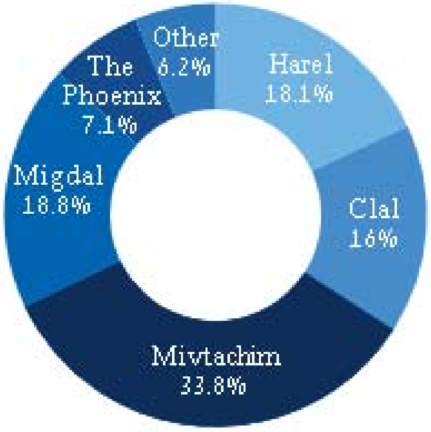


Management of pension funds:

According to Ministry of Finance publications, the volume of assets accrued in the new pension funds increased by 23% to NIS 404 billion at December 31, 2019, compared with NIS 329 billion at December 31, 2019. Net accrual in the new pension funds in the reporting period was NIS 75 billion.

The Group’s pension fund management companies compete with the Menora insurance group which manages the new Mivtachim pension fund, with Migdal Group which manages the new Makefet pension fund, Clal Group which manages, among others, Clal Pension, The Phoenix Group as well as the pension funds belonging to the investment houses: Psagot, Altshuler Shaham, Meitav Dash and Halman Aldubi.

Distribution of assets of the new pension funds (based on figures published on the Ministry of Finance website correct at December 31, 2019):



Management of provident funds:

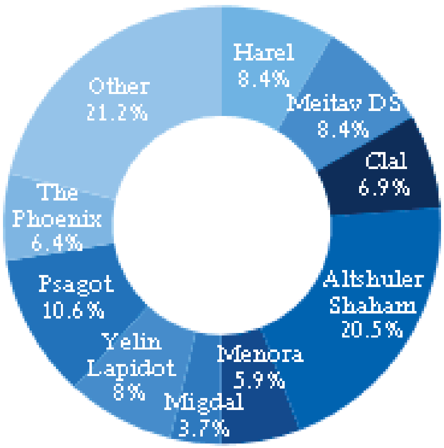
The provident funds managed by the Group compete with the provident funds managed by the other insurance groups and the provident funds managed by investment houses.

According to Ministry of Finance publications, at December 31, 2019, the provident funds managed assets totaling NIS 534 billion (of which NIS 250 billion was in the education funds), compared with NIS 461 billion at December 31, 2018 (of which NIS 214 billion was in the education funds).

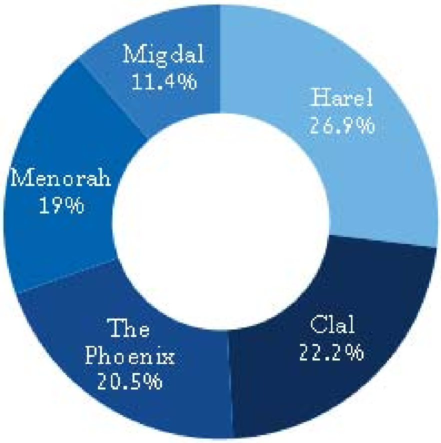
The net accrual in the provident funds market in the Reporting Period was positive, amounting to NIS 20,864 million. Of this amount, the net accrual in the provident funds owned by insurance companies was positive and amounted to NIS 4,204 million.

The main competitors in the provident fund market are: Altshuler Shaham, Psagot, Meitav Dash, Yelin Lapidot, Clal Gemel, Excellence (The Phoenix), Menora, and Migdal.

The following diagram shows the distribution of provident fund assets (including education funds) which are managed by the principal management companies operating in this sector (correct at December 31, 2019, based on figures published on the Ministry of Finance website):



The following diagram shows the distribution of provident fund assets (including education funds) which are managed by the insurance groups (correct at December 31, 2019, based on figures published on the Ministry of Finance website):



Competition in the long-term savings segment is dealt with in several ways:

2.1.3.1 Marketing and distribution activity, recruiting new agents and offering sales incentives.

2.1.3.2 Customer retention activity in the existing portfolio and updating customers with the variety of products which are marketed by the Group in the long-term savings sector.

2.1.3.3 Synergy between the Group's companies - offering customers integrated solutions in all long-term savings channels and including related insurance products.

2.1.3.4 Efficiency (streamlining) of operations.

2.1.3.5 The integration of advanced digital methods for providing customized and optimum service for clients and agents.

2.1.3.6 Maintaining a high level of customer service.

2.1.3.7 Improving existing products, including the development of market-driven investment tracks (low-risk investment tracks, share-based tracks, etc.).

The factors which affect the Company's competitive status are mainly: the size and reputation of the Group, its experience in the area of activity, the yield attained in customers' portfolios, financial robustness and the standard of service provided to customers and agents.

2.1.4 Customers

Distribution of revenues from premiums in the life assurance sectors during the reported period:

	Premiums Gross					
	Premiums (NIS million)			Breakdown (percent)		
	2019	2018	2017	2019	2018	2017
Employers	2,877	2,743	2,662	46%	49%	52%
Private and self-employed insureds (personal lines)	3,220	2,691	2,230	51%	48%	44%
Groups	158	180	186	3%	3%	4%
Total	**6,255**	**5,614**	**5,078**	**100%**	**100%**	**100%**

The rate of redemptions from the average life assurance reserves is 3.0% in 2019, compared with 2.8% in 2018, and 2.6% in 2017.

Distribution of contributions received by the pension funds and provident funds (in NIS million):

	Pension funds			Provident funds		
	2019	2018	2017	2019	2018	2017
Sums received through employers	8,695	8,072	7,042	2,494	2,179	2,108
Other sums received	243	235	179	979	1,401	1,146
Total	**8,938**	**8,307**	**7,221**	**3,473**	**3,580**	**3,254**

Section 2.1, including its subsections, concerning the structure of this area of activity and applicable changes, also includes forecasts, evaluations, estimates and other information relating to future events and affairs, the materialization of which is uncertain and is not within the Company's exclusive control (forward-looking information). The principal facts and data which formed the basis for this information are those pertaining to the Company's present position and its business in this area of activity (such as the volume of sales, profit rates, manpower, business agreements, etc.), facts and data pertaining to the current situation in Israel and worldwide for this segment (such as sector-based economic developments, regulatory environment, competitors, technology developments, reinsurance market, etc.), and macro-economic facts and data (such as the economic situation in Israel and worldwide, yield rates in the capital markets, political and social developments, etc.), as they are known to the Company at the time of this report. The forward-looking information contained above in this section is based significantly, in addition to the information available to the Company, on current expectations and estimates of the Company regarding future developments in each of the aforementioned parameters, and the extent to which these developments are interconnected. The Company has no certainty that its expectations and estimates will in fact materialize, and the Company's performance may differ significantly from the estimated or inferred performance noted above, in part due to changes in any of the above-mentioned factors.

2.2 Health insurance

2.2.1 Products and services

2.2.1.1 General

The main line of business in the health insurance segment is illness and hospitalization, and personal accident. The insurance cover is indemnity or compensation for the insured for medical expenses in respect of health impairments resulting from illness or accident, including a long-term care condition and dental treatment. The policies in this sector also include policies for travel insurance, insurance for foreign workers and insurance for tourists.

In Israel, there are several layers that provide cover for health services. The first layer is the basic health services basket ("the Health Basket"), which was prescribed in the National Health Insurance Law, 1994 ("the Health Law"). All Israeli residents are entitled to this layer through one of the HMOs. The second layer is the supplementary healthcare services which are not included in the Health Basket ("SHS" - supplementary healthcare services). The third layer is the healthcare services purchased from the insurance companies. The third layer of cover may overlap and/or supplement the healthcare services according to the Health Law (Health Services Basket or SHS) and/or may be new coverages which are not part of the Health Services Basket or SHS.

The health insurance sector has been influenced by changes in the scope of the cover provided by the HMOs (health funds), including their supplementary health services, changes in government policy regarding health insurance, in technological developments, and comprehensive regulatory changes.

Following are details on a variety of policy types in this category that were sold during the Reporting Period, as personal lines and group policies.

<u>Long-term care insurance [LTC]:</u>

This insurance mainly guarantees a monthly payment when the insured requires long-term care, based on the definition prescribed in the policy and after the waiting period specified in the policy.

Regarding personal lines LTC policies, in accordance with a decision of Harel Insurance, 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 operated in this sector have announced the discontinuation of their activity in this sector, it was decided to discontinue the sale of new personal lines LTC policies from October 30, 2019. Harel Insurance will work to obtain approval from the Commissioner to market new policies that are compatible with current market conditions.

Regarding group LTC policies, in accordance with an agreement that was signed between the Company and Clalit Health Services (“Clalit”), from January 1, 2019, Harel Insurance provides members of Clalit with group long-term care insurance (“Supplementary Plus LTC plan”). The agreement between the parties is in force through December 31, 2023.

Harel Insurance provides several other groups with long-term care insurance.

Other categories of health insurance:

- Medical expenses

  Policies that provide the insured, among other things, with cover for surgery (in Israel and abroad), transplants, special treatment abroad, prescription drugs which are not covered by the health services basket and ambulatory services.

- Dental insurance

  Policies that provide cover for all or some of the following dental treatments: conservative treatment, periodontal treatment, orthodontic treatment, oral rehabilitation treatment (including implants), etc.

- Travel insurance

  Policies that provide the insured with insurance cover for traveling abroad. Among other things, the policy covers the insured's medical expenses and a medical flight to Israel. Cover is also provided for search and rescue and third-party liability, which the insured may relinquish. Related cover (riders) may also be included in the policy, such as: baggage, cover for injury in extreme sports activity, cover for special expenses such as cancellation or curtailment of a trip for medical reasons, etc. Additionally, in July 2018, the Company began to market a policy to indemnify travel or flight expenses in the event of cancellation by the customer (for any reason).

- Foreign workers and tourists

  Policies that are purchased by the employers of foreign workers in Israel (based on the statutory obligation imposed on the employers) or by tourists, and provide the insured with health insurance which includes hospitalization costs, ambulatory treatment and prescription drugs.

- Critical illness insurance

  Policies which provide the insured with compensation in the event that he is diagnosed with one of the illnesses on a pre-defined list.

- Personal accident

  Policies that provide the insured with, among other things, compensation in the event of death, disability and work disability resulting from an accident.

Service notes

A document attached to an insurance policy that details the conditions under which a service provider will render a service to insureds.

Substitute products

Some of the proposed coverages in the health insurance sector can be partially substituted by cover provided by the health funds (HMOs), both as part of the basic health-services basket and through the SHS plans. Changes in the basic health basket or SHS may affect the size of the relevant market, as well as the cover offered in the area of activity and the costs of settling claims.

2.2.2 Changes and trends in this segment

Long-term care insurance [LTC]

In the past few years, the Commissioner has taken various steps to eliminate group long-term care policies in view of his position whereby there is a structural problem with such policies. Group long-term care policies are generally for a defined period after which the insurance might not be renewed and insureds could find themselves facing the option of buying a personal lines policy for a significantly higher price than was paid in the group insurance. In view of the foregoing, during the course of 2017 and in accordance with the circular published by the Commissioner, from December 31, 2017, it is no longer possible to extend group long-term care insurance in the format that existed until that date, but only in a completely different format that was set out in the circular. Accordingly, most of the group policies to which the Company was committed until the end of 2017, have been terminated. Accordingly, at the date of this report, the Company provides group LTC insurance for members of Clalit, as noted in Section 2.2.1.1, as well as for several other small groups only.

Development of digital processes

In recent years, this operating segment has rapidly adapted itself to digital and online processes performed by insureds and agents, through the development of sales, operating and advanced digital service channels.

Material changes anticipated by the Company in the markets and the mix of products

No significant changes are expected in the Company's share of the principal markets in relation to products and services in this operating segment.

New products

During the year, new products were launched in the health segment, including: a plan for surgery insurance on a track that includes a deductible, a plan to cover advanced medical technologies and a plan for pediatric development therapies.

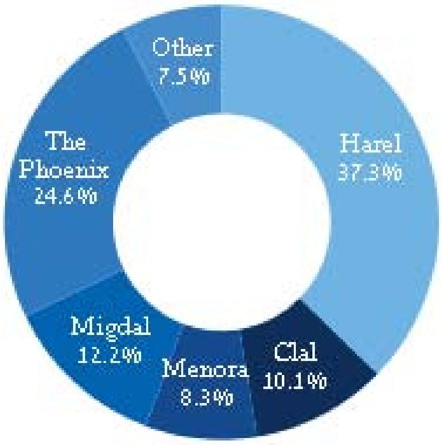
Furthermore, during the year existing products were updated, including an expansion of the cover in a product to insure for critical illnesses.

2.2.3 Competition

The Group is the largest, most dominant insurance group in Israel's health insurance segment, and according to the financial statements published by the insurance companies at September 30, 2019, it accounts for 37.3% of the health insurance market in Israel. The Group's principal competitors in the health insurance sector are The Phoenix, Clal, Migdal and Menora, as well as the supplementary health services plans and dental treatment offered by the HMOs.

The Group has been engaged in the health insurance sector for 80 years, and it has a great deal of know-how and experience. To perform quality underwriting, costing and to develop products and coverages which have a relative advantage, the Group utilizes databases, in which it has many years of accumulated claims experience data, wisely. Additionally, the Group has a broad set of agreements with medical service providers and medical institutions all over the world and that provide superior services to those of its competitors, particularly for the complex medical conditions that require treatment abroad or bringing medical services from abroad to Israel. As a result, the Group has managed to preserve its dominant position in this segment and a reasonable profit level, despite ever-increasing competition.

The following diagram shows segmentation income of the health insurance market between the insurance companies (based on figures published at the end of Q3 2019):



Competition in the health insurance segment is dealt with at several levels:

2.2.3.1 The development of new products and services and/or improvements to existing products, by identifying significant customer requirements that are not provided (or partially provided) on the public level, and meeting these requirements.

2.2.3.2 Strengthening the Company's long-standing reputation in this segment.

2.2.3.3 A broad set of agreements with medical service provides and medical institutions worldwide.

2.2.3.4 Constant improvement to and preservation of professional customer service during the policy period, and when a claim is filed.

2.2.3.5 Customer retention activity in the existing portfolio.

2.2.3.6 Efficiency (streamlining) of operations.

2.2.3.7 Marketing and distribution activity, running sales promotions campaigns, recruiting new agents and offering sales incentives .

The key factors which affect the Company's competitive status in the health segment are mainly: the Company's strong reputation and the size of the Group, its extensive, cumulative experience in the health insurance segment, and the high standard of service provided to customers and agents.

2.2.4 Customers

Distribution of gross premiums in the long-term care insurance sector:

	Gross premiums (NIS million)			Breakdown (%)		
	2019	2018	2017	2019	2018	2017
Private policyholders	755	726	590	35%	36%	32%
Groups	1,377	1,266	1,278	65%	64%	68%
Total	**2,132**	**1,992**	**1,868**	**100%**	**100%**	**100%**

Distribution of gross premiums in the other health insurance sectors:

	Gross premiums (NIS M)			Breakdown (%)		
	2019	2018	2017	2019	2018	2017
Private policyholders	1,829	1,798	1,678	65%	66%	66%
Groups	970	909	883	35%	34%	34%
Total	**2,799**	**2,707**	**2,561**	**100%**	**100%**	**100%**

The cancellation rate in terms of premiums, from policies that are in force at the beginning of the year in long-term care insurance (personal lines policies) is 6.5% in 2019, 6.1% in 2018, and 7.4% in 2017.

The cancellation rate in terms of premiums, from long-term personal lines policies that are in force at the beginning of the year in other health insurance sectors is 15.4% in 2019, 15% in 2018, and 14.4% in 2017.

The Group has no customer in the health insurance segment which accounts for 10% of more of its total revenues which are included in the consolidated financial statements.

Section 2.2, including its subsections, concerning the structure of this area of activity and applicable changes, also includes forecasts, evaluations, estimates and other information relating to future events and affairs, the materialization of which is uncertain and is not within the Company's exclusive control (forward-looking information). The principal facts and data which formed the basis for this information are those pertaining to the Company's present position and its business in this area of activity (such as the volume of sales, profit rates, manpower, business agreements, etc.), facts and data pertaining to the current situation in Israel and worldwide for this segment (such as sector-based economic developments, regulatory environment, competitors, technology developments, reinsurance market, etc.), and macro-economic facts and data (such as the economic situation in Israel and worldwide, yield rates in the capital markets, political and social developments, etc.), as they are known to the Company at the time of this report. The forward-looking information contained above in this section is based significantly, in addition to the information available to the Company, on current expectations and estimates of the Company regarding future developments in each of the aforementioned parameters, and the extent to which these developments are interconnected. The Company has no certainty that its expectations and estimates will in fact materialize, and the Company's performance may differ significantly from the estimated or inferred performance noted above, in part due to changes in any of the above-mentioned factors.

2.3 Non-life insurance segment

2.3.1 Products and services

General

This segment consists of motor property insurance, compulsory motor insurance, other liabilities sectors, property and other sectors, and credit insurance for mortgages.

2.3.1.1 Motor property (CASCO)

The products in this sub-segment are policies that guarantee cover for loss incurred by the insured vehicle mostly as a result of an accident or theft, as well as cover for the owner's liability for losses caused to third-party property by the insured vehicle. Additionally, riders may be added to the policy such as: legal defense, increased compensation for cars which are less than 24 months old, cover for damage to windshields - with no deductible, substitute vehicle in the event of an accident or theft, towing and roadside services, cancellation of the deductible based on a compensation threshold and cover for other non-standard fixtures.

The motor-property insurance sub-segment can be divided into two secondary segments: insurance for damage to third-party property (insurance which covers the liability of the car owner/driver if the insured vehicle causes damage to third-party property) and insurance known as "comprehensive insurance" which also covers the losses sustained by the insured vehicle (for example, due to an accident or theft), as well as property damage caused to a third party.

The motor property branch can be divided into two main groups by category of vehicle:

(a) The insurance of private and commercial vehicles up to 3.5 tons – In accordance with the policy that prescribed in the Supervision of Insurance Business (Conditions of an insurance contract for a private vehicle) Regulations, 1986 and the insurer may deviate from them only if the change is beneficial to the insured, or if it refers to a fleet of cars. The conditions of the Standard Policy allow the insured to purchase a modular package of coverages, as specified in above.

(b) Insurance for vehicles with the exception of private and commercial vehicles up to 3.5 tons (forklift trucks, trucks, taxies, buses, tractors, etc.). Policies for such vehicles are not subject to the terms of the Standard Policy, but the conditions and scope of the cover in policies for such vehicles are determined by the insurance companies in line with market forces and subject to the Commissioner approving the policy conditions.

The premiums for insuring motor property are determined, inter alia, taking into account underwriting, based on the vehicle's specifications (model and year of manufacture) and the specifications of those authorized to drive it (age, driver's license seniority, and claims experience) and depending on the range of coverages purchased. The formula for calculating the premiums which forms the basis for determining the premium is based on an actuarial model and approved by the Commissioner.

Material changes anticipated by the Company in the markets and the mix of products

No significant changes are expected in the Company's share of the principal markets in relation to products and services in this operating segment.

New products

No new products were marketed in the Reporting Period.

However, in the Reporting Period, as part of the comprehensive and compulsory insurance approved for marketing, the Company began to market the Harel Switch policy. Harel Switch is a unique policy for comprehensive and compulsory motor insurance for private or commercial vehicles weighing up to 3.5 tons which requires the use of an app in which the monthly payment for the comprehensive insurance is set according to a basic premium plus pricing based on the number of kilometers travelled by the vehicle every month (monthly kilometrage).

The policy is suitable for drivers with low car usage. The distance is measured using a smart chip produced by Ituran, which is connected to the Harel Switch app.

2.3.1.2 Compulsory motor

Compulsory motor insurance is insurance which the vehicle owner or its driver must purchase according to the Motor Vehicle Insurance Ordinance, as noted in Section 1.2.3.2 above). The failure to comply with this obligation is a criminal offense. The conditions of the insurance cover correspond with the wording of the Standard Policy prescribed in the Supervision of Financial Services (Insurance) (Conditions of a Compulsory Motor Vehicle Insurance Contract) Regulations, 2010. There is therefore no variety of products available in this sector.

The insurance cover in compulsory motor insurance is based on the CRAV Law which prescribes absolute liability, namely, according to the CRAV Law, persons injured in a road accident are entitled to compensation from the insurer of the vehicle, based on the scope of the compensation stipulated in the CRAV Law, without the need to prove the culpability of any of those involved in the road accident. This absolute liability is subject to certain exclusions prescribed in the CRAV Law which negate the right to compensation by law. The amount of compensation is limited to certain heads of damages .

The Standard Policy stipulates that the insurer's liability is in accordance with the provisions of Section 3 of the Motor Vehicle Ordinance, 1970, and covers any liability that may be incurred by the insured under the CRAV Law, any other liability that the insured may incur on account of physical injury sustained by a person who used a motor vehicle or resulting from the use thereof, and physical injury sustained by the insured in a road accident.

According to the provisions of the Compensation of Road Accident Victims (Arrangements for Allocation of the Burden of Compensation among the Insurers) Order, 2001, in the event of an accident involving a vehicle defined as a "light" vehicle (weighing less than 4 tons) and a vehicle defined as a "heavy" vehicle (weighing more than 4 tons, excluding buses), the insurer of the light vehicle is entitled to a refund of half the amount of the cost of the claim from the insurer of the heavy vehicle or the other vehicle. Pursuant to Amendment no. 20 to the CRAV Law, in the event of a road accident involving one or more motorbikes and one or more vehicles that are not a motorbike, the insurers of the other vehicle shall pay the insurers of the motorbike 75% of the compensation for physical injury which the motorbike's insurers are liable for as a result of the accident .

Claims in the compulsory motor insurance sub-sector are typically long tail, namely, there is often a considerable time lag from the date on which event took place until the claim is finally settled. It follows that in addition to the underwriting result for this area of activity, revenues from investments or investment losses have a significant impact on overall profit in this operating segment.

Further to the publication of the recommendations of the ministerial committee headed by Dr. Eliahu Winograd on the subject of the life expectancy tables and the rate of interest applied in capitalizing annuities in respect of work-related injuries under the National Insurance Institute (Capitalization) Regulations, 1978, which entered into force on October 1, 2017, discussions were held in connection with the discounting interest rate for compensation for bodily injury in torts as a result of which calculations will be made relating, *inter alia*, to the reserves. In August 2019, the Supreme Court issued a judgment 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 in the report produced by the ministerial committee headed by Mr. Erez Kaminetz, Deputy Attorney General (Civil Law) to review the issue of discounting in torts compensation, including all its ramifications (“Kaminetz Committee”). On August 18, 2019, the claimant filed a motion to extend the date for filing a petition for a further hearing on this matter. For additional information, see Note 3C(2)(I) to the Financial Statements.

Owners of vehicles (usually motorbikes) may purchase insurance via the Pool (Israel pool for car insurance). In this regard, the Pool operates as an insurance company to all intents and purposes and its tariffs, which are set by the Commissioner. All the insurance companies which operate in the compulsory motor sector are partners in the Pool, and each company bears a pro rata share of the Pool's losses in the compulsory motor insurance market for the previous year.

According to the Pool’s articles of association, the insurance companies’ share of the Pool is determined based on the premiums they collect every year. The temporary share of Harel Insurance in the Pool for 2019 and 2020 is 12.95% and 12.15% respectively. A final for these years will be made after publication of the annual financial statements for these years.

Commencing in 2010, the responsibility for treating road accident victims was transferred to the HMOs. To pay for the medical services that road accident victims receive from the HMOs, every month insurers transfer to the Fund for the Compensation of Road Accident Victims ("the Fund") 9.4% of the premiums that the insurer collected in the previous month on all the compulsory insurance policies that it issued. The Fund will transfer these amounts to the National Insurance Institute which in turn will transfer them to the HMOs.

As part of the 2016 reform of compulsory motor insurance reform, which according to the Commissioner's circular aims to increase competition, it was determined that from March 2016, the residual insurance tariffs (the Pool) have change and the tariffs for insuring private and commercial vehicles weighing up to 3.5 tons were revised in line with a variety of variables and coefficients, in contrast with the previous situation in which there was a standard, non-differential tariff according to class of vehicle. In view of the fact that in some of the variables, the Pool's tariff is lower than that of the insurance companies on the same date, the implications of this provision are that another competitor will be entering this area of activity.

The reform further stipulates that the risk tariff for each policyholder will be based on all the variables prescribed by the Commissioner, in contrast with the former situation in which the insurance companies can choose which variables they wish to use. For example, among the other variables, the tariff will be based on the driver's sex, age in a broad cross section of categories, years of licensed driving experience, various protective systems, etc.

The reform also stipulates that the insurance companies may include conditions whereby the premiums can be revised (lowered) retroactively, by way of a premium refund, which will be a bonus for the insured public.

Given that the reform also prescribes pure risk tariffs that are lower than the current tariffs in force at the date of publication of the reform, as a result of the reform, the profitability of insuring motorized vehicles was eroded.

Furthermore, the reform stipulates that commencing in 2017, it will no longer be possible to offer a different price to groups, and that differential prices may only be offered in accordance with the calculated risk as noted above.

On January 2018, a memorandum of the Economic Efficiency (Legislative Amendments to Achieve Budget Targets for 2019) Law, 2018, was published. According to the memorandum, the mechanism for the settlement of accounts between the National Insurance Institute (NII) and the insurance companies regarding road accidents will be changed, the NII's existing right to subrogation for road accidents will be abolished and a comprehensive arrangement will be established under which the insurance companies will transfer a fixed amount to the NII every year. The Minister of Finance will prescribe regulations concerning the amount to be transferred to the NII. With respect to road accidents that occurred between January 1, 2014 and December 31, 2018, and for which the NII has not submitted a claim or demand by January 1, 2019, the Minister of Finance will prescribe in the regulations an overall lump sum to be paid to the NII by the insurance companies for such claims or demands, the payment schedule and the amount from this sum to be paid by each insurance company. At this stage, the amount that the Company should transfer to the NII is not known or what the implementation mechanism will be, but the section "Contingent claims in the compulsory motor sector" includes provision based on past experience.

Material changes anticipated by the Company in the markets and the mix of products

No significant changes are expected in the Company's share of the principal markets in relation to products and services in this operating segment.

New Products

In view of the fact that this is a standard policy dictated by the regulator, from which there can be no deviation, there are no new products in this operating segment.

2.3.1.3 Other liabilities sectors

In liabilities insurance (also known as professional indemnity insurance or E&O), Harel Insurance covers the insured's statutory liability due to the insured's negligence for financial loss that may be incurred by third parties. The policies in this sector cover the insured's liability for the losses of third parties, such as: employers' liability, D&O liability, professional liability for certain professions, product liability, liability due to a cyber event, etc.

Insurance in the other liabilities sectors (like compulsory motor insurance, which is also a form of liabilities insurance) is typically long-tail, namely - notice of an insured event may be submitted many years after the event and settlement of the claim may take several years after receiving notice of the insured event. On this, Section 70 of the Contracts (Insurance) Law, 1981, prescribes that in liabilities insurance a claim for insurance benefits is not limited by time until the third party claim against the insured is prescribed.

In view of the fact that claims in the liabilities sub-sector are typically "long tail", in addition to the underwriting profit for this area of activity, revenues from investments or investment losses have a significant impact on overall profit in this area of activity.

The insurance coverages included in this area of activity:

Professional liability insurance

Professional liability policies provide insurance cover for professionals such as tax advisors, portfolio managers, attorneys, engineers, architects, and accountants against claims filed against them for losses sustained by a third party as a result of error or professional malpractice.

Medical malpractice policies provide insurance cover for medical professionals for a breach of professional obligation originating in a bona fide act of negligence, error or omission by the insured while practicing medicine, and which caused third-party loss.

Insurance for clinical trials

Insurance for clinical trials provides cover for clinical trials approved by the Helsinki Committee (National Helsinki Committee for Genetic Research in Humans) in accordance with Ministry of Health procedures. The policy provides cover in the event of a torts claim by participants in the trial or by a third party.

Directors and Officers liability insurance (D&O)

Policies that provide cover for directors and officers for their liability in respect of an unlawful act or omission performed ex officio by the officeholders. The policy usually covers the officeholder's liability under the Companies Law and other statutory provisions which establish duty of care and various fidelity obligations for the officeholder.

Liability insurance for defective products (product liability)

Policies that provide the policyholder with cover for their liability for damage sustained by the person or property of a third party as a result of products which were manufactured, marketed, assembled, repaired or serviced by the insured once the product is no longer in its possession. The liability covered in a product liability policy is generally liability by virtue of the Responsibility for Defective Products Law, 1980, and by virtue of the Torts Ordinance (New Version), 1968 ("the Torts Ordinance").

Cyber insurance

Policies that cover loss caused to the insured in respect of a cyber event (as defined in the policy), such as: physical damage (damaged hardware), costs of restoring data, loss of income due to the shut-down of operations, etc. The policy also covers the insured's liability resulting from claims filed against him by any third party. This cover may be purchased as an extension (rider) to an existing policy (e.g. business premises policy, office policy, fire insurance policy, etc.).

Third-party liability insurance

Policies that provide the policyholder with cover against claims filed against him for an unexpected event in which loss is sustained by a third party, e.g.: bodily injury, death, illness, physical, emotional or mental injury or ailment or damage to third-party property. The liability covered in liability insurance towards a third party is usually liability by virtue of the Torts Ordinance.

These policies can be purchased as a stand-alone product or together with other coverages, (such as: policies for businesses, homeowners insurance, policies which insure the work of building contractors, etc.).

Employers' liability insurance

Policies sold to employers, separately or as part of a comprehensive policy which provides additional cover (e.g. policies for businesses, homeowners insurance, etc.). These policies cover the insured against torts claims against an employer in respect of bodily injury (illness or accident) sustained by the employee while and as a result of working for the insured (the employer). The policy usually covers the employer's liability under the Torts Ordinance, over and above the amount of compensation given by the National Insurance Institute.

Substitute products

The different products in the other liabilities sub-branch are specific and unique to insurance companies and cannot be properly substituted with non-insurance products. Nevertheless, the need for insurance cover can be reduced if measures are taken to manage and mitigate the risk. Likewise, in some sectors of this area of activity, the need for insurance cover can be reduced by indemnity and exemption mechanisms (such as D&O liability or other professional liability) or through independent funds that manage various businesses.

Material changes anticipated by the Company in the markets and the mix of products

No significant changes are expected in the Company's share of the principal markets in relation to products and services in this operating segment.

New products

No new products were marketed in the Reporting Period.

2.3.1.4 Property and other sectors

Property insurance consists of a broad range of coverages for damage to property (except for vehicles) such as physical loss and/or damage to property, consequential financial loss stemming from the damage to property, comprehensive homeowners insurance, mortgage-related structural insurance, mortgage insurance, insurance for engineering equipment and construction work, insurance for goods in transit, etc.

The insurance cover in this segment is directed at private and business customers.

The principal coverages in this sub-sector are in the fire and property insurance branch and in the comprehensive homeowners insurance branch, including mortgage-related structural insurance.

Depending on the specific conditions listed in the different policies, the policies provide cover for the insured's property against loss or damage which may be caused by various risks, including: fire, burglary, theft, lightning, flooding, earthquakes, etc. The policy is designed to cover rehabilitation of the business or other property, by providing indemnity for the physical losses and in some of the policies also to indemnify against a loss of profits arising from the damage caused to the business. Natural perils and earthquakes are generally infrequent events, although when they occur it is likely to be on a large scale. In contrast, losses from burglary are much more frequent but usually much less severe. The premium for these policies is usually set as a percentage of the sum insured, where the precise rate is determined in accordance with the classes of activity of the business or other property, the scope of the cover provided, rate or amount of the deductible, the insured's claims experience, type and quality of protections, safety measures, etc.

The property and other insurance sub-sector provides the insured with cover against damage to or loss of property which is owned by the insured or in which he has an interest (e.g. property in custody or pledged property). This insurance covers direct losses to the property but it may also cover consequential loss, such as a loss of profits. The insured property may be an apartment, business premises, industrial plant, warehouse, goods in transit (by sea, air or over land), etc. The sums insured in property other insurance may, in many cases, typically involve large amounts. In these insurances, the insurer is required to cover its exposure through reinsurance, the cost of which is a key factor in influencing the amount of the premiums collected from the insureds (and even more so when they relate to catastrophes which may cause damage to a large number of independent insured's, such as natural perils in the form of earthquakes and floods).

The insurance coverage's included in this area of activity:

Fire insurance

Policies that cover the insured for damage caused as a consequence of fire or lightning. The insured may purchase riders to the policy such insurance against burglary, natural disasters, earthquake, explosion, and insurance against the loss of profits caused as a consequence of the aforementioned insurance events.

Comprehensive homeowners insurance

Policies that are directed and marketed mainly to the private sector and covers carious risks relating to the Insured's home, cover for the structure and/or contents of an apartment, where the insured may purchase cover for both or just one of the components. The Supervision of Insurance Business (Conditions of a Contract to Insure Homes and their Contents) Regulations, 1986, establish minimum conditions regarding policies for structure and contents ("standard homeowner's policy"). According to these regulations, the standard homeowners policy includes, inter alia, cover for the following risks: fire, lightning, flood, explosion, storm, earthquake, and burglary (the last two coverages are optional and the insured may waive them). Beyond the minimum conditions, the insured may purchase riders such as cover against damage from water, third-party liability, employers' liability and the addition of compensation for the value of a building in respect of loss resulting from earthquake.

Terror insurance

A policy that provides cover for physical loss or damage to the insured property resulting from a terror event (an act that is confirmed by Israel Police / Ministry of Defense / Property Tax Administration, under the Property Tax and Compensation Fund Law, where such activity was perpetrated to advance political goals / to promote an uprising known as an "*intifada*" or that was carried out by a lawful authority for the purpose of preventing such activity). The policy provides compensation over and above the compensation given under the Property Tax Law. The policy can also be extended to include cover for loss of profit due to physical damage resulting from a terror event. (The cover can also be extended for loss resulting from a war event.)

Comprehensive insurance for businesses/offices

Policies that provide broad insurance cover for small and medium businesses and offices. These policies are sold as a collection of chapters where each chapter provides the insured with cover against a particular risk or group of risks (direct or consequential). In practice, these policies are modular and the policyholder may choose which chapters he wishes to purchase depending on the nature of his business, the risks to which the business is exposed and the level of risk to which the owner is willing to be exposed.

Cash in transit insurance and fidelity insurance

A policy that covers physical loss or damage to money belonging to the insured business (cash, notes, checks, etc.). The money is covered while it is located on the insured premises or when being transferred from one place to another outside the insured premises.

Fidelity insurance covers financial loss caused to a business as a result of fraud by an employee carried out with the intention to cause damage to the business or to benefit the defrauder and/or other persons.

Insurance for goods in transit and transporter liability

Policies that provide the insured with cover for various risks involved in the movement of property (by sea, air or land). The principal coverages purchased by policyholders who purchase these policies are for damage caused to property as a result of the sinking of a ship, plane crash of the transporter, fire, collision, capsizing, burglary, loading and unloading.

Insurance for electronic equipment

Policies that cover the insured against physical damage or loss sustained by electronic equipment, including external data storage media, including, among other things, cover for the recovery of lost information as well as for additional operating expenses due to physical loss to the damaged electronic equipment.

Insurance for the work of building contractors

These policies cover the insured for unforeseen physical damage to the insured property (including consequential loss) while building projects are underway, such as the construction of infrastructure, buildings, bridges, etc. These policies also include additional chapters relating to the insured's liability for physical loss caused to any third party person or property while the work is underway and to cover for the insured's liability as an employer for physical injury or work-related illness caused to workers employed in performing the work, during the course of and as a result of the work. These policies are marketed to developers, contractors and sub-contractors.

Crop insurance and insurance for natural perils in agriculture

Policies that provide comprehensive cover for farms or an agricultural cooperative against unforeseen physical loss to the insured property (excluding some crops). The policies are sold to farmers or agricultural cooperatives. The policy is modular and the insured may choose which coverages he wishes to purchase, depending on the type of farm, the risks to which the farm is exposed and the level of risk to which he wishes to be exposed.

Insurance for mechanical engineering equipment

Policies that cover accident loss of any kind (except for the exclusions listed in the policy) to heavy engineering equipment. The possible coverages include natural perils, earthquake and mechanical breakdown. The coverage may be extended to include third-party loss and certain physical injuries that are not covered by the CRAV Law.

Insurance against mechanical breakdown

Policies that provide cover against sudden physical damage or loss sustained by equipment and machinery as a result of mechanical failure. The insured may also purchase riders to the policy such as insurance against the loss of profits caused as a result of the occurrence of the aforementioned insurance event as well as cover for goods damaged due to mechanical failure.

Investment insurance for homebuyers

Policies for homebuyers as required in the Sale (Housing) (Assurance of Investments of Persons Acquiring Apartments) Law, 1974.

Substitute products

The different products in the other property sub-segment are specific and unique to insurance companies and generally cannot be replaced with non-insurance products. Nevertheless, the need for insurance cover can be reduced if measures are taken to manage and mitigate the risk. Similarly, for some risks in this branch, the need for insurance coverage can be reduced by applying mechanisms such as a self-owned fund to cover damage or by means of a captive. Furthermore, cover for loss from natural perils, war, etc. can also be obtained through the property tax office, and this subject to the restrictions and conditions prescribed in the Property Tax and Compensation Fund Law, 1961.

Nevertheless, in insurance for the investments of home buyers, substitute products are available that are provided by the banks.

Material changes anticipated by the Company in the markets and the mix of products

No significant changes are expected in the Company’s share of the principal markets in relation to products and services in this operating segment .

In the line of insurance for the investments of home buyers, during the Reporting Period, the Company increased the scope of its operations in this branch and built up its market. Nevertheless, this change is not expected to have any significant impact on the revenues of Harel Insurance in this line of activity.

New products

No new products were marketed in the Reporting Period.

2.3.1.5 Credit insurance for mortgages

EMI commenced its insurance activity in 1998, as a pioneer in mortgage insurance in Israel. As noted in Section 1.2.3.5 above, in 2013 EMI discontinued the issue of new policies and it is currently handling policies issued in the past only.

Until it discontinued the issue of new policies, EMI offered insurance for highly financed residential mortgages (mortgages with a high LTV ratio) and insurance for loans for any purpose - insurance that is designed to provide indemnity for loss incurred as a result of borrower default on loans given against a first-ranking lien on a single, residential property only, and after disposal of the asset that serves as the collateral for such a loan .

The policyholder pays the premiums to EMI in advance as a lump sum. The policyholder collects the premiums directly from the borrower when the loan is taken, or alternatively, the amount of the premium is added to the borrower's loan so that the amount of the loan in respect of the premium is paid to the policyholder throughout the duration of the loan .

The period of cover with respect to any loan is for the entire period of the loan. The policyholder is entitled to cancel the insurance cover in respect of the loan at any stage, and in this case EMI will refund the policyholder and/or the borrower (at the policyholder's request) 75% of the balance of the unearned premium in respect of that loan .

A claim for the payment of insurance compensation under the policy shall be filed by the policyholder only after the property has been disposed of, that is - the property has been sold and the proceeds in respect thereof have been received (sale by the policyholder or voluntary sale by the borrower for which the company has given its prior consent).

The amount of the insurance benefits payable to the policyholder is the outstanding principal of the loan at the time of disposal of the property, plus: linkage as per the conditions of the loan, contractual interest of up to 36 months (but without interest in arrears and bank charges), legal expenses and expenses associated with the sale, all after deducting the amounts received by the policyholder in respect of the sale of the property. This amount is limited to the level of the maximum insurance cover.

Substitute products

There are no substitute products in this segment given that EMI is the only insurance company in Israel which holds a license in the credit insurance sector for residential mortgages.

Material changes anticipated by the Company in the markets and the mix of products

In view of a Bank of Israel directive dated November 1, 2012 on limiting the LTV ratio for housing loans (as noted in Section 1.2.3.5 above), during the reporting year EMI only handled policies it had issued prior to the directive. This corresponds with the plan to cut back the operations of EMI as approved by the Company’s board of directors so that EMI will continue to provide policyholders with the same service as in the past, while significantly reducing the size of the departments which are engaged in underwriting and the issue of new policies.

This discontinuation of activity negatively affected the premiums earned from this activity, so that in the periods after the date on which the provision entered into force, the Company recorded new premiums of an insignificant amount and it is not expected to record any significant premium in the forthcoming period as long as this provision remains in force.

The insurance cover is long-term cover, where the entire premium is received in advance when the policy is issued. Accordingly, recognition of the revenue and the profit is spread over the period of the insurance risk and EMI has an insurance undertaking for many years in advance.

Almost all the premiums earned in the Reporting Period are from policies that were sold before the aforementioned provision entered into force.

No changes are expected in the markets and mix of products in this segment, given that due to the Bank of Israel regulatory requirements, EMI has discontinued its marketing operations.

New products

No new products were marketed in the Reporting Period.

2.3.2 Trends and changes in the segment of operations

Development of digital processes

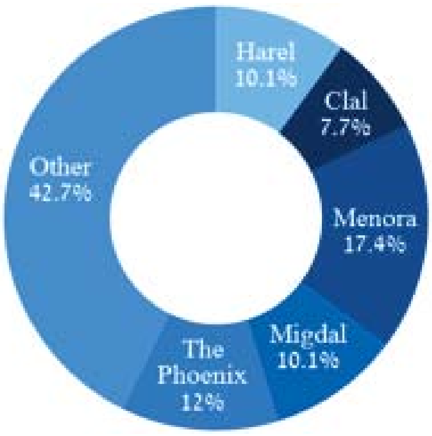
In recent years, this operating segment has gradually adapted itself to digital and online processes performed by insureds and agents, through the development of advanced tools for enrollment in insurance, renewing existing policies, handling claims and ongoing service.

2.3.3 Competition

2.3.3.1 Motor property (CASCO)

Most of the insurance companies in Israel are engaged in the motor property insurance sub-segment. Harel Insurance accounts for 10.1% of this segment (according to figures in the Q3 2019 reports), as against a market segment of 9.5% for the corresponding period last year.

The following diagram shows segmentation of the motor property sub-segment, based on figures published at the end of Q3 2019:



Motor property policies for vehicles weighing up to 3.5 tons are governed by the Standard Policy and must be approved by the Commissioner, so that there is no significant difference in the policies offered by the different companies. Additionally, comparative information about prices and other conditions is readily available. Consequently, there is considerable sensitivity in this segment to the product price (the premiums) and competition is strong.

The Group's principal competitors in this sector are: Menora, Shomera, The Phoenix, Migdal, Clal, Ayalon, IDI and AIG.

In the reporting year, two new digital insurance companies received licenses to operate as insurance companies in the non-life sector. At this stage, the activity of these companies is negligible relative to the market.

The measures which the Company takes to address the competition are:

(a) Streamlining operations, improving work methods and the use of digital and technological methods.

(b) High standard of customer service.

(c) Improved underwriting, costing and preparation of actuarial calculations.

(d) Improved work methods, as: policy production in the agents' offices, and the streamlining of claims settlement activity.

(e) Quality and availability of the service at the time of purchasing the insurance and submission of claims.

(f) Systematic action to improve the services, at the same time reviewing the customer's needs efficiency and professionalism in dealing with customers.

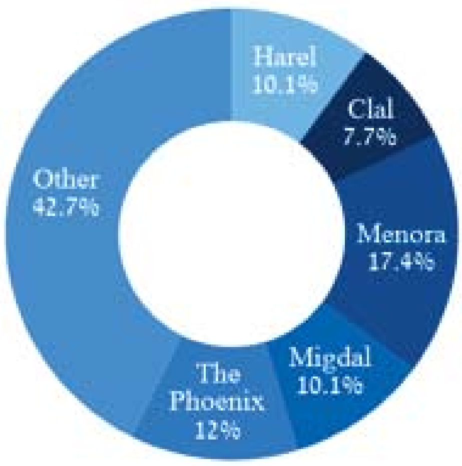
(g) Marketing campaigns for agents - to encourage the enrollment of new members and increase the rate of renewals.

(h) Marketing campaigns for customers - a variety of benefits offered to customers, including discounts consistent with the nature of the product.

2.3.3.2 Compulsory motor

Most of the insurance companies in Israel engage in the compulsory motor insurance sub-segment. Harel Insurance accounts for 12.9% of this segment (according to figures in the Q3 2019 reports).

Diagram of the compulsory motor sub-segment market. Figures are based on data published at the end of Q3 2019:



The insurance cover in this sub-segment of activity is standard. Information about prices and conditions, including information published on the Commissioner's website, is readily available. Consequently, there is considerable sensitivity to price and terms of payment.

The variance in the tariffs offered by the different insurers in this area of activity and the increased public awareness of the price differences, has led policyholders, or agents acting on their behalf, to decide to split the motor insurance so that the compulsory insurance is done through one company while the motor property insurance is done through another.

The differences between the insurance companies are also reflected in the level of service, particularly for claims settlement.

Harel Insurance is known to be a financially robust company, it has proven experience, integrity and is fair and professional when settling claims. Harel Insurance has diverse marketing channels tailored to the needs of its customers. The combination of all the aforementioned parameters has helped Harel Insurance to be successful despite the fierce competition which has developed in Israel in recent years in this sub-segment.

Another factor which affects the choice of insurer is the insurance agent.

The Group's principal competitors in this sector are: Menora, Shomera, Migdal, Clal, The Phoenix, Ayalon, Bituach Yashir (IDI) and AIG.

In 2018, two new digital insurance companies received licenses to operate as insurance companies in the non-life sector. In the Reporting Period, the marketing activity of these companies increased, although at this stage, their activity is negligible relative to the market.

The principal methods of dealing with the competition are:

(a) Streamlining operations, improving work methods and the use of digital and technological methods.

(b) Streamlining of operations and improved work methods, as well as improved agreements with service providers that handle claims settlement.

(c) Improved costing methods and work based on a broad database for setting premiums.

(d) Focused marketing to policyholders with lower-than-average risk specifications.

(e) Availability of the operating systems of Harel Insurance and producing compulsory motor insurance certificates in real time, including at the agents' offices.

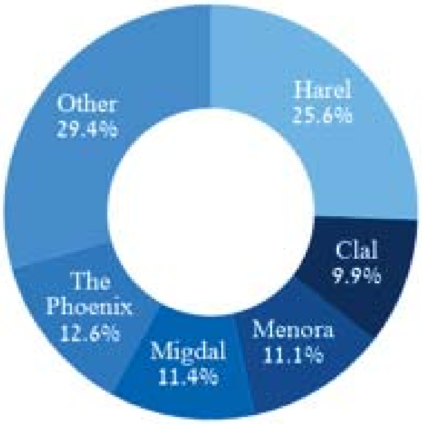
(f) Periodic agents' campaigns.

2.3.3.3 Other liabilities sectors

Most of the insurance companies in Israel engage in the other liabilities insurance sub-segment.

Harel Insurance accounts for about 25.6% of the market in this sub-segment (according to figures in the reports for Q3 2019 reports).

Segmentation of the liabilities insurance sub-segment, based on figures published at the end of Q3 2019:



Competition in this sub-segment is affected largely by the overall competition in providing insurance cover for business insurance packages, as a considerable part of the coverages in this area of activity are sold as part of a basket of insurance cover to business customers.

The Group's principal competitors in this sector are: Menora, Shomera, Migdal, Clal, The Phoenix, Ayalon, IDI and AIG.

The methods employed to handle the competition are meeting high professional and service standards, and tailoring the insurance cover packages to the special needs of specific business customers. Likewise, the ability to enter into reinsurance treaties for the policies offered has a marked impact on the ability to compete effectively in this sub-segment.

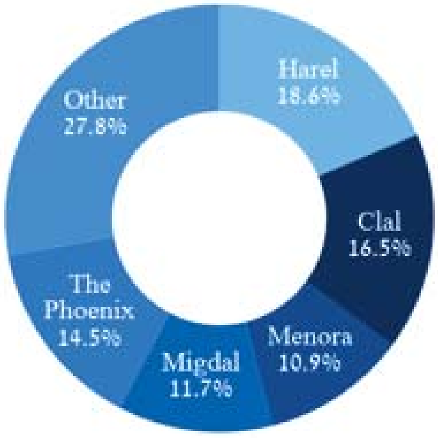
Harel Insurance has unique experience in the professional liability branch which has given it an edge on medical professional liabilities policies.

Notably, a variety of professional organizations (e.g. the Institute of Certified Public Accountants, the Bar Association, the Engineers Association, etc.) publish tender proposals from time to time for the purchase of professional liability insurance for members of the relevant organization. Organization members are not obligated to purchase insurance from the winning companies. These tenders affect competition in the professional liability insurance branch.

2.3.3.4 Property and other sectors

Most of the insurance companies are engaged in property and other insurance. According to figures published by the Israel Insurance Association, based on reports Q3 2019, Harel Insurance accounts for 18.6% of the insurance in this market. The key products in this sub-segment are fire insurance and comprehensive homeowners insurance .

Segmentation of the property and other insurance sub-segment, based on figures published at the end of Q3 2019:



Comprehensive homeowners policies are subject to the conditions of the Standard Policy for homes and must be approved by the Commissioner. Consequently, there is little variance between the products offered by the different companies competing in this sector. Thus, there is considerable sensitivity in this sector to the price of the product (the premium) and the preferential conditions over those of the Standard Policy for homeowners.

The Group's principal competitors in this sector are: Menora, Shomera, Migdal, Clal, The Phoenix, Ayalon, IDI and AIG.

The key methods of addressing the competition are by streamlining operations, a constant improvement of costing and actuarial practice, emphasizing improved quality of customer service and agreements with the mortgage banks' insurance agencies.

2.3.4 Customers

2.3.4.1 Motor property (CASCO)

Breakdown of revenues from premiums, gross:

	Premiums					
	(NIS M)			(%)		
	2019	2018	2017	2019	2018	2017
Private policyholders and small business customers	588	578	454	69%	69%	66%
Collectives and large plants	266	256	239	31%	31%	34%
Total	**854**	**834**	**693**	**100%**	**100%**	**100%**

2.3.4.1.1 No single customer in this sub-segment accounts for 10% of more of all premiums in the consolidated financial statements.

2.3.4.1.2 The percentage of renewals in the motor property segment in 2019, in terms of premiums, on policies that were in force in 2018, is 61.2%, compared with renewals of 70.6% in 2018 and 64% in 2017 (relative to 2017 and 2016, respectively).

The decrease in the rate of renewals in terms of premiums is attributable to an erosion of the premium in 2019 compared with 2018.

Information about premiums paid in the Reporting Period, by years of seniority, in the motor property (CASCO) sector:

Number of Years of Insurance (seniority)	Premiums (NIS thousands)	Rate of total income
First year of insurance (no seniority)	361	42.3%
Second year of insurance (one year seniority)	192	22.5%
Third year of insurance (two years seniority)	102	11.9%
Three years or more	199	23.3%
Total premiums (2019)	**854**	**23%**

2.3.4.1.3 The joint share of customers in the compulsory motor sub-segment that the Company also insures for motor property was 87% in 2019, compared with 88% in 2018 and 2017.

2.3.4.1.4 Customer seniority in the motor-property sub-segment in terms of premium turnover is as follows: first year of insurance (new policies) – 42.2%, one year seniority – 22.5%, two years seniority – 11.9%, three years or more – 23.4%.

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

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

2.3.4.2 Compulsory motor

Distribution of gross premium revenues:

	Premiums					
	(NIS M)			(%)		
	2019	2018	2017	2019	2018	2017
Private policyholders and small business customers	340	326	297	53%	50%	54%
Collectives and large plants	307	324	248	47%	50%	46%
Total	**647**	**650**	**545**	**100%**	**100%**	**100%**

2.3.4.2.1 No single customer in the compulsory motor sub-segment accounts for 10% or more of all premiums in the consolidated financial statements.

2.3.4.2.2 The percentage of renewals in the compulsory motor sector in 2019, in terms of premiums, on policies that were in force in 2018, is 62.4%, compared with renewals at a rate of 75.4% in 2018 (relative to 2017) and 65.2% in 2017 (relative to 2016).

Information about premiums paid during the Reporting Period, according to number of years' seniority, in the compulsory motor segment:

Number of Years of Insurance (seniority)	Premiums (NIS thousands)	Rate of total income
First year of insurance (no seniority)	241	37.2%
Second year of insurance (one year seniority)	136	21.0%
Third year of insurance (two years seniority)	73	11.3%
Three years or more	197	30.5%
Total premiums (2019)	**647**	**100%**

2.3.4.2.3 The joint share of customers in the compulsory motor sub-segment that the Company also insures for motor property was 67.5% in 2019, compared with 59% in 2018 and 64% in 2017.

2.3.4.2.4 Customers' seniority in the compulsory-motor sub-segment in terms of premium turnover (excluding Harel's share of the Pool) is as follows: first year of insurance (new policies) – 37.2%, one year seniority – 21%, two years seniority – 11.3%, three years or more – 30.5%.

2.3.4.3 Other liabilities sectors

Distribution of gross premium revenues:

	Premiums					
	(NIS M)			(%)		
	2019	2018	2017	2019	2018	2017
Private policyholders and small business customers	512	494	484	53%	52%	54%
Collectives and large plants	456	458	417	47%	48%	46%
Total	**968**	**952**	**901**	**100%**	**100%**	**100%**

2.3.4.4 There are several large customers in the other liabilities insurance sub-segment, although no single customer accounts for 10% or more of all the premiums in the consolidated financial statements. A significant part of the premiums originates in a small number of customers. The loss of premiums from these customers will not significantly affect profitability in this area of activity.

2.3.4.5 Property and other sectors

Distribution of income from gross premiums:

	Premiums					
	(NIS M)			(%)		
	2019	2018	2017	2019	2018	2017
Private policyholders and small business customers	729	767	723	74%	79%	75%
Collectives and large plants	254	204	239	26%	21%	25%
Total	**983**	**971**	**962**	**100%**	**100%**	**100%**

2.3.4.5.1 In the property and other sectors sub-segment, there is no dependence on a single customer or a small number of customers, the loss of which would significantly impact this area of activity.

2.3.4.5.2 No single customer accounts for 10% or more of all premiums reported in the consolidated financial statements.

2.3.4.5.3 The percentage of policy renewals in the comprehensive homeowners segment in 2019 (excluding mortgage-related structural insurance sold through the mortgage banks), in terms of premiums, of policies that were in force in 2018, is 872% compared with a renewal rate of 90.2% in 2018 (relative to 2017), and a renewal rate of 85.4% in 2017 (relative to 2016).

Information about premiums paid in the Reporting Period, by number of years seniority, in comprehensive homeowners policies (excluding mortgage-related structural insurance sold through the mortgage banks):

Number of Years of Insurance (seniority)	Premiums (NIS thousands)	Rate of total income
First year of insurance (no seniority)	26	11.06%
Second year of insurance (one year seniority)	27	11.49%
Third year of insurance (two years seniority)	25	10.64%
Three years or more	157	66.81%
Total premiums (2019)	**235**	**100%**

2.3.4.5.4 Customer seniority in the comprehensive homeowners policies in terms of premium turnover (excluding mortgage-related structural insurance sold through the mortgage banks) is as follows: first year of insurance (new policies) – 11.1%, one year seniority – 11.5%, two years seniority – 10.6%, three years or more – 66.8%.

Section 2.3, including its subsections, concerning the structure of this area of activity and applicable changes, also includes forecasts, evaluations, estimates and other information relating to future events and affairs, the materialization of which is uncertain and is not within the Company's exclusive control (forward-looking information). The principal facts and data which formed the basis for this information are those pertaining to the Company's present position and its business in this area of activity (such as the volume of sales, profit rates, manpower, business agreements, etc.), facts and data pertaining to the current situation in Israel and worldwide for this segment (such as sector-based economic developments, regulatory environment, competitors, technology developments, reinsurance market, etc.), and macro-economic facts and data (such as the economic situation in Israel and worldwide, yield rates in the capital markets, political and social developments, etc.), as they are known to the Company at the time of this report. The forward-looking information contained above in this section is based significantly, in addition to the information available to the Company, on current expectations and estimates of the Company regarding future developments in each of the aforementioned parameters, and the extent to which these developments are interconnected. The Company has no certainty that its expectations and estimates will in fact materialize, and the Company's performance may differ significantly from the estimated or inferred performance noted above, in part due to changes in any of the above-mentioned factors.

2.4 Insurance companies overseas

2.4.1 Products and services

Description of the insurance sectors and coverages included in this segment

The insurance coverages included in the Group's overseas insurance companies segment are non-life and health insurance in Greece through Interasco, and non-life and health insurance in Turkey through Turk Nippon.

2.4.1.1 Non-life insurance

Non-life insurance consists of sub-segments, similar to non-life insurance in Israel, with the exception of a difference in the motor vehicle sectors:

2.4.1.1.1 Compulsory motor

Insurance in accordance with the requirements of the statutory provisions in Greece and Turkey (the scope of cover is similar and meets the requirements of local law). Compulsory motor insurance covers third-party loss only - to person and property, caused as a consequence of the use of a motor vehicle. Both Turkey and Greece have a limit of liability for compulsory cover, divided by type of victim, category of loss and total loss. The limits to cover change from time to time according to the local regulator's instructions (in Turkey) and to the statutory provisions (in Greece).

<u>Turk Nippon - Turkey</u>: From April 2017, a database for motor insurance was set up in Turkey, including taxis, minibuses, buses and trucks (“the Pool”). The Pool is managed by the Turkish Motor Insurers' Bureau (TMTB), where the Pools premiums and claim losses are shared among the insurance companies who are party to it.

To make adjustment for the volatility that might have been caused in the capital requirements of Turk Nippon as a result of the foregoing, the increase in premiums is not included in the capital requirements of Turk Nippon .

The health expenses of private and public hospitals relating to road accidents are covered by the Social Security Institute. The insurance companies that are obligated to issue third-party policies, transfer to the National Insurance Institution part of the premium collected from the customer.

<u>Interasco - Greece</u>: the insurance coverage in the compulsory motor sub-segment is in accordance with the regulatory provisions in Greece and entails compulsory cover for all owners of motor vehicles. According to the law, the policy covers any bodily injury, death and property loss sustained by a third-party as a consequence of damage caused by the insured vehicle. There is no price regulation on insurance prices in these sectors in Greece.

2.4.1.1.2 CASCO/MOD (not only motor property):

Given that the compulsory insurance does not cover the driver and other potential injured parties who are not defined as third party (and for Turkey: also given that the maximum cover for damage to third party property is limited to a relatively low amount that does not cover the full potential exposure) this insurance branch exists in which the policies are voluntary.

This branch covers loss (to person and property) sustained by the owner of the vehicle, first-degree relatives and/or the driver of the vehicle, as a result of an accident and/or theft and/or liability of the vehicle owner, or the driver, for damage (to property and/or person) sustained by a third party and that are over and above the limits of cover of the compulsory insurance.

Turk Nippon: From the middle of 2018, a new tariff structure was applied in this sub-segment, a tariff symbol for private and light commercial vehicles. With respect to other categories of vehicles, pricing of the risk premiums is closely controlled by actuarial standards.

Since the beginning of 2019, two new categories of policy have been sold. One to cover Total Loss only, the second provides a more economic product. Like the other insurers in the motor insurance market, the Company was affected by significant changes in inflation and in the exchange rates.

Interasco: the products in this sub-branch are policies that guarantee cover for loss incurred by the vehicle owner as a result of an accident or theft, as well as certain natural perils. Additionally, the policy can be extended by purchasing riders and supplements, such as: legal defense, cover for damage to windscreens, a substitute vehicle in the event of fire or theft, towing and roadside services, as well as cover for the vehicle's sound system.

In addition, cover may also be purchased for personal accidents for drivers of the vehicle who are not covered by the compulsory motor policy (see above).

Personal accident (PA) - these policies are marketed by both the overseas insurance companies (Turk Nippon and Interasco) and provide their owners with compensation in the event of temporary or permanent disability and compensation for their heirs in the event of death.

2.4.1.1.3 Other liabilities sectors

These sectors consist of cover in the different liabilities sectors, similar to the existing cover in these sectors in Israel, and subject to the provisions of law in Turkey and Greece.

Regarding employers' liability insurance in Greece: the policy provides cover for torts claims against an employer in respect of physical injury in the event of an accident only (and not for illness) caused to the employee during the course of his work due to the employer's negligence. The policy covers the employer's liability over and above the amount of compensation granted by Greece's national insurance or other entities which provide similar compensation.

Substitute products

The different products in the other liabilities sub-segment are specific and unique to insurance companies and are not fully interchangeable with non-insurance products. Nevertheless, the need for insurance cover can be reduced if measures are taken to manage and mitigate the risk. Likewise, in some sectors of this area of activity, the need for insurance cover can be reduced by indemnity and exemption mechanisms (such as D&O liability or other professional liability) or through self-owned funds.

2.4.1.1.4 Other property sectors:

Property insurance consists of a broad range of coverages for damage to property (excluding vehicles) such as physical loss and/or damage to property, consequential financial loss stemming from the damage to property, comprehensive homeowners insurance, insurance for engineering equipment and construction work, insurance for goods in transit, etc.

The insurance cover in this sector is directed at private and business customers.

In Turkey there is an obligation to insure residential buildings against earthquake, for a minimum mandatory sum insured. In respect of this compulsory insurance, the insurance liability is transferred in full to an entity called TCIP. Insurance companies only act as distributors of this insurance and they do not bear the loss when an earthquake occurs. Accordingly, the premiums in respect of this insurance are not included in Turk Nippon's financial statements. The insurance companies in this insurance receive commissions only.

Insurance coverages in this sub-segment:

Fire and theft insurance

The insurance coverage is similar to the cover provided by these policies in Israel. For additional information, see Section 2.3.1.4.

Comprehensive homeowners insurance

Comprehensive homeowners insurance covers the structure and/or contents of an apartment, where the insured may purchase cover for both or just one of the components. A household insurance policy includes, inter alia, cover for the following risks: fire, lightning, explosion, earthquake (in Turkey above the amount for compulsory insurance, which is fully covered by TCIP). The coverages may be extended.

Comprehensive insurance for businesses

The insurance coverage is similar to the cover provided by these policies in Israel. For additional information, see Section 2.3.1.4.

Insurance for goods in transit, insurance for electronic equipment, mechanical failure insurance, insurance for building work and range of projects by contractors

The insurance coverage is similar to the cover provided by these policies in Israel. For additional information, see Section 2.3.1.4.

<u>Substitute products</u>

The different products in the other property sub-segment are specific and unique to insurance companies and generally are not interchangeable with non-insurance products. Nevertheless, the need for insurance cover can be reduced if measures are taken to manage and mitigate the risk. Similarly, for some risks in this branch, the need for insurance coverage can be reduced by applying mechanisms such as a self-owned fund.

2.4.1.2 Health insurance:

Health insurance is designed to indemnify or compensate the insured in respect of medical expenses in the event that the insured's health is impaired due to illness or an accident.

Interasco: In Greece, this segment is written into public health insurance legislation which provides cover for basic health services (doctors, hospitals, medical examinations, etc.) for all the country's residents .

Greek citizens consider the country's public health system to be poor quality due to overcrowding in public hospitals and clinics, and particularly due to the long queues. However, private medical services are well developed (regarding professional treatment and availability and with regard to the standard of accommodation in case of hospitalization). Many Greek citizens therefore use private medicine for almost all their needs, from doctors' appointments, out-patient care, pregnancy and birth, hospitalization and surgery. The insurance companies provide cover for services that the customer wishes to purchase outside the public system, such as: prescription drugs, doctor's appointments, diagnostic tests, surgery and hospitalization. These coverages provided by the insurance companies serve as a substitute for coverage in the health service package provided by the Greek government.

Following are details on the range of policies in this category that are sold by Interasco as personal lines policies.

Illness and hospitalization

(a) Cover for medical expenses

Among other things, these policies offer the insured cover for surgery and hospitalization in private hospitals, in the event of surgery or hospitalization at a public hospital for cases in which the Greek government does not participate. When the insured is far away from his place of residence, evacuation to a nearby hospital in case of emergency, a private nurse for surgery in Greece and hospitalization and surgery abroad. The ambulatory coverages are given as part of a service note which is a rider to the health insurance policy.

(b) Compensation policies

Compensation in the event of surgery that is performed according to the list of operations defined in the policy as well as a compensation policy for hospitalization according to the number of days of hospitalization.

Other insurance

Personal accident - these policies offer the insured cover in the event of death, disability and work disability resulting from an accident as well as medical expenses.

Turk Nippon:

The coverages provided by the insurance companies are a substitute for coverage in the basic service package provided by the Turkish government.

The volume of Turk Nippon’s activity in the health insurance segment is low. Turk Nippon markets policies for foreign workers resident in Turkey and also for their employers, health insurance policies that cover healthcare expenses that are not covered or are partially covered by the public health insurance, and travel insurance that provides cover for travel outside Turkey.

2.4.2 Changes and trends in this area of activity

Turk Nippon: The key changes that took place in Turkey's insurance market in 2019 are: the establishment of a reinsurance company (Turk Re) on September 6, 2019, by the Turkish Ministry of Finance; establishment in October 2019 of an authority to oversee the regulation and activity of the insurance and pension market in Turkey - Insurance and Private Pension Regulation and Supervision Agency (IRSA); the merger of three public insurance companies - Gunes Sigorta A.Ş., Halk Sigorta A.Ş., Ziraat Sigorta A.Ş; a change of the tariffs for catastrophe insurance for an earthquake event.

In the compulsory motor insurance sub-segment, in 2016, due to the easing of tightly controlled maximum premiums, tariffs collected from insureds have begun to increase, in turn increasing the profits of the insurance companies in this sub-segment. This change has led to the compulsory motor sub-segment in Turk Nippon becoming a key area of profit. Subsequently, in 2017, this increase in tariffs was offset as a result of lowering the maximum supervised premium. Despite this change, the compulsory motor sub-segment remains a key profit area.

Material changes forecast by the Company in the markets and the mix of products

Interasco: No significant changes are expected in the company’s share of the principal markets in relation to products and services in this operating segment.

Turk Nippon: No significant changes are expected in the company’s share of the principal markets in relation to products and services in this operating segment.

New products

No new products were marketed in the Reporting Period.

2.4.3 Competition

The non-life and health insurance sectors in Greece and Turkey, in which both Turk Nippon and Interasco operate, are extremely competitive sectors with a large number of insurers operating in these markets and multiple products that are offered in the Greek and Turkish insurance markets. At December 31, 2019, 58 insurance companies operate in Greece. Some of the insurance companies are owned by the banks (mostly local banks) and are authorized to market insurance products, even those issued by the companies they own. More than 50% of the insurance companies which operate in the Greek insurance sector are owned by foreign companies, such as AXA and Groupama. Interasco is a relatively small company and has a small share of the market (1.45%). Interasco’s main competitors in the non-life sector are: Ethniki Asfalistiki, Ergo and Generali, and in the health insurance sector are: Eurolife and Generali. As a small company, Interasco works to differentiate its status as an efficient, accessible and trustworthy company on the one hand, and as a niche company that emphasizes profitability at the expense of sales turnover on the other.

Interasco is assessing the competition and responds to the relevant changes in the market, with the emphasis on providing its customers with quality service. Furthermore, Interasco has close relationships with the distribution networks (insurance agencies) in Greece.

At December 31, 2019, 59 insurance companies operate in Turkey. Turk Nippon is one of the most profitable companies in the market with a market segment of 33%. The international companies that operate in Turkey's insurance market in the non-life insurance sector account for 55% of the market.

2.4.4 Customers

Distribution of gross premium revenues:

	Premiums					
	(NIS M)			(%)		
	2019	2018	2017	2019	2018	2017
Private policyholders and small business customers	312	316	324	55%	58%	64%
Collectives and large plants	259	231	182	45%	42%	36%
Total	**571**	**547**	**506**	**100%**	**100%**	**100%**

2.4.4.1 No single customer accounts for 10% or more of all premiums in the consolidated financial statements.

2.4.4.2 The rate of renewals in the overseas insurance companies sector in 2019, in terms of premiums, on policies that were in force in 2018, is 74%, compared with a 67% rate of renewals in 2018 (relative to 2017) and 21% in 2017 (relative to 2016).

2.4.4.3 The rate of cancellations in terms of premiums, from long-term personal lines policies that are in force at the beginning of the year in Interasco’s health insurance segment is 20% in 2019, 19% in 2018 and 15% in 2017.

2.4.4.4 The joint share of customers in the compulsory motor segment that Interasco and Turk Nippon also insure for motor property was 19% in 2019, compared with 21% in 2018, and 25% in 2017.

2.4.4.5 The joint share of customers in the compulsory motor segment that Interasco and Turk Nippon also insure for motor property was 66% in 2019, compared with 62% in 2018, and 64% in 2017.

2.4.4.6 Customer seniority in the overseas insurance companies sector in terms of premium turnover is as follows: first year of insurance (new policies) – 47%, one year seniority – 18%, two years seniority – 12%, three years seniority or more – 24%.

Section 2.4, including its subsections, concerning the structure of this area of activity and applicable changes, also includes forecasts, evaluations, estimates and other information relating to future events and affairs, the materialization of which is uncertain and is not within the Company's exclusive control (forward-looking information). The principal facts and data which formed the basis for this information are those pertaining to the Company's present position and its business in this area of activity (such as the volume of sales, profit rates, manpower, business agreements, etc.), facts and data pertaining to the current situation in Israel and worldwide for this segment (such as sector-based economic developments, regulatory environment, competitors, technology developments, reinsurance market, etc.), and macro-economic facts and data (such as the economic situation in Israel and worldwide, yield rates in the capital markets, political and social developments, etc.), as they are known to the Company at the time of this report. The forward-looking information contained above in this section is based significantly, in addition to the information available to the Company, on current expectations and estimates of the Company regarding future developments in each of the aforementioned parameters, and the extent to which these developments are interconnected. The Company has no certainty that its expectations and estimates will in fact materialize, and the Company's performance may differ significantly from the estimated or inferred performance noted above, in part due to changes in any of the above-mentioned factors.

2.5 Financial services and capital market activity

2.5.1 Financial information about the capital market and financial services segment

Financial services and capital market (NIS million):	2019	2018	2017	Change in 2019 over 2018	Change in 2019 over 2017
Total income	**207**	**209**	**202**	**(0.96%)**	**2.5%**
Costs that are not considered income from the Company's other segments of operation	173	171	164	1.2%	5.5%
Total costs	**173**	**171**	**164**	**1.2%**	**5.5%**
Write-down of intangible assets	5	3	4	66.7%	25.0%
Write-down of goodwill	-	1	-	(100.0%)	-
Pre-tax profit from ordinary activity	**29**	**34**	**34**	**(14.7%)**	**(14.7%)**
Total comprehensive income from ordinary activity before taxes on income	**29**	**34**	**34**	**(14.7%)**	**(14.7%)**
Total comprehensive income before taxes on income	**29**	**34**	**34**	**(14.7%)**	**(14.7%)**
Total assets in balance sheet	**2,279**	**978**	**15,923**	**133.0%**	**(85.7%)**

2.5.2 General information about this area of activity

For general information about the segment of operations, see Section 1.2.5 above

2.5.3 Structure of the segment and the applicable changes

The Group's activity in the financial services segment takes place through Harel Finance and the companies it controls, which together form the Group's financial wing.

On August 3, 2017, the Joint Investment Trust Law (Amendment No. 28), 2017, was published (Amendment no. 28 to the Joint Investment Trust Law"), according to which the ETNs became closed (traded) tracker mutual funds, governed by the provisions of the Joint Investment Trust Law, with the relevant changes, together with special arrangements that were prescribed in the regulations or instructions of the Israel Securities Authority with respect to ETFs. The amendment to the Law and subsequent regulations entered into force on October 3, 2018. This amendment led to a decrease in the profitability of Harel Finance in 2019. At the same time, Harel Finance Group is working to develop additional activity in the financial services sector.

Harel Finance holds the following companies:

2.5.3.1 Harel Mutual Funds, which is a mutual fund management company.

From January 1, 2019, the activity of Harel Mutual Funds (which merged into it Harel Index Funds Ltd.) also includes the ETN activity that had been part of Harel Finance Group, which became mutual funds.

2.5.3.2 Harel Index Trade, a company that provides market making services for the ETFs managed by Harel Mutual Funds.

2.5.3.3 Harel Investment Management, a company which is a licensed portfolio manager and performs portfolio management activity for its customers.

2.5.3.4 Alfa Tech, a company which holds a portfolio management license and manages investments for funds issued by Harel Mutual Funds, using computerized models.

2.5.3.5 Harel Finance Alternative, a company that serves as a general partner in the partnership Harel Finance Alternative R.E. (a limited partnership registered in the USA) is a real estate investment fund (REIT). Harel Finance Alternative also serves as a general partner in Harel Finance Alternative Hamagen (a limited partnership registered in the USA), which is an asset-backed loan fund.

2.5.3.6 Harel Exchange Traded Deposit, a company that issues marketable certificates of deposit (CDs) (held through Harel Sal Currencies) and which is a reporting company.

2.5.3.7 Harel Traded Indexes, a company that performs OTC transactions and trading activity in securities and financial assets for its own account (nostro).

2.5.3.8 Harel Finance Operation Services Ltd., which provides management resources and operating services to different companies in the finance arm.

2.5.4 Legislative restrictions, regulations and special constraints that apply to this operating segment

Activity in the financial services and capital market sector is subject to several laws, of which the most important are:

(a) Securities Law, 1968, including the subsequent regulations, orders and directives.

(b) Regulation of Investment Advice, Investment Marketing, and Portfolio Management Law, 1995, including subsequent regulations.

(c) Joint Investment Trust Law, 1994, including subsequent regulations.

(d) Prohibition on Money Laundering Law, 2000, and the Prohibition on Money Laundering (Duty of Portfolio Managers to Identify, Report and Keep Records for the prevention of Money Laundering and Financing of Terror) Order, 2010.

Moreover, other restrictions apply to the Group by virtue of other laws. For details of the regulation which applies to this area of activity, see Section 2.5.17 below.

2.5.5 Changes in the scope of operations and in profit in this segment

The financial services and capital market segment is typically extremely volatile, due to growth or recession in the global and the domestic capital markets, as well as due to political events in Israel and worldwide which affect share prices and the volume of activity in the capital market, global macroeconomic data (e.g. interest rates), and growing competition. This volatility affects the Group’s performance in this segment. Additionally, this segment is constantly subject to changes in regulation.

On the effect of Amendment no. 28 on profitability in this segment, see Section 2.5.3.

2.5.5.1 Management of mutual funds

At December 31, 2019, the volume of assets managed by Harel Mutual Funds increased significantly to NIS 44 billion, compared with its AUM at December 31, 2018. In view of substantial capital raisings and market effects.

2.5.5.2 Portfolio management

In the Reporting Period, the volume of assets under management (AUM) in this sector grew to NIS 14 billion at December 31, 2018, compared with AUM of NIS 12.7 billion at December 31, 2018. The increase is attributable to significant amount raised and to market effects.

2.5.5.3 Management of investments using computerized models

In 2019, the volume of assets under management attributable to capital raisings increased significantly. AUM at December 31, 2019, amounted to NIS 0.3 billion.

2.5.5.4 Management of private equity funds

At the end of 2019, Harel Finance manages two investment funds through Harel Finance Alternative. The first fund was established towards the end of 2018 and at December 31, 2019, manages USD 45 million. The second fund, which was established at the end of 2019, raised investment undertakings at December 31, 2019, in the amount of USD 24 million.

2.5.5.5 Issue of marketable deposits

In 2019, Harel Exchange Traded Deposit issued Series 1 bonds backed by bank deposits deposited in banks with a high rating. Total assets under management in the Series at December 31, 2019, are NIS 1.3 billion. On January 21, 2020, Harel Exchange Traded Deposit published a shelf offering report for the issue of Series 2 bonds bearing fixed annual interest at a rate determined in a tender for the annual rate of interest. On February 6, 2020, Harel Exchange Traded Deposit published a shelf offering report for the expansion of Series A. The total asset managed by Harel Exchange Traded Deposit at February 10, 2020 is NIS 1.6 billion in both series together.

2.5.6 Developments in the markets of this operating segment, or changes in the characteristics of its customers

The situation in the capital markets in Israel and around the world significantly affects this operating segment as well as the volume of activity by private and institutional customers. Excellent investment management performance, relative to its competitors, and rising prices in the stock and bond markets during the Reporting Period, led to a significant increase in the volume of assets at the end of the period.

2.5.7 Critical success factors in this area of activity and the applicable changes

The Group believes that several factors are critical to the success of the financial services and capital market sector, including: state of the global capital market, state of the capital market with respect to turnover and yields, interest rates, the public's tastes, the yields generated by the investments that the Group manages for its customers, rating of products in the banks' rating plans, including financial risk management, portfolio retention, high level of customer service and the Group's ability to operate credibly and fairly while upholding the customer's interests, effective marketing and distribution channels that allow the Group to increase its volume of business, operating and budget effectiveness, the mix and variety of products, positioning of Harel Finance as a leading investment house, and the Group's ability to leverage all the foregoing by way of creating a brand which will enhance its competitive position, while preserving values such as integrity, professionalism and a quality service experience.

Additionally, the factors critical to the Group's capital market activity are skilled, professional manpower which includes investment personnel and experienced, professional traders, marketing and financing personnel to cost the products and services offered by Harel Finance and marketing them to customers in this sector, and close, on-going working relationships with the institutional investors so as to learn their requirements and preferences.

Other critical success factors are the Group's reputation (goodwill), computer and information systems which support its operations, the management of customer relations, control and risk management.

2.5.8 Substitutes for products in this segment and the applicable changes

The substitute products and services available to customers in the portfolio management and mutual fund management segment are savings channels in financial institutions, including structured deposits, financial investment policies, investment in investment provident funds, foreign funds or investment in securities by the investor without the assistance of a professional investment manager or advisor in the pension savings channel. Another substitute which has developed in recent years with the opening of the overseas market to Israeli investors is the transfer of money to be managed by financial institutions abroad.

Likewise, the purchase of portfolio management services and units in mutual funds may substitute one another.

2.5.9 Products and services

2.5.9.1 Management of investment portfolios

Harel Finance Group manages investment portfolios through two companies: one - Harel Investment Management which manages customer portfolios in a variety of investment tracks for private customers and companies, and two - Alfa Tech, which is an external investment manager that uses computerized models to manage the mutual funds managed by Harel Mutual Funds.

The investment policy in each portfolio is determined together with the customer, based on his definitions and needs (e.g. customer specifications and activity, requested risk level, purpose of the investment, etc.). Harel Investment Management and Alfa Tech have full professional discretion in deciding upon the investments within the framework outlined by the customer. Alfa Tech operates within the framework of the investment policy of the fund whose investments it manages, in accordance with the policy defined in the fund’s prospectus.

Harel Investment Management and Alfa Tech have an interest in financial assets (mutual funds) and are a “corporation associated with financial institutions” (insurer, management company and fund manager). They are therefore considered a portfolio manager engaged in the marketing of investments (unlike investment advisors).

All employees engaged in investment management or investment marketing are licensed portfolio managers or licensed investment marketers.

Harel Investment Management has a voluntary investment forum which regularly defines, with the help of analysts employed by the Group, the investment management policy for its customers, consistent with different exposure strategies and customer specifications. Portfolio management activity usually takes the form of direct contact and familiarity with the customers, most of whom hold assets over and above a certain minimum volume. Customer portfolios are managed in accounts in the customer's name in banks and non-bank TASE members.

At December 31, 2019, Harel Investment Management has equity in the amount of NIS 26.5 million.

Alfa Tech has a voluntary investment forum which periodically examines the computerized models and analyzes the risks of the computerized models.

At December 31, 2019, Alfa Tech has equity in the amount of NIS 1.1 million.

The equity required under the Regulation of Investment Advice, Investment Marketing and Portfolio Management (Shareholders Equity and Insurance) Regulations, 2000, is negligible.

The revenues of Harel Finance from portfolio management activity performed by Harel Investment Management, derive from management fees collected from customers who receive investment management services and from portfolio management activity which takes place through the Group’s mutual funds. In most cases, Harel Investment Management does not collect management fees from its customers for the component of the customer’s investment portfolio which is held through mutual funds managed by Harel Mutual Funds. Harel Investment Management is entitled to a marketing and management fee from Harel Mutual Funds for marketing and managing the mutual funds of Harel Mutual Funds for the portfolios of the customers of Harel Investment Management, including for mutual funds whose investments it manages.

The revenues of Harel Finance from the activity of Alfa Tech stem from the management fee revenues of the funds whose investments are managed by Alfa Tech as an external investment manager.

2.5.9.2 Management of mutual funds

Harel Mutual Funds manages mutual funds which are differentiated from one another by different investment policies. Mutual funds make it possible to invest in numerous, diverse underlying assets, and at the same time retain a high level of distribution. Each mutual fund has an investment policy which is implemented by the fund manager who purchases securities for the fund. The mutual fund issues participation units to investors which represent their relative share of the fund's assets. The mutual fund units are purchased and redeemed via TASE Members (mainly the banks) both independently by investors and as part of the general portfolio management activity.

The mutual funds managed by Harel Mutual Funds are divided into several categories: funds that track indices (open tracker funds and ETFs) and managed mutual funds, based on the investment policy of each fund.

These mutual funds have diverse investment policies (foreign currency, share-based, shekel, money-market, flexible, bonds, mixed, conversion, etc.) with the purpose of providing investors with a variety of investment options based on their requirements.

Harel Mutual Funds has distribution agreements with TASE members for the purpose of distributing the mutual funds (payment to the TASE members is in accordance with the rates prescribed in the Joint Investment Trust (Distribution Fee) Regulations, 2006, depending on the category of fund). Based on these agreements, the TASE members distribute the funds managed by Harel Mutual Funds to their customers.

At December 31, 2019, Harel Mutual Funds manages 263 mutual funds of various categories, according to investment specifications and different investment channels. Mutual fund management activity is subject to the provisions of the Joint Investment Trust Law and subsequent regulations.

A mutual fund is established according to an agreement between a fund manager and a trustee ("the Fund Agreement"). The Fund Agreement sets out the fund's investment policy, the maximum wage that the fund manager may receive, and the maximum wage which the trustee may receive, the maximum supplement that the fund manager may collect from a person who purchases units in the fund, as well as technical provisions pertaining to the operation of the fund.

As of October 2016, units in mutual funds are offered in accordance with the prospectus of a fund manager and the funds that it manages or in accordance with the prospectus of a new fund. The prospectus is valid for one year from its date of publication. The fund's prospectus is prepared in accordance with the Joint Investment Trust (Particulars of Prospectus of Fund, Structure and Form) Regulations, 2009.

Harel Mutual Funds has an agreement with Leumi Capital Market Services (Leumi CMS) according to which Leumi CMS provides operating services to Harel Mutual Funds in the active funds sector for the mutual funds that it manages, by means of software developed by Matrix IT Ltd., which is the core software program for the activity of Harel Mutual Funds. If the agreement with Leumi CMS is terminated, Harel Mutual Funds has the right to buy back the software developed for it by Leumi CMS in a manner that will enable it to resume operation of the funds itself, subject to a deployment period.

Following an announcement by Leumi Capital Market Services Ltd. of its intention to discontinue its activity in the provision of operating services for mutual funds, including for Harel Mutual Funds, Harel Mutual Funds intends to enter into agreement with the First International Bank (FIBI) to obtain operating services for the active mutual funds, this in addition to the services it receives from FIBI in the passive funds. Harel Mutual Funds does not expect the change of service provider to affect its normal course of business.

2.5.9.3 Issue of marketable certificates of deposit (CDs)

During the course of 2019, Harel Exchange Traded Deposit issued Series 1 bonds backed by bank deposits deposited in banks with a high rating. The total assets managed in the Series, at December 31, 2019, includes two expansions that were made during the course of the year, and amounts to NIS 1.3 billion.

After the balance sheet date, Harel Exchange Traded Deposit made a further expansion of Series 1 and also issued Series 2. Total AUM in both series at February 10, 2020 is NIS 1.6 billion.

The products were offered to the public through the subsidiaries: Harel Sal - which issued ETNs, and Harel Sal Currencies - which issued CDs on different currencies. Both subsidiaries were reporting companies.

Activity in this segment included all the transactions and operations required for issuing ETNs and deposit certificates, converting and redeeming them, limiting the exposure and cover with various assets to meet the issuing companies' undertakings according to the published prospectus

Harel Sal was required to obtain a license from the creators of the indices that are tracked by the certificates of Harel Sal. Accordingly, Harel Sal entered into agreement with the index creators to obtain a license as aforementioned.

The activity of Harel Sal was discontinued with the entering into force of Amendment no. 28 on October 3, 2018 and its merger into Harel Index Funds (see Section 2.5.3).

Harel Sal Currencies terminated its operations on January 17, 2019 (See Section 2.5.3).

2.5.9.4 Advice in foreign currency and OTC activity with qualifying customers

Until October 3, 2018, Harel Index Funds (previously Harel Financial Products) provided consulting services on foreign currency to qualifying customers (as they are defined in the Investment Advice Law), and trading activity in an own account.

After the entering into force of Amendment no. 28, Harel Index Funds engaged in the management of ETFs and tracker funds until the date of its merger into Harel Mutual Funds in December 2018. The other operations that had been performed by Harel Index Funds on the date of the entering into force of Amendment no. 28, were split between Harel Finance (foreign exchange consulting, from January 2019) and Harel Traded Indexes, which, among other things, performs OTC activity (Over the Counter transactions, namely transactions performed according to the customer’s special requirements, outside the stock exchange).

2.5.9.5 Private equity funds

Harel Finance Alternative manages two private equity funds. One, a real estate investment trust (REIT), which was established towards the end of 2018, and the second, a loan fund backed by real estate assets which was established at the end of 2019. The funds are limited partnerships and were established in Delaware, USA. A private equity fund is established in accordance with an investment agreement between the general partner (Harel Finance Alternative Ltd.) and the limited partners in the partnership (“the Investment Agreement”). The Investment Agreement sets out the fund’s investment policy and period of operation, determines the fee of the fund manager which is the general partner, defines the rights of the limited partners and general partner, an arrangement for allocation of the fund’s expenses, as well as other provisions relating to the terms of investment in the fund. The REIT is a closed fund which does not raise additional capital and up to the date of its closure in November 2018 has raised USD 45 million.

The real-estate assets backed loan fund is an open fund that will continue to recruit investors and raise money during its period of operation, all under the conditions specified in the investment agreement, and which at December 31, 2019, has raised investment liabilities of USD 24 million.

2.5.10 Segmentation of income for products and services

Total comprehensive income of the capital market and financial services segment was NIS 209 million in 2019. Of this amount, income from the mutual funds and investment portfolios activity was 93% of this amount, and income from the other financial products accounted for 7%.

2.5.10.1 Movement in managed assets and the average management fees in the financial services and capital market segment

Movement in managed assets and the average management rates in the financial services and capital market segment in NIS million:

	Mutual funds			Portfolio management			ETNs	
Movement in asset (NIS million)	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**	**2018**	**2017**
Opening balance	33,673	18,772	17,801	12,749	12,711	12,576	14,997	13,210
Net accrual	6,762	1,260	577	386	196	(303)	181	432
Income from management fees	(173)	(127)	(123)	(54)	(54)	(54)	(63)	(50)
Transfer to ETFs as part of Amendment no. 28, found as part of mutual funds	-	13,764	-	-	-	-	(13,764)	-
Other changes	3,325	4	517	820	(104)	492	(1,351)	1,405
Closing balance	**43,587**	**33,673**	**18,772**	**13,901**	**12,749**	**12,711**	**-**	**14,997**
Average management fees	0.45%	0.70%	0.66%	0.24%	0.24%	0.26%	0.40%	0.32%

- The mutual fund and ETN assets acquired as part of the investment portfolio activity appear in portfolio management activity and in mutual fund activity.
- ETN assets acquired during the course of mutual fund activity appear under mutual fund assets and under ETN assets.
- Management fees in respect of the mutual fund assets acquired as part of the investment portfolio activity are presented as part of the mutual fund activity.
- Management fees in respect of the ETN assets acquired as part of the investment portfolio and mutual fund activity are allocated between these activities, based on the manner in which they are collected.
- Following Amendment no. 28, ETNs no longer exist at the date of the financial statements. The outstanding amount is in respect of certificates of deposit that were redeemed in January 2019.
- The managed assets do not include structured bonds that were acquired in the Reporting Period in the amount of NIS 1.4 billion and an investment fund of an insignificant amount.

2.5.11 New products

Harel Finance operates under variable market conditions and tailors its products to the changing needs of customers and market conditions. Harel Finance invests time in developing additional financial instruments in an effort to diversify the supply of investment channels for its customers.

In the Reporting Period, Harel Finance made an offering, through Harel Mutual Funds, of 22 new mutual funds, changed the policy in 25 mutual funds, merged 6 mutual funds and dissolved 8 mutual funds.

Additionally, in the Reporting Period Harel Finance issued Series 1 bonds backed by bank deposits through Harel Exchange Traded Deposit, and after the Reporting Period, on January 21, 2020, it issued Series 2. Additionally, Harel Finance launched a new private equity fund after the Reporting Period under the name: Harel Finance Alternative Hamagen which was first marketed to investors in Q4 2019.

2.5.12 Customers

Harel Investment Management

The company has both private and corporate customers (private and public, some of which are financial institutions). Customers generally have on-going agreements with Harel Investment Management, but both parties may terminate the agreement at any time, in accordance with the terms of the agreement and the provisions of the Investment Advice Law.

Harel Mutual Funds

In mutual fund activity, the fund manager does not usually have information regarding the identity of the customers who hold the units in the fund that he manages, given that it is the TASE members which distribute the funds. Harel Finance believes that the mutual fund holders include private, corporate and institutional customers .

Harel Exchange Traded Deposit

The investors who purchase certificates of deposit issued by Harel Exchange Traded Deposit are mainly money market funds and financial institutions.

Private equity funds

The investors in the private equity funds are mainly individual classified investors who invest directly or through IRAs.

Market making

The sole customer of the market making company is Harel Mutual Funds for which Harel Index Trade serves as market maker.

Dependence on a single customer

In the financial services and capital market segment, the Group has no single customer which is not an affiliate, and whose revenues account for 10% or more of the Company's total revenues.

2.5.13 Marketing and distribution

2.5.13.1 Marketing and distribution methods

The Harel Finance companies have several marketing and distribution channels for their products and services, the most important of which are:

(a) Sales and marketing personnel who are employees of the Group.

(b) Investment advisors in the banks - this is the main channel for the distribution of mutual funds. Most of the activity in mutual funds in this channel is to bring the funds to the attention of the investment advisors and to provide them with information and marketing documents accordingly.

(c) Private portfolio managers and investment consultants.

(d) Holding professional / marketing gatherings.

(e) Advertising in the media and on the internet.

(f) Marketers who are not Group employees.

(g) Insurance agents who market Harel Group's products.

2.5.13.2 Dependence on marketing channels

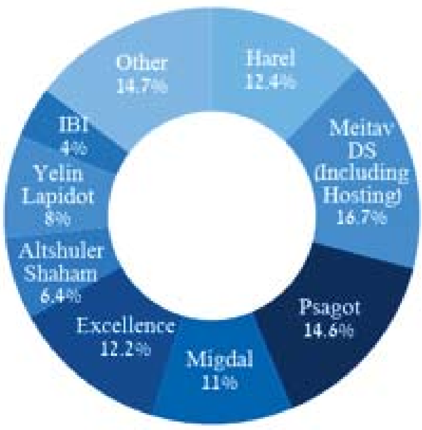
The Group is not dependent on any particular marketing channel.

2.5.14 Competition

2.5.14.1 Structure of competition in this segment and the applicable changes

The financial services and capital market sector is highly competitive, with competition from the banks and the non-bank entities, including subsidiaries of the insurance companies. The factors over which there is competition are the yield attained (relative to the risk level), level of management fees, level of commissions for the different categories of activity, variety of products and quality of service.

The following diagram shows market segments (in percentages) held by the mutual fund management companies at December 31, 2019, after the entering into force of Amendment no. 28:



2.5.14.2 Competitive conditions in the financial services and capital market segment

The Group's activity in the financial services and capital market segment is highly competitive, and this competition is ongoing despite the trend of consolidation among a number of players in the relevant markets.

In the past few years, the options for interchangeability among products in this sector have increased so that all products in this segment compete with and can be replaced by one another.

With respect to portfolio management and mutual fund management products - the competition is against savings channels in financial institutions, including structured deposits, financial investment policies, foreign mutual funds or investment in securities by the investor without the assistance of a professional investment manager or advisor in the pension savings channel. Another competing factor is the possibility of investing in investment contract policies, investment funds or investment provident funds. Furthermore, investments can also be managed by foreign financial institutions.

2.5.14.3 Key competitors in this segment

<u>Portfolio management</u>

The main competitors in this segment are portfolio management companies which are controlled by private entities and insurance companies, e.g. Psagot, Meitav Dash, IBI, Altshuler Shaham, Yelin Lapidot, Excellence, investment management companies held by the banks and other entities.

<u>Management of mutual funds</u>

The key competitors in this branch are: Meitav Dash, Psagot, KSM, Migdal, Yelin Lapidot, Mor, Altshuler Shaham, IBI and other entities.

<u>Marketable deposits</u>

The only competitor of Harel Exchange Traded Deposit is Ella Deposits Ltd.

<u>Investment funds</u>

The principal competitors are REITs and private and public real-estate backed loan funds.

2.5.14.4 Methods of coping with the competition

The Group's principal methods of coping with the competition are:

(a) Use and retention of quality manpower.

(b) Providing customers with professional, reliable service.

(c) Increasing awareness of the performance and quality of companies within the Group, particularly among investment advisors in the banks.

(d) Advertising and marketing activity and enhancing the Group's brand in the media.

(e) Tailoring the basket of products offered to customer requirements and market conditions.

(f) Use of information systems that assist in investment management.

2.5.15 Seasonality

There are no seasonal influences in the financial services and capital market sector.

2.5.16 Service providers

2.5.16.1 The Group's companies which operate in the financial services and capital market sector have agreements with various service providers for their on-going activity, including for financial information, banks, foreign brokers who perform transactions in foreign securities, etc.

2.5.16.2 Harel Finance Group dependence on service providers:

- Leumi Capital Market Services Ltd. ("CMS") - see Section 2.5.9.2.
- Inteli trade - the Inteli trade software program is used for transmitting quotes for ETFs. To the best of the Company's knowledge, there are no other off-the-shelf software programs available on the market for ETF quotes.
- Danel - Harel Investment Management has an agreement with Danel for software services on which most of the activity of Harel Investment Management is based. Danel - a software program used by Harel Investment Management to manage and operate its customers' investment portfolios, including investment analysis and Back Office. To the best of Company's knowledge, most of the portfolio management companies in Israel are dependent on this supplier.
- The First International Bank of Israel Ltd. ("FIBI") - Harel Mutual Funds receives operating services for the passive funds from FIBI. Harel Mutual Funds has a certain dependence on FIBI in view of the absence of any other entity in the market that provides these services.

2.5.17 Restrictions and supervision of this area of activity

Following is a concise summary of the statutory limitations and other legislative arrangements pertaining to the Group's activity in the financial services and capital market sector, changes which took place therein during the Reporting Period and new provisions of law which were enacted and/or published during the reporting year.

2.5.17.1 Investment management

2.5.17.1.1 Investment Advice Law

Activity in the investment management segment is regulated in the Investment Advice Law .

Under the provisions of the Investment Advice Law, activity in investment advice, in investment marketing and in portfolio management requires a license and this subject to several special exclusions which are specified in the Investment Advice Law .

Additionally, the Investment Advice Law stipulates that a portfolio manager who is associated with a financial institution - an insurer, management company or fund manager, may not engage in investment advice, but only in investment marketing. A portfolio manager which is an associate of a financial institution and engages in investment marketing, must disclose this information to the customer, and it must also disclose a list of the financial institutions with which it has a relationship.

Furthermore, a portfolio manager who is associated with a financial institution and is engaged in the marketing of investments, may prefer a financial asset in which it has an interest over a similar financial asset in which it has no interest.

Additionally, the Investment Advice Law imposes certain obligations on portfolio managers, investment advisers and investment marketers, including a fidelity obligation towards the customer, duty of care towards the customer, confidentiality obligation, obligation to prepare a written agreement with the customer, obligation to provide minimum insurance and equity, and it also regulates the activity that the portfolio manager may perform for the customer and the ways in which it is to be carried out.

2.5.17.1.2 The Investment Advice, Investment Marketing and Portfolio Management (Shareholders Equity and Insurance) Regulations, 2000, prescribe a requirement to hold minimum equity.and to insure portfolio managers.

2.5.17.1.3 Prohibition on Money Laundering (Obligation for Portfolio Managers to Identify, Report and Keep Records) Order, 2010, regulates the obligations imposed on portfolio managers in relation to identifying the customer, knowing the customer, and reporting certain activity of the customer.

2.5.17.1.4 The Regulation of Investment Advice, Investment Marketing, and Portfolio Management (Reports) Regulations, 2012, regulate a portfolio manager’s obligation to report to the customer and to the ISA.

2.5.17.2 Management of mutual funds

2.5.17.2.1 Joint Investment Trust Law

Mutual fund management activity is regulated in the Joint Investment Trust Law and subsequent regulation.

The Joint Investment Trust Law and its ensuing regulations regulate other matters as well, for example: (a) a requirement for the fund manager to hold minimum equity of an amount stipulated in the regulations; (b) regulation of the payment of distribution fees to distributors who are TASE members; (c) discrimination between fund managers is not permitted by the collection of differential distribution fees; (d) an obligation to take out professional liability insurance to cover the fund manager's liability on account of a negligent omission towards unit owners and to take out insurance to cover breach of trust by his employees and workers who are involved in the decision making process regarding management of the fund's investment portfolios, towards owners of the units.

2.5.17.2.2 On Amendment 28 to the Joint Investment Trust Law, see Section 2.5.3.

2.5.17.3 Management of investment funds

2.5.17.3.1 Securities Law

The management of investment funds is regulated in the Securities Law and subsequent regulations. The law and the regulations regulate the subject of the offering of securities to the public. Additionally, the funds and the legal entities associated with the fund’s activity, all of which were established in the USA, are governed by reporting and registration obligations in the USA.

2.5.17.4 Issue of marketable certificates of deposit

2.5.17.4.1 Securities Law

Activity relating to the issue of marketable CDs is regulated in the Securities Law and subsequent regulations. The law and the regulations regulate, *inter alia*, the subject of the offering of securities to the public and reporting to the Securities Authority.

2.5.18 Material agreements

The companies in the finance wing have no material agreements which are not part of the normal course of business, except the agreements set out in Section 2.5.16.2 above.

2.5.19 Joint ventures

At the date of this report, companies in the financial services wing are not party to significant strategic joint ventures.

Section 2.5, including its subsections, concerning the structure of this area of activity and applicable changes, also includes forecasts, evaluations, estimates and other information relating to future events and affairs, the materialization of which is uncertain and is not within the Company's exclusive control (forward-looking information). The principal facts and data which formed the basis for this information are those pertaining to the Company's present position and its business in this area of activity (such as the volume of sales, profit rates, manpower, business agreements, etc.), facts and data pertaining to the current situation in Israel and worldwide for this segment (such as sector-based economic developments, regulatory environment, competitors, technology developments, reinsurance market, etc.), and macro-economic facts and data (such as the economic situation in Israel and worldwide, yield rates in the capital markets, political and social developments, etc.), as they are known to the Company at the time of this report. The forward-looking information contained above in this section is based significantly, in addition to the information available to the Company, on current expectations and estimates of the Company regarding future developments in each of the aforementioned parameters, and the extent to which these developments are interconnected. The Company has no certainty that its expectations and estimates will in fact materialize, and the Company's performance may differ significantly from the estimated or inferred performance noted above, in part due to changes in any of the above-mentioned factors.

3. Information about the Group's overall operations

3.1 Restrictions and supervision which apply to the operations of the Group's companies

Following is a summary of the legislative arrangements and key provisions of law which significantly affect the Group's overall activity.

<u>The activity of the Group and its financial institutions is subject to several laws, the most important of which are:</u>

(a) The Securities Law - including subsequent regulations and ISA directives;

(b) The Companies Law - including subsequent regulations;

(c) The Supervision Law - including its subsequent regulations and circulars published by the Commissioner under his powers according to the Supervision Law.

(d) Contract (Insurance) Law, 1981 ("Insurance Contract Law").

(e) Joint Investment Trust Law.

(f) Investment Advice Law.

<u>Furthermore, the activity of the Group's companies is subject to additional laws, the most important of which are:</u>

(a) Prohibition on Money Laundering Law, 2000 including the orders published by virtue of the law (mainly the Prohibition on Money Laundering (Duty of Insurers, Insurance Agents and Management Companies to Identify, Report and Keep Records to Prevent Money Laundering and Terror Financing) Order, 2017.

(b) Class Actions Law, 2006.

(c) Wage Protection Law, 1958 - provides protection for an employee if his employer does not transfer the provisions to a provident fund, according to its meaning in the Income Tax Ordinance.

(d) Protection of Privacy Law, 1981.

(e) Standard Contracts Law, 1982.

(f) Amendment to the Income Tax Ordinance (no. 227), Income Tax Regulations (Application of the FATCA Agreement), 2016, Income Tax Regulations (Application of a Common Reporting Standard and Due Diligence Regarding Information about Financial Accounts) Regulations, 2019.

On March 18, 2010, the Foreign Account Tax Compliance Act (FATCA) entered into force, the purpose of which is to prevent tax evasion by Americans who hold financial accounts outside the US, and to improve the enforcement of and compliance with US tax laws. Pursuant to the aforesaid law, in 2014 Israel and the US signed an agreement to improve international tax compliance and apply FATCA ("the FATCA Agreement") and in 2015 the Commissioner published instructions for deployment to apply this agreement.

On July 14, 2016, a law amending the Income Tax Ordinance (Amendment no. 227), 2016 ("Amendment 227"), entered into force, which anchored in Israeli law the key arrangements for implementation of the FATCA Agreement and established the key arrangements for the implementation of information exchange agreements that may be signed in the future, which are based on the OECD's Standard for Automatic Exchange of Financial Account Information between countries in which foreign residents hold accounts ("Common Reporting Standard" or "CRS").

Subsequently, on August 4, 2016, the Income Tax (Application of the FATCA Agreement) Regulations, 2016, entered into force ("the Regulations"). The Regulations apply to certain categories of accounts and accordingly, financial institutions, among others, are obligated to conduct an identification process for account holders covered by the Regulations, to collect information received about them and to monitor indications that demonstrate a relationship between the account holders and the USA.

This information must be reported to the Israel Tax Authority once a year and the Tax Authority is, in turn, responsible for submitting the reports to the relevant entities in the USA. A failure to comply with the Regulations could lead to a declaration of non-compliance with respect to the financial institution and also lead to the imposition of significant sanctions.

On July 15, 2014, the OECD published a common standard for the automatic collection and exchange of information by financial institutions with respect to financial accounts of customers who are foreign residents in their countries of operation.

On February 6, 2019, and on the basis of the infrastructure for the application of the exchange of information agreements set out in Amendment 227, Income Tax (Application of a Common Reporting Standard for Automatic Exchange of Financial Account Information) Regulations were published regulating application of the multilateral convention for the automatic exchange of information - CRS. Accordingly, *inter alia*, financial institutions are obligated to identify the owners of accounts covered by the Regulations and to submit information about reportable accounts to the Tax Authority for the purpose of submitting the information to the relevant country.

On July 22, 2019, draft Income Tax (Closure of Transitional Accounts under the FATCA Agreement) Regulations, 2019, were published. The draft regulations propose provisions for the procedure to close transitional accounts, as they are defined in the regulations, in cases where the relevant information necessary to identify the account owners has not been received.

3.1.1 In the life assurance and long-term savings segment

(a) Provident Funds Law – including regulations promulgated by virtue of this law and subsequent instructions published by the Commissioner under the Provident Funds Law;

(b) Pension Advice and Pension Marketing Law.

(c) The Supervision Law

3.1.2 In the health insurance segment

National Health Insurance Law, 1994 - the law prescribes that all Israeli citizens are entitled to the healthcare services which are included in the health services basket provided by the HMO in which they are registered. The healthcare services included in the basket will be provided in Israel, except for exceptional cases where the insured may be entitled to payment for certain medical services overseas. An amendment to the National Health Law from 1998 determined that the HMOs are entitled to offer their members a plan for supplementary health services.

3.1.3 In the non-life insurance segment

Compulsory motor and motor property

(a) Supervision of Insurance Business (Conditions of a Contract to Insure a Private Vehicle) Regulations, 1986 - see Section 2.3.1.1(a) above.

(b) Law for the Compensation of Road Accident Victims (CRAV Law) and relevant regulations - see Section 2.3.1.2 above.

(c) Motor Vehicle Insurance Ordinance [New Version], 1970. Motor Vehicle Insurance (Setting up and Management of Databases) Regulations, 2004.

(d) Motor Vehicle Insurance (Deductible) (Temporary Provision) Regulations, 2008.

(e) Supervision of Financial Services (Insurance) (Conditions of a Contract for Compulsory Insurance of a Motor Vehicle) Regulations, 2010 - see Section 2.3.1.2.

Property and other sectors

(a) Supervision of Insurance Business (Conditions of a Contract to Insure Apartments and their Contents) Regulations, 1986 - see Section 2.3.1.4 above.

(b) Supervision of Financial Services (Insurance) (Maximum Commissions on Mortgage-related Structural Insurance) Regulations, 2012 - see Section 3.7.3.4.

(c) Life assurance and mortgage-related structural insurance for mortgage borrowers: the Commissioner of Insurance and the Supervisor of Banks published circulars the purpose of which is to create an arrangement in which the mortgage banks will not themselves sell life assurance and structural insurance for their mortgages, but such policies will only be sold by insurance agencies owned by the banks. These agencies may enter into agreement with a service provider to outsource the service and perform the agency's functions. An insurance agency which is wholly owned by the Group provides outsourcing services to these agencies.

3.1.4 In the insurance companies overseas segment

The insurance companies overseas are subject to laws and supervisory regulations that apply in the countries in which they operate (Greece and Turkey) and according to which they are required to hold a license to operate in non-life insurance and health insurance.

These laws also include regulations, inter alia, concerning the holding of the means of control in an insurer, transferring the means of control in an insurer, composition of the board of directors, minimum shareholders equity, the manner of investing the reserves, calculation of the reserves, and provisions concerning agreements with reinsurers.

3.1.5 Summary of the legislative arrangements and provisions of law

Following is a summary of the legislative arrangements and main provisions of law that were published during or after the reporting year - up to the publication date of this report:

General

3.1.5.1 Circulars

3.1.5.1.1 On March 29, 2020, the Commissioner published several circulars and draft circulars aimed at providing regulatory relief for this period of the outbreak of the Corona virus, including adjusting implementation of the regulatory provisions in a way that will make it easier for the companies and the insureds to apply them as necessary when dealing with the restrictions on movement and activity in this period. This includes, among other things, the publication of draft circulars and regulations that propose prescribing the possibility of suspending non-life policies (temporarily or permanently), at the insured's request, or renewing the insurance cover, before obtaining the insured's agreement; relief for members in providing a certificate of life; relief relating to various provisions concerning the work of the board of directors; an option to increase the scope of loans that may be provided to insureds from the surrender value of their policies; broadening the range of deviation from the investment policy from which a deviation will be considered a change in the investment policy; flexibility regarding the format and scope of the economic analysis required prior to making purchases of bonds on the secondary market and postponing the date on which expected current analyses are expected to be updated; flexibility in determining alternative policy with respect to the purchase of bonds on the secondary market; deferment of the implementation of various circulars that require, *inter alia*, automation deployment, and deferment of the various dates for reporting to the Commissioner, including extending the time period for reporting on a deviation from the investment rates. Additionally, a number of circulars were published that prescribe, *inter alia*, deferment of the application of various provisions as well as deferment of the dates for the submittal of information and reports to the Commissioner.

3.1.5.1.2 On March 29, 2020, the Commissioner published a circular concerning an amendment to the provisions of the Consolidated Circular on the measurement of liabilities - Liability Adequacy Test (LAT), which updates the way in which the different insurance products will be allocated for the purpose of calculating the LAT, while making localized adjustments to the way in which the calculation is prepared in Israel, and it determines that the test will be calculated by grouping together all life assurance products although calculations for the long-term sector will continue to be made separately.

3.1.5.1.3 On March 8, 2020, the Commissioner published a circular amending the provisions of the Consolidated Circular on Measurement and Liabilities - Interest Rate Assumption. The circular determines that for the purpose of calculating the interest rate and yield assumption, based on the risk-free interest rate curve at the date of the report, as required, from the financial statements at December 31, 2019, insurance companies will use a curve based on interest rate curves based on the yield to redemption of marketable Israel government bonds which are published by the company that is awarded the price quote tender, and this up to the 25th year, and from that year on the interest rate curves will be determined by extrapolation based on the Smith-Wilson method up to the Ultimate Forward Rate (UFR) to be set at 60 years. From this point on, the forward rate will be fixed. See Note 3C1(I)) to the Financial Statements.

3.1.5.1.4 On January 13, 2020, a circular was published concerning an amendment to the provisions of the Consolidated Circular regarding transactions between related parties. The amendment updates the provisions of Chapter 4, Part 2, Section 5 - Management of Investment Assets, and allos, subject to certain conditions, transactions to be performed for the purchase and sale of a non-marketable asset between the institutional investors included in that group of investors, and provided that the transaction is for the benefit of all the institutional investors included in that group.

3.1.5.1.5 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.

3.1.5.1.6 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 financial institutions which provide telephony services 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 at the most by 10%, of the average number of calls a year, and at the most by 15% of the average annual number of calls in a transitional period through July 25, 2022).. 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 enters into force on July 25, 2019. On March 29, 2020, the Commissioner published a draft temporary provision amending the circular which proposes postponing to August 1, 2020, the onset of the provisions of the circular, except with respect to the provision pertaining to call response times, and to allow the financial institutions to exclude the data for call response times from the annual average in the transition period until the expiry of the Emergency Regulations (Limitation on the number of employees in a work place to reduce the spread of the new Corona virus), 2020, or any other legislation that may replace it.

3.1.5.2 Draft circular

3.1.5.2.1 On March 25, 2020, the Commissioner published a draft concerning a policy for granting a permit to hold the means of control in a financial institution to entities that manage customers' funds. The draft circular proposes amending the policy for granting a permit to hold the means of control in a financial institution without a controlling shareholder to institutions that manage customers' funds (CM. 2019-8386), so that the policy will apply to the holding of a financial institution irrespective of whether it is a financial institution with or without a controlling shareholder, in part so that the determination that the recipient of a holding permit will not hold more than 7.5% of the means of control in a financial institution will also apply to the recipient of a permit for holding a financial institution with a controlling shareholder, directly and indirectly, and subject to obtaining the holding permit from the Commissioner of the Capital Market Authority.

3.1.5.2.2 On March 24, 2020, the Commissioner published a draft circular concerning an amendment to the Consolidated Circular - Chapter 4, Part 5 "Management of Investment Assets". The draft circular proposes establishing conditions in which an institutional investor who gains the controlling interest in a lending corporation or holds more than 20 percent of the means of control in a lending corporation as a result of obtaining the means of control in a lending corporation in the framework of a debt arrangement, will be entitled to continue to control or hold the lending corporation at this rate, and also to allow institutional investors to deduct external management commissions on an investment in ETFs held for trade, even if they do not meet the other conditions set out in the circular, at a rate that does not exceed 0.1 percent of the value of the ETF's assets, provided that the overall external management commissions in respect of the said investments in ETFs is not more than 5 percent of the expense limitation defined in the Direct Expenses Regulations.

3.1.5.2.3 On March 24, 2020, the Commissioner published a temporary provision: Notice of the Commissioner of the Capital market, Insurance and Savings on approval for investments in special cases. The draft provision proposes that financial institutions that invest in marketable bonds that are not State of Israel bonds or marketable commercial papers of the issuer, up to 25 percent of the total par value of the bonds in that series or of marketable commercial papers in that series, will be eligible to invest an additional 24 percent of the total par value of the bonds, provided that the investment is made from the money of the institutional investor, all up to September 30, 2020 or the date of expiry of the Emergency Regulations (New limitation on the number of employees in a work place to reduce the spread of the new Corona virus), 2020, or any other legislation that may replace it, whichever is earlier.

3.1.5.2.4 On March 19, 2020, the Commissioner published a draft circular concerning an amendment to the Consolidated Circular on the implementation of an economic solvency regime for insurance companies based on Solvency II" ("the Draft"), pursuant to a letter published on February 16, 2020 - see Section 3.1.5.3.3. The draft circular proposes adjusting the transitional provisions to the format set out in the European Directive, and, subject to obtaining the Commissioner's approval, to allow the reserves in respect of long-term insurance products that were sold in the past to be gradually increased until 2032. The draft circular also proposes updating the provisions of the circular on the basis of the changes made in Europe since the entering into force of the directive and related provisions, that are relevant to the Israeli market.

3.1.5.3 Directives and clarifications

3.1.5.3.1 On March 17, 2020, the Commissioner published a letter for the directors of financial institutions concerning the Corona virus crisis - Announcement by the Commissioner of the Capital Market on a shift by the financial institutions to working in a limited format. According to the letter, from March 18, 2020, financial institutions must operate in accordance with the provisions of Financial Institutions Circular 2013-9-11 "Business Continuity in Financial Institutions", with several emphases, including the allocation of appropriate resources so as to continue to provide essential processes for customers, reinforcing the ability to provide digital and telephone services, the possibility of limiting reception hours to essential services that cannot be performed on digital and telephone channels; taking measures to mitigate the risk of contagion for customers and employees, and expanding remote work by critical employees, while managing the risks entailed in this.

3.1.5.3.2 On February 13, 2020, the Commissioner published a letter for insurance company executives concerning a draft roadmap to ensure deployment by Israel's insurance companies for the adoption of IFRS 17 ("IFRS 17"). The letter states that the Capital Market Authority intends to set a date for initial application of IFRS 17 in Israel for periods beginning on or after January 1, 2023. The letter also details the key milestones that the Capital Market, Insurance and Savings Authority proposes to determine in order to ensure deployment by Israel's insurance companies for proper application of IFRS 17, and the various deployment measures that the insurance companies will be required to take for this purpose, in part with respect to adapting and operating their information systems, project management and documentation, the formulation of accounting policy, performing quantitative tests and the required methods of disclosure to the public. For additional information, see Note 3T3 to the Financial Statements.

3.1.5.3.3 On February 16, 2020, the Commissioner published a letter for insurance company executives on a "Draft outline for implementation of the Solvency II Directives in the European format" according to which the Capital Market, Insurance and Savings Authority intends to work towards adapting the Solvency regime in Israel to the Solvency II Directive and updates. The letter sets out the key operations that the authority proposes should be performed for this purpose, including formulating a framework for implementing the provisions concerning the gradual increase of the insurance reserves as well as proposed provisions concerning reports on an economic solvency regime required in the near future.

<u>Life assurance and long-term savings</u>

3.1.5.4 Provisions of law

3.1.5.4.1 On November 28, 2019, draft Supervision of Financial Services (Provident Funds) (Direct Expenses for Performing Transactions) (Temporary Provision) Regulations, 2019, were published, which propose extending until the end of 2021 the Supervision of Financial Services (Provident Funds) (Direct Expenses for Performing Transactions) (Amendment) Regulations, 2018, in which the Temporary Provision which defines different categories of direct expenses for performing transactions in provident fund assets and limiting certain expenses to 0.25% of the total revalued amount of the institutional investor's assets, was extended to the end of 2019 ("the Temporary Provision").

3.1.5.4.2 On January 2, 2020, the Capital Market, Insurance and Savings Authority published a letter of clarification that under the provisions of Section 38 of the Basic Law: the Knesset, that the temporary provision will remain in force until three months have passed from the date of convening the 23rd Knesset.

3.1.5.5 Circulars

3.1.5.5.1 On November 6, 2019, the Commissioner published a circular concerning an 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 mortality improvements for insurance companies and pension funds. Attached to the circular was a position paper updating the demographic assumptions underlying the assessments relating to annuity conversion factors at the time of retirement in life assurance policies and pension funds. For additional information, see Note 37E(2) to the Financial Statements.

3.1.5.5.2 On May 1, 2018, the Commissioner published a circular concerning the marketing of work disability insurance plans (P.H.I.), which sets out provisions concerning 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 the acquired coverage incidental to provident funds 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 date for commencement of this provision was postponed to November 1, 2019). On the same date, the Commissioner published an amendment to a circular on guidelines for work disability policies which includes additional provisions regarding the marketing of insurance cover to members of pension funds and riders to the insurance cover that insurers may offer.

3.1.5.6 Draft Circular

3.1.5.6.1 On February 25, 2020, the Commissioner published a draft circular concerning the settlement of work disability claims which proposes prescribing provisions for regulating the settlement of work disability claims by insurance companies. Among other things, the draft circular proposes limiting the documents that insureds are required to provide; appointing a personal service representative for the insured; reducing the time frame for handing the claim; provisions relating to providing a professional opinion by the Company's doctor; defining two external appeal instances for insureds who wish to appeal the company's decision, and provisions concerning a list of service providers for medical consultations.

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

<u>Health insurance</u>

3.1.5.7 Circular

On February 19, 2019, the Commissioner published a circular on the involvement of unlicensed entities in the marketing and sale of insurance products that are not group insurance - amendment. The circular postpones the onset date of the circular on this subject concerning travel insurance to May 1, 2019.

3.1.5.8 Draft circular

3.1.5.8.1 On February 24, 2020, the Commissioner published a second draft circular concerning an amendment to the provisions of the Consolidated Circular – Chapter 6, Part 3, Sections 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, other than for certain exceptions, the marketing of insurance cover for accidents will be sold as a stand-alone personal accident policy only, which will include a basic layer for all coverages (death, permanent disability, fractures and burns, hospitalization days and sick days); there will be a standard definition of an “accident”; the policy period will not be more than two years; transitional provisions concerning the manner of enrolling in the policy, including a requirement for additional specific approval after the sales conversation has ended; the insurance will be marketed directly and exclusively by insurance companies or licensees, and not incidental to the sale of any other insurance or transaction, except for marketing as a rider to the sale of a life assurance policy, 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. On that same date, the Commissioner published a draft amendment to the circular on the renewal of insurance contracts amending the applicability so that it will apply to all personal lines policies in the personal accident sector.

3.1.5.8.2 On February 24, 2020, the Commissioner published draft Supervision of Financial Services (Insurance) (Group Long-term care Insurance for HMO Members (Amendment) Regulations, 2020 which proposes amending the provisions of the Supervision of Financial Services (Insurance) (Group Long-term care Insurance for HMO Members) Regulations, 2015, to determine, *inter alia*, the possibility of marketing additional second or third layers (“expanded layer”) in group long-term care policies for HMO members who wish to purchase additional benefits based on the insured’s age at the time of enrollment in the expanded layer and which will extend the period of entitlement to insurance benefits for 96 months or life, as applicable.

<u>Non-life insurance</u>

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 September 25, 2019, the claimant filed a petition for an additional hearing on this matter.

3.1.6 Financial services and activity in the capital market

On a summary of the legislative arrangements and key provisions of law which significantly affect the financial services and capital market segment, see Sections 2.5.4 and 2.5.17 above.

3.2 Entry and exit barriers

3.2.1 Entry and exit barriers

The main existing entry barriers are: obtaining permits or licenses under the Supervision Law and/or the Provident Funds Law and/or the Joint Investment Trust Law and/or the Investment Advice Law, as applicable, and compliance with the minimum equity requirements prescribed by law.

3.2.1.1 Permits and licenses

The Commissioner has broad discretion regarding the granting of an insurer's license, corporate agent or management company license or permit for control of an insurer or management company. Among the considerations employed in granting a license to an insurer, company agent, permit to hold and permit to control, the Commissioner takes into account a broad range of considerations, including, inter alia, presentation of operative plans by the applicant, whether the company officers are suited to their positions, the monetary means, experience and business background of the entities applying for the license or permits, competition in the capital market, the government's economic policy, arrangements for reinsurance, the company's staff, etc.

In addition to the foregoing, pursuant to Section 32(C) of the Supervision Law, restrictions apply to a significant holding in the long-term savings sector. A significant holding is defined as the holding of a market segment of more than 15% of total long-term savings assets.

See Section 1.1.4 for the Company’s control structure.

The Company’s controlling shareholders hold a control permit from the Commissioner for their control in the Group’s various financial institutions and corporate agencies. The control permit prescribes restrictions on pledging means of control in the Company or in companies in the chain of control, limitations on the transfer of means of control and on maintaining the control core clear and free, and an undertaking by the Company to supplement the equity of financial institutions that it controls. For information about these commitments, see Note 8F(2) to the Financial Statements.

The Company's controlling shareholders hold a control permit from the Commissioner in respect of their control in Hamazpen. Among other things, the control permit prescribes limitations on changing the percentage holding of the controlling shareholder in Hamazpen, changing the agreements between the controlling shareholders with respect to control of Hamazpen and the agreement of the controlling shareholder to impose attachments or any other action that, in practice, might change the rights attached to the means of control.

The Company's controlling shareholders hold a permit from the ISA to control the fund manager – Harel Mutual Funds. The control permit prescribes limitations on the transfer or pledging of the means of control in the fund manager. Harel Mutual Funds has a permit from the ISA to operate as a mutual fund manager. Harel Investment Management has a license from the ISA to operate as a portfolio management company. Alfa Tech has a license from the ISA to operate as a portfolio management company.

3.2.1.2 Equity

3.2.1.2.1 The regulatory capital requirements from subsidiaries that are insurers, particularly in long-term activity as well as the regulatory capital required in the Solvency regime, are a significant entry barrier to activity in the different insurance sectors in which the Company operates. On the capital requirements for subsidiaries that are insurers, see Note 8F to the Financial Statements.

3.2.1.2.2 The rendering of marketing services and management of investments for a customer requires, both according to the Investment Advice Law and its regulations, and under the Joint Investment Trust Law and its regulations, minimum equity and professional liability insurance, according to the conditions prescribed in the regulations. For ETN and deposit certificate activity, the required equity is that of an issuing company. See Note 8F(3) to the Financial Statements.

3.2.1.3 Expertise and experience

Activity in the Group's areas of activity requires professional knowledge, experience, and familiarity with the markets, including the reinsurance market. Specific knowledge is required particularly for actuarial work and risk management. Experience is particularly important for setting tariffs and for underwriting new business.

3.2.1.4 Volume of activity

The Group's operations entail a large number of fixed expenses, mainly in order to comply with the numerous regulatory requirements. Consequently, a large volume of activity is necessary to cover these fixed expenses.

3.2.1.5 Limit on market segment in the long-term savings sector

Pursuant to a circular published on December 17, 2019, a person will not be permitted to hold (where a holding is according to its meaning in Section 32(C1) of the Supervision Law) more than NIS 192.19 billion of the total value of all long-term savings assets. This amount comprises the total value of long-term assets managed by that person and by all the financial institutions which he controls. Concerning a person who controls such assets together with others, the entire value of the said assets will be attributed separately to each of the controlling entities.

3.2.2 Exit barriers

3.2.2.1 <u>Insurance segment</u> - the principal exit barriers in the insurance industry are the settlement of all the insurance obligations. The liquidation or dissolution of an insurer's insurance business is subject to the control of the Commissioner who may instruct an insurer to operate in a particular way when dissolving business or to apply to the courts for a liquidation order to be supervised by the court, and regarding insurance companies overseas - to the approval of the relevant regulator in each of the countries in which the overseas insurance companies operate. In life assurance business, as well as in non-life assurance business where claims are typically long-tail, including the activity of EMI, the termination of activity entails an arrangement to continue handling the exercising of all the rights of the policyholders or members.

3.2.2.2 Pension funds and provident funds - the principal exit barrier to pension fund and provident fund management is obtaining the Commissioner's approval to transfer of management of the funds to other management companies, including to merge, split, discontinue management, or enter into voluntary liquidation of a management company.

3.2.2.3 Capital market - as a rule, there are no significant exit barriers in this sector. Nevertheless, a mutual fund may only be dissolved in accordance with the conditions of the fund's agreement or through the courts, and subject to the provisions of the Joint Investment Trust Law. The principal exit barrier from fund management activity is the liquidation of mutual funds. This must be performed as prescribed in the fund's articles or through the court, in accordance with an application by the Securities Authority. Additionally, any sale or transfer of control or means of control of a particular rate of a fund manager requires the buyer to obtain a control permit from the ISA.

3.3 Critical success factors

The factors which are critical to the success of the Group's activity can be divided into general factors which affect all the Group's operating segments and factors which have a special impact on specific areas of the operations.

In recent years, one of the key success factors is the ability to develop digital, data-based tools.

3.3.1 General success factors

3.3.1.1 Changes in the state of the economy, the capital market and employment levels.

3.3.1.2 Regulatory changes, including price control. See Section 3.1.

3.3.1.3 Level of competition in the Group's operating segments. See Notes 2.1.3, 2.3.3, and 2.5.14.

3.3.1.4 Agreements with reinsurers.

3.3.1.5 Success in retaining customer portfolios.

3.3.1.6 Quality of investment management.

3.3.1.7 Quality of financial risk management.

3.3.1.8 Quality of computer and technology systems.

3.3.1.9 The development of service-oriented technology tools for customers and agents.

3.3.1.10 Integration of advanced digital methods for providing customized and optimum service for clients and agents.

3.3.1.11 Success of distribution channels, including distribution channels for increased demand and the creation of new markets. See Sections 2.5.13 and 3.7.

3.3.1.12 Quality of customer service (for policyholders, members of provident and pension funds, and other customers).

3.3.1.13 Quality of service to agents.

3.3.1.14 Creation of integrated solutions and the tailoring of new products to changing market demand.

3.3.1.15 Retention and development of human capital.

3.3.1.16 Effectiveness of the operating and marketing systems.

3.3.2 Success factors specific to the insurance and long-term savings wing

3.3.2.1 The level of management fees actually collected.

3.3.2.2 Underwriting methods.

3.3.2.3 Product Pricing.

3.3.2.4 The number of claims and catastrophes.

3.3.2.5 Advertising and branding.

3.3.2.6 Efficient customer service.

3.3.2.7 Agreements with service providers.

3.3.2.8 Changes in life expectancy.

3.3.2.9 Tax benefits for the different long-term savings products.

3.3.3 Success factors specific to the health insurance segment

3.3.3.1 Quality of service to customers and agents.

3.3.3.2 Agreements with high quality service providers in Israel and abroad.

3.3.3.3 Development of new products that meet changing needs in the economy.

3.3.3.4 Prices of medical services.

3.3.3.5 Reliability and effectiveness of the underwriting processes.

3.3.4 Success factors specific to the non-life insurance segment

3.3.4.1 Correct costing of tariffs.

3.3.4.2 Mix of customers.

3.3.4.3 Reliability of the underwriting data.

3.3.4.4 Cost of operations and marketing.

3.3.4.5 Quality of investment management.

3.3.4.6 Effectiveness of claims management and the cost of settling claims.

3.3.4.7 The extent of fraud and fraud prevention. The ability to effectively utilize the information transferred from ISO claims when locating fraudulent claims and at the underwriting stages.

3.3.5 Factors specific to the success of the capital market and financial services segment

3.3.5.1 Quality investment management.

3.3.5.2 Advanced computer systems which support activity in the financial services sector and are capable of supporting new products and services in this area.

3.3.5.3 Quality manpower in the investments sector and marketing sector.

3.3.5.4 Providing customers with professional, reliable service.

3.3.5.5 Awareness of the performance and quality of companies within the Group, particularly among investment advisors in the banks, who form the main channel for marketing and distributing the mutual funds.

3.3.5.6 Adapting the basket of products offered to customers based on their needs and market conditions.

3.4 Investments

The Board of Directors of the Company outlines the Group's general economic policy on various subjects, including the work of the investment committee appointed by the Board. The board of directors of each subsidiary which is an insurer or provident fund management company, or pension fund management company or mutual fund management company, outlines the investment policy for its areas of activity. The investment committees which operate among the Group's insurance companies, pension fund and provident fund management companies, and mutual fund management companies determine the specific investment policy of each of the Group's entities.

The investments are managed through the investment division of Harel Insurance which coordinates investment activity for the insurance companies, and the pension and provident funds managed by the Group. Management of the investment activity for the mutual funds managed by Harel Mutual Funds takes place through Harel Mutual Funds.

Assets under management (AUM) (NIS million) at December 31, 2019: [(1)]

Financial institution / subsidiary	Nostro funds	Members funds / clients (yield dependent liabilities and assets of provident and pension funds)	Total management assets
Harel Insurance	31,524	67,202	98,726
EMI	788	-	788
Interasco	163	-	163
Turk Nippon	326	-	326
Harel Pension & Provident	227	113,761	113,988
Tzva Hakeva Fund	18	5,812	5,830
LeAtid	18	1,245	1,263
Harel Mutual Funds	29	43,587	43,616
Harel Finance Investment Management	3	13,901	13,904
Harel Financial Alternative R.E	1	168	169
Harel Exchange Traded Deposit	-	1,352	1,352
Harel Investments	843	-	843
Other	1,899	-	1,899
Total	**35,839**	**247,028**	**282,867**

(1) The table describes only significant companies that are primarily engaged in money management.

3.4.1 Investment management policy

On January 31, 2019, the Board of Directors approved the investment policy of the Company for the Reporting Period, and on February 3, 2020, the investment policy of the Company was approved for 2020.

Pursuant to the Commissioner's circular dated July 26, 2009 concerning a statement made in advance by a financial institution about its investment policy, the Company publishes information relating to the investment policy of the subsidiaries which manage pension funds, provident funds and yield-dependent obligations (for insurance companies) on its website, at these URLs:

(a) Harel Insurance:

https://www.harel-group.co.il/about/harel-group/harel/investor-relations/Pages/investment-policy.aspx

(b) Management of pension and provident funds:

https://www.harel-group.co.il/about/harel-group/harel-pensia-and-gemel/Pages/investment-policy.aspx

3.5 Reinsurance

Reinsurance is a measure designed to hedge the risks of the insurance companies. The insurance companies share their risks with other reinsurance companies through reinsurance, thus reducing their exposure.

Other purposes of purchasing reinsurance are to leverage the volume of insurance obligations which an insurance company may undertake, in view of the limitations regarding its equity as well as the purchase of insurance and actuarial knowledge based on the experience and broad scope of activity of reinsurers all over the world.

The Group spreads the risks through reinsurance treaties, transferring to the reinsurers part of the insurance risk which it undertakes (so that the reinsurers undertake to pay the insurance company their share of the loss towards the insured), in consideration of sharing part of the premium collected from the insured, and subject to agreements which are signed in advance .

The Group purchases protections against two main categories of risk - catastrophe and individual risks.

The reinsurance plan of Harel Insurance is approved each year by the Board of Directors of Harel Insurance and is reported to the Commissioner.

3.5.1 General explanation about the categories of reinsurance treaties

Treaty reinsurance - an annual agreement or multi-year agreement with several reinsurers, in which the reinsurers undertake to share the risks, usually in a particular sector. There are several types of treaty:

Quota Share proportional treaties - a proportional reinsurance agreement, whereby the reinsurers who participate in the treaty agree to accept a fixed portion of the risk for all the insurance of a particular type that the direct insurers have undertaken. The reinsurers receive a proportionate share (quota) of the net premium received by the direct insurer, and they share payment of the insurance benefits and expenses when the insured event occurs, pro rata to the proportion stipulated in the reinsurance agreement.

Surplus proportional treaties - a reinsurance agreement in which the direct insurer bears the insurance risk up to a certain defined amount (on the first level - retention), or alternatively in a Quota Share treaty in which the direct insurer bears the risk up to the defined amount, and the reinsurer bears the risk above this level in portions, up to the capacity defined in the reinsurance treaty.

Excess of Loss treaties - a reinsurance treaty which defines the maximum loss that the direct insurer will bear in a particular branch, and the reinsurer will bear the loss over and above this amount, in return for a reinsurance premium which is agreed upon in advance. In Excess of Loss treaties, the insurer pays any claim up to the amount stipulated in the agreement (retention) and the reinsurer bears the costs over and above the defined amount. The direct insurer may also purchase Excess of Loss insurance for the participants in a Quota Share treaty and Excess of Loss treaty who wish to do so.

Facultative treaty - a reinsurance treaty for special businesses and insurance (usually for large business customers or those which entail special risks) in which the limits of liability exceed the amounts of the treaty agreement or where, for other reasons, it is not possible or there is no wish to include it as part of the treaty. In this case, separate reinsurance is purchased which is called facultative insurance.

Proportional treaties: these are found in the other property insurance sector (industry, businesses, household, etc.), life assurance (including work disability), as well as in health insurance (illness and hospitalization, long-term care and personal accident). In these treaties, the Group shares a proportion of the insurance risk which it undertakes with the reinsurers, for any amount of liability (Quota Share and/or Surplus) over and above the retention.

Excess of loss (non-proportional) treaties: these treaties are present in the liabilities insurance sector (third party, professional liability, etc.), in compulsory motor insurance and earthquake damages in the other motor property sector. In these contracts the Company uses reinsurance to protect itself above the amount of the loss which it has taken upon itself (retention). The premium paid to the reinsurer is not in proportion to the risk it bears, but is calculated according to a tariff defined and calculated based on the turnover of the premiums and/or the number of vehicles and/or sums insured which are protected by the treaty. Likewise, in addition to the ordinary reinsurance, there are forms of reinsurance which hedge the retention against catastrophes, particularly large amounts of cumulative losses from a single event, such as earthquake losses in other property insurance, other natural perils, and accidents with a large number of victims. These reinsurances are applied, where necessary, in addition to the proportional (quota share) reinsurance.

Furthermore, the Group sometimes enters into facultative agreements, which are reinsurance agreements relating to concrete policies for concrete businesses/sites, or specific insureds, where due to the scope of the required insurance cover and/or its complexity and/or the sums insured for risk, they are not included or the insurance companies in the group do not wish to include them in the Company's Quota Share and Excess of Loss treaties in facultative agreements. The reinsurer decides separately for each business whether it wishes to share the risk and at what percentage. In some cases, the customer has the right to know who the Company's reinsurers are and to contact the reinsurer directly when certain conditions are met (cut-through provision).

Regarding Quota Share and Surplus reinsurance treaties, the percentage commissions received in connection with the reinsurance treaties are from the net premium and are at a flat rate. Harel Insurance does not receive commissions for Excess of Loss reinsurance treaties. In facultative agreements, Harel Insurance receives a commission from the reinsurers as determined in separate negotiations for each transaction conducted with each of the reinsurers.

3.5.2 Life assurance and long-term savings

The Group purchases reinsurance for the risk component of life assurance policies (risk of death, critical illness, disability, and work disability). In this segment of operation, the Company has the following reinsurances: (a) surplus treaties; (b) Quota Share treaties; (c) Aggregate Excess of Loss treaties for catastrophes .

The Group enters into reinsurance treaties to cover catastrophic events. These contracts are designed to protect the Group against cumulative losses from a single event involving large amounts, such as an accident involving a large number of victims, and to protect the Group's total retention.

In addition to the treaties described above, the Group enters into individual reinsurance agreements - facultative agreements (generally for large sums insured or those that entail special risks).

In the proportional treaties and Excess of Loss treaties, the Group is entitled to two categories of commission: flat rate commissions as a percentage of the net reinsurance premiums (and in some cases an enlarged premium in the first year) and commissions which are set as a rate of the profits of the reinsurance transaction.

3.5.3 Health Insurance

The Group purchases reinsurance for the risk component of health insurance policies (personal lines transplants, group transplants, and personal lines long-term care). In this segment of operation, the Group has the following categories of reinsurance: (a) Quota Share treaties; (b) Aggregate Excess of Loss treaties for catastrophes.

The Group enters into reinsurance treaties to cover catastrophic events. These contracts are designed to protect the Group against cumulative losses from a single event involving large amounts, such as an accident involving a large number of injured persons, and to protect the Group's total retention.

In the proportional treaties, the Group is entitled to two categories of commission: flat rate commissions as a percentage of the reinsurance premiums (and in some cases an enlarged premium in the first year) and commissions which are set as a rate of the profits of the reinsurance transaction.

3.5.4 Non-life insurance

3.5.4.1 Motor property (CASCO)

Reinsurance treaties in this sub-segment provide Harel Insurance with protection against catastrophic events and they are Excess of Loss treaties. Additionally, Harel Insurance has a Quota Share treaty whereby the reinsurers participate in comprehensive motor property insurance with a high value, including luxury vehicles, trucks and buses.

Harel Insurance does not receive commissions for non-proportional treaties. In proportional treaties, Harel Insurance is entitled to commissions at a flat rate of the net reinsurance premiums.

3.5.4.2 Compulsory motor

The reinsurance treaties in this sub-segment are Excess of Loss. A treaty of this type specifies the maximum loss to be borne by the insurer for any claim or for a single event (retention), and the reinsurer bears the costs over and above the amount stipulated in the treaty, up to a maximum amount specified and in consideration of reinsurance premiums agreed upon in advance.

Harel Insurance does not receive commissions for non-proportional treaties.

3.5.4.3 Other liabilities sectors

Most of the reinsurance for this area of activity takes the form of facultative agreements for specific business (mostly for large customers) and individually, and are on a Quota Share and/or Excess of Loss basis. The reinsurance treaties of Harel Insurance in this sub-sector of activity are Excess of Loss. A treaty of this type specifies the maximum loss to be borne by the insurer bears for any claim or for a single event (retention), and the reinsurer bears the costs over and above the amount stipulated in the treaty, up to a maximum amount specified and in consideration of reinsurance premiums agreed upon in advance.

Harel Insurance does not receive commissions for non-proportional treaties.

3.5.4.4 Property and other sectors

Harel Insurance's reinsurance treaties in this sub-segment are Quota Share, as well as Excess of Loss. Additionally, in this segment Harel Insurance enters into facultative agreements with the reinsurers. In most cases, the facultative agreements are on a Quota Share basis. Nevertheless, in some transactions the facultative agreement is on an Excess of Loss basis.

In proportional treaties, Harel Insurance is entitled to commissions which are mostly at a flat rate of the net reinsurance premiums. Regarding the Surety Business agreement, Harel Insurance is entitled to commissions at a flat rate of the net reinsurance premiums, and Harel Insurance also receives a profit fee from the reinsurers, which is calculated at the end of each calendar year.

3.5.4.5 Credit insurance for mortgages

EMI has no reinsurance arrangements.

3.5.5 Insurance companies overseas

3.5.5.1 Interasco

In compulsory motor insurance, the reinsurance treaties are Excess of Loss.

In the other property sectors, the reinsurance treaties are Quota Share and Surplus treaties, as well as combined (Quota Share and Surplus) treaties. In addition, in this segment, Interasco has facultative agreements with reinsurers for insurance cover for specific businesses, both due to the capacity of the insurance contracts and due to the nature of the insured's activity. The facultative agreements are on a proportional basis.

Other property sectors: the commission rate received in connection with the reinsurance treaties is from the net premium and on a sliding scale. In the facultative agreements, Interasco receives a commission from the reinsurers as determined in the negotiations for each individual transaction.

In fire insurance, the Excess of Loss treaties hedge the retention against catastrophes, which determine the maximum loss that the insurer bears for a single event, and the reinsurer bears the costs over and above the amount stipulated in the treaty and up to a maximum amount determined and in consideration of reinsurance premiums agreed upon in advance.

Interasco has Global Partner agreements with QBE and ACE, among the largest multinational insurers in the world. Under the Global Partner agreements, Interasco provides insurance cover in Greece for that company's multinational transactions, mainly in property and liability insurance. The insurance liability for these transactions is fully backed (100%) by reinsurance.

Health insurance: Interasco has an Excess of Loss treaty which defines the maximum loss that Interasco will bear in respect of a single event, and the reinsurer will be responsible for those costs over and above the amount prescribed in the treaty and up to the maximum amount stipulated, in consideration of reinsurance premiums agreed upon in advance.

3.5.5.2 Turk Nippon

In the motor segment, the company has Excess of Loss reinsurance treaties.

Other property sectors: the reinsurance treaties are integrated Quota Share and Surplus treaties. In addition, in this segment, Turk Nippon has facultative agreements with the reinsurers for insurance cover for specific businesses, both due to the capacity of the insurance contracts and due to the nature of the insured's activity. The facultative agreements are on a proportional basis. The commissions received in connection with the reinsurance treaties are from the net premium and are at a flat rate. In facultative agreements, Turk Nippon receives a commission from the reinsurers as determined in the negotiations for each individual transaction.

In fire insurance, the Excess of Loss treaties hedge the retention against catastrophes, which determine the maximum loss that the insurer bears for a single event, and the reinsurer bears the costs over and above the amount stipulated in the treaty and up to a maximum amount determined and in consideration of reinsurance premiums agreed upon in advance.

Travel insurance: Turk Nippon has an agreement for the full cover of all the policies which it issues with AXA .

In the personal accident sector: Turk Nippon has a Quota Share treaty and Surplus agreement.

Turk Nippon has a Global Partner agreement with RSA and Royal Sun Alliance, one of the largest multinational insurers in the world. Under the Global Partner agreement, Turk Nippon provides insurance cover in Turkey for that company's multinational transactions, mainly in property and liabilities insurance. The insurance liability for these transactions is fully backed (100%) by reinsurance.

3.5.6 Changes in reinsurance arrangements

In the Reporting Period, there were no material changes in reinsurance arrangements in the: life assurance and long-term savings segment, and insurance companies overseas segments

In the health insurance segment, a reinsurance treaty for transplants and special treatment abroad was cancelled and for the first time an Excess of Loss treaty was signed in the travel insurance sector.

3.5.7 Changes in reinsurance arrangements after the reporting period

3.5.7.1 After the Reporting Period there were no material changes in reinsurance arrangements in the life assurance and long-term savings segment, in health insurance, and insurance companies overseas.

3.5.7.2 After the Reporting Period, there were no material changes in the reinsurance agreements in the non-life sector, except for an increase in a property treaty to capacity of USD 100 million and an increase in a catastrophe fire protection treaty to USD 300 million.

3.5.8 Policy of exposure to reinsurers

General

Bared on the Supervision of Financial Services (Insurance) (Board of Directors and its Committees) Regulations, 2007, Section 8 (A)(7), the Company's Board of Directors is required to establish a policy for reinsurance, including setting a framework for the maximum exposure to a single reinsurer and group of reinsurers with a financial interest. Additionally, Insurance Circular 2003/17 concerning management of the exposure to reinsurers sets out provisions and guidelines on management of the exposure to reinsurers, a requirement to establish a policy and limits regarding exposure to reinsurers, and it also determines provisions for reporting to the Commissioner. In view of the foregoing, the policy of exposure to reinsurers and the Company's deployment for the management and control of the exposures is approved each year by the Company's Board of Directors.

The policy of the Group's insurance companies regarding their exposure to reinsurers is based on spreading the risks among a large number of financially robust, highly rated reinsurers, so that the participation rate of each reinsurer in the risk transferred to them is not large. This policy applies particularly to those sectors where the exposure transferred is for significant risks. The Company constantly tracks the rating of the reinsurers and of other information that provides an indication of the financial robustness of the reinsurers. This policy has proven itself in the past, when an economic crisis affected the reinsurers and particularly during periods of deep, global financial crisis, as a result of which a reinsurer may suspend its activity or continue to operate under financial difficulties. The Company had no difficulty in replacing such reinsurers with other reinsurers, spreading the share of this reinsurer (which in any event did not have a large share in view of the Company's risk-spread policy) among other reinsurers.

The need for the reinsurance, for both personal lines and group insurance, is determined by the Company's management, based on the risk appetite derived from the following parameters: probability of a large claim; probability of the accumulation of several claims to form a large amount stemming from a single event; cases where there is concern of a change in the claims trend; products where volatility may be high; a product or branch for which the accumulated insurance experience is inadequate; embarking on a new area of activity or new categories of cover, before the Company has sufficient experience to estimate the insurance cover at an adequate level of significance.

To reduce the risk entailed in exposure to the reinsurers, the Company operates according to the following principles:

A. Financial robustness - the Company reviews the financial robustness of the reinsurer as it is reflected in the credit rating and it applies the following policy:

- As a rule, the Company enters into agreement with reinsurers who are rated A- and higher only.
- Where reinsurance is required for a particular area of activity, in accordance with the procedure described above, but no reinsurers are available with the required rating for this activity, the Company may reach agreement with a reinsurer whose rating is

less than A-, subject to approval in writing from the head of reinsurance in the relevant segment.

- The overall exposure to reinsurers with a rating of less than A- is limited to 5% of the recognized equity of Harel Insurance. At present, only a small number of the reinsurers have a rating of less than (A), although the volume of cover in these treaties is relatively low and in the short term.
- In those instances where, during the course of the agreement, the reinsurer's rating falls, causing a passive deviation from the foregoing conditions, the matter is submitted to the Company's management for a review of the agreement.
- The spread policy is also applied with respect to the exposure to earthquake risk. In this context, additional limitations were defined at the level of exposure to loss events on the basis of MPL to a single reinsurer. Consideration of the insurer's rating was weighted and from this the limit to the rate of exposure vis-a-vis the reinsurer was derived, from the total exposure to an earthquake event.

B. Spread of the exposure - spreading the risks among several financially robust reinsurers, so that the overall rate of exposure in the risk for each insurer is not high, where possible. To this end, it was determined that other than in special cases, the Company's policy will be as follows:

- Spread at premium level - the total premiums paid to a single reinsurer during the course of the year will not be more than 20% of all the premiums paid to reinsurers.
- Spread at level of exposure to a single reinsurer - limitations were determined, taking into account the insurer's financial robustness as reflected in the rating published by international rating companies (such as S&P and AM Best), and as a ratio of the recognized equity of Harel Insurance.
- At the level of exposure to a group of reinsurers - an exposure limit was set for the group at a level that does not exceed 15% of the recognized equity of Harel Insurance.

C. A first-time agreement with a reinsurer is based on the business potential inherent in the joint venture, the reinsurer's expertise in the relevant area of insurance, the scope of the reinsurer's relevant activity in Israel and abroad, and a review of its financial robustness and whether it meets the A rating limitation, as mentioned above. When certain conditions that have been defined in the Company's policy are satisfied, the Risk Management Department will also be asked for its expert opinion prior to the agreement.

D. Credit exposure to reinsurers is managed in accordance with the Company's procedures. Additionally, the Company monitors the balances and obligations of the reinsurers vis-à-vis the Company, and where necessary it makes provision for doubtful debts where relevant, on the basis of individual risk estimates and scope of the debt. Where the Company believes that there is a possible risk of insolvency on the part of the reinsurer, the share of the reinsurer that is in financial difficulty is computed according to the actuary's recommendation, which takes all the risk factors into account.

3.5.9 Life assurance and long-term savings

3.5.9.1 In 2019, reinsurance premiums in life assurance account for 2.6% of the Group's gross premium.

3.5.9.1.1 In Quota Share treaties there are no restrictions or limits to cover in respect of the reinsurer's participation in significant claims for the reporting period.

3.5.9.1.2 In Excess of Loss treaties for catastrophic events, the Group did not reach the limits set during the reporting periods, and it has no outstanding claims on a scale approaching the defined limits.

3.5.9.1.3 The Group has several reinsurers whose share of the reinsurance premiums in life assurance account for 10% or more, as specified below:

Name of reinsurer	S&P rating at date of publication of the report	Premiums for the reinsurer (NIS million)	Percentage of all premiums for the reinsurers
Swiss Re	AA-	66	53%
Munich Reinsurance	AA-	27	22%

3.5.10 Health insurance

3.5.10.1 In 2019, reinsurance premiums in health insurance account for 7.6% of the Group's gross premium.

3.5.10.2 In Quota Share treaties restrictions there are restrictions or limits to cover in respect of the reinsurer's participation in claims that are insignificant.

3.5.10.3 In Excess of Loss treaties for catastrophic events, the Group did not reach the limits set during the reporting periods, and it has no outstanding claims on a scale approaching the defined limits.

3.5.10.4 The Group has several reinsurers whose share of the reinsurance premiums in health insurance accounts for 10% or more, as specified below:

Name of the reinsurer	S&P rating at date of publication of the report	Premiums for the reinsurer (NIS million)	Percentage of all premiums for the reinsurers
Partner Re	A+	91	24%
SCOR	AA-	166	44%
Swiss Re	AA-	62	16%

3.5.11 Non-life insurance

3.5.11.1 In 2019, reinsurance premiums in non-life insurance account for 31.6% of the Group's gross premium.

3.5.11.2 The Group has a reinsurer whose share of the reinsurance premiums in non-life insurance accounts for 10% or more, as specified below:

Name of the reinsurer	S&P rating at date of publication of the report	Premiums for the reinsurer (NIS million)	Percentage of all premiums for the reinsurers
Zurich Insurance Company	AA-	379	35%

3.5.11.3 In the other liabilities insurance sub-segment, the Company had a reinsurer in respect of periods prior to the Reporting Period, to which it transferred more than 10% of the total premiums of Harel Insurance. This relatively high level of exposure to the reinsurer can be attributed to a specific category of professional liability policy, and regarding these transactions Harel Insurance signed facultative treaties with two special reinsurers who specialize in and provide cover for this type of activity. In the year of the report, one reinsurer sold its share of the facultative treaties to another reinsurer.

3.5.11.4 In the motor property, compulsory motor and other liabilities sectors, Harel Insurance did not reach the maximum amounts determined in the reinsurance treaties during the Reporting Period and it has no outstanding claims of a scope close to the defined limits.

3.5.11.5 Property and other sectors:

(a) In the Quota Share and Surplus fire treaties there are limits to exposure for cover for earthquakes to a maximum of USD 40 billion and cover of a further 10% in addition to the above as necessary, automatically, subject to reporting to the reinsurers. Likewise, there is a limit to the cover for a single earthquake of an amount which is 5% of the above-mentioned exposure.

(b) In a treaty for terror risks pertaining to property (a Quota Share treaty and a Surplus treaty), there is a maximum limit of USD 100 million per event and USD 120 million per year.

3.5.12 Insurance companies overseas

3.5.12.1 Interasco

3.5.12.1.1 Interasco has no reinsurance agreement in which it transfers to a reinsurer more than 10% of all the premiums of Interasco.

3.5.12.1.2 Interasco did not reach the maximum amounts determined in the reinsurance treaties during the Reporting Period and it has no outstanding claims of a scope close to the limits defined in the Excess of Loss reinsurance treaty.

3.5.12.2 Turk Nippon:

3.5.12.2.1 At December 31, 2019, there is no reinsurance company with premiums of more than 10% of the total turnover of TNS.

3.5.12.2.2 Turk Nippon did not reach the maximum amounts determined in the reinsurance treaties during the Reporting Period and it has no outstanding claims of a scope approaching the limits defined in the Excess of Loss reinsurance treaty.

3.5.13 Exposure of the reinsurers to earthquakes

The Company's policy of spreading the risks among a large number of reinsurers in those sectors where the exposure ceded to reinsurers is significant, so that each reinsurer has a relatively small share of the risk, is also applied to earthquake risks. The average Maximum Probable Loss rate ("MPL") (which represents the estimated maximum loss which may be incurred from an earthquake) is 2% before the deductible. When making decisions regarding the amounts of reinsurance cover for catastrophic losses, the Company relies on the results of a risk analysis which has been prepared for it several times in the past by Risk Management Services (RMS), an international company with experience in assessing earthquake risks, and Air Worldwide Corporation, which is another international company experienced in this field. The Company purchased Air Worldwide Corporation's software program and its estimates are also based on the results of a risk analysis conducted independently by the Company's actuary department using this model.

The reinsurers' exposure to earthquake risks: as noted above, the Company's policy regarding reinsurance is to spread the risks among as many reinsurers as possible, each with low participation rates. This policy is also applied to the reinsurers' exposure to earthquake risks. The reinsurers share the earthquake risks proportionally and non-proportionally, as follows: Quota Share treaty for property (a combined Quota Share and Surplus treaty) which as part of the property cover insurance, also includes cover for earthquake risks at the same rate, and in addition a facultative agreement for property transactions (mainly agreements on a proportional basis) which includes cover for earthquake risks in proportion to and at the same rate as the participation for the property risks. Likewise, the Company purchases an Excess of Loss treaty for earthquake risks for property only, which protects the Company's retention. This treaty was not renewed. The ratings of most reinsurers for earthquake risks are A- or higher, and are rated by S&P and AM Best. When computing the MPL used by the Company, which as noted above is on average more than about 2% before the deductible, the sums insured at December 31, 2019 for the exposure of the proportional reinsurers for earthquakes are NIS 11,468 million and for non-proportional reinsurance (Excess of Loss) is NIS 1,434 million. Each reinsurer calculates its own MPL and bases its estimate on the professional tools available to it, and also uses companies which specialize in estimating earthquake risks all over the world. The Swiss reinsurer, Zurich, which has an AA- rating, is exposed to earthquake risks, in terms of MPL, at a rate of 26.2% of the total exposure to earthquakes for the MPL calculation.

3.5.14 Global Partner agreements

Harel Insurance has Global Partner agreements with several leading, multinational insurance companies, including: Allianz, AXA, Ace, Chubb, Royal & Sun Alliance, IF P&C, XL, QBE, HDI, Zurich. In 2019, Harel Insurance entered into Global Partner agreements with Swiss Re, INI, BHSI, Hartford and Tokio Marine.

Under the Global Partner agreements, Harel Insurance represents these companies and provides insurance cover in Israel for the multinational transactions of these companies, mainly in property and liability insurance. In all cases, the insurance liability for these transactions is fully backed (100%) by reinsurance.

Furthermore, Harel Insurance has entered into agreements with some of the multinational companies listed above according to which the multinational companies provide insurance cover abroad to customers of Harel Insurance. In all cases, the insurance liability for these transactions is backed by reinsurance at the rate specified for each transaction.

3.5.15 Additional information
For additional information about reinsurance. See Note 37I to the Financial Statements.

3.5.16 Reinsurance results in non-life insurance (NIS million) [(1)]

2019 (NIS thousands)	:Sub-areas of insurance activity				
	Comp. motor	Motor property	Other liabilities	Property and others	Total
Total premiums	7	13	755	316	1,091
Profit (loss) [(2)]	**16**	**(3)**	**240**	**(5)**	**248**

2018 (NIS thousands)	:Sub-areas of insurance activity				
	Comp. motor	Motor property	Other liabilities	Property and others	Total
Total premiums	7	26	740	298	1,071
Profit (loss) [(3)]	**16**	**(8)**	**147**	**52**	**207**

2017 (NIS thousands)	:Sub-areas of insurance activity				
	Comp. motor	Motor property	Other liabilities	Property and others	Total
Total premiums	4	25	722	262	1,013
Profit (loss)	**3**	**(4)**	**260**	**[(4)] (98)**	**161**

(1) The reinsurance results are calculated as noted in Note 37I to the Financial Statements. The data are computed mainly according to reinsurance premiums, net of the reinsurers' share of the claims (including reserves). Accordingly, the results of the reinsurers' activity did not take into account their investment revenues, which account for a significant component of their final performance, particularly in the liabilities sectors where there are significant amounts of reserves and claims are generally long tail.

(2) The increase of the reinsurers in 2019 compared with the previous year is mainly attributable to the property loss sector which last year was affected by a negative development in the number of claims.

(3) The increase in reinsurers' profit in 2018 compared with 2017 is mainly attributable to revised estimates in the professional liability branch and in contrast to a negative development in property loss claims.

(4) The loss is attributable to the reduction of the discounting rate by 0.25% and to revised estimates for claims in the professional liability sector.

The results of the reinsurers’ activity in the liabilities sector can be attributed, largely, to the professional liability branch and particularly medical malpractice insurance. The reinsurers' profits arise mainly from cover for earthquakes, in the form of catastrophe insurance and as a component of property and other insurance.

Property and others sub-sector	2019	2018	2017
Premium in respect of proportional reinsurance	478	482	421
Premium in respect of non-proportional reinsurance	35	29	82
Premium in respect of earthquakes	243	229	219
Total	**756**	**740**	**722**

3.5.17 Reinsurance results in the insurance companies overseas segment

	2019	2018	2017
Total premiums	106	120	124
Profit	**5**	**3**	**20**

3.6 Human Capital

The Company's management believes that its employees are its most important strategic asset. Despite the size of the Company, management does everything possible to instill in its employees the atmosphere of a family company. The Company invests considerably in its human capital and provides employees with a warm home.

Regarding the Group's organizational structure - see Section 1.1.9 above.

The Group's workforce:

At December 31, 2019, the Group (including companies which are directly or indirectly controlled by Harel Investments) had a staff of about 4,836 filling some 4,344 positions. The Group employs staff who work in a specific area of activity, and employees who provide services to more than one area of activity. For example, the Finance Division employees provide services to more than one area of activity.

Taking the foregoing into account, the Group's workforce at December 31, 2019, is as follows:

Company / Division / Department	Number of employees
Harel Investments	**3**
Harel Insurance	
Management/HQ/other	63
Non-life Insurance	340
Long-term Savings	752
Health Insurance	392
HQ	675
Investments	82
Finance & Resources	405
Actuary and Risk Management	38
HR	61
Dikla, LTC claims, Life Claims and Personal Accident	193
Legal Division	22
Total Harel Insurance (incl. Harel Pension and Provident)	**3,023**
Harel Finance	**164**
Harel Hamishmar Computers	**341**
Controlled insurance agencies	**1,117**
Interasco	**66**
Turk Nippon	**106**
EMI	**6**
Total Group	**4,826**

Taking the foregoing into account, the Group's workforce at December 31, 2018, is as follows:

Company / Division / Department	Number of employees
Harel Investments	**3**
Harel Insurance	
Management/HQ/other	84
Non-life Insurance	330
Long-term Savings	735
Health Insurance	405
HQ	696
Investments	82
Finance & Resources	392
Actuary and Risk Management	39
HR	56
Dikla, LTC claims, Life Claims and Personal Accident	65
Total Harel Insurance (incl. Harel Pension and Provident)	**2,884**
Harel Finance	**178**
Harel Hamishmar Computers	**339**
Controlled insurance agencies	**1,353**
Interasco	**69**
Turk Nippon	**100**
EMI	**6**
Total Group	**4,932**

3.6.1 Material changes in the list of senior officers

There were no significant changes in the list of senior Company officers during the course of 2019 and up to the date of publication of this report.

3.6.2 Terms of engagements with employees

All the Group's employees have personal agreements or contracts and not collective labor agreements. The wage and terms of employment of each employee are determined in his/her personal employment agreement. The compensation under these agreements is mainly based on a fixed wage, and in marketing and retention positions, there may also be a results-based component. In the capital market and financial services sectors, some employees have a basic salary plus compensation derived from activity in their area of business. Based on their employment agreements, employees are entitled to pension insurance on a track of their choice (insurance, pension fund, combination of the two, etc.). Additionally, most of the employees are entitled to Company contributions to an education fund. The notice period given for dismissal or resignation is usually no more than 30 days, although with respect to senior management a longer notice period is defined.

The personal employment agreement specifies, inter alia, the number of vacation days to which each employee is entitled (in any event, the number of days will not be less than the minimum prescribed by law). Employees are entitled to additional social benefits, in line with Israeli law: convalescence pay and sick pay.

Senior employees are entitled to a basic wage plus related conditions such as a company car, refund of expenses, per diem expenses, etc. Additionally, they are entitled to an annual bonus, pursuant to the policy approved by the Company's Board of Directors regarding compensation for senior officers and officeholders engaged in investment management - see details below.

In addition to the aforementioned conditions, the Group's employees enjoy several other benefits: (1) Group health insurance for the Group's employees, without payment of a premium (the employee only pays the tax in respect of the benefit); (2) An option for members of the employee's family to join the group health insurance; (3) Group dental insurance for the Group's employees (the employee and family members) paid for by the employee.

3.6.3 Employee stock options

For information about agreements to grant stock options to senior employees of the Company, see Note 38E(6) to the Financial Statements.

3.6.4 Information about directors and officers

For information about directors and officers, see Regulations 26 and 26A in Chapter 5 of the Periodic Report - Additional Information about the Company.

On the compensation policy for senior officers and officeholders engaged in investment management - see Regulation 21(A)(1) in Chapter 5 - Additional Information About the Company. Additionally, the Company publishes information on the subject on its website, at the following URL:

https://www.harel-group.co.il/about/harel-group/investor-relations/Pages/remuneration-policy.aspx

For information about compensation paid to directors and officers, see Regulation 21 in Chapter 5 of the Periodic Report - Additional Information about the Company.

For information about indemnification and insurance, see Regulation 22 in Chapter 5 of the Periodic Report - Additional Information about the Company.

For information about indemnification and insurance, see Regulation 21 in Chapter 5 of the Periodic Report - Additional Information about the Company.

3.6.5 Employee training

Harel Insurance runs a training department for the Group companies which holds company-wide training programs in addition to courseware solutions that are customized to the needs of the business units. Every year, Harel Insurance formulates an annual training plan, derived from the work plan for that year and the business targets outlined by the Company’s management. This plan includes courseware for employee development, such as: getting to know new products, regulations in various sectors, familiarity with new / changing work processes, training to use the core systems, workshops to improve the skills required to fulfill the tasks, management development workshops, etc. Tools are also developed for training new employees, which include courseware and courses to improve familiarity with the organization.

Concurrent with the training activity which is derived from these business needs, the Company holds company-wide activities offered to employees for personal enrichment and development. Harel Insurance also cooperates with colleges and academic institutions for training employees through insurance-related courses and seminars as well as studies towards a BA in insurance.

In the year of the report, the emphasis was on the development and assimilation of digital learning courses (e.g. courseware, interactive simulations, video courses, gamification, etc.) Additionally, innovative training methodologies are included, which are suited to current trends in the world of organizational learning.

Similar to the description above, companies in the Group's capital market sector hold on-going training for their employees on the companies' professional procedures as well as the relevant regulations.

3.6.6 Code of Conduct for the Group's employees

The Group's management supports a fair business culture among its employees and managers (including its directors) for fulfillment of their duties. Accordingly, the Company adopted an ethical code. Each employee recruited by the Company signs a document confirming that he has read the ethical code and that he undertakes to act accordingly.

3.7 Marketing and distribution

3.7.1 Life assurance and long-term savings

Insurance and long-term savings products are mostly distributed and marketed through agents and agencies and through direct sales to customers, in part using digital methods. In the provident funds and pension funds, distribution activity also takes place through the pension advice system in the various banks which with the management companies have signed distribution agreements. With the exception of a small number of agencies, the Company does not own the agencies which sell the Group's products. The Group has nationwide distribution via a professional, skilled network of about 5,643 agents who operate through the Group's regions and sectors, and provide personal service to the highest standard for all customers. The Group takes the view that its network of agents is a strategic asset, which is an inseparable part of its operations.

3.7.1.1 Life assurance

At the reporting date, the Group operates through 3,911 agents.

The Company has marketing agreements with banking insurance agencies for the sale of mortgage-related life assurance.

The Company has no single agent whose rate of new sales in the life assurance branch in 2019 accounts for more than 10% of total sales in the long-term savings sector.

The rate of commissions paid to agents is determined in individual agreements signed with them.

The Company pays on-going commissions throughout the life of the policy. In some instances, advance payments for various periods are made on account of these commissions. Advance payments which do not comply with certain rules prescribed in the Commissioner's circular are "an unrecognized asset", which lead to an increase in the minimum required equity. Additionally, the Company pays commissions to its agents which are set in line with the volume of sales of new policies. Likewise, from time to time, the Company holds marketing campaigns in which agents receive benefits in money or the equivalent. Some of these commissions are recorded as deferred acquisition costs.

In 2019, the percentage of commissions in life assurance is 11.2% of all premiums in this operating segment, compared with 12.5% in 2018 and 12.3% in 2017.

The average rate of the commission from the new annualized premium sold in 2019 is 30.7% compared with 27.9% in 2018 and 29.2% of the new annualized premium that was sold in 2017.

3.7.1.2 Pension funds

The Group markets the pension funds mainly through insurance agents and agencies, directly, through the marketing units of Harel Insurance. Additionally, pension funds are also distributed through pension advisors in the different banks.

On the selected default option funds for pension, see Section 2.1.1.2.

In the pensions sector, there is fierce competition between the pension fund management companies. This competition is reflected, principally, in the percentage discount on the management fees.

At the date of the report, Harel Pension and Provident maintains distribution agreements with most of the commercial banks.

Commissions in respect of the sale of pension products are generally paid to insurance agents as a percentage of the contributions, based on an individual agreement between the agent and the Company. From time to time, the Company holds marketing campaigns in which agents receive benefits in money or the equivalent. Some of these commissions are recorded as deferred acquisition costs.

The rate of distribution fees paid to banks and the average agents fees in the pension funds for the reporting period stood was 0.08% of the total assets under management in this sector.

3.7.1.3 Provident funds

The Group markets its provident funds through insurance agents and agencies, through direct activity with various entities and companies in the economy, via the marketing units of Harel Insurance and by distribution through pension agents in the banks.

The Supervision of Financial Services (Provident Funds) (Distribution Fees) Regulations, 2006, stipulate that management companies may pay distribution fees at a monthly rate which is no more than one twelfth of 0.25% of the total amounts which the customer has to his credit in his provident fund account on the last day of business of each month.

Harel Pension and Provident has distribution agreements for the provident funds with most of the banks.

Commissions paid to insurance agents for the sale of provident products are paid as a percentage of the accrual of the agent's customers. From time to time, the Company holds marketing campaigns in which agents receive benefits in money or the equivalent.

The rate of distribution fees paid to banks and the average agents fees in the provident funds, for the Reporting Period, was 0.16% of the total assets under management in this sector.

3.7.2 Health Insurance

The Group markets and distributes its personal lines policies in the health insurance sector mainly through insurance agents and agencies which sell the Group's products, in part using digital methods. The Group insurance is sold through insurance agents and agencies and directly to the relevant organizations.

In long-term care insurance, Harel has an agreement with Clalit Health Services for marketing long-term care insurance to members of the Clalit Health Fund, as part of a group policy called "Supplementary Plus Long-term Care". Dikla provides Harel Insurance with policy marketing services, claims settlement services and customer service in connection with the Supplementary Plus LTC policy.

The rate of commissions which the Group's companies pay agents for selling the policies is determined in individual agreements signed with them.

Payment of commissions on health insurance policies is spread over the life of the policy, unless another arrangement has been defined. In some instances, advance payments for various periods are made on account of these commissions. Additionally, from time to time, the Group’s companies organize marketing campaigns in which, subject to meeting targets, the agents receive money or money equivalent benefits. Some of these commissions are recorded as deferred acquisition costs.

In 2019, the average commission rate from premiums in the health insurance segment was 16.1% of the total premium, compared with 17.5% in 2018 and 18% in 2017.

3.7.3 Non-life insurance

3.7.3.1 Motor property

Harel Insurance markets its products in this sub-sector mainly through insurance agents and agencies as well as through digital methods. Most of the non-life insurance agents of Harel Insurance operate in the motor-property sub-sector. Harel Insurance is also active in this area using the brand name "Upgrade".

The policies available on this track are for insureds with certain driving specifications, which based on the experience of Harel Insurance are defined as having a lower than average risk, and they are offered a more attractive price and broader coverage. The policies on this track are sold through a call center, through which insurance proposals may be received and, where necessary, policies can be issued after professional underwriting. Customers are referred to the call center by agents of Harel Insurance and by advertisements.

Additionally, motor property policies are sold directly to a limited number of business customers who wish enter into a direct agreement, without an intermediate entity, including through tenders.

For brokering motor property insurance transactions, the Group pays the agents a commission, in money and/or money equivalent. The commission is usually set as a percentage of the premiums, and in part is dependent on the volume of activity and/or profit of the insurance sold through the agent.

The average commission rate in the motor property sub-segment was 15.5% in 2019, compared with 14% in 2018 and 15% in 2017.

Harel Insurance has no single agent whose activity in the motor property and compulsory motor sub-segment accounts for 10% or more of the volume of the Group's activity in this segment.

3.7.3.2 Compulsory motor

Harel Insurance markets its products in this sub-sector mainly through insurance agents and agencies, as well as through digital methods, in the same way as it markets products in the motor property sector (for details about the method of marketing through insurance agents and agencies - see Section 3.7.3.1 above).

Compulsory motor insurance is marketed to large groups by participating in tenders published by organized entities (e.g. the Accountant General on behalf of the state employees).

Commissions paid to insurance agents for the sale of motor property policies are mostly set as a rate of the premium. Due to the complexity of this insurance, Harel Insurance does not usually pay profit commissions in this sector, but in certain cases it pays a volume commission for a particularly large volume of activity.

The average commission rate in the compulsory motor sub-segment was 5.2% in 2019, compared with 3.9% in 2018 and 4.4% in 2017.

Harel Insurance has no single agent whose activity accounts for 10% or more of the volume of activity in the compulsory motor and motor property sub-segments.

3.7.3.3 Other liabilities sectors

Harel Insurance markets its products in the other liabilities sub-sector through insurance agents and agencies as well as directly, in part by participating in tenders published by business entities, and through digital methods. The direct activity is mainly D&O liability insurance and policies for particularly large enterprises. Harel Insurance has a separate department ("region") defined as the Industry and Special Risks Region, which specializes in providing insurance solutions for large, complex enterprises with respect to the scope and class of coverages required by the customer or its advisors, as well as providing solutions for companies with international operations, and this, inter alia, by collaborating with reinsurers and foreign insurers which the Group represents in Israel, including the Swiss company Zurich.

Agents' fees are paid in money and/or money equivalent. The agents' fees are often affected by the rate of fees added to a policy and, in some instances, by the profitability of the agent's portfolio.

The average commission rate in the other liabilities sub-sector was 11.6% in 2019, compared with 11.4% in 2018, compared with 11.6% in 2017.

About 42.7% of total premiums in the other liabilities sectors are marketed through one agent, which is an associate of the Company. The loss of premiums marketed through this agency will not significantly affect profits in this area of activity.

3.7.3.4 Property and other sectors

Harel Insurance markets its products in this sub-sector through insurance agents and agencies as well as directly, in part by participating in business tenders and through digital methods. Direct activity is mostly with large business customers where the composition of the policies is usually more complex. Harel Insurance has a separate department ("region") which is defined as the Industry and Special Risks Region, which specializes in providing insurance solutions for large, complex enterprises with respect to the scope and class of coverages required by the customer or its advisors, as well as providing solutions for companies with international operations, and this, inter alia, by collaborating with reinsurers and foreign insurers which the Group represents in Israel, including the Swiss company Zurich.

Mortgage-related structural insurance is usually sold by the mortgage banks, through designated insurance agencies, which have agreements with Harel Insurance, and in a small number of cases through insurance agents.

The fee paid to agents for brokering transactions in the property and other insurance sub-sector is determined principally as a percentage of the net premium and in some cases is conditional on the volume of the agent's sales. Pursuant to the Supervision of Financial Services (Insurance) (Maximum Commissions on Mortgage-related Structural Insurance) Regulations, 2012, from January 1, 2013, a limit was set of 20% (including VAT) of the premiums that the insurer collects from the insured, on the commissions for brokering mortgage-related structural insurance policies.

The average commission rate in the property and other sub-sectors sector in 2019, was 14.9%. The commission rate in other business property loss (excluding the homeowners branch, including mortgages) is 12.5% of the premiums and the commission rate in the comprehensive homeowners branch, including mortgages, is 19.7% of the premiums in this branch, compared with 19.3% last year and 20.2% in 2017.

3.7.3.5 Mortgage insurance

As described in section 1.2.3.5 above, due to the regulatory provisions of the Bank of Israel, no new policies were sold in this segment during the Reporting Period.

3.7.4 Insurance companies overseas

Interasco and Turk Nippon distribute their various insurance products through insurance agents and brokers. The companies do not have exclusivity agreements with any distribution channels.

Turk Nippon is the representative of Royal & Sun Alliance Insurance PLC, so that its customers in Turkey are served by Turk Nippon. This agreement has a positive impact on the volume of activity of Turk Nippon.

3.7.5 Material changes in laws relating to distribution channels that were published during the Reporting Period

On February 19, 2019, the Commissioner published a circular on the involvement of entities that are not license holders in the marketing and sale of insurance products that are not group insurance. For additional information, see Section 3.1.5.7.

3.7.6 Key agencies controlled by the Group

The key agencies controlled by the Group are: Standard and Dikla which operate mainly in the health insurance segment; Veritas Insurance Agencies Ltd. and Yedidim Pension Arrangements, which operate in all the operating segments in which the Company is active; and Tichnun Mitkadem (Advance Planning) - Pension Insurance Agency (2013) Ltd., which operates in the long-term savings sectors.

3.7.7 Dependence on a marketing factor

The Group is not dependent on any of its marketing entities in any of its areas of activity, so that the loss of an entity is unlikely to significantly and adversely affect any particular area of activity or cause the Company significant additional costs as a result of the need to replace them.

3.8 Suppliers and service providers

3.8.1 Life assurance and long-term savings

On January 1, 2019, the operation of most of the Group's provident funds was transferred from Leumi Capital Market Services Ltd. to Harel Pension & Provident.

The Group's companies are not dependent on any particular supplier, as there are alternative suppliers in the market with which agreements can signed for the purchase of services under a tight schedule, taking into account the type of services to be purchased.

3.8.2 Health Insurance

In the health insurance segment, the Group has agreements with a large number of suppliers in connection with the coverages included in the policies in this area of activity. The most important agreements are with private hospitals, doctors and medical service providers, and the suppliers of service notes.

The Group's companies are not dependent on any of the above-mentioned service providers. The Company has agreements with several suppliers for most of the services which it requires in this area of activity, providing it with operating flexibility. Substitute suppliers are available for most of the services listed above so that the Company is not dependent on any one supplier.

3.8.3 Non-life insurance

3.8.3.1 Motor property

The main agreements are with car repair service providers, spare parts suppliers and service providers for service notes.

Harel Insurance is not dependent on the aforementioned service providers, as there are other suppliers in the market with which it can reach agreement within a reasonable time, taking into account the nature of the different agreements, and given that in most cases, Harel Insurance has agreements with more than one service provider. In view of the competition between the aforementioned service providers, a change in the identity of any one of the suppliers is not expected to have a negative impact on performance in the motor property sub-sector.

3.8.3.2 Compulsory motor

To streamline the process of claims settlement in compulsory insurance, utilizing economies of scale and its desire to provide quality, professional service, as well as to reduce the expenses entailed in settling the claims while paying proper compensation, Harel Insurance has agreements with service providers who include lawyers, doctors and private investigators.

Harel Insurance is not dependent on any particular supplier thanks to its agreements with a variety of suppliers all over the country.

3.8.3.3 Other liabilities sectors

To streamline the process of claims settlement in the liabilities insurance sub-sector, Harel Insurance has agreements with a series of service providers who include, among others, lawyers, insurance assessors, medical institutions, private investigators, etc. An investee handles claims for medical malpractice liability, which over time has acquired considerable experience and expertise in dealing with this unique branch.

Harel Insurance is not dependent on any particular supplier for this sub-sector of activity, thanks to its agreements with a broad range of suppliers all over the country. Likewise, no negative outcome on performance is expected in this sub-sector due to a change in the agreements with these or other service providers, as there are other service providers in the market with which agreement can be reached within a reasonable time and for similar costs (in view of the competition between the different suppliers in the relevant areas).

Claims in respect of medical malpractice policies (medical professional liability) are mainly handled by MCI, which is wholly controlled by Madanes Insurance Agency Ltd. (in which the Company has a 25% stake), in view of this company’s special knowledge and experience in handling medical malpractice claims. Commencing in December 2015, settlement of some of the medical malpractice claims for certain underwriting years was handled by a company owned jointly by Harel (5%) and the reinsurers Munich Re (75%) and Swiss Re (20%). As of September 2019, Swiss Re acquired Munich Re’s share of the Company so that Harel continues to hold 5% of the Company and the balance is held by Swiss Re. Harel Insurance has a certain dependence on MCI and the aforementioned jointly owned company, although Harel Insurance has adequate knowledge and experience to handle these claims by itself within a relatively short time.

3.8.3.4 Property and other sectors

In the household insurance sector, Harel Insurance markets various riders to the standard policy, through service agreements with different suppliers. Harel Insurance has signed agreements with suppliers and service providers, inter alia, in the following areas: plumbers and companies that manage a call center for the management of claims due to water damage.

Harel Insurance is not dependent on the service providers mentioned in this section, as there are other suppliers in the market with which it can reach agreement within a reasonable time, taking into account the nature of the different agreements. In view of the prevailing competition between the aforementioned service providers, a change in the identity of any one of the suppliers is not expected to have a negative impact on performance in the other property sub-segment, including in the household and mortgage branch.

Following is information about other suppliers and service providers:

3.8.4 Computer and software services

Most of the Group's companies receive computer and software services from HHC, a wholly owned subsidiary of the Company which is responsible for providing the various automation services, and where necessary, it operates software companies and providers for the computer services which it renders to the Group's companies

3.8.5 Dependence on suppliers

Except for the service providers listed in Section 2.5.16.2 above, regarding financial services, and a certain dependence on MCI in the liabilities and other sub-segment (see Section 3.8.3.33.8.3.3), the Group's companies are not dependent on any of their suppliers, and the Group is able to find alternative suppliers or solutions for each supplier, without this creating a significant additional cost.

3.9 Fixed assets

3.9.1 Offices and real estate assets

The Group's head offices are located in Harel House and *M.E.H House*, which are in the Diamond Exchange compound on the Ramat Gan - Tel Aviv border. Additionally, the Group has offices (in real estate assets which it owns and are owned by its wholly owned subsidiaries) in Harel House in Jerusalem, Tel Aviv, Haifa, Petach Tikva (where the logistics center of the Group's insurance companies is located) and in other locations around the country. The balance of the amortized cost of these real estate assets, used by the Group's companies at the date of the report, is NIS 1,1223 million, compared with NIS 1,166 million, at December 31, 2018. Moreover, the Group's companies rent office space in the vicinity of Harel House and in various cities in Israel.

3.9.2 Computer and IT systems

The subsidiary Harel Hamishmar Computers Ltd. ("HHC") is responsible for providing the various automation services, and where necessary, it operates software companies and suppliers for the computer services which it provides for the Group's companies. In the past few years, Harel Hamishmar Computers has been intensively involved in the implementation of the Company's strategic plan, *Recalculating the Route*. For information about the Group's business targets and strategy, see Chapter 2, Section 8 in the Periodic Report (Board of Directors' Report).

The Group attributes a great deal of importance to its technology capabilities, so that it is able to support its targets, and its goal is to be a leader in the use of advanced systems in its different operating segments. The Group invested about NIS 250 million in computer equipment and software in 2019, compared with NIS 236 million in 2018.

3.10 Seasonality

There are no significant seasonal on profitability in any of the Company's areas of activity. Nevertheless, for insignificant seasonal effects in the different operating segments, see details below:

3.10.1 Life assurance and long-term savings

In life assurance and long-term savings, there is a marked increase in the pace of sales towards the end of the year due to the purchase of products that provide tax benefits and deposits in these products.

3.10.2 Health insurance

In health insurance, there is a seasonal increase in the number of policies sold to overseas travelers during the summer months and holiday season.

3.10.3 Non-life insurance

3.10.3.1 The turnover of premiums in the non-life insurance sectors is greater at the beginning of each calendar year, due to renewals of a large number of annual insurance contracts at the beginning of the year. This seasonality does not affect profits, given that it is regulated by changes in the reserve for unexpired risks.

3.10.3.2 In compulsory motor and motor property insurance, there is an increase in the volume of claims during the winter months, due to a larger number or road accidents, and weather-related damage.

3.10.3.3 In other property insurance, there is an increase in the volume of claims during the winter months, due to weather-related damage.

Distribution of premiums earned in the sectors of insurance, management fees from provident and pension funds, and total revenues from the capital market and financial services segment, by quarter for the last three years (NIS million):

	2019 (NIS million)			
Area of activity	**Q1**	**Q2**	**Q3**	**Q4**
Life assurance & long-term saving				
Life assurance & long-term saving	1,548	1,482	1,772	1,453
Provident funds & pension funds	143	144	149	152
Health	1,195	1,213	1,256	1,258
Compulsory motor	151	159	156	155
Motor property	193	205	210	214
Other liabilities sectors	237	241	241	248
Other property sectors	241	241	248	256
Mortgage insurance	3	1	3	2
Capital market & financial services	48	49	53	57
Insurance companies overseas	129	125	130	142

	2018 (NIS million)			
Area of activity	**Q1**	**Q2**	**Q3**	**Q4**
Life assurance & long-term saving				
Life assurance & long-term saving	1,454	1,292	1,479	1,389
Provident funds & pension funds	137	139	142	144
Health	1,103	1,160	1,209	1,206
Compulsory motor	165	169	171	170
Motor property	201	207	210	212
Other liabilities sectors	227	231	234	245
Other property sectors	233	233	243	254
Mortgage insurance	3	2	3	2
Capital market & financial services	52	55	54	48
Insurance companies overseas	120	122	112	123

	2017 (NIS million)			
Area of activity	**Q1**	**Q2**	**Q3**	**Q4**
Life assurance & long-term saving				
Life assurance & long-term saving	1,248	1,256	1,273	1,301
Provident funds & pension funds	126	127	132	138
Health	1,078	1,088	1,127	1,131
Compulsory motor	124	131	134	143
Motor property	181	186	188	193
Other liabilities sectors	212	217	221	230
Other property sectors	231	239	250	254
Mortgage insurance	5	3	5	3
Capital market & financial services	51	50	50	51
Insurance companies overseas	96	107	120	120

3.11 Intangible assets

Information about the key intangible assets used by the Company:

- As noted in Section 3.7.3.1 above, Harel Insurance has used the brand name Upgrade since the end of the 1990s in marketing its products in the motor (compulsory and property) sector and in recent years also in marketing products in the health sector. The Upgrade brand is a registered trademark owned by the Group.
- Until 2016, Harel Insurance used the name of the Gilad pension Fund, a right which it acquired as part of the purchase of the new pension funds of Gilad.
- For information about intangible assets, see Note 5 to the Financial Statements.
- EMI - EMI owns 5 trademarks, relating to the company’s trade name: the company’s commercial name EMI, the EMI logo and the company’s method - EMI Method.
- The Group has databases in which information about its customers, suppliers, agents and employees is saved. These databases, which the Group has had for many years, or which it received as part of the acquisition of activity, enable the Group's companies, among other things, to more correctly cost the risks entailed in providing insurance cover for their customers.

3.12 Risk factors

3.12.1 Table of risk factors

The following table shows the Group's risk factors by quality and their possible impact, in the opinion of the Group's management, on its business:

Risk category	Risk factors	Extent of the risk factor's impact on the Company		
		Strong influence	Moderate influence	Small influence
Macro risks	Economic slowdown in Israel	✓		
	Market risks	✓		
	• Interest rate risk	✓		
	• Credit spread risk	✓		
	• Inflation risk		✓	
	• Exchange rate risk		✓	
	• Share prices risk	✓		
	• Prices of other assets risk		✓	
	Credit risks	✓		
Sectoral risks	Insurance risks including longer life expectancy and morbidity	✓		
	Strategic risks, including changes in the competition environment, in the level of portfolio retention, in the public's risk appetite and technology innovation threats	✓		
	Negative changes in the reinsurance market worldwide		✓	
	Catastrophe risks:			
	• Epidemic	✓		
	• Terrorism or war		✓	
	• Earthquake or other large-scale natural disaster in Israel		✓	
	Regulatory changes	✓		
	Legal precedents	✓		
Special risks facing the Company	Operating risks		✓	
	Cyber and data security risk	✓		
	Information technology risks		✓	
	Outsourcing risks		✓	
	Liquidity risks			✓
	Mismatch between assets and liabilities		✓	

Risk category	Risk factors	Extent of the risk factor’s impact on the Company		
		Strong influence	Moderate influence	Small influence
	Class actions and significant legal proceedings	✓		
	Compliance risks		✓	
	Collapse of one of the Company's reinsurers		✓	
	Goodwill / reputation risk		✓	

Attributing the extent of the impact of the aforementioned risk factors to the Group is based on a quality, subjective assessment prepared by the Group's management, taking into account the volume and nature of its activity at the date of this report. The impact of each of the aforementioned risk factors may be affected by changes that occur in the characteristics of the Group's activity or in market conditions after the date of this report.

For additional information about risk management, see Note 37 to the Financial Statements.

3.13 Material agreements and Cooperation agreements

On an agreement with Leumi Capital Market Services Ltd. - for information see Section 3.8.1 above.

On material agreements and cooperation agreements in the capital market and financial services segment - see Section 2.5.16.2 above.

3.14 Goals and Business Strategies

For information about the business strategy and objectives - see Chapter 2, Section 8 of the Periodic Report (Board of Directors Report).

4. Corporate governance

4.1 External directors

The external directors serving at the date of publication of the report are: Prof. Udi Nissan, Prof. Israel Gilad, Ms. Hava Friedman Shapira and Ms. Miri Lent-Sharir.

For information about the Company's external directors - see Regulation 26 in Chapter 5 of the Periodic Report - Additional Information about the Company.

4.1.1 Changes in the Company's external directors in 2019 and up to the date of publication of this report

There were no changes in the external directors serving the Company in 2019 and up to the date of publication of this report

4.2 Internal auditor

4.2.1 Information about the internal auditor and commencement of his term of office:

On December 24, 2013, the Board of Directors appointed Ms. Osnat Manor Zisman as the Company's Internal Auditor and she began to serve on February 1, 2014.

The Internal Auditor satisfies the provisions of Section 146(B) of the Companies Law and Section 8 of the Internal Audit Law, 1992.

The internal auditor is an employee of Harel Insurance and also serves as internal auditor of Harel Investments. The internal audit work is performed by employees in the Company's internal audit department, as well as through outsourced services. The Internal Auditor is accountable to the Chairman of the Company's Board of Directors.

The Company's internal auditor also serves as internal auditor for two subsidiaries of the Group (Harel Insurance and EMI). The following comments on the activity of the Company's internal auditor (unless specified otherwise) therefore address the activity of the internal auditor with respect to the Company's affairs as well as to the affairs of the subsidiaries as noted.

Other subsidiaries are served by other internal auditors. Thus, for example, companies in the Harel Group which are involved in the capital market and financial services sector (Harel Finance and its subsidiaries), are served by the internal auditor Linor Dloomy CPA from Deloitte. Shai Loterbach CPA serves as the internal auditor of Harel Pension and Provident, Tzva Hakeva and LeAtid. Some of the audits for these companies are performed by the employees in the Company's internal audit department.

Some of the subsidiaries are required by law to appoint an internal auditor, even though they are not public companies. Thus, for example, insurance companies and provident fund and pension fund management companies must appoint an internal auditor and an audit committee to discuss the internal auditor's reports. Consequently, the internal auditors who serve most of the Company's subsidiaries operate in accordance with and subject to decisions made by the audit committees of those subsidiaries.

4.2.2 The audit plan

The audit plan is an annual plan, derived from the multiyear audit plan. The series of audits which are the subject of the multiyear plan are designed to ensure that over the course of four years, all subjects relevant to the Company's operations are audited. The content of the work plan is determined, among other things, on the basis of a preliminary study and findings in an assessment of the controls and based on regulatory changes.

4.2.3 Professional practices

The generally accepted professional standards used by the internal auditor in conducting the audit, as noted in Section 4(b) of the Internal Audit Law, are as defined by the International Institute of Internal Auditors (IIA) and adopted by the Institute of Internal Auditors in Israel.

4.2.4 Scope of employment

The scope of the internal audit is determined at the beginning of the year, when the audit plan is approved. In 2019, the Group performed 40,040 hours of audit (in 2018, 39,800 hours of audit were performed). The volume of auditing hours is defined based on a four-year plan in which context all the subjects pertaining to the operations of the Company and its subsidiaries are to be audited, as noted above. The multi-year plan forms the basis for the annual audit plan, and accordingly the number of hours required for performing it.

Data on the number of hours of audit for the Company and its investees:

The Company	Hours invested
Harel Insurance	26,705
Pension and provident companies*	6,735
EMI	300
Total for financial institutions	33,740
Harel Finance and subsidiaries	2,400
Turk Nippon & Interasco	3,300
Harel Investments	600
Total	40,040

* Harel Pension and Provident, Tzva Hakeva, and LeAtid

4.2.5 Compensation

The internal auditor is a Company employee.

His salary is defined in the employment agreement for the internal auditor, in a manner that does not prejudice his professional discretion or independence.

4.2.6 Access to information

All the relevant documents requested were presented to the Internal Auditor, including constant, unmediated access to the Company's information systems and to any other information, and including financial data.

4.2.7 The Internal Auditor's report

All the Internal Auditor's reports were submitted in writing. Each report was submitted to the chain of audited entities up to the CEO and chairman of the audit committee of the audited company's board of directors. A meeting of the audit committee was held with the audited entities regarding the findings and the response of the audited entities was submitted in writing.

In all, 4 audit reports were submitted to the Company in the Reporting Period, and they were all discussed by the Audit Committee which convened close to their submittal date.

4.2.8 Board of Directors assessment of the Internal Auditor’s work

The Board of Directors believes that the scope of the Company's internal audit, the nature and continuity and work plan of the internal auditor, are adequate under the circumstances and they are capable of achieving the objectives of the internal audit.

4.3 External Auditor

4.3.1 Particulars of the external auditor

4.3.1.1 Name: KPMG Somekh Chaikin

Service commenced: 1999

4.3.1.2 Name of the partner responsible for auditing the Company (since July 1, 2016):

Mr. Abraham Fruchtman, CPA.

4.3.2 Disclosure concerning the fee paid to the auditors

Details of the fee paid to the CPA (excluding VAT) for services rendered during the period 2018-2019:

	2019			
	Fee (in NIS thousands) excl. VAT			
	Auditing services	Other	Special tax services	Total
The Company (1)	467	-	51	518
Harel Insurance (1)	* 4,845	402	951	6,198
Harel Finance (2)	465	-	80	545
Other companies (1)	590	46	102	738
Total	**6,367**	**448**	**1,184**	**7,999**
	Hours			
The Company (1)	1,963	-	149	2,112
Harel Insurance (1)	20,358	900	2,670	23,928
Harel Finance (2)	2,400	-	380	2,780
Other companies (1)	2,480	165	268	2,913
Total	**27,201**	**1,065**	**3,467**	**31,733**

(1) KMPG Somekh Chaikin - (most of the amount).

(2) Kost Forer Gabbay - Ernst & Young (most of the amount).

* The amount includes an audit in respect of Solvency.

	2018			
	Fee (in NIS thousands) excl. VAT			
	Auditing services	Other	Special tax services	Total
The Company (1)	467	85	-	552
Harel Insurance (1)	* 4,740	-	473	5,213
Harel Finance (2)	480	-	77	557
Other companies (1)	581	85	106	772
Total	**6,268**	**170**	**656**	**7,094**
				Hours
The Company (1)	2,172	266	-	2,438
Harel Insurance (1)	20,254	-	1,245	21,499
Harel Finance (2)	2,664	-	163	2,827
Other companies (1)	2,702	305	279	3,286
Total	**27,792**	**571**	**1,687**	**30,050**

(1) KMPG Somekh Chaikin - (most of the amount).

(2) Kost Forer Gabbay - Ernst & Young (most of the amount).

* The amount includes an audit in respect of Solvency.

4.3.3 Disclosure concerning the process of application and assimilation of IFRS 17, Insurance Contracts ("IFRS 17" or "the Standard")

In March 2020, the Company entered into agreement with Ernst & Young Canada, as an external consultant to assist the Company in the process of implementing and assimilating IFRS 17. This process is expected to take 18-30 months. During this process, with the assistance of the external consulting company as noted above, the Company is expected, among other things, to conduct an individual review of each of its products and to make a final choice regarding its accounting policy with respect to key issues in the Standard and to assimilate them in the system.

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

For additional information about the effectiveness of internal control over financial reporting and disclosure - see Chapter 6 of the Periodic Report.

4.5 Information about progress on the deployment for Solvency II

For further information about progress made on the deployment of Solvency II, see Note 8F(1) to the Financial Statements.

Yair Hamburger	Michel Siboni
Chairman of the Board	CEO

March 31, 2020

Harel Insurance Investments and Financial Services Ltd.

Chapter 2

Board of Directors Report

Contents

1 **Description of the Company** 3

2 **Financial position and results of operations, liquidity and sources of finance** 4

3 **Market risks - exposure and management** 21

4 **Aspects of corporate responsibility** 28

5 **Corporate governance** 30

6 **Disclosure instructions in relation to financial reporting by the Company** 31

7 **Disclosure concerning the economic solvency ratio** 31

8 **Business strategy and objectives** 34

Harel Insurance Investments and Financial Services Ltd.

Board of Directors' Report for 2019

The Board of Directors' Report in this chapter of the Periodic 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.

The Board of Directors' Report at December 31, 2019, reflects the principal changes in the state of affairs of Harel Insurance Investments and Financial Services Ltd. ("Harel Investments" or "the Company") in 2019. The Board of Directors' Report is an inseparable part of the entire Periodic Report, and the entire Periodic Report should be read as a single document.

1 Description of the Company

1.1 General

Harel Insurance Investments and Financial Services Ltd. ("Harel Investments" or "the Company") is a public company, whose shares have been traded on the Tel Aviv Stock Exchange since 1982. The Company, together with its subsidiaries, ("the Group") operates principally in the following areas:

a. In the different insurance sectors, the Company operates through the following subsidiaries: Harel Insurance Company Ltd. (fully controlled) ("Harel Insurance"); Interasco Societe Anonyme General Insurance Company S.A.G.I (in which the Company holds 94%) operating in non-life insurance in Greece; Turk Nippon (fully controlled) 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").

b. 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;[1] 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").

c. 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;

[1] For additional information about the restructuring of Harel Pension & Provident, see Section 1.1.7 in Chapter 1 of the Periodic Report - Description of Company Operations.

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 the 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 Alternative R.E., a limited partnership registered in the USA; Harel Exchange Traded Deposit Ltd., a company that issued bonds backed by deposits.

Furthermore, in November 2019, the Company began, through a subsidiary Hamazpen Shutaphim Laderech Ltd., to operate in providing credit to small and medium businesses

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

For more information about the Group's operating segments, see Section 1.2 in Chapter 1 of the Periodic Report - Description of Company Operations.

1.2 The Company’s shareholders

Yair Hamburger, Gideon Hamburger and Nurit Manor are the principal shareholders in the Company (in this section: “the Shareholders”), holding 46.49% of the voting rights and the issued share capital of the Company.

The Shareholders hold the Company principally through G.Y.N. Financial Consulting & Management Ltd. 2017, a limited partnership fully owned and controlled by the Shareholders, which they hold, as limited partners, through private companies fully owned by them (“the G.Y.N. Partnership”) and they also hold the general partner in G.Y.N. Partnership.

2 Financial position and results of operations, liquidity and sources of finance

2.1 Principal changes regarding the Company's business

On material transactions and other changes which took place during the Reporting Period – see Section 1.1.7 in Chapter 1 of the Periodic Report – Description of Company Operations.

On changes that occurred after the Reporting Period, see Section 1.1.8 in Chapter 1 of the Periodic Report - Description of Company Operations.

2.2 Spread of the Corona virus

Following the global outbreak of the Corona virus in the first quarter of 2020, many countries around the world, Israel included, introduced a range of measures to reduce exposure to the virus, including restrictions on movement and large gatherings of people, limiting manpower in the work place, ordering the isolation of people who may have been infected and closing leisure and entertainment venues.

In view of the concern for the health and wellbeing of our employees, since the onset of the crisis the Group’s management has taken measures to reduce the risk for the Group’s employees. Based on Ministry of Health instructions, the Group made a number of decisions to limit work in the Company’s offices, while adapting and deploying work methods to work from home, and taking stringent care to continue to provide normal, ongoing service to the Group’s customers and agents.

In accordance with the regulations that require the Group to be prepared for business continuity scenarios, and thanks to the Group's strong awareness of the importance of serving its customers, and the investment made by the Group in technology and digital processes over the last three years, the Group has in place solutions for providing normal, continuous service for its customers even in these times of emergency and remains ready for ongoing business activity in an adjusted format, even as the crisis deepens.

At the date of publication of the report, most of the Company's employees are working via remote access to the Company's systems while due to the current situation. Additionally, as of March 22, 2020, about 15% of employees have been placed on unpaid leave for a period of at least 30 days, while other staff are on vacation at the expense of their outstanding accrued vacation days until after the Passover holiday. The Company informed those employees on unpaid leave that it will make every effort to return them to regular work, subject to business and economic developments after the crisis, and it will also provide any employee who has been placed on unpaid leave with a one-time bonus of NIS 5,000 in order to assist them during the upcoming holiday period.

At the date of publication of the report, the continuing spread of the Corona virus in the USA and Europe has had a significant, negative impact on the capital markets and global economy, Israel included, and is causing considerable volatility in the market.

Following the global outbreak of the Corona virus, prices on the leading share, commodities and bond indices in Israel and worldwide plummeted, drastically affecting the results of the Group's operations. Immediately prior to the date of publication of the financial reports, the impact of the sharply falling capital markets in respect of the marketable portfolio which is not held to cover yield-dependent liabilities, is an estimated gross investment loss of NIS 870 million (before tax). Furthermore, there was an estimated decrease of 11% in the value of the Group's AUM, which is likely to affect the volume of management fees the Group will collect.

Additionally, pursuant to the mechanism for collecting management fees prescribed in the legislative arrangement, insurance companies will not collect variable management fees in respect of yield-dependent policies sold between 1991 and 2003, until investment profits are attained in respect of the assets held to cover yield-dependent liabilities, which will cover the accrued investment losses. According to the mechanism described above, due to real negative yields on profit sharing policies that were sold between 1991 and 2003, Harel Insurance did not record variable management fees from the beginning of 2020, but only fixed management fees. Until a real positive yield is not attained to cover the investment losses accumulated to the policyholders' debit, Harel Insurance will not be able to collect variable management fees. Immediately prior to the date of publication of the financial statements, the estimate for the non-collection of management fees due to the real, negative yield until a cumulative positive yield is attained was NIS 320 million.

Immediately prior to the date of publication of the financial statements, the risk-free interest rate curve rose to above its level on December 31, 2019, which could lead to a decrease of the insurance liabilities. On the other hand, an increase of the interest rate curve could negatively impact the value of the Company's financial and other assets in a manner that might reduce this aforesaid impact. Notably, the information described above should not be construed as an estimate of the Company's financial results. This information is only partial and it does not include other components of profit or loss from investments and other effects.

For information about the Company's solvency ratio, see Section 7 below.

Furthermore, further losses in the capital markets in Israel and worldwide could affect liquidity in the markets as well as the interest rate conditions for futures products in the Group’s financial services segment.

At the date of publication of the financial statements, there has been an increase in the number of requests to redeem moneys from the pension funds and provident funds, as well as to transfer money between the different investment tracks. However, overall, we can say that savers are showing restraint in this regard and the volume of such requests is insignificant. In the education funds, in which the time frame for the savings is significantly shorter, there has been an increase in the redemption of liquid savings. In the mutual funds sector, which is also characterized by savings in the shorter term, there has been a significant marked increase in redemptions. Furthermore, the crisis could lead to greater exposure to credit default in the Group’s credit insurance activity.

Additionally, the economic situation in Israel and worldwide could affect the different insurance sectors in which the Group operates.

In light of the fact that the crisis is characterized by a great deal of uncertainty regarding its duration and the steps to be taken by the State and by other countries around the world, the Group is unable to estimate the scope of these effects on its activity in general and on the financial services sector in particular, in the short and/or long term, including on the recoverability of the Company’s intangible assets. Harel Group is watching the developments closely and assessing all the repercussions constantly and on a daily basis, while providing an ongoing response to the changing situation.

For additional information about the impact of the outbreak of the Corona virus, see also Section 2.3.10 below.

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

In 2019, global economic activity slowed while the weakness centered principally on industry and global trade, mainly in view of the "trade war” between the USA and China, uncertainty regarding Britain leaving the European Union (Brexit), tensions in the Persian Gulf and fears of a slowdown in China. The global economy grew by 2.9% in 2019 (as against 3.6% in the corresponding period last year).

In the financial markets, prices rose sharply in 2019, possibly and partially to compensate for the falling prices recorded in the last quarter of 2018. Yields on government bonds dropped sharply, also against the backdrop of renewed monetary expansion by the key central banks, with the USA leading the way.

In the USA, the labor market and private consumption both remained strong but activity in the industrial sector weakened. Recent indicators point to 2.3% growth in 2019 (as against 2.9% in the corresponding period last year). Over the course of the year, the Federal Reserve lowered the interest rate three times in succession by a cumulative 0.75% to a range of 1.50%-1.75%. In March 2020, after the Reporting Period, further cuts were made in the interest rates in the wake of the Corona crisis (see also Section 2.3.10 below).

In the Eurozone, private consumption remained stable but industrial output continued to shrink, overshadowing Germany's industry-dependent economy in particular. Recent indicators point to 1.2% growth in 2019 (as against 1.9% in the corresponding period last year). During the year, the ECB lowered the interest rate by 0.1 percentage points and introduced additional, significant expansionist measures.

Growth in China continued to moderate and the repercussions of the trade war and slower rate of growth led the government to deepen the expansionist measures. Recent indicators point to 6.1% growth in 2019 (as against 6.6% in the corresponding period last year).

2.3.2 Developments in the Israeli economy

Recent estimates show that growth in 2019 was 3.5%, compared with 3.4% in the corresponding period last year. This growth was fueled by private consumption in 2019, with a rapid increase of 3.9% alongside an increase of 3.6% in exports.

The rate of unemployment continued to drop for the tenth year in a row, averaging 3.8% in 2019, as against 4.0% in 2018. Nevertheless, in 2019 the rate of participation (in the labor market) declined to 63.5%, as against 63.9% in the corresponding period last year.

2.3.3 Stock market

Prices rose sharply in most of the stock markets around the world in 2019, but this was possibly and partially to compensate for the sharp price decreases recorded in the last quarter of 2018. The MSCI World Index rose by 28.4% in 2019 and the corresponding MSCI Emerging Markets Index rose by 18.9%. In Israel, the TA-125 Index was 21.3% up in 2019. The TA Real Estate Index was particularly prominent, with an increase of 73.2%.

2.3.4 Bond market

For 2019 as a whole, the general bond index was 8.7% up, the government bond index rose by 9.1% and the corporate bond index rose by 8.2%.

2.3.5 Mutual funds

For 2019 as a whole, the mutual funds raised a net NIS 19.9 billion, net, compared with redemptions of NIS 11.6 billion in the corresponding period last year. The mutual funds specializing in shekel bonds posted extremely negative performance (losing NIS 1.4 billion). In contrast, performance by the funds specializing in bonds and the money market funds was extremely favorable (with gains of NIS 11.9 billion and NIS 7.1 billion respectively).

2.3.6 ETFs

In the final outcome of 2019, net redemptions of NIS 5.9 billion were recorded in the ETFs. Particularly negative were the funds specializing in foreign stocks (losing NIS 8.8 billion). In contrast, the funds specializing in Israeli shares were particularly positive (with gains of NIS 2.2 billion).

2.3.7 Foreign exchange market

For 2019 as a whole, the shekel strengthened by 8.3% against the Bank of Israel’s basket of currencies; gaining 7.8% against the US dollar and 9.6% against the Euro. Most of the appreciation took place in the first half of the year.

2.3.8 Inflation

According to the last known index at the end of 2019, the CPI rose by just 0.3% in the last 12 months, below the inflation target. Housing was the key contributor to rising prices, together with an increase in food prices (excluding fruit and vegetables) and home maintenance, while clothing and shoes were the main contributor to lower prices.

2.3.9 Bank of Israel interest

The Bank of Israel interest rate remained unchanged at 0.25% throughout 2019.

2.3.10 Events after the date of the report

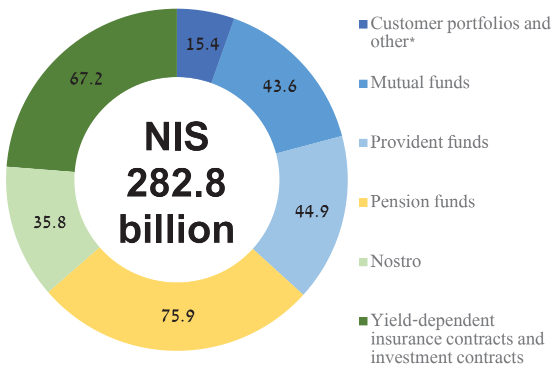
The global outbreak of the Corona virus in Q1 2020 and the shock to oil prices in the wake of the trade war between Russia and Saudi Arabia, cast severe uncertainty over a range of areas: future economic activity in Israel and abroad, the exchange rates, inflation and the financial markets.

According to recent Bank of Israel estimates, based on developments to date and assuming that the event ends by the end of Q2 2020, the crisis is expected to lead to a loss of 0.7 per cent of GDP in growth this year. However, this is an evolving event, and there is tremendous uncertainty regarding the continued spread of the virus and its implications. Consequently, there are additional scenarios in which the impact might be even more significant. The Bank of Israel announced its intention to purchase government bonds on the secondary market and that it will take further action as necessary, and the Israeli government announced that it will set up a special fund to assist businesses.

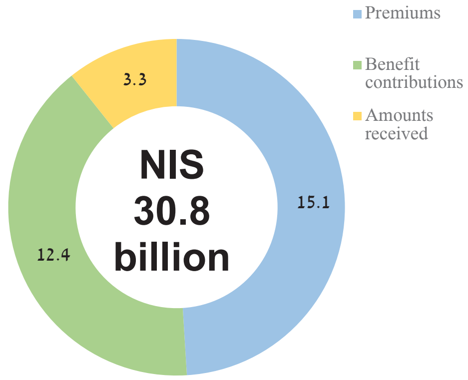
Due to the increased risk of recession, a number of governments worldwide, led by China and the USA, have introduced expansionary fiscal measures or announced their intention to take steps to support the economy. A large number of central banks across the globe lowered their interest rates in the first quarter of the year, particularly in the first two weeks of March. Notably, the Federal Reserve cut the interest rate on two unscheduled dates to a target range of 0%-0.25% (on March 15, 2020) and it introduced further expansionary measures, including a new quantitative easing of USD 700 billion, injecting short-term liquidity into the financial markets, cutting the reserve ratio for banks and even pumping dollars into several foreign central banks. For addition information about the impact of the outbreak of the Corona virus, see Section 2.2 below.

2.4 Condensed data from the consolidated financial statements of Harel Investments

Assets managed by the Group (AUM):



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



*Customer portfolios and other - “other” includes structured bonds and private equity 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 3.3 billion, as against NIS 4.9 billion in the corresponding period last year.

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

	Notes	For the year ended December 31			For the three months ended December 31		For the year ended December 31
		2019	2018	% change	2019	2018	2017
Life assurance and long-term savings							
Life assurance	A	90	228	(61)	140	(102)	486
Pension	B	74	81	(9)	15	20	69
Provident	B	60	46	30	15	12	39
Total life assurance and long-term savings segment		**224**	**355**	**(37)**	**170**	**(70)**	**594**
Non-life insurance							
Compulsory motor	C	190	(54)	-	8	(26)	(22)
Motor property	D	159	93	71	26	16	52
Property and other branches	E	113	92	23	23	22	104
Other liabilities branches	C	28	(80)	-	(30)	(45)	15
Mortgage insurance	F	68	31	-	19	-	56
Total non-life insurance segment		**558**	**82**	**-**	**46**	**(33)**	**205**
Health insurance	G	(262)	289	-	64	192	110
Insurance companies overseas	H	19	5	-	(2)	13	6
Financial services	I	29	34	(15)	9	5	34
Not attributed to segments of operation	F	468	(25)	-	179	(122)	285
Total before tax		**1,036**	**740**	**40**	**466**	**(15)**	**1,234**
Tax expenses (benefit)		276	198	39	157	(20)	388
Total after tax		**760**	**542**	**40**	**309**	**5**	**846**
Return on Equity in annual terms		12%	9%		20%	1%	16%

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

Harel Insurance regularly reviews liability adequacy (LAT). The test is performed in accordance with the provisions of Insurance Circular 2015-1-14 published by the Commissioner (“the Circular”) which determined that the LAT will be calculated, at least, according to the following allocation:

- Non-life insurance segment
- Health insurance segment - where for the purpose of the LAT calculation, long-term care is included in non-life insurance despite the fact that in the financial statements it is reported under the health segment
- Life assurance segment - where the LAT calculation in this segment is divided by sub-segments according to the allocation set out in the forms for reporting to the Commissioner, which cannot be offset against one other

The Circular stipulates that the discounting rate used for the LAT calculation will be in accordance with the risk-free interest rate curve plus a liquidity premium and taking into account the cost of non-hedgeable risks (CHNR). The Circular states that companies must consider the CHNR in simple form by adding conservative margins to the Best Estimate at a fixed rate of 5%, according to the allocation by assumptions and categories of insurance set out in the Circular.

On March 8, 2020, a circular was published concerning an amendment to the provisions of the consolidated circular on the measurement of liability - interest rate assumption ("the Circular"). According to the Circular, the risk-free interest rate curve that should be used up to the Last Liquid Point in the 25th year is a yield curve based on yield-to-maturity interest rates for marketable Israel government bonds, as published by the company that wins the price quote tender. Beyond this point, interest rate curves will be determined by extrapolation based on the Smith-Wilson method as far as the Ultimate Forward Rate (UFR) to be determined at 60 years, in accordance with the Commissioner's instructions with respect to implementation of the economic solvency ratio based on Solvency II. From this point on, the forward rate will be fixed. The Company applies the provisions of the Circular in calculating the LAT in the financial statements at December 31, 2019 as a change in the accounting estimate in accordance with International Accounting Standard (IAS) 8.

Results in the Reporting Period and in the fourth quarter were affected by a sharp decline in the risk-free interest rate curve which led to an increase in the insurance liabilities of NIS 1,548 million before tax and NIS 353 million after tax, respectively. This compared with an increase in the risk-free interest rate curve in the corresponding period and fourth quarter last year which lead to a reduction of the insurance liabilities by NIS 59 million before tax and NIS 8 million after tax, respectively.

It is emphasized that had it been possible to calculate the LAT for the entire life assurance segment together and that the long-term care sector was included and calculated for the purpose of the LAT under the health insurance segment for the entire health segment together, then at December 31, 2019, the Company would not have had any LAT reserve whatsoever, either in the life assurance segment or in the health insurance segment.

On March 29, 2020, a circular was published on calculation of the LAT, the purpose of which is to adjust, on an ad hoc basis, the way in which LAT is calculated in Israel. The circular changes the grouping of insurance products so that the LAT can be calculated for the entire life assurance segment together. According to the circular, calculations for the long-term care sector will continue to be prepared separately. The provisions of the circular will be applied retrospectively from Q1 2020. The Company believes that, based on the present risk-free interest rate curve at the date of publication of the financial statements, the implication of the change is that the Company will not have an LAT reserve in the life-assurance segment (the Company's LAT reserve in the life assurance segment at December 31, 2019, is NIS 720 million) and that the Company's equity will increase by NIS 475 million.

Additionally, results in the Reporting Period and in the fourth 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 mortality improvements for insurance companies and pension funds" ("the Circular").

For additional information about special effects on profit, see the table in Section 2.4.2.

A. In life assurance, results in the Reporting Period were affected by an increase in the insurance liabilities resulting from a sharp decline of the risk-free interest rate curve, by the effect of implementation of the circular and by changes in the insurance liabilities resulting from revised assumptions. These were partially offset by an increase in the collection of management fees.

Income from management fees amounted to NIS 693 million in the Reporting Period, compared with NIS 386 million in the corresponding period last year. Most of the increase in the management fees is attributable to an increase in the variable management fees, amounting to NIS 265 million in the Reporting Period, compared with the inability to collect management fees in the corresponding period last year (according to the mechanism for collecting management fees as set out in the legislative arrangement whereby variable management fees will not be collected in respect of yield-dependent policies sold between 1991 and 2003, until investment profits attained in respect of the assets held to cover yield-dependent liabilities cover the accrued investment losses). The increase in the variable management fees was recorded as a result of real positive yields that were higher than those attained by the Company in the corresponding period last year. Management fees in the Reporting Period are stated 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 228 million in the fourth quarter, compared with NIS 26 million in the corresponding period last year. Most of this increase is attributable to an increase of the variable management fees, which amounted to NIS 115 million in the fourth quarter compared with no collection of variable management fees in the corresponding quarter last year. The increase in the variable management fees was recorded as a result of real positive yields attained by the Company relative to the corresponding period last year.

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

C. In the compulsory motor and liabilities sectors, results in the Reporting Period were affected on the one hand by a decrease of the insurance liabilities due to the Supreme Court decision concerning the discounting interest rate for compensation due to personal injury in torts. On the other hand, results in the Reporting Period and in the fourth quarter were affected by an increase of the insurance liabilities due to the sharp decline of the interest rate curve.

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 were influenced on the one hand by an increase of the insurance liabilities in the personal lines long-term care sector due to the sharp decrease of the interest rate curve and to a worsening of the underwriting results in the personal lines health sector on an account of an increase in the number of claims in accident cover. In contrast, results in the Reporting Period and in the fourth quarter in the personal lines health sector were affected by a decrease of the insurance liabilities due to a revision of the assumptions in connection with the cost of claims in cover for medications, ambulatory care and surgery.

H. Results in the Reporting Period were mainly affected by an increase in the interest rate on deposits in banks in Turkey. The quarterly results were affected mainly by a worsening of underwriting in the motor property sector in Greece.

I. Results in the Reporting Period 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.

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

	Notes	For the year ended December 31			For the three months ended December 31		For the year ended December 31
		2019	2018	Change	2019	2018	2017
Comprehensive income (loss) for the period as published in the report		760	542	218	309	5	846
Life assurance and long-term savings							
LAT and the effects of interest	A	(439)	59	(498)	(64)	8	(50)
Application of a circular on revised mortality tables	B	(91)	-	(91)	-	-	-
Revised TUR assumptions	C	(27)	-	(27)	(27)	-	-
Revised assumptions for calculating liabilities	C	-	(38)	38	-	(38)	59
Revised TUR assumptions	C	-	(38)	38	-	(38)	-
Non-life insurance							
Effects of the interest rate	D	(183)	-	(183)	(26)	-	(8)
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	-	-	-
Revised assumptions in personal lines LTC liabilities	F	-	(18)	18	-	(18)	(4)
Revised assumptions in personal lines health liabilities	F	112	138	(26)	112	138	(98)
LAT and the effects of interest	H	(926)	-	(926)	(263)	-	-
Total effects, before tax		(1,224)	103	(1,327)	(268)	52	(101)
Effect of tax		(418)	35	(453)	(92)	18	(35)
Total effects, after tax		(806)	68	(874)	(176)	34	(66)
Total comprehensive income after adjustment for special effects		1,566	474	1,092	485	(29)	912

A. In the Reporting Period and in the fourth quarter, an increase of NIS 439 million before tax and NIS 64 million before tax, respectively, was recorded in the insurance liabilities, due to the sharp decline of the risk-free interest rate curve. In the corresponding period last year and corresponding quarter last year, the insurance liabilities declined by NIS 59 million before tax and by NIS 8 million before tax, respectively, due to an increase of the risk-free interest curve used for assessing the adequacy of the reserves. In 2017, the insurance liabilities increased by NIS 50 million due to a decline of the risk-free interest curve used for assessing the adequacy of the reserves (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 mortality improvements 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 the insurance liabilities in the health insurance segment decreased by NIS 70 million.
Results in the Reporting Period were affected by a revised study in connection with the rate

of cancellations for insureds who are expected to exercise their entitlement to an annuity (take-up rate). Due to this revision, an increase of NIS 27 million before tax was recorded in the insurance liabilities.

C. Results in 2018 were affected by a revision of the current and future rates of eligibility to Hetz bonds, by a revision of the rate of expenses on annuity payments, and by updated research relating to assumptions of the percentage of insureds who are expected to exercise their entitlement to annuity. For each of the aforementioned revisions, the insurance liabilities increased by NIS 38 million. Results for 2017 were affected by a revision of morbidity assumptions in the critical illness sector, as a result of which a decrease of NIS 59 million was recorded in the insurance liabilities.

D. Due to the 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 of NIS 183 million and NIS 26 million was recorded in the Reporting Period and in Q4 2019 , respectively, (in the Reporting Period NIS 56 million in the compulsory motor sector and NIS 127 million in the liabilities and other sectors; in the fourth quarter, NIS 26 million 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 on account of personal injury in torts. As a result of the court's decision, a decrease of the insurance liabilities of NIS 260 million was recorded (of which NIS 158 million was in the compulsory motor sector and NIS 102 million was in the liabilities and others sector).

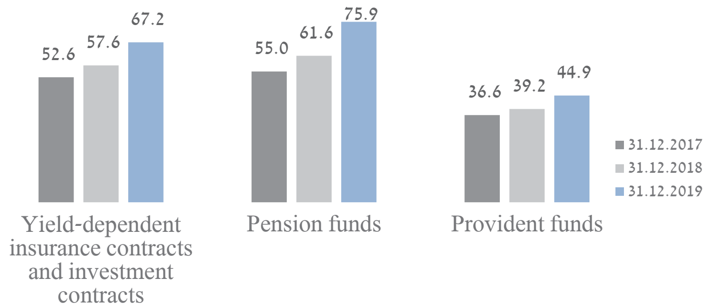
F. Results in 2018 were affected by a revised study of morbidity and cancellation assumptions and by an update of expenses in the personal lines long-term care sector. Due to the aforementioned revisions, the insurance liabilities increased by NIS 18 million. Results for 2017 were affected by a revision of the study regarding morbidity assumptions and cancellations, as a result of which an increase of NIS 4 million was recorded in the insurance liabilities.

G. In the Reporting Period, the Company completed several studies in connection with the cost of claims in the personal lines health sector on coverages for medications, ambulatory care and surgery. Due to these revisions, a decrease of NIS 112 million was recorded in the insurance liabilities. In the corresponding period last year, a study of cancellation and morbidity assumptions on coverages for surgery and transplants was revised. Due to this revision, a decrease of NIS 138 million was recorded in the insurance liabilities. The results for 2017 were affected by a revision of the study on cancellation assumptions and an update of the expenses. Consequently, an increase of NIS 98 million was recorded in the insurance liabilities.

H. Due to the sharp decline of the interest rate curve, in the Reporting Period and in the fourth quarter, an increase of NIS 926 million and NIS 263 million, respectively, was recorded in the insurance liabilities in the personal lines long-term care sector, due to the sharp decline in the interest rate curve.

2.5 Other key information and influences by segment

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



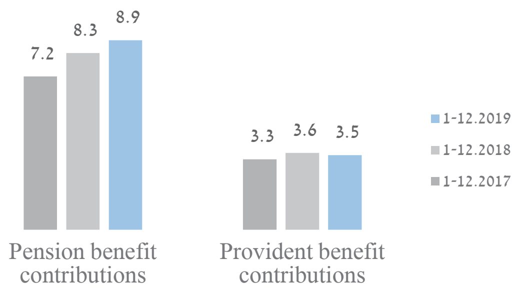
Pension funds - most of the increase in AUM relative to the corresponding period last year is attributable to a transaction with a large group, to positive accrual and to capital market yields.

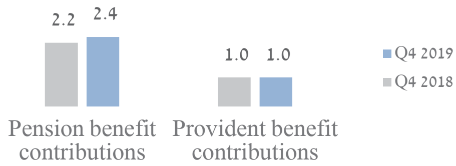
Provident funds* - most of the increase in AUM relative to the corresponding period last year is attributable to a merger of the Discount Bank provident funds in the amount of NIS 1.7 B, as well as to positive accrual and to capital market yields.

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

2.5.2 Data on benefit contributions (NIS billion):





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

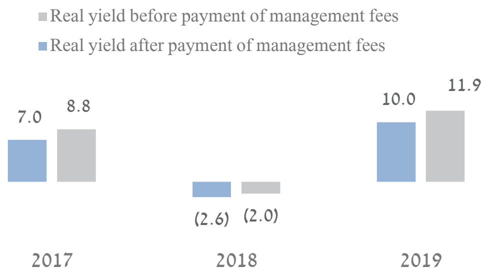
Provident - the data presented for the Reporting Period include lump-sum deposits of NIS 644 million, mainly in respect of Amendment no. 190 to the Income Tax Ordinance, compared with NIS 1,371 million in the corresponding period last year.
Pension - the increase in benefit contributions compared with the corresponding period last year, is mainly attributable to the enrollment of new members and an increase in the deposits made by existing customers.

2.5.3 Life assurance

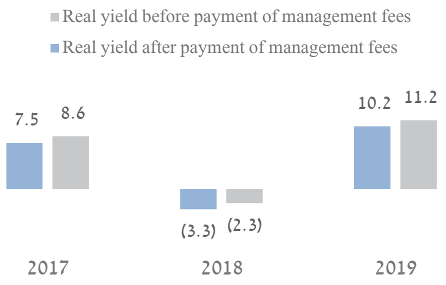
In the Reporting Period, redemptions as a percentage of the average reserve is 3%, compared with a 2.8% in the corresponding period last year.

Yield-dependent policies:

Policies issued between 1991-2003 (in percent)



Policies issued from 2004 (in percent)



The estimated amount of investment profit and management fees included in the consolidated income statement, which were credited to or debited from insureds in yield-dependent policies, and 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 year ended December 31		
	2019	**2018**	**2017**
Profit (loss) after management fees	5,292	(966)	2,985
Total management fees	693	386	569

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.

2.5.4 Pension funds

The new pension fund Harel Pension attained a nominal yield of 11.98% in the Reporting Period.

Total management fees collected from the pension funds managed by the Group amounted to NIS 331 million in the Reporting Period, compared with NIS 319 million in the corresponding period last year.

Total income from management fees collected by the pension funds managed by the Group amounted to NIS 86 million in the fourth quarter, compared with NIS 82 million in the corresponding period last year.

2.5.5 Provident funds

The provident funds accrued a net, positive amount (excluding investment profit) of NIS 206 million in the Reporting Period, as against positive accrual of NIS 3,290 million in the corresponding period last year.

Income from management fees collected from the provident funds managed by the Group amounted to NIS 257 million in the Reporting Period, compared with NIS 243 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 provident funds managed by the Group amounted to NIS 66 million in the fourth quarter, compared with NIS 62 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.

2.5.6 Health insurance

In view of the discontinuation of group long-term insurance on December 31, 2017, the losses arising from previous periods have decreased.

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.

In 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 that operated 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 current market conditions.

2.5.7 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 year ended December 31		
	2019	**2018**	**2017**
Compulsory motor	(14%)	20%	11%
Motor property (CASCO)	3%	7%	1%
Property and other branches	3%	6%	7%
Other liabilities branches	2%	6%	3%

Number of policies in terms of exposure - non-life insurance activity typically involves policies for a period of up to a year. In view of the nature of the policies, quantity is a multiple of the number of policies within the policy period during the year. 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, compared with 32% of the scope of motor property insurance and compulsory motor insurance for state employees in 2018. The results of the tender are not expected to significantly affect the Company's performance.

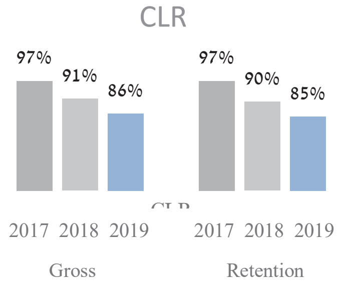
2.5.7.1 Compulsory motor

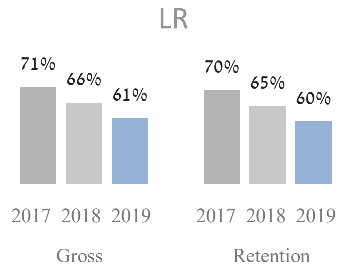
For additional information about the results for compulsory motor insurance, see Sections 2.4.1 and 2.4.2 above.

Given that car owners must insure their vehicles in accordance with the Motor Vehicle Insurance Ordinance, vehicle owners (usually motorcycles) who were rejected by the insurance companies may purchase insurance through the Pool (Israel pool for motor 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).

2.5.7.2 Motor property

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

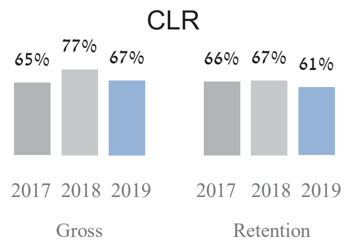


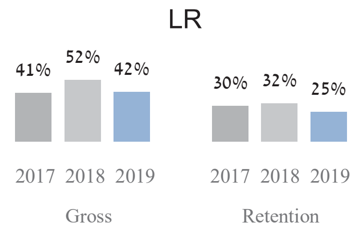


2.5.7.3 Property and other branches

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:





2.5.7.4 Other liabilities branches

For information about the results for liabilities and other insurance, see Sections 2.4.1 and 2.4.2 above.

2.5.7.5 Credit insurance for mortgages

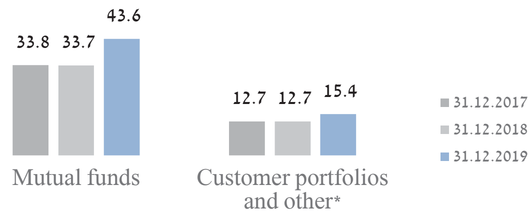
The premiums earned in credit insurance for residential mortgages are not for new sales, but in respect of sales made in the past and for which the premiums are recognized as earned premiums based on the period of coverage. EMI has no reinsurance agreements in this branch of insurance.

2.5.8 Insurance companies overseas

The Company is the controlling shareholder (94%) in 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.

2.5.9 Capital market and financial services

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



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

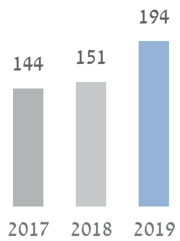
Revenues in the capital market and financial services segment amounted to NIS 207 million in the Reporting Period, as against NIS 209 million in the corresponding period last year.

*Customer portfolios and other - in this period, “other” includes 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 mutual funds, ETFs and CDs (for 2019, 2018), and for mutual funds, ETN and CD data (for 2017).

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



2.6 Liquidity and sources of finance

2.6.1 Cash flows

Net cash flows used in ongoing activity were NIS 361 million in the Reporting Period. Net cash flows used in investment activity amounted to NIS 95 million. Net cash flows provided by financing activity were NIS 822 million. The fluctuating exchange rates had a negative impact of NIS 117 million on the cash balances. The outcome of all the above activity is an increase of NIS 249 million in the cash balances.

2.6.2 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 25(H) to the Financial Statements.

In December 2019, debt (Tier-2 capital) was raised by means of the second-tier subsidiary Harel Financing & Issuing, by way of the issue of a new series of bonds (Series 17) and by way of an expansion of an existing series of bonds (Series 14). For additional information, see Note 25(H) to the Financial Statements.

In May 2019, 2019, Harel Financing & Issuing initiated the full, early redemption of the Series 3 bonds it had issued.

On bank loans taken by the Company in the amount of NIS 190 million, see Note 25(H) to the Financial Statements.

2.7 Dividend

For information about a dividend that was declared or distributed in or after the Reporting Period, see Note 15(D) to the Financial Statements.

3 Market risks - exposure and management

3.1 General

The following report on risk management relates to the investments of the Company and its subsidiaries, excluding the Group's insurers, in accordance with the Securities (Periodic and Immediate Reports) Regulations, 1970, in relation to reporting on exposure to and management of market risks.

For information about risk management by Company and its subsidiaries, including subsidiaries which are an insurer, see Note 37 to the Financial Statements.

Market risks are risks to the Company's revenues and equity resulting from changes in the prices of securities, real estate, credit margins, interest rates, exchange rates and inflation.

For additional information about the Group's credit and interest-rate risks, see Note 37 to the Financial Statements.

3.2 Head of market risk management in the Company

The head of market risk management in the Company is Ms. Adva Inbar, Harel Group’s risk manager.

3.3 Description of the market risks

Market risks are risks to the Company's revenues and equity resulting from changes in prices and rates in the financial markets.

The principal market risks to which the Company is exposed are:

Interest rate risk – a loss which might be incurred due to the possible effect of changes in the interest rate curves in Israel and abroad on the fair value or cash flows from assets and liabilities.

Currency risks – the risk of a loss arising from changes in the currency exchange rates which affect foreign currency exposure in the Company's investment portfolio.

Share price risk – the Company is exposed to a decline in the prices of shares traded in Israel and overseas.

Inflation risks – the Company is exposed to a loss resulting from changes in the Consumer Price Index. The Company holds non-linked financial instruments the value of which may be eroded due to rising inflation.

Credit spread risk – a possible loss due to the credit margins expanding above the risk-free interest rate on debt assets revalued at fair value.

Real-estate prices risk – a risk of possible loss due to an erosion of real-estate prices.

3.4 Harel Investments market risk management policy and oversight of its implementation

The Group's policy on investments and risk management, the scope and composition of its investments, are set by the appropriate organs of each of the Group's companies. Various forums meet on a regular basis and receive on-going reports and forecasts, and they define the rates of exposure to the various investment channels accordingly.

Various companies in the capital market and financial services arm have established a policy for the management of market risk and exposure limits for the management of their liquid asset balances.

3.5 Report on linkage bases at December 31, 2019

Data concerning linkage bases - see Note 37(J) to the Financial Statements

3.6 Oversight and implementation of market risk management policy

On the oversight of risk management by the subsidiaries which are an insurer, see Note 37 to the Financial Statements.

The managers of the various activities in the capital market and financial services arm are responsible for monitoring activity that takes place in the units under their responsibility.

Harel Finance has a risk management and control department which provides a second line of defense and conducts timely and voluntary tests based on a plan approved by the various boards of directors and in line with events taking place within the companies, including compliance with procedures which have been set on market risks. The control department regularly reports to the Company's CEO and to the relevant boards of directors and audit committees concerning relevant findings, in accordance with the requirements of the TASE Regulations.

Mutual fund activity is monitored by means of an internal control system consisting of software that limits the ability of the investment personnel to perform unusual transactions, and this taking into account the amount of the transaction, price differences between the price of the transaction and the theoretical price and the last trade price, the quantity acquired, etc. Transactions performed by all the investment personnel are also monitored.

The boards of directors of different companies within Harel Finance Group receive periodic updates regarding significant changes in exposure to market risks for the relevant company.

3.7 Sensitivity tests

Pursuant to the directives of the Israel Securities Authority (ISA), the Company performed tests of sensitivity to key market risk factors. The risk factors and financial assets and liabilities were tested in accordance with the instructions and based on materiality. The sensitivity tests cover the Group's companies, excluding the Group's insurance companies.

The sensitivity tests examined changes in the risk factor by 5% and 10% (proportionate). In calculating the sensitivity to financial instrument and foreign currency risk factors, the maximum daily change in its absolute value was also tested, over the 10 years preceding the Reporting Period.

No significant exposures were found to share indices in which the maximum daily scenario increased by more than 10%, And no daily change of more than 10% was found in the currency risk factor and relevant exchange rates. The sensitivity analyses presented are therefore for a relative change of 5% and 10% only.

Since the onset of the global financial crisis and the decline in some interest rates to almost zero, situations have arisen in which a negligible daily difference in the relevant interest rate produced an exceptionally large daily change. Consequently, according to the clarification regarding sensitivity tests which are required under Section 2F of the Second Schedule to the Securities (Periodic and Immediate Reports) Regulations, 1970, in addition to the scenarios defined in the Regulations, an extreme scenario of an absolute 2% change was also applied to the interest risk factor.

Results of analyses of sensitivity to key risk factors (NIS thousand):

3.7.1 "Capital instruments" sensitivity

Sensitive instrument	10% increase in market factor	5% increase in market factor	Fair value	5% decrease in market factor	10% decrease in market factor
Shares in Israel	122	61	1,217	(61)	(122)
Shares Abroad	82	41	823	(41)	(82)
Dual-listed shares	12	6	121	(6)	(12)
Options on shares	7	5	(12)	(7)	(19)
PE funds	1,171	585	11,710	(585)	(1,171)
Total	**1,394**	**698**	**13,859**	**(700)**	**(1,406)**

3.7.2 US Dollar Base sensitivity

Sensitive instrument	10% increase in market factor	5% increase in market factor	Fair value	5% decrease in market factor	10% decrease in market factor
Cash	2,135	1,068	21,356	(1,068)	(2,135)
Shares Abroad	(7)	(4)	(71)	4	7
Dual-listed shares	15	7	148	(7)	(15)
PE funds	1,171	585	11,710	(585)	(1,171)
Corporate bonds	29	14	290	(14)	(29)
Options on foreign currency	(2,035)	(956)	(121)	272	488
Futures contracts	(8)	(4)	(75)	4	8
Total	**1,300**	**710**	**33,237**	**(1,394)**	**(2,847)**

3.7.3 Other non-USD foreign currency Base sensitivity

Sensitive instrument	10% increase in market factor	5% increase in market factor	Fair value	5% decrease in market factor	10% decrease in market factor
Cash	620	310	6,200	(310)	(620)
Receivables	720	360	7,201	(360)	(720)
Payables	(1,151)	(576)	(11,514)	576	1,151
Shares Abroad	30	15	302	(15)	(30)
Futures contracts	(5,045)	(2,523)	(50,426)	2,523	5,045
Total	**(4,826)**	**(2,414)**	**(48,237)**	**2,414**	**4,826**

3.7.4 CPI Base sensitivity

Sensitive instrument	10% increase in market factor	5% increase in market factor	Fair value	5% decrease in market factor	10% decrease in market factor
Receivables	256	128	2,555	(128)	(256)
Payables	(3)	(1)	(27)	1	3
Government bonds	(26,468)	(13,234)	(264,684)	13,234	26,468
Corporate bonds	1,551	775	15,508	(775)	(1,551)
Loans provided	35,229	17,614	352,290	(17,614)	(35,229)
Deposits	28,968	14,484	289,675	(14,484)	(28,968)
Total	**,39533**	**19,766**	**395,317**	**(19,766)**	**(39,533)**

3.7.5 Shekel Interest sensitivity

Sensitive instrument	Absolute increase of 2% in market factor	10% increase in market factor	5% increase in market factor	Fair value	5% decrease in market factor	10% decrease in market factor	Absolute decrease of 2% in market factor
Government bonds	(6,439)	(204)	(102)	63,643	102	205	7,411
Corporate bonds	(8,872)	(79)	(39)	257,790	39	79	9,388
Loans received	25,244	521	261	(531,576)	(261)	(522)	(27,987)
Loans provided	(236)	(4)	(2)	4,919	2	4	257
Deposits	(26)	(0)	(0)	2,002	0	0	27
Total	**9,671**	**234**	**118**	**(203,222)**	**(118)**	**(234)**	**(10,904)**

3.7.6 Index-linked Interest Rate sensitivity

Sensitive instrument	Absolute increase of 2% in market factor	10% increase in market factor	5% increase in market factor	Fair value	5% decrease in market factor	10% decrease in market factor	Absolute decrease of 2% in market factor
Government bonds	7,760	(307)	(154)	(264,684)	153	307	(7,773)
Corporate bonds	(922)	40	20	15,501	(20)	(39)	1,001
Loans provided	(29,835)	1,170	584	352,290	(583)	(1,165)	33,492
Deposits	(11,430)	415	207	289,675	(207)	(414)	12,234
Total	**(34,427)**	**1,318**	**657**	**392,782**	**(657)**	**(1,311)**	**38,954**

3.7.7 "Dollar interest rate" sensitivity

Sensitive instrument	Absolute increase of 2% in market factor	10% increase in market factor	5% increase in market factor	Fair value	5% decrease in market factor	10% decrease in market factor	Absolute decrease of 2% in market factor
Corporate bonds	(6)	(1)	(0)	290	0	1	6
Futures contracts	50	5	2	(5,261)	(2)	(5)	(52)
Total	**44**	**4**	**2**	**(4,971)**	**(2)**	**(4)**	**(46)**

3.8 Assumptions underlying the calculations

The following details the assumptions applied in performing the sensitivity tests and in calculating the fair value of sensitive instruments:

3.8.1 Instruments with a period of less than three months to redemption are assets with a relatively low level of exposure to changes in interest rates. Their sensitivity is therefore only measured to changes in the linkage base (CPI and/or foreign currency) and they were not included in the calculations of sensitivity to interest rates.

3.8.2 The fair value of debt assets was calculated using a model for discounting the cash-flows provided by those assets, while using the appropriate interest rate for the cash flow period. The discounting interest rate was calculated based according to market interest for the period of the cash flows, plus the appropriate risk premium for the borrower or issuing entity.

3.8.3 The fair value of share options was calculated using the B&S model, based on market data. The calculated change is reported in terms of the effect on the value of the instrument and not in terms of exposure.

3.8.4 The fair value of convertible bonds was calculated by breaking down the value of the bonds into two components: (a) the bond component (which was costed according to Section 3.8.2 above); (b) the option component which was based on the binomial model for pricing options.

3.8.5 The fair value of marketable shares was taken as the market value of those shares.

3.8.6 Regarding changes in interest-based risk factors, for changes of 5% or 10%, the pro-rata change of all the interest rates along the curve was assumed.

3.8.7 A change of 5% or 10% in the risk factors of capital instruments (including shares) was calculated as a change of 5% or 10% in the value of the asset (the same as the assumption of a 5% or 10% change in the relevant share index and sensitivity of the share relative to the relevant share index (beta) equal to 1).

3.8.8 The fair value of forward contract transactions in currencies was calculated as the difference between the fair value of a bond that does not bear a specified interest rate in the denominated currency of the contract, and the fair value of a bond which does not bear a specified interest rate in the original currency.

3.9 Board of Directors explanations

The Company is exposed directly to market risks through its own investments and indirectly through the investments of the subsidiaries and financial institutions that it holds and manages. Taking into account the volume of the Company's own investments and their low-risk nature, the Board of Directors believes that the Company's exposure to market risks is insignificant and that the actual risk management is consistent with the market risk management policy.

3.10 Events after the date of the Statement of Financial Position

The outbreak of the Corona virus in Q1 2020 and the shock to oil prices in the wake of the trade war between Russia and Saudi Arabia, cast uncertainty over various areas: future economic activity in Israel and abroad, the exchange rates, inflation and the financial markets. This is an evolving event, and there is tremendous uncertainty regarding the continued spread of the virus and its implications. For information about the repercussions for the Company, see also Sections 2.2 and 2.3.10 above.

3.11 Results of an analysis of the exposure to and management of market risks

Pursuant to the instructions of the Israel Securities Authority (ISA), the Company tested sensitivity to key market risk factors. The sensitivity tests cover the Group's companies, excluding the Group's insurance companies.

Summary of the tests of sensitivity to market risks (NIS thousand):

3.11.1 Sensitivity to market risk factors

Risk factor	Absolute increase of 2% in market factor	10% increase in market factor	5% increase in market factor	Fair value	5% decrease in market factor	10% decrease in market factor	Absolute decrease of 2% in market factor
USD base	-	1,300	710	33,237	(1,394)	(2,847)	-
Other non-USD foreign currency Base	-	(4,826)	(2,414)	(48,237)	2,414	4,826	-
CPI	-	39,533	19,766	395,317	(19,766)	(39,533)	-
Shekel interest	9,671	234	118	(203,222)	(118)	(234)	(10,904)
Index-linked interest	(34,427)	1,318	657	392,782	(657)	(1,311)	38,954
Dollar interest	44	4	2	(4,971)	(2)	(4)	(46)
	-	1,300	710	33,237	(1,394)	(2,847)	-

Risk factor	10% increase in market factor	5% increase in market factor	Fair value	5% decrease in market factor	10% decrease in market factor
Financial instruments	1,394	698	13,859	(700)	(1,406)

Taking into account the volume of the Company's investments and their low-risk nature, the Board of Directors believes that the Company's exposure to market risks is insignificant. The Board of Directors therefore believes that its market risk management policy is consistent with actual risk management.

4 Aspects of corporate responsibility

4.1 Corporate responsibility

The Company's Board of Directors and the management and employees of the Group, believe that corporate responsibility is an integral part of its management approach and the Group's core values, and they attribute considerable importance to the integration of corporate responsibility in all levels of activity, based on the recognition that values and ethical and proper management go hand in hand with business success and leadership, while creating added value for all the principal shareholders.

This is reflected in the fact that in 2019, for the fifth time in a row, the Group was awarded the Platinum Plus Ranking, the highest award given by Maala, which rates 150 of the largest companies in the economy for CSR.

In 2019, the Group published its fifth CSR report, relating to 2017-2018. Publication of the report reflects the ongoing commitment of the Group's management and Board of Directors to promoting an approach that underscores the integration between business management and corporate responsibility, allowing the Group to present its activity transparently and credibly (The report appears on the Company's website).

4.2 Community involvement - giving to the wider community and voluntary activity by employees

In 2019, the Company continued to expand its community involvement projects and to deepen its ties with organizations that work for the community and society in a range of areas. 51% of the Group's employees took part in voluntary activity during the course of the year, in accordance with the policy of Harel Group:

4.2.1 Long-term strategic partnerships based on monetary donations and employee involvement. In this context, a variety of collaborative projects took place, including: a joint project with United Hatzalah, collaboration on distributing food and promoting the education of children and teens together with Leket Israel; Nevet (Sandwich for Every Child), Lasova, The Jaffa Institute (multi-service social agency in Jaffa); educational activity on behalf of children and youth at risk - in cooperation with the A Different Lesson project; Nobel Laureates for Excellence in Education; and Or Shalom - activity on behalf of soldiers which includes the adoption of two IDF transport battalions as part of the Adopt a Fighter program run by YAHAD - United for Israel's Soldiers; activity on behalf of children and teens who suffer from emotional problems in cooperation with the Geha Mental Health Center as well as support in schools and after-school clubs for children from low socio-economic backgrounds - these collaborative projects grow from year to year.

4.2.2 Donations made by the Group to charitable associations and organizations for the benefit of the community at large increased by 10% in 2019 to about NIS 10 million, compared with NIS 9 million in 2018 and NIS 8 million in 2017. Of these amounts, about NIS 7 million, NIS 6 million and NIS 5 million, respectively, were donated through the M.E.H. Foundation (Keren HaMeah - in memory of the late Margot and Ernst Hamburger), which is a public benefit company and is authorized by the tax authorities to accept donations from various entities and to distribute them among needy entities at the discretion of the management of M.E.H. Foundation whose members are principal shareholders in the Company. The policy of the management of M.E.H. Foundation is to contribute mainly to the following: organizations: charitable associations that provide medical assistance to the needy and for exceptional cases; organizations which support people with special needs children such as Beit Noam - a home for severely disabled adults; support for institutions of higher education by promoting science and research in Israel through the Weizmann Institute, Tel Aviv University and Bar Ilan University which are supported by Harel through the adoption of returning scientists, patrons of the arts and culture, such as the Philharmonic Orchestra. Harel also supports the activity of World Maccabi to enhance Zionist identity among Diaspora Jewry; it supports the activity of Educating for Excellence (e4e) which strives to reduce socioeconomic disparity in Israeli by assisting children and youth from the social periphery, and contributes to encouraging the acquisition of insurance knowledge in Israel. Other donations were made directly by the Group's companies, and these too consistent with the aforesaid policy.

4.2.3 In 2019, money equivalent donations, reflecting hours of volunteering by the Company's employees at the expense of work hours, contributions through the use of Company facilities on behalf of the activity of the various charitable organizations and donations of equipment to the Company's employees or to charitable organizations, amounted to NIS 1.45 million, compared with NIS 0.9 million in the corresponding period last year.

4.2.4 This year, the Company continued to involve organizations that provide employment for people with disabilities in corporate events and purchasing (e.g.: *Enosh*, *Shekulo Tov*, *Peulah*).

4.3 Sustainability (environmental responsibility)

As a group engaged in long-term savings, health, non-life insurance and providing financial security, the Company notes how climate change could pose a risk to the basic interests of our stakeholders, and first and foremost of our customers. Similar to other leading insurance companies around the world, Harel Group also operates in managing the subject of environmental risks. While doing so, it performed an analysis of the exposure to environmental risks the results of which were presented to the Board of Directors' risk management committee.

Furthermore, in 2019 as well, Harel Group continued to voluntarily report on its carbon footprint to the Ministry of the Environment and it took action among its employees and managers to conserve energy, encourage the use of public transport and move over to using green vehicles. Further to measures to reduce paper consumption in offices in recent years, the Group introduced the use of recycled paper in office printers. Additionally, in 2018, the Company continued to integrate environmental considerations in the procurement processes and in investment decision making processes.

Additionally, Harel is working to expand its activity with respect to sustainability. In this context, Harel Finance is running a pilot which includes encouraging the use of car pools for traveling to work, holding a barter market for second-hand or recycling products, holding lectures and training on this topic, distributing reusable cups and dishes and discontinuing the use of disposable dishes, etc.

4.4 Ethical conduct

Maintaining a proper business culture based on ethical conduct is the cornerstone of Harel's activity and decision making. The Group's Code of Conduct reflects the significant core values that guide the Group. In the past year too, surveys were sent to Company suppliers to assess the ethical aspects of Harel's business practices with these groups.

The head of the ethics department works to assimilate the Code of Conduct among new employees and is available to the employees, including by means of a discrete channel of communication.

4.5 Work environment

As a financial services group, the Company's employees are its most important resource, the source and strength of the organization and the key to its success. Harel Group's employees are therefore the focal point of the organization and it invests in their professional development and wellbeing, guaranteeing a pleasant, caring and facilitative environment. Harel currently has 4,800 employees from all over the country, of all ages and from all sectors of the population, including employees with disabilities.

The considerable importance that Harel attributes to its employees is also reflected in its salary and compensation policy. For example, in 2016, the Group's minimum starting salary was NIS 6,000, and at December 2019, this wage is 10.4% higher than the minimum wage in the economy.

In 2019, Harel Group enhanced its activity on behalf of the wellbeing of the employees. In this context, it launched two new plans which Harel began to implement in January 2020: one - providing a preparatory course for retirement for all Company employees (and their partners) due to retire. Additionally, as part of the Company's commitment to promoting work-life balance, a pilot was initiated in which Harel allows all employees to ask to reduce the scope of their employment by 20% and move over to working a 4-day week. This, while retaining the full pension rights of the employees and their families.

4.6 The Group's Corporate Social Responsibility (CSR)

The duties of the Board of Directors include receiving ongoing reports from Ms. Liora Kavoras Hadar about performance relating to the Group's corporate CSR. In 2011, the Board of Directors appointed Liora Kavoras Hadar to promote and develop corporate responsibility within Harel. Accordingly, in the reporting years, Ms. Kavoras Hadar met regularly with Mr. Doron Ginat (the Company's Deputy CEO and head of the Long-term Savings Division in Harel Insurance), who is management's representative for corporate governance, and with Ms. Merav Ratan-Beit Dagan, head of Communications and Customer Relations in the Group, as well as with other officials involved in the Company's corporate responsibility activity, to obtain reports on and help advance the subject. The CSR forum, which includes the Group's Chairman and CEO, also meets periodically. These meetings included status reports on the Group's activities based on the existing social and environmental responsibility plans as well as a discussion of future plans of action in this field and their approval.

5 Corporate governance

5.1 Directors with accounting and financial expertise

At a meeting on March 27, 2006, the Board of Directors determined, in accordance with Section 92(A)(12) of the Companies Law, 1999 (in this section: "the Law"), that taking into account the category of company, its size, volume and complexity of its operations, the Company must have at least two directors with accounting and financial expertise according to the Section 240 of the Law. For information about serving directors in the Company who the Board of Directors has recognized as having accounting and financial expertise, see Chapter 5, Regulation 26, - Additional Information about the Company.

5.2 External Directors

For information about the Company's external directors, see Chapter 5, Regulation 26 - Additional Information About the Company.

5.3 Internal Auditor

For information about the Company's Internal Auditor, see Section 4.2 in Chapter 1 of the Periodic Report - Description of Company Operations.

5.4 External Auditors

For information about the Company's External Auditors, see Section 4.3 in Chapter 1 of the Periodic Report - Description of Company Operations.

5.5 Material changes in the list of senior officers

For information about material changes in the list of senior officers, see Section 3.6.1 in Chapter 1 of the Periodic Report - Description of Company Operations.

5.6 Disclosure about cyber risks

For information about the Company's deployment for cyber risks, see Note 37(A) to the Financial Statements.

6 Disclosure instructions in relation to financial reporting by the Company

6.1 Report on critical accounting estimates

The Company does not make use of critical accounting estimates, the use of which and/or reasonable change therein might significantly affect the Group's financial position and/or results of its operations. For additional information, see Note 2(D) to the Financial Statements.

The foregoing does not refer to subsidiaries that are an insurer, including their consolidated data.

7 Disclosure concerning 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 aforementioned 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 June 30, 2019, on a consolidated basis and before the transitional provisions (in terms of 100% SCR), is NIS 780 million.

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 and consequently, the capital position that it reflects could be extremely volatile.

At December 31, 2019, there was a further significant decrease of the risk-free interest rate curve. Namely, a significant impact on the Company's solvency ratio. Notably, the Company has not yet completed the calculation for the solvency report at December 31, 2019, and this information is therefore partial only and should not be treated as an estimate in connection with the results of the calculation. Immediately prior to the date of publication of the report, the risk-free interest rate curve rose to above its level on December 31, 2019.

The data presented below were prepared in accordance with the Commissioner's directives as they were known at the time of preparing the Report. It is emphasized that 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.

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 June 30, 2019, 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 June 30, 2019, based on the directives in the Solvency circular published on June 1, 2017:

A. Solvency ratio

	June 30, 2019	December 31, 2018
	NIS million	NIS million
	(Unaudited)	(Audited)
Own funds in relation to the solvency capital requirement (SCR)	**12,244**	**11,852**
Solvency capital requirement (SCR)	**11,464**	**9,940**
Surplus (*)	**780**	**1,912**
Solvency ratio	**107%**	**119%**

(*) The results do not include a change in equity (own funds) from the cutoff date up to the initial date of publication (December 2019) resulting from the raising of Tier-2 capital in the amount of NIS 800 million. (Of this amount, the Company has issued capital of NIS 454 million over and above the limitation for recognized Tier-2 capital). For information about these capital raisings, see Note 24(K) to the Financial Statements.

Taking into account the aforementioned capital changes (from the cutoff date until the initial date of publication - December 2019), the capital surplus at June 30, 2019, would have increased by NIS 346 million to NIS 1,126 million, and the solvency ratio at June 30, 2019, would have been 110%.

Compliance with milestones in the Transitional Period:

	June 30, 2019	December 31, 2018
	NIS million	NIS million
	(Unaudited)	(Audited)
Equity (own funds) for the purpose of solvency capital requirement (SCR) in the Scheduling Period	**11,765**	**11,551**
Solvency Capital Requirement in the Transitional Period	**7,522**	6,663
Surplus in the Transitional Period	**4,243**	4,888

B. Minimum Capital Requirement (MCR)

	June 30, 2019	December 31, 2018
	NIS million	NIS million
	(Unaudited)	(Audited)
Minimum Capital Requirement (MCR)	**2,264**	**2,173**
Equity for the purpose of MCR	**8,457**	8,654

On February 16, 2020, a letter was published for insurance company executives concerning a “Draft outline for implementation of the Solvency II Directives in the European Format” (“the Draft”). The Draft states that the Capital Market, Insurance and Savings Authority intends to operate to adapt the solvency regime in Israel to the Solvency II directives and updates. The Draft sets out the key milestones that the authority intends perform for this purpose and also provisions concerning reports on an economic solvency regime required in the near future. For information about the clauses in the Draft, see Note 8(F) in the Financial Statement. The date for publication of the solvency report and submitting the Solvency reporting files for December 31, 2019, to the Commissioner will be August 31, 2020.

On March 19, 2020, the Commissioner published a draft amendment to the Consolidated Circular on the implementation of an economic solvency regime for insurance companies based on Solvency II" ("the Additional Draft"). According to the Additional Draft, the transitional provisions will be adapted to the format set out in the European Directive, with an option to gradually increase the reserves in respect of long-term insurance products that were sold in the past until 2032. The Additional Draft also includes updates to the provisions of the Circular based on changes that were made in Europe and are relevant to the Israeli market. The Company is studying the provisions of the Additional Draft and at this stage it is unable to estimate its effects.

<u>Creation of a safety net</u>

The Board of Directors of Harel Insurance approved a policy for the creation and updating of a safety net 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 is an expanding safety net, to be built up gradually over time and at the end of the adjustment period (2024) it will be NIS 1.15 billion. The purpose of the safety net is to allow Harel Insurance to cope with crises without significantly affecting its operations and compliance with the relevant capital requirements.

8 Business strategy and objectives

Section 8 on business strategy and objectives, also includes forecasts, evaluations, estimates and other information relating to future events and affairs, the materialization of which is uncertain and is not within the Company's exclusive control (forward-looking information). The key facts and data which formed the basis for this information are those pertaining to the Company's present position and its business in this area of activity (such as the volume of sales, profit rates, manpower, business agreements, etc.), facts and data pertaining to the current situation in Israel and worldwide for the areas of activity in which the Company operates (such as sectoral economic developments, regulatory environment, competitors, technology developments, reinsurance market, etc.), and macro-economic facts and data (such as the economic situation in Israel and worldwide, yield rates on the capital markets, political and social developments, etc.), as they are known to the Company at the time of this report. The forward-looking information contained above in this section is based significantly, in addition to the information available to the Company, on current expectations and estimates of the Company regarding future developments in each of the aforementioned parameters, and the extent to which these developments are interconnected. The Company cannot be certain that its expectations and estimates will in fact materialize, and the Company's performance may differ significantly from the estimated or inferred performance noted above, in part due to changes in any of the above-mentioned factors.

8.1 The Company believes that the challenging business and regulatory environment requires its business strategy and conduct to be constantly adapted in order to maintain its position in the market and sustain the impressive growth it has demonstrated in recent years. The Company will make every effort to continue to be a leading, dominant player in its diverse areas of activity, at the same time preserving the Company's values as reflected in its motto:

Reliability, Customer Service, Human Capital, a Warm Home and Leadership

8.2 The business, economic and social situation in Israel, together with the prevailing interest-rate environment in the capital markets in Israel and abroad, constantly force the Group to reconsider and adjust its business strategy to changing circumstances.

8.3 The Group therefore formulated a new strategy three years ago called "Recalculating the Route" in which significant financial and human resources will be invested in the development of data and digital infrastructures. The purpose of this move is to ensure that the Company's operations are consistent with the digital era, to increase profitability and improve customer service, while at the same time preserving and leveraging the agents' distribution channels. All this will be achieved through the following:

(a) Improved underwriting to be achieved through a "know your customer" (KYC) process, including specific customer characteristics and needs and the use of big data. This change will be a tie-breaker, allowing service, product and price to be tailored to the specific requirements of each customer.

(b) Saving on operating costs, to be achieved by streamlining technology and the transfer of significant processes from manual to digital operations. The technological improvement will help provide faster and better service, sometimes even immediate, to the customer, allowing customers and agents to serve themselves in areas such as: the purchase of products, filing of claims, and obtaining information on line. The Company will also invest resources in software development which in certain areas will enable the filing of digital claims and the immediate payment of claims, and claims for surgery to be filed directly by the surgeon, thus saving the customer the procedure involved in the filing of claims.

(c) The development and accessibility of technology-based tools for agents, enabling them to help their customers purchase suitable products quickly and simply (one-click digital sales). These technology-based tools will help save time and costs, so that agents will be able to devote their time to serving the customer and providing them with professional advice.

8.4 The Group continues to integrate its "Recalculating the Route" strategy and is investing significant financial and human resources in the development of data and digital infrastructures. The purpose of this move is to ensure that the Company's operations are consistent with the digital era, to increase profitability and improve customer service, while at the same time preserving and leveraging the agents' distribution channels.

During the Reporting Period, the Group continued to streamline its technology by transferring significant processes from manual to digital operations. The improved technology provides customers with user-friendly, faster, and in some cases immediate service to the customer, offering customers and agents a "self-service" option for activity such as: the purchase of products, filing claims, and obtaining information on line. The Group also continues to invest resources in developments that enable some of the health and motor insurance claims to be settled digitally. In 2019, many of the processes performed in the Group, are performed entirely through digital processes (without human intervention) or are semi-digitalized.

8.5 Furthermore, to provide its customers with advanced, state-of-the-art service, the Company launched an additional channel of communications for motor insurance by means of a WhatsApp application which integrates IBM's Watson Artificial Intelligence and provides fast, simple communications through the use of technology which is readily available in Israel and around the world. This service positions the Group and the Company as a pioneer in technology, as the first company in Israel and among the first in the world to facilitate communications using this technology.

8.6 The Group has also entered into an agreement with the international company Salesforce for the purpose of assimilating advanced call center management systems, integrated with cutting-edge knowledge management systems, in the Company's sales and service centers which will provide the Company with the most advanced capabilities currently available in the market in this field, for customizing products and services to the customers' needs.

8.7 In the light of changes in 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, in the Reporting Period, 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).

8.8 The Group will continue to ensure that its business expands in all the operating segments in which it is involved - in insurance and finance - taking advantage of business opportunities and after a careful examination of the profits anticipated from the new business. The Group will continue to focus its efforts on profitable growth and prefer to concede business that is not expected to generate fair profits.

8.9 The Group will continue its policy of the effective management of regulatory capital required of its subsidiaries, including a review of transactions taking into account the anticipated return on equity required in respect of such transactions. The Group will attempt to focus on attractive investments which are not influenced by the capital market, such as real-estate infrastructures in Israel and abroad, and investments in real, earning companies.

8.10 The Group believes that its position in the insurance and long-term savings market, as well as in the financial services market, has been achieved thanks to the special service that it provides for its customers and agents. The Group will continue to provide such service, taking a long-term view of the good of the customer, and in the belief that the service that a policyholder should receive when making a claim does not end when the claim is paid, but includes assistance and support in times of crisis. The Group's implementation of the new strategy will deepen its long-term relationships with customers and allow it to provide a service tailored to each customer. It is these relationships that will continue to provide the Group with stability, offering growth engines by marketing the entire range of the Group's products to its loyal customers.

8.11 Based on the belief in the importance of supporting the customer when an insured event occurs, the Group will continue to develop niche products designed to help and support the policyholder in times of need, particularly in the health sector. The Group intends to develop products that are consistent with digital consumption, allowing the customer to get through the insured event more easily. These products will give the Group a special advantage with respect to customers' trust and confidence in the Group over time.

8.12 In the financial services sector, the Group will continue, in addition to further growth and profitability, to launch up-to-date products, so as to meet the varying needs of the market, monitoring operational ability and ensuring that adequate controls are in place to provide the investing public with peace of mind when they invest in the Group's products.

8.13 The Group will continue to work constantly to improve and increase controls and management of the various risks in an effort to reduce the exposures entailed in its activity. Likewise, the Group will continue to ensure that it complies with the regulatory provisions, and to this end it will strive to further assimilate the enforcement plan that it adopted during the Reporting Period.

8.14 Alongside the expansion of its business activity, the Group will continue its social involvement and assistance for the community at large. This activity will be expanded so that in addition to further monetary contributions, the Group's employees will actually be involved in the community activities that it decides to support, as it has done so far.

8.15 The Group provides a warm home for its employees, and despite its size it has managed to preserve a unique family atmosphere. The Group’s management will continue to preserve this special atmosphere through a variety of measures, based on the realization that its quality human capital is one of the Group’s most distinct advantages which is critical to its ongoing success.

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

March 31, 2020

HAREL INSURANCE INVESTMENTS AND FINANCIAL SERVICES LTD.

Chapter 3

Financial Statements

Harel Insurance Investments and Financial Services Ltd.

Financial Statements as at December 31, 2019

Table of Contents

	Page
Auditors' Report to the Shareholders	3-1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3-3
Consolidated Statements of Income	3-5
Consolidated Statements of Comprehensive Income	3-6
Consolidated Statements of Changes in Equity	3-7
Consolidated Statements of Cash Flows	3-9
Notes to the Consolidated Financial Statements	3-12
Annexes to the Financial Statements	
Annex A - Harel Insurance Company Ltd, additional information about other financial investments	3-262
Annex B - E.M.I.- Ezer Mortgage Insurance Company Ltd , additional information about other financial statements	3-264

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' Report to the Shareholders of
Harel Insurance Investments & Financial Services Ltd.

We have audited the attached consolidated statements of financial position of Harel Insurance Investments & Financial Services Ltd. ("the Company") as at December 31, 2019 and 2018 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of companies and a joint venture that were consolidated, whose assets included in the consolidation constitute 3.21% and 1.57% of the total consolidated assets at December 31, 2019 and 2018, respectively, and whose revenues included in the consolidation constitute 4.06%, 3.65% and 2.72% of the total consolidated revenues for the three years ended December 31, 2019, 2018 and 2017, respectively. We did not audit the financial statements of equity accounted investees in which the investment is NIS 288 million and NIS 1,536 million as at December 31, 2019 and 2018 respectively, and the Company's share of their profits is NIS 30 million, NIS 142 million and NIS 68 million for the years ended December 31, 2019, 2018 and 2017, respectively. The financial statements of those companies and joint venture were audited by other auditors, whose reports were furnished to us, and our opinion, insofar as it relates to amounts included for those companies and joint venture, is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed under the Auditors' Regulations (Auditors' Mode of Performance), 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and Management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of other auditors, the above-mentioned consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated companies as at December 31, 2019 and 2018, and the results of their operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2019, in conformity with International Financial Reporting Standards (IFRS), and disclosure requirements determined by the Commissioner of Insurance in accordance with Supervision of Financial Services (Insurance) Law, 1981.

Furthermore, in our opinion, the above financial statements were prepared in accordance with the provisions of the Securities (Annual Financial Statements) Regulations, 2010, insofar as they are applicable to a company which consolidates insurance companies.

Pursuant to Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel, "Audit of Internal Control Components over Financial Reporting", we have also audited internal control components over the Company's financial reporting as at December 31, 2019, and our report dated March 31, 2020, includes an unqualified opinion concerning the effectiveness of those components.

Without qualifying our opinion, we draw attention to that stated in Note 39A of the financial statements regarding exposure to contingent liabilities.

Somekh Chaikin
Certified Public Accountants (Isr.)
March 31, 2020

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' Report to the Shareholders of Harel Insurance Investments & Financial Services Ltd. regarding the Audit of Internal Control Components over Financial Reporting in accordance with Section 9b(c) of the Securities (Periodic and Immediate Reports) Regulations, 1970.

We have audited internal control components over financial reporting of Harel Insurance Investments & Financial Services Ltd. and its subsidiaries (hereinafter together "the Company") as at December 31, 2019. These internal control components were determined as explained in the following paragraph. The Company's Board of Directors and management are responsible for maintaining effective internal control over financial reporting accompanying the Periodic Report at this date. Our responsibility is to express an opinion on the Company's internal control components over financial reporting based on our audit.

Internal control components over financial reporting audited by us were determined in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel – Audit of Internal Control Components over Financial Reporting ("Auditing Standard (Israel) 911"). These components are: (1) Entity Level Controls, including controls over the preparation and closure of the financial reporting process, and general information technology controls (2) Controls over material procedures to the financial reporting and the disclosure of a consolidated subsidiary - Harel Insurance Company Ltd. and other material subsidiaries audited by us (together – “audited control components”).

We conducted our audit in accordance with Auditing Standard (Israel) 911. This standard requires us to plan and perform the audit so as to identify the audited control components and obtain reasonable assurance as to whether these control components were effective in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists in the audited control components, and testing and evaluating the planning and operating effectiveness of those control components based on the assessed risk. Regarding these control components, our audit also included performing such other procedures as we considered necessary under the circumstances. Our audit referred only to the audited control components, as opposed to internal control over all significant processes related to financial reporting. Our opinion therefore refers only to the audited control components. Likewise, our audit did not refer to mutual effects between audited control components and non-audited control components, and our opinion therefore does not take into account these possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Due to its inherent limitations, internal control over financial reporting in general and internal control components in particular, may not prevent or detect misstatements. Furthermore, drawing conclusions on the basis of any current evaluation of effectiveness for the future entails the risk that controls may become inadequate because of changes in circumstances or that the degree of compliance with the policies or procedures may change for the worse.

In our opinion, the Company maintained, in all material respects, effective audited control components as at December 31, 2019.

We also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements at December 31, 2019 and 2018, and each of the three years in the period ended December 31, 2019, and our report, dated March 31, 2020, expressed an unqualified opinion on those financial statements, based on our review and the reports of other auditors, and also drew attention to the information in Note 39A in the consolidated financial statements concerning exposure to outstanding liabilities.

Somekh Chaikin
Certified Public Accountants (Isr.)
March 31, 2020

Harel Insurance Investments and Financial Services Ltd.

Consolidated Statements of Financial Position as at December 31

	Note	2019 NIS million	2018 NIS million
Assets			
Intangible assets	5	**1,685**	1,578
Deferred tax assets	35	**12**	13
Deferred Acquisition Costs	6	**2,495**	2,475
Fixed assets	7	**1,399**	1,326
Investments in equity accounted investees	8	**1,437**	1,536
Investment property for yield-dependent contracts	9	**1,769**	1,628
Other investment property	9	**2,058**	1,847
Reinsurance assets		**4,281**	4,316
Current tax assets	35	**186**	29
Trade and other receivables	10	**1,337**	1,572
Premium due	11	**1,428**	1,433
Financial investments for yield-dependent policies	12	**61,562**	51,891
Other financial investments			
Marketable debt assets	13D	**11,309**	8,500
Non-marketable debt assets	13E	**14,842**	13,516
Shares	13H	**1,277**	1,164
Other	13I	**2,860**	2,458
Total other financial investments		**30,288**	25,638
Cash, cash equivalents and deposits pledged for bearers of ETNs and deposit certificates	14C	**-**	35
Cash and cash equivalents for yield-dependent contracts	14A	**2,897**	3,083
Other cash and cash equivalents	14B	**2,056**	1,621
Total assets		**114,890**	100,021
Total assets for yield-dependent contracts	12	**67,202**	57,630

The accompanying Notes are an inseparable part of the Financial Statements.

Harel Insurance Investments and Financial Services Ltd.

Consolidated Statements of Financial Position as at December 31

	Note	2019 NIS million	2018 NIS million
Equity and liabilities			
Equity	15		
Share capital and share premium		**359**	359
Treasury stock		**(123)**	(123)
Capital reserves		**957**	431
Retained earnings		**5,245**	5,247
Total equity attributed to shareholders of the Company		**6,438**	5,914
Non-controlling interests		**18**	6
Total equity		**6,456**	5,920
Liabilities			
Liabilities for non-yield-dependent insurance contracts and investment contracts	16	**29,339**	27,634
Liabilities for yield-dependent dependent insurance contracts and investment contracts	17	**66,539**	56,742
Deferred tax liabilities	35	**1,133**	864
Liabilities for employee benefits, net	22	**282**	254
Current tax liabilities	35	**11**	51
Trade and other payables	23	**3,693**	3,255
Liabilities for ETNs and certificates of deposit	24	**-**	33
Financial liabilities	25	**7,437**	5,268
Total liabilities		**108,434**	94,101
Total equity and liabilities		**114,890**	100,021

Yair Hamburger	Michel Siboni	Arik Peretz
Chairman of the Board of Directors	CEO	Chief Financial Officer

Date of Approval of the Financial Statements: March 31, 2020

The accompanying Notes are an inseparable part of the Financial Statements.

Consolidated Statements of Income for the Year Ended December 31

	Note	2019 NIS million	2018 NIS million	2017 NIS million
Premiums earned, gross		**15,104**	14,180	13,091
Premiums earned by reinsurers		**1,745**	1,518	1,442
Earned premiums in retention	26	**13,359**	12,662	11,649
Profit from investments, net, and financing income	27	**7,921**	560	5,163
Income from management fees	28	**1,487**	1,115	1,257
Income from commissions	29	**358**	343	339
Other expenses		**-**	-	7
Total income		**23,125**	14,680	18,415
Payments and changes in liabilities for insurance contracts and investment contracts , gross		**20,163**	10,890	14,833
Reinsurers' share of payments and change in liabilities for insurance contracts		**1,229**	955	952
Payments and changes in liabilities for insurance contracts and investment contracts in retention	30	**18,934**	9,935	13,881
Commissions, marketing expenses and other purchasing expenses	31	**2,729**	2,581	2,386
General and administrative expenses	32	**1,211**	1,200	1,155
Other expenses	33	**16**	19	44
Financing expenses, net	34	**163**	210	122
Total expenses		**23,053**	13,945	17,588
Company's share of profits of equity accounted investees	8	**160**	144	163
Profit before taxes on income		**232**	879	990
Taxes on income (tax benefit)	35	**(7)**	245	306
Profit for year		**239**	634	684
Attributed to:				
Shareholders of the Company		**239**	634	684
Non-controlling interests		**-***	-*	-*
Profit for year		**239**	634	684
Basic and diluted earnings per share attributed to the Company's shareholders (in NIS)	36	**1.11**	2.98	3.21

* Less than NIS 1 million

The accompanying Notes are an inseparable part of the Financial Statements.

Consolidated Statements of Comprehensive Income for the Year Ended December 31

	2019	2018	2017
	NIS million	NIS million	NIS million
Profit for the year	**239**	634	684
Other items of comprehensive income that after initial recognition as part of comprehensive income were or will be transferred to profit or loss			
Net change in fair value of financial assets classified as available-for-sale	**950**	(198)	332
Net change in fair value of financial assets classified as available-for-sale carried over to income statement	**(127)**	(100)	(153)
Loss from impairment of available-for-sale financial assets carried over to income statement	**31**	44	41
Foreign currency translation differences for foreign activity	**(69)**	62	(62)
Tax benefits (taxes on income) attributable for available-for-sale financial assets	**(291)**	86	(70)
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	**13**	(22)	13
Total other comprehensive income (loss) that after initial recognition as part of comprehensive income was or will be transferred to profit or loss, net of tax	**507**	(128)	101
Other items of comprehensive income that will not be transferred to profit or loss			
Capital reserve for revaluation of fixed assets	**26**	44	87
Re-measurement of a defined benefit plan	**(7)**	9	(1)
Taxes on income for other items of comprehensive income that will not be transferred to profit or loss	**(5)**	(17)	(25)
Total other comprehensive income for year that will not be transferred to profit or loss, net of tax	**14**	36	61
Total other comprehensive income (loss) for year	**521**	(92)	162
Total comprehensive income for year	**760**	542	846
Attributed to:			
Shareholders of the Company	**760**	542	846
Non-controlling interests	**-***	-*	-*
Total comprehensive income for year	**760**	542	846

* Less than NIS 1 million

The accompanying Notes are an inseparable part of the Financial Statements.

Consolidated Statements of Changes in Equity for the Year Ended December 31

	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 stock	Capital reserve for transactions with non-controlling shareholders	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
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 year											
Profit for year	-	-	-	-	-	-	-	239	239	-*	239
Total other comprehensive income (loss)	-	563	(56)	-	-	-	19	(5)	521	-*	521
Total comprehensive income (loss) for year	-	563	(56)	-	-	-	19	234	760	-*	760
Transactions with shareholders credited directly to equity											
Dividend paid	-	-	-	-	-	-	-	(236)	(236)	-	(236)
Non-controlling interests in respect of a consolidated subsidiary that was established (see Note 38E)	-	-	-	-	-	-	-	-	-	12	12
Balance as at December 31, 2019	359	875	(145)	1	(123)	(49)	275	5,245	6,438	18	6,456

* Less than NIS 1 million.
** For additional information, see Note 15.

The accompanying Notes are an inseparable part of the Financial Statements.

Consolidated Statements of Changes in Equity for the Year Ended December 31

	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 stock	Capital reserve for transactions with non-controlling shareholders	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
Balance as at January 1, 2017	351	330	(80)	4	(158)	(49)	164	4,599	5,161	6	5,167
Total comprehensive income (loss) for year											
Profit for year	-	-	-	-	-	-	-	684	684	-*	684
Other comprehensive income (loss)	-	150	(49)	-	-	-	62	(1)	162	-*	162
Total comprehensive income (loss) for year	-	150	(49)	-	-	-	62	683	846	-*	846
Transactions with shareholders recognized directly in equity											
Dividend distributed	-	-	-	-	-	-	-	(461)	(461)	-	(461)
Purchase of Treasury stock	-	-	-	-	(18)	-	-	-	(18)	-	(18)
Re-issuance of Treasury stock	(15)	-	-	-	45	-	-	-	30	-	30
Exercising of options	3	-	-	(3)	-	-	-	-	-	-	-
Balance as at December 31. 2017	339	480	(129)	1	(131)	(49)	226	4,821	5,558	6	5,564
Total comprehensive income (loss) for year											
Profit for year	-	-	-	-	-	-	-	634	634	-*	634
Total other comprehensive income (loss)	-	(168)	40	-	-	-	30	6	(92)	-*	(92)
Total comprehensive income (loss) for year	-	(168)	40	-	-	-	30	640	542	-*	542
Transactions with shareholders credited directly to equity											
Dividend paid	-	-	-	-	-	-	-	(214)	(214)	-	(214)
Sale of Treasury stock (see Note 3K)	19	-	-	-	9	-	-	-	28	-	28
Purchase of Treasury stock	-	-	-	-	(7)	-	-	-	(7)	-	(7)
Reissuing of Treasury stock	1	-	-	-	6	-	-	-	7	-	7
Balance as at December 31, 2018	359	312	(89)	1	(123)	(49)	256	5,247	5,914	6	5,920

* Less than NIS 1 million.
** For additional information, see Note 15.

The accompanying Notes are an inseparable part of the Financial Statements.

Consolidated Statements of Cash Flows for the Year Ended December 31

		2019	2018	2017
	Annex	NIS million	NIS million	NIS million
Cash flows from operating activity				
Before taxes on income	A	**(175)**	1,216	1,216
Income tax paid		**(186)**	(206)	(189)
Net cash provided by (used in) current operations		**(361)**	1,010	1,027
Cash flows from investing activity				
Investment in investees		**(118)**	(60)	(64)
Proceeds of the sale of an investment in an equity accounted investee		**132**	141	48
Investment in fixed assets		**(51)**	(74)	(79)
Investment in intangible assets		**(252)**	(254)	(169)
Dividend and interest from investees		**193**	64	29
Proceeds from sale of fixed assets and intangible assets		**1**	-	12
Net cash used for investment activity		**(95)**	(183)	(223)
Cash flow from financing activity				
Proceeds from issuance of liability notes, net		**1,384**	586	247
Issuance of Treasury stock, net		**-**	28	12
Proceeds of issuance (payment for purchase) of ETNs and covered warrants, net		**(33)**	(1,286)	312
Short-term credit from banks, net		**(121)**	179	(3)
Repayment of loans from banks and others		**(34)**	(129)	(104)
Repayment of lease liabilities		**(31)**	-	-
Dividends paid		**(343)**	(107)	(461)
Net cash provided by (used for) financing activity		**822**	(729)	3
Effect of exchange rate fluctuations on cash balances and cash equivalents		**(117)**	289	(92)
Increase in cash and cash equivalents		**249**	387	715
Cash and cash equivalents at beginning of the year	B	**4,704**	4,317	3,602
Cash and cash equivalents at end of the year	C	**4,953**	4,704	4,317

The accompanying Notes are an inseparable part of the Financial Statements.

Harel Insurance Investments and Financial Services Ltd.

Consolidated Statements of Cash Flows for the Year Ended December 31

	2019	2018	2017
	NIS million	NIS million	NIS million
Annex A - Cash flows from operating activities before taxes on income (1), (2), (3)			
Profit for the period	**239**	634	684
Items that do not involve cash flows:			
Company's share of profits of equity accounted investees	**(160)**	(144)	(163)
Net profits (losses) from financial investments for yield dependent insurance contracts and investment contracts	**(5,285)**	1,460	(2,907)
Losses (profits) net, from other financial investments			
Marketable debt assets	**1**	(145)	(23)
Non-marketable debt assets	**11**	(141)	(8)
Shares	**(48)**	(19)	(30)
Other investments	**(542)**	205	(321)
Financing expenses for financial liabilities	**905**	3,117	1,348
Change in fair value of investment property for yield-dependent contracts	**(113)**	(48)	(46)
Change in fair value of other investment property	**(172)**	(60)	(101)
Depreciation and amortization			
Fixed assets	**118**	91	81
Intangible assets	**145**	139	138
Change in liabilities for non-yield-dependent insurance contracts and investment contracts	**1,811**	605	972
Change in liabilities for yield-dependent insurance contracts and investment contracts	**9,797**	4,745	8,442
Change in reinsurance assets	**9**	204	171
Change in DAC	**(29)**	(142)	(160)
Income tax expenses (income)	**(7)**	245	306
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	**(28)**	(78)	(44)
Net acquisitions of financial investments	**(4,269)**	(5,764)	(4,541)
Other financial investments and investment property			
Purchase of investment property	**(39)**	(45)	(34)
Proceeds from the sale of investment property	**-**	-	3
Net acquisitions of financial investments	**(3,102)**	(1,841)	(1,127)
Premiums due	**(18)**	(124)	61
Trade and other receivables	**86**	(655)	85
Financial investments for holders of ETNs, net	**-**	(2,307)	(245)
Cash and cash equivalents pledged for holders of ETNs	**35**	1,220	(1,599)
Trade and other payables	**471**	1	276
Liabilities for employee benefits, net	**9**	63	(2)
Total adjustments required to present cash flows from operating activity	**(414)**	582	532
Total cash flows from operating activity before taxes on income	**(175)**	1,216	1,216
Material activity not in cash			
Transfer of assets and liabilities of ETNs due to regulatory change (Note 8F)	**-**	16,294	-
Initial application of IFRS 16 - Leases (Note 3A)	**63**	-	-

(1) Cash flows from ongoing operations include net acquisitions and disposals of financial stemming from the activity in respect of insurance contracts and investment contracts.

(2) As part of ongoing operations, interest received was presented in the amount of NIS 835 million (for 2018 and 2017, the amounts were NIS 1,654 and NIS 1,582 million, respectively), and interest was paid in the amount of NIS 160 million (for 2018 and 2017, the amounts were NIS 142 and NI 157 million, respectively).

(3) As part of ongoing activity, a dividend received from other financial investments was stated in the amount of NIS 295 million (for 2018 and 2017, the amounts were NIS 274 and NIS 287 million, respectively).

The accompanying Notes are an inseparable part of the Financial Statements.

Consolidated Statements of Cash Flows for the Year Ended December 31

	2019	2018	2017
	NIS million	NIS million	NIS million
Annex B - Cash and cash equivalents at beginning of year			
Cash and cash equivalents for yield-dependent contracts	**3,083**	2,758	1,848
Other cash and cash equivalents	**1,621**	1,559	1,754
Retained cash and cash equivalents at beginning of year	**4,704**	4,317	3,602
Appendix C - Cash and cash equivalents at end of year			
Cash and cash equivalents for yield-dependent contracts	**2,897**	3,083	2,758
Other cash and cash equivalents	**2,056**	1,621	1,559
Retained cash and cash equivalents at beginning of year	**4,953**	4,704	4,317

The accompanying Notes are an inseparable part of the Financial Statements.

Note 1 - General

A. The Reporting Entity

Harel Insurance Investment and Financial Services Ltd. ("the Company") is a company resident and incorporated in Israel. The Company's shares are traded on the Tel Aviv Stock Exchange Ltd. The official address of the company is 3 Abba Hillel St., Ramat Gan.

The company is a holding company whose principal holdings are in consolidated companies that are insurance and financial services companies. The consolidated financial statements as at December 31, 2019 include the financial statements of the company and of its subsidiaries ("the Group") as well as the Group's interests in associates and in joint arrangements. The insurance companies prepare their statements in accordance with International Financial Reporting Standards (IFRS) and in accordance with accounting, reporting and preparation standards which are prescribed in the Supervision of Financial Services (Insurance) Law, 1981 and Regulations, including Supervision of Insurance Business (Particulars of Report) Regulations, 1998, and in accordance with the instructions of the Commissioner. The consolidated financial statements primarily reflect the assets, liabilities and results of the consolidated insurance companies, and accordingly they are prepared in a similar manner.

The company's consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and in accordance with the disclosure requirements set out by the Commissioner under the Supervision Law, and in accordance with the Securities (Annual Financial Statements) Regulations, 2010, to the extent that these regulations apply to a company that consolidates insurance companies.

B. Definitions

In these financial statements:

The Company	-	Harel Insurance Investments and Financial Services Ltd.
The Commissioner	-	The Commissioner of Insurance, according to its meaning in the Supervision Law or the Commissioner according to its meaning in the Provident Funds Law, as applicable.
The Group	-	The Company and its consolidated subsidiaries.
Harel Insurance	-	Harel Insurance Company Ltd.
Harel Finance	-	Harel Financial Holdings Ltd.
Harel Financing & Issuing	-	Harel Insurance, Financing and Issuing Ltd.
Dikla	-	Dikla Insurance Company Ltd., whose insurance license was nullified commencing January 1, 2016, received a license to engage in insurance brokerage and at the same time its name was changed on January 1, 2016 to Dikla General Insurance Agency Ltd. In September 2016, the Company changed its name to Dikla Insurance Agency Ltd.
Dikla Agency	-	Dikla Insurance Agency Ltd.
Liabilities for insurance contracts and investment contracts	-	Insurance reserves and outstanding claims in the life assurance, non-life insurance, health insurance and insurance companies overseas operating segments.

Note 1 - General (contd.)

B. Definitions (contd.)

Joint Arrangements	-	Arrangements in which the Group has joint control that was obtained by a contractual arrangement that requires unanimous consent regarding the activities that significantly affect the returns from the arrangement.
Associate company	-	A company, except for a consolidated company, including a partnership or a joint venture, in which the Company's investment is included, whether directly or indirectly, in the financial statements on an equity basis.
Consolidated company/subsidiary	-	A company, including a partnership/joint venture, whose financial statements are fully consolidated, whether directly or indirectly, with the company's financial statements.
Investee company	-	A subsidiary or associate company.
Insurance contracts	-	Contracts (policies) where one party (the insurer) accepts a significant insurance risk of a counter party (the policyholder), by agreeing to compensate the policyholder if any defined uncertain future event (insured event) has a negative effect on the policyholder.
Investment contracts	-	Policies with a 100% savings rate. The savings continue as capitalized amounts or as an annuity, and do not expose the insurer to any significant insurance risk.
Yield-dependent contracts [also known as unit linked]	-	Insurance policies and investment contracts in which the insurer's liability, for the savings component or the risk therein, is mostly linked to the yield on the investment portfolio (policies that share in investment profit) in assets for those policies.
Supervision Law	-	Supervision of Financial Services (Insurance) Law, 1981
Reinsurance assets	-	Reinsurers' share of the insurance reserves and outstanding claims.
Total assets for yield dependent contracts	-	Total assets held against the liabilities arising from yield-dependent contracts.
Premiums	-	Premiums, including fees.
Earned premiums	-	Premiums relating to the Reporting Period.
Related parties	-	As defined by International Accounting Standard 24 (2009) - Related Parties.
Interested parties / principal shareholders	-	According to their meaning in paragraph (1) of the definition "interested party" in a corporation in Section 1 of the Securities Law, 1968.
Mirvah Hogen	-	Mirvah Hogen Ltd., which provides price quotes and discounting interest rates for financial institutions for revaluing their non-marketable debt assets, regarding various risk ratings.

Note 1 - General (contd.)

B. Definitions (contd.)

Financial Statement Regulations	-	Supervision of Insurance Business (Particulars Of Report), Regulations, 1998, as amended.
Ways of Investment Regulations	-	Supervision of Financial Services (Provident Funds) (Investment Rules Applicable to Financial Institutions), 2012.
Capital Regulations	-	Supervision of Insurance Business (Minimum Equity Required of an Insurer), Regulations, 1998, as amended, and Supervision of Financial Services (Provident Funds) (Minimum Equity Required of the Management Company of a Provident Fund or Pension Fund) Regulations, 2012.
Interasco	-	Interasco Societe Anonyme General Insurance Company A.E.G.A. - a company incorporated in Greece and which holds an insurer's license in Greece.
Turk Nippon	-	Turk Nippon Sigorta A.S. - an insurance company incorporated in Turkey, whose insurer's license in Turkey was renewed in April 2009.
EMI	-	EMI - Ezer Mortgage Insurance Company

C. Outbreak of the Corona virus

After the Reporting Period, following the outbreak of the Corona virus the world over, prices on the leading share and bond indices in Israel and worldwide plummeted, drastically affecting the results of the Company's operations. For additional information, see Note 40B.

Note 2 - Basis of Preparation

A. Statement of Compliance

The consolidated financial statements were prepared by the Group in accordance with International Financial Reporting Standards ("IFRS") and in accordance with the disclosure requirements prescribed by the Commissioner, under the Supervision of Financial Services (Insurance) Law, 1981.
These financial statements were also prepared in accordance with the Securities (Annual Financial Statements) Regulations, 2010, to the extent that these regulations apply to a company that consolidates insurance companies.
The consolidated financial statements were approved for publication by the Company's Board of Directors on March 31, 2020.

B. Functional and Presentation Currency

The consolidated financial statements are presented in New Israel Shekels (NIS), which is the Company's functional currency. Commencing with the financial statements as at March 31, 2018, the Company presents its financial information in NIS million. The financial information is rounded to the nearest million.

C. Basis of Measurement

The financial statements were prepared on basis of the historical cost, except for the following assets and liabilities:
- Financial instruments measured at fair value through profit or loss;
- Financial instruments classified as available-for-sale measured at fair value through other comprehensive income;
- Investment property measured at fair value;
- The fixed assets group relating to land and office buildings measured at fair value (new valuation method);
- Investments in associates and joint transactions measured at fair value;
- Deferred tax assets and liabilities;
- Assets and liabilities for employee benefits;
- Reinsurance assets;
- Insurance obligations;
- Provisions;

For further information concerning the method of measuring these assets and liabilities, see Note 3, Significant Accounting Policies.

D. Use of Estimates and Judgments

Use of Estimates

The preparation of financial statement in conformity with IFRSs requires management to apply discretion in the estimates, judgments and assumptions, including actuarial assumptions and estimates ("estimates") that affect the application of accounting policies, and the reported amounts of assets, liabilities, income and expenses. It is stipulated that actual results may differ from these estimates, in part due to regulatory changes that were or are expected to be published in the insurance, pension and provident sectors and where there is a measure of uncertainty as to their ramifications and manner of application. The main estimates included in the financial statements are based, *inter alia,* on actuarial estimates and on external valuation reports.

When formulating accounting and actuarial estimates to be used in the preparation of the Group's financial statements, the Company's management is required to make certain assumptions regarding circumstances and events that involve considerable uncertainty. The Company's management bases these judgments on past experience, various facts, external circumstances and reasonable assumptions, including future expectations, to the extent that they can be estimated, regarding the circumstances appropriate for each estimate.

Note 2 - Basis of Preparation (contd.)

D. Use of Estimates and Judgment (contd.)

The estimates and underlying assumptions are reviewed regularly. Changes in the accounting estimates are recognized in the period in which they are revised and in any future periods affected.

Information about critical assumptions made by the Group where there is a significant risk that a material change in them, particularly in view of the aforementioned regulatory changes, might materially change the value of the assets and liabilities in the financial statements during the course of the next fiscal year:

- Liabilities for insurance policies - these liabilities are based on actuarial valuation methods and on estimates regarding demographic and economic variables. The actuarial valuations and various assumptions are based mainly on past experience, and are grounded on the belief that behavior and claims in the past reflect future events. Any change in risk factors, in the frequency or severity of the events, and any change in the legal position may significantly affect the amount of the liability for insurance policies (see Note 37).

- Contingent liabilities - contingent and pending legal claims, and requests for class-action approvals have been filed against the Group. In estimating the chances of legal claims that were submitted against the Company and its investees, the companies depend on professional opinions prepared by their legal counsel. These legal estimates are based on their best professional judgment, considering the stage at which the proceedings are at, and the accumulated legal experience with the various issues. It is emphasized that the outcomes of the claims as decided by the courts may differ from the estimates (see Note 39).

- Estimates of fair value - the fair value of non-marketable bonds, loans and deposits, is calculated using a model which is based on a capitalization of cash flows where the discounting interest rates are determined by a company which provides interest rate quotes (see Note 13(K))

- Impairment of non-financial assets - at every reporting date the Group considers whether any events have occurred, or if there have been any changes in circumstances that indicate an impairment of one or more of its non-financial assets. If there are indications of any impairment, an evaluation is made as to whether the amount presented as an investment in an asset is recoverable from the expected capitalized cash flows from said asset, and where necessary, provision for impairment is recorded of up to the recoverable amount. The cash flows are capitalized using a capitalization rate which reflects the market's opinion of the time value of the money and specific risks relating to the asset. The estimates of the cash flows are based on past experience with the asset, or with similar assets, and on the Group's estimate of the economic conditions that will prevail over the remaining useful life of the asset. Changes in Group estimates, as stated, may lead to significant changes in the book values of the assets and in operating results (see Note 5).

- Determining the recoverable value of deferred acquisition costs - costs of acquiring life assurance and health insurance policies, pension and provident policies are deferred and amortized over the period of the policy. The recoverability of the deferred acquisition costs in life assurance and long-term care is tested once a year using guidelines for cancellation rates, mortality, incidence, and other variable factors (see Note 37). Determining the recoverable value of deferred acquisition costs in pension and provident funds is tested once a year (see Note 3C1).

- Determining the fair value of investment property – investment property is presented at fair value at reporting date, with changes in the fair value recognized in profit or loss. The fair value is determined by independent external appraisers based on to their estimates of overall economic value which include assumptions regarding estimates of expected future cash flows from the asset, and an estimate of the appropriate capitalization rate for these cash flows.
  The fair value is determined in relation to recent transactions of a nature and location which are similar to the estimates when this information is available (see Note 9).

Note 2 - Basis of Preparation (contd.)

D. Use of Estimates and Judgment (contd.)

- Determining the fair value of owner-occupied real estate - owner-occupied real estate is presented at fair value at the reporting date where changes in the fair value beyond the cost net of depreciation are recognized in a revaluation reserve. The fair value is determined by independent, external appraisers based on estimates of economic value that are regularly prepared to ensure that the balance in the financial statements does not differ significantly from the value that would have been determined according to the fair value method on the reporting date. The economic valuations include assumptions regarding estimates of future cash flows expected from similar assets and an estimate of the appropriate capitalization rate for these cash flows. The fair value is determined using a combination of several revaluation methodologies, including the comparative approach and discounting of appropriate rent from similar assets (see Note 7).

Determination of fair value

Preparation of the financial statements requires the Group to determine the fair value of certain assets and liabilities. Further information about the assumptions that were used to determine fair value is included in the following notes:

- Note 5, intangible assets;
- Note 7, fixed assets
- Note 9, investment property;
- Note 12, assets for yield-dependent policies;
- Note 13, other financial investments;
- Note 25, financial obligations;

When determining the fair value of an asset or liability, the Group uses observable market data wherever possible. There are three levels of fair value measurements in the fair value hierarchy that are based on the data used in the evaluation, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than those included within Level 1 that are observable, either directly or indirectly;
- Level 3: inputs that are not based on observable market data (unobservable inputs).

E. Reclassification

In some of the Notes, insignificant comparative figures were reclassified. These reclassifications did not have any effect on the Group's equity and/or on profit or loss and/or comprehensive income.

F. Changes in the Consumer Price Index and in US dollar (USD) Exchange Rates

	Consumer Price Index		
	CPI for	CPI "Known"	Representative USD Exchange Rate
	%	%	%
For the Year Ended			
December 31, 2019	**0.60**	**0.30**	**(7.79)**
December 31, 2018	0.80	1.20	8.10
December 31, 2017	0.40	0.30	(9.83)

Note 2 - Basis of Preparation (contd.)

G. Operating cycle and reporting structure

The Group's activities, which are mainly financial in nature, do not have a clearly identifiable operating cycle and are generally longer than a year, particularly in relation to life assurance business, long-term savings and non-life insurance business, for which the reporting period continues long after the period of insurance coverage.

The Consolidated Statements of Financial Position are presented by order of liquidity, and not according to current and non-current classifications. This presentation conforms with International Accounting Standard (IAS) 1 and provides, in the company's opinion in view of the foregoing, more reliable and relevant data, and is in accordance with the instructions of the Commissioner.

H. Changes in accounting policies in 2019

Initial application of IFRS 16 - *Leases*

From January 1, 2019 ("the Date of Initial Application") the Group applies International Financial Reporting Standard 16, *Leases* (hereinafter: "IFRS 16" or "the Standard"), which replaced International Accounting Standard 17, Leases ("IAS 17" or "the Previous Standard"). The main effect of the Standard's application is reflected in annulment of the existing requirement from lessees to classify leases as operating (off-balance sheet) or finance leases and instead to present a unified model for lessees to account for all leases similarly to the accounting treatment of finance leases in the Previous Standard. Prior to the date of application, the Group classified most of the leases in which it is the lessee as operating leases, since it did not substantially bear all the risks and rewards from the assets.

In accordance with IFRS 16, for agreements in which the Group is the lessee, the Group recognizes a right-of-use asset and a lease liability at the inception of the lease contract other than exceptions specified in the Standard, whereby lessees are entitled not to apply the lease requirements in a right-of-use asset and liability for short-term leases of up to a year and leases in which the underlying asset is of low value. Accordingly, the Group recognizes depreciation and amortization expenses in respect of a right-of-use asset, tests a right-of-use asset for impairment in accordance with IAS 36 and recognizes financing expenses on a lease liability. Consequently, from the Date of Initial Application, lease payments relating to assets leased under an operating lease, which were presented as part of general and administrative expenses in the income statement, are capitalized to assets and written down as depreciation and amortization expenses.

The Company elected to apply the Standard using the modified retrospective approach, without a restatement of comparative data. Based on this approach, in respect of all the leases, the outstanding liability for a lease on the Date of Initial Application was calculated according to the present value of future lease payments discounted at its incremental borrowing rate at that date calculated according to the average duration of the remaining lease from the Date of Initial Application, and concurrently recognized a right-of-use asset at the same amount of the liability. Consequently, application of the Standard did not have an effect on the Group's equity at the Date of Initial Application.

For information about the accounting policy with respect to leases as of January 1, 2019, the Date of Initial Application of IFRS 16, see Note 3S.

The application of IFRS 16 did not significantly affect the Group's financial statements. Nevertheless, the Standard could affect the classification and measurement of lease transactions that take place in the future.

Note 2 - Basis of Preparation (contd.)

H. Changes in accounting policies in 2019 (contd.)

Initial application of IFRIC 23, Uncertainty over Income Tax Treatments

The interpretation explains how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty over tax positions. According to the interpretation, when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates in cases of uncertainty, the Company has to consider whether it is probable that the relevant authority will accept the tax treatment that it used in its income tax filing. If the Company concludes that it is probable that a particular tax treatment will be accepted, the Company should recognize the tax repercussions on the financial statements based on that tax position. However, if the entity concludes that it is not probable that a particular tax treatment will be accepted, the effect of uncertainty in its accounting tax position should be reflected, using one of the following methods: the most likely outcome or the expected value. When the entity examines whether or not it is probable that the tax authority will accept its position, it is assumed that the tax authority with the right to examine any amounts reported to it will examine those amounts and that it has full knowledge of all relevant information when doing so. Furthermore, changes in circumstances and new information that may change its assessment must be considered.

The application of the IFRIC 23 did not significantly affect the Group’s financial statements.

Note 3 - Significant Accounting Policies

The accounting policies set out below have been applied consistently for all periods presented in these consolidated financial statements by Group entities, except as explained in the section on changes in accounting policy in 2019 in Note 2H, concerning the basis of preparation of the financial statements.

A. Basis of Consolidation

1. Business combinations

The Group applies the Acquisition Method to all business combinations.

The acquisition date is the date on which the acquirer obtains control over the acquiree. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the acquiree and it has the ability to affect those returns through its power over the acquiree. Substantive rights held by the Group and others are taken into account when assessing control.

The Group recognizes goodwill at acquisition according to the fair value of the consideration transferred, including any amounts that were recognized in respect of any non-controlling interests in the acquiree as well as the fair value at the acquisition date of any pre-existing equity right of the Group in the acquiree, less the net amount attributed to identifiable assets acquired and the liabilities assumed.

On the acquisition date the acquirer recognizes a contingent liability assumed in a business combination if there is a present obligation resulting from past events and its fair value can be reliably measured.

If the Group pays a bargain price for the acquisition (meaning including negative goodwill), it recognizes the resulting gain in profit or loss on the acquisition date.
Furthermore, goodwill is not adjusted in respect of the utilization of carry-forward tax loss that existed on the date of the business combination.

The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquiree, the liabilities incurred by the acquirer to the previous owners of the acquiree and equity instruments that were issued by the Group. In a step acquisition, the difference between the acquisition date fair value of the Group’s pre-existing equity rights in the acquiree and the carrying amount at that date is recognized in profit or loss under net investment profits (losses) and financing income. In addition, the consideration transferred includes the fair value of any contingent consideration. After the acquisition date, the Group recognizes changes in the fair value of contingent consideration classified as a financial liability in profit or loss, whereas contingent consideration classified as an equity instrument is not re-measured. Changes in liabilities for contingent consideration in business combinations that occurred before January 1, 2010 continue to be recognized in goodwill and are not recognized in profit or loss.

If a business combination settles a pre-existing relationship between the acquirer and the acquiree, the Group deducts/adds to the consideration transferred in the business combination the lower of any stated settlement provisions in the contract and the amount by which the contract is favorable or unfavorable for the acquirer, as compared to the terms of current market transactions in identical or similar items, and it recognizes this amount in profit or loss under net investment profits (losses) and financing income.

Costs associated with the acquisition that were incurred by the acquirer in the business combination such as: finder’s fees, advisory, legal, valuation and other professional or consulting fees, other than those associated with an issue of debt or equity instruments connected to the business combination, are expensed in the period the services are received.

Note 3 - Significant Accounting Policies (contd.)

A. Basis of Consolidation (contd.)

2. Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of the subsidiaries are included in the consolidated financial statements from the date of gaining control until the control ends. The accounting policies of the subsidiaries have been changed when necessary to align them with the accounting policies adopted by the Group.

The financial statements of the pension funds, provident funds, mutual funds, ETFs and investment portfolios managed by the Group, were not consolidated since the Company has no share in their assets and liabilities.

3. Investment in associates and in joint ventures

Associate companies are entities over which the Group has significant influence, but not control or joint control, over their financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of another entity. In assessing significant influence, potential voting rights that are currently exercisable or convertible into shares of the investee are taken into account. Joint ventures are joint arrangements in which the Group has the rights to the net assets of the arrangement.

Investment in associates and joint ventures are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs.

When a company first obtains significant influence or joint control in a joint arrangement that was accounted for as an available-for-sale financial asset until the date of obtaining significant influence or joint control, accumulated other comprehensive income in respect of that investment is transferred to profit or loss at that date.

The consolidated financial statements include the Group’s share of the income and expenses in profit or loss and of other comprehensive income of equity accounted investees, after making the necessary adjustments to align their accounting policies with those of the Group, from the date on which significant influence or joint control commences and until the date on which significant influence or joint control ceases. Where the Group's share of the loss exceeds the value of the Group's interests in an equity accounted investee, the book value of those interests includes any long-term investment which forms part of the investment in the investee, is reduced to zero. Where the Group’s share of long-term investments which forms part of the investment in the investee differs from its share of the investee’s equity, the Group continues to recognize its part in the losses of the investee, after the capital investment was reduced to zero, based on its rate of economic entitlement in the long-term investment. After this, the recognition of further loss is discontinued, except to the extent that the Group has an obligation to support the investee or it has made payments on behalf of the investee.

Note 3 - Significant Accounting Policies (contd.)

A. Basis of Consolidation (contd.)

4. Non-controlling interests

Non-controlling interests are the equity of a subsidiary that cannot be attributed, directly or indirectly, to the parent company.

Measurement of non-controlling interests on the date of the business combination

Non-controlling interests, that are instruments that give rise to a present ownership interest and entitle the holder to a share of net assets in the event of liquidation (such as: ordinary shares), are measured on the date of the business combination at fair value or according to their proportionate share in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Allocation of other comprehensive income or loss to the shareholders

Profit or loss and any part of other component of comprehensive income are allocated to the owners of the Company and the non-controlling interests. Total profit or loss and other comprehensive is allocated to the owners of the Company and the non-controlling interests even if the result is a negative balance of non-controlling interests.

Transactions with non-controlling interests, while retaining control

Transactions with non-controlling interests while retaining control are accounted for as equity transactions. Any difference between the consideration paid or received and the change in non-controlling interests is included in the owners' share of the Company directly in retained earnings.

The amount of the adjustment to non-controlling interests is calculated as follows:
For an increase in the holding rate, according to the proportionate share acquired from the balance of non-controlling interests in the consolidated financial statements prior to the transaction.
For a decrease in the holding rate, according to the proportionate share realized by the owners of the subsidiary in the net assets of the subsidiary, including goodwill.

Furthermore, when the holding rate of the subsidiary changes, while retaining control, the Company re-attributes the accumulated amounts that were recognized in other comprehensive income to the owners of the Company and the non-controlling interests.

5. Loss of significant influence or joint control

The Group discontinues applying the equity method from the date it loses significant influence in an associate or joint control in a joint venture and it accounts for the retained investment as a financial asset or associate company, as applicable.

On the date of losing significant influence or joint control, the Group measures at fair value any retained interest it has in the former associate or joint venture. The Company recognizes in profit or loss net investment profits (losses) and financing income in any difference between the sum of the fair value of the retained interest and any proceeds received from the partial disposal of the investment in the associate or joint venture, and the book value of the investment on that date.

The amounts recognized in equity through other comprehensive income with respect to the same associate or joint venture are reclassified to profit or loss or to retained earnings in the same manner that would have been applicable if the associate or joint venture had itself realized the same assets or liabilities.

When the Group loses significant influence and obtains joint control in a joint venture or vice versa, the change is accounted for as described in Section (7) below.

Note 3 - Significant Accounting Policies (contd.)

A. Basis of Consolidation (contd.)

6. Business combinations under common control

The acquisition of interests in businesses controlled by the Group's controlling shareholder are accounted for by the carrying amount method, as if the acquisition had occurred on the date the Group's controlling shareholder obtained control for the first time.

The acquired assets and the liabilities are recognized at the carrying amounts (book value) recognized previously in the consolidated financial statements of the Group's controlling shareholder. The capital components of the Group were restated from the date on which control was first obtained by the Groups' controlling shareholder, so that components of equity of the acquired entity are added to the Group's existing components, excluding the share capital of the acquired entity which is carried to share premium. Any difference between the cash paid for the acquisition and the value of the assets and liabilities acquired on the date on which joint control was achieved has been recognized directly in equity.

7. Change in interest held in equity accounted investees while retaining significant influence or joint control, including transition from significant influence to joint control and vice versa

When the Group increases its interest in an equity accounted investee while retaining significant influence or joint control, it implements the acquisition method only with respect to the additional interest obtained whereas the previous interest remains unchanged.

When there is a decrease in the interest in an equity accounted investee while retaining significant influence or joint control, the Group derecognizes a proportionate part of its investment and recognizes the profit or loss from the sale under net investment profits (losses) and financing income in the income statement. The cost of the interests sold is determined according to a weighted average for purposes of calculating the gain or loss from the sale.

8. Joint Ventures

When the Group has rights in the assets and obligation to the liabilities attributed to joint arrangements, it recognizes the assets, liabilities, revenues and expenses of the joint arrangement based on its rights in these items, including its share of the items held or incurred jointly. Gains or loss from transactions with joint activity are recognized only at the amount of the share of the other parties in the joint operation. When these transactions provide evidence of impairment of those assets, such losses are fully recognized by the Group.

9. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates and joint ventures are eliminated against the investment to the extent of the Group's interest in these investments. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Note 3 - Significant Accounting Policies (contd.)

B. Foreign Currency

1. Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined. Non-monetary items that are denominated in foreign currency are measured in accordance with the historical cost, and are translated according to the exchange rate that was in force at the time of the transaction.
Foreign currency differences arising on translation are generally recognized in profit or loss, except for differences which are recognized in other comprehensive income, arising on the translation of available-for-sale equity instruments (except on impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss).

2. Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to NIS at exchange rates at the reporting date. The income and expenses of foreign operations are translated to NIS at exchange rates at the dates of the transactions.

Foreign currency differences for the translation are recognized in other comprehensive and are recognized in equity in the foreign activity translation reserve.

When the foreign operation is a non-wholly-owned subsidiary of the Company, then the relevant proportionate share of the foreign operation translation difference is allocated to the non-controlling interests.

The financial reports of foreign operations which are not held directly are translated to NIS using the consolidation method, in stages, by which the financial reports of foreign operations are first translated into the functional currency of the direct parent company and then translated into the functional currency of the final parent company's activities. Therefore, when realizing foreign operations that are not held directly, the Group reclassifies to profit and loss the amount accumulated in the foreign exchange reserve by the amount that would have been realized, had the foreign operations been translated directly to NIS.

When the foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve for that foreign operations is reclassified to profit or loss as part of the profit or loss from the disposal.

Foreign currency differences for loans received from or provided for foreign operations, including foreign operations that are subsidiaries, are generally recognized in profit or loss in the consolidated financial statements.

Foreign exchange gains and losses arising from a monetary item received from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income, and are presented within equity in the translation reserve.

Note 3 - Significant Accounting Policies (contd.)

C. Insurance contracts

IFRS 4 which discusses insurance contracts exempts an insurer from IAS 8 - Accounting Policy, changes in accounting estimates and errors ("IAS 8"), when determining the accounting policy for insurance contracts, with 5 exceptions. IAS 8 determines, among other things, the way in which accounting policy will be determined for a transaction or event for which the international standards provide no specific instructions.

As a result of this exemption, the significant accounting policies and methods of calculation regarding insurance operations in life assurance, non-life insurance and health insurance, which are prepared on the basis of the international standards, are the same as those that were applied in preparing the annual financial statements prior to the date of transition to IFRS which took place in 2008, as follows:

1. Life assurance and Long-term Savings segment and Long-term care insurance in the health insurance segment

a. For income recognition, see Note 3M below.

b. Life Assurance Reserves:

Life assurance reserves are calculated in accordance with the instructions of the Commissioner (regulations and circulars), generally accepted accounting principles, accepted actuarial methods and in a manner consistent with the previous year. The reserves are calculated according to the relevant coverage data, such as: the age and sex of the insured, number of years of coverage, policy period, category of insurance and sum insured.

Life assurance reserves, long-term care reserves, the reinsurers' share therein and the deferred acquisition costs on policies issued up to 31 December 1998, are determined on the basis of an actuarial evaluation, performed by the actuary responsible for life assurance and health insurance in Harel Insurance, Mr. Jonathan Brody, F.IL.A.A. The actuary is a company officer in Harel Insurance.

c. Life assurance reserves linked to the CPI and the investments held against said reserves are included in the financial statements according to the last Index published before the reporting date (the CPI for November), including life assurance reserves in relation to policies which are linked at the reporting date to the June or December CPI, as applicable (semi-annual linkage).

d. Commissioner's instructions concerning reserves for annuity payments:

In March 2013, the Commissioner published a circular on Guaranteed Annuity Options (annuity coefficients that incorporate a longevity guarantee). This circular prescribes that insurance companies will define two K values, one for liabilities for the yield-dependent savings component, and the second for liabilities for the yield-guaranteed savings component. The supplementary reserve for annuity is accrued gradually for monies accumulated in policies up to the end of the Reporting Period, taking into account the profits anticipated from policies until the insureds reach retirement age.

The provision is made gradually using the K factor which is derived from the rate of future revenues. The higher the K factor, the lower the liability for supplementing the reserve for annuity recognized in the financial statement will be and the amount to be deferred and recorded in the future will be higher.

At the date of the financial statements, the Company has set a K factor of 0% for yield-guaranteed policies and a factor of K=0.935% for profit-sharing policies.

The Company's policy is for the K value to be fixed. This value will only be subtracted if it cannot be justified.

The outstanding reserve for supplementing the annuity included in the financial statements at December 31, 2019, was NIS 1,087 million and NIS 926 million at December 31, 2018.

Note 3 - Significant Accounting Policies (contd.)

C. Insurance contracts (contd.)

1. Life assurance and Long-term Savings segment and Long-term care insurance in the health insurance segment (contd.)

d. Commissioner's instructions concerning reserves for annuity payments: (contd.)

The reserve expected to be recognized in the financial statements using the K factor at December 31, 2019, was NIS 856 million and NIS 676 million at December 31, 2018.

The Company prepares estimates of liabilities for annuity based on data published by the Ministry of Finance, and based on additional actuarial data which are reviewed against the Group's actual experience.

e. Deferred Acquisition Costs [DAC]:

Deferred acquisition costs for life assurance policies and long-term care policies ("the DAC") that were sold from 1 January 1999 and include direct expenses for agents' commissions, including prizes and bonuses and expenses related to the writing of new policies, including medical examination expenses, underwriting, marketing and general and administrative expenses. The DAC is amortized at equal annual rates over the policy period but not more than 15 years. The DAC relating to cancelled policies is written off at the date of cancellation.

f. Direct acquisition costs on the sale of pension plans:

<u>Up to December 31, 2017</u>:

Incremental acquisition costs (e.g. commissions for agents, acquisition supervisors and marketing personnel) which are directly attributable to attaining contracts with members, are recorded as Deferred Acquisition Costs (DAC) if they can be identified separately and reliably measured and they are likely to be recovered. The DAC represents the management company's contractual right to receive management fees from the pension funds and it is amortized at equal annual rates over the estimated period of receiving the income from the management fees, based on assumptions regarding cancellations and projected yield on members' savings. This period is estimated by the pension funds' actuary. The anticipated amortization period is 14.9 years and it is assessed at least once a year. The amortization period is assessed at least once a year. Furthermore, the Group reviews its ability to recover the DAC once a year on the basis of the portfolio in its entirety. The recoverability test for the reporting year showed that the total expected discounted cash flow for future revenues is more than the deferred expenses balance at the reporting date, and this is consistent with the assessment that would have been conducted before the entering into force of IFRS 15, *Revenue Recognition*) ("the Standard" or "IFRS 15").

<u>From January 1, 2018</u>:

The incremental acquisition costs as noted above, are recorded and assessed, based on the practical expedient in the Standard, on the basis of the portfolio approach by way of grouping. The Company applied this practical expedient by grouping transactions that were brokered by agents separately from transactions that were performed by the Company's salaried marketing personnel, and for each business (output) year separately per business and agent for output, from 2018. According to the Standard, the recoverability of each of the contract portfolios is assessed in relation to cash flow in nominal, non-discounted values for the expected income from the management fees, based on the experts' estimates, as noted.

Note 3 - Significant Accounting Policies (contd.)

C. Insurance contracts (contd.)

1. Life assurance and Long-term Savings segment and Long-term care insurance in the health insurance segment (contd.)

g. Deferred acquisition costs on the sale of provident and education plans:

Up to December 31, 2018:

Incremental acquisition costs (e.g. commissions for agents, acquisition supervisors and marketers) which are directly attributable to attaining contracts with members, are recorded as Deferred Acquisition Costs (DAC) if they can be identified separately and reliably measured and they are likely to be recovered. The DAC represents the management company's contractual right to receive management fees from the provident funds and education funds and it is amortized at equal annual rates over the estimated period of receiving the income from the management fees, based on assumptions regarding cancellations and projected yield on members' savings. The expected amortization period with respect to the provident funds and education funds was estimated by an external appraiser and is 7.2 years. The amortization period is assessed at least once a year. Furthermore, the Group reviews its ability to recover the DAC once a year on the basis of the portfolio in its entirety. The recoverability test for the reporting year showed that the total expected discounted cash flow for future revenues is more than the deferred expenses balance at the reporting date, and this is consistent with the assessment that would have been conducted before the entering into force of IFRS 15, *Revenue Recognition*) ("the Standard" or "IFRS 15").

From January 1, 2018:

The incremental acquisition costs as noted above, are recorded and assessed, based on the practical expedient in the Standard, on the basis of the portfolio approach by way of grouping. The Company applied this practical expedient by grouping transactions that were brokered by agents separately from transactions that were performed by the Company's salaried marketing personnel, and for each business (output) year separately per business and agent for output, from 2018. According to the standard, the recoverability of each of the contract portfolios is assessed in relation to cash flow in nominal, non-discounted values for the expected income from the management fees, based on the experts' estimates, as noted.

h. Test of DAC recoverability in life assurance and long-term care:

Pursuant to the Commissioner's instructions, the appointed actuary conducts an annual review of the recoverability of the DAC, on policies sold since 1999. The review is performed to verify that the reserves less the DAC is sufficient, and that the policies are expected to generate future income that will cover the amortization of the DAC and the insurance liabilities, operating expenses and commissions relating to those policies.

The review is conducted for all the underwriting years together. The test of recoverability for the reporting year showed that total future revenues from life assurance and long-term care policies, in respect of which deferred acquisition costs were paid, cover the outstanding deferred expenses at the reporting date.

i. Liability Adequacy Test (LAT):

The Group conducts an on-going review of the adequacy of the reserves (LAT – liability adequacy test). If the test shows that the premiums received are inadequate for covering the expected claims, minus the insurance reserves at the date of the computation, special provision is recorded in respect of the shortfall. The test is performed separately for personal lines policies and group policies. For personal lines policies, the test is performed at the level of the insurance plan in the policy, including the riders that are relevant for that policy. The test for group policies is performed at the individual collective level, except for long-term care policies where the test is performed for all the group policies.

Note 3 - Significant Accounting Policies (contd.)

C. Insurance contracts (contd.)

1. Life assurance and Long-term Savings segment and Long-term care insurance in the health insurance segment (contd.)

i. Liability Adequacy Test (LAT) (contd.)

The parameters and assumptions used for the abovementioned tests include assumptions for cancellations, operational expenses, additions for gaps in fair value, in comparison to book value of the non-negotiable assets, mortality and morbidity determined by the actuary every year, according to past experience and other relevant studies. Studies on the adequacy of reserves are conducted for collective policies, according to the claims experience of the groups.

In August 2015, a circular was published concerning a Liability Adequacy Test (LAT) in the financial statements of insurance companies together with a letter of clarification regarding disclosure in financial statements and the requirement to submit a special report to the Commissioner (“hereinafter together: ”the Circular”). The Circular stipulates that the LAT will be calculated according to the following allocation, at least: (a) Non-life insurance segment; (b) Health insurance segment - where for the purpose of calculating the LAT, long-term care will be included under life assurance despite the fact that it is reported in the financial statements under the health segment; (c) Life assurance segment - where the LAT calculation in this segment is divided into sub-segments according to the allocation set out in the forms for reporting to the Commissioner, which cannot be offset against one other. The circular prescribes several provisions relating to the method of calculating the LAT in the financial statements. Among other things, the instructions relate to the discounting rate used for the calculation, including in relation to the liquidity premium to be taken into account, the estimated anticipated future increase in life expectancy, the spreads relating to actuarial assumptions in calculating the LAT, and to the manner in which the additional difference in fair value should be taken into account with respect to the book value of non-marketable assets.

On March 8, 2020, a circular was published concerning an amendment to the provisions of the consolidated circular on the measurement of liability - interest rate assumption (“the Circular”). According to the Circular, the risk-free interest rate curve that should be used up to the Last Liquid Point in the 25th year is a yield curve based on yield-to-maturity interest rates for marketable Israel government bonds, as published by the company that wins the price quote tender. Beyond this point, interest rate curves will be determined by extrapolation based on the Smith-Wilson method as far as the Ultimate Forward Rate (UFR) to be determined on 60 years, in accordance with the Commissioner’s instructions concerning implementation of Solvency II-based economic solvency regime. From this point on, the forward rate will be fixed. The Company applies the provisions of the Circular when calculating the LAT in the financial statements at December 31, 2019 as a change in the accounting estimate in accordance with International Accounting Standard (IAS) 8.

On March 29, 2020, a circular was published concerning the LAT, the purpose of which is to adjust, on a localized basis, the way in which LAT is calculated in Israel. The circular changes the grouping of insurance products so that the LAT can be calculated for the entire life assurance segment together. According to the circular, calculations for the long-term care sector will continue to be prepared separately. The provisions of the circular will be applied retrospectively from Q1 2020. The Company believes that, based on the present risk-free interest rate curve at the date of publication of the financial statements, the implication of the change is that the Company will not have an LAT reserve in the life-assurance segment (the Company’s LAT reserve in the life assurance segment at December 31, 2019, is NIS 720 million) and that the Company’s equity will increase by NIS 475 million.

Note 3 - Significant Accounting Policies (contd.)

C. Insurance contracts (contd.)

1. Life assurance and Long-term Savings segment and Long-term care insurance in the health insurance segment (contd.)

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

Life assurance

Due to a decline of the risk-free interest rate curve used for the LAT, Harel Insurance increased the insurance liabilities in the life assurance and long-term savings segment in the Reporting Period by NIS 439 million and it reduced pre-tax profit and comprehensive income by the same amount.

In the corresponding period last year, due to an increase of the risk-free interest curve, Harel Insurance decreased the insurance liabilities in the life assurance and long-term savings segment by NIS 59 million and it increased pre-tax profit and comprehensive income before tax by the same amount. In 2017, due to a decline of the risk-free interest curve, Harel Insurance increased the insurance liabilities in the life assurance and long-term savings segment by NIS 50 million and it reduced pre-tax profit and comprehensive income before tax by the same amount.

Health

Due to a decline of the risk-free interest rate curve, Harel Insurance increased the insurance liabilities in the health insurance segment in the personal lines LTC sector in the Reporting Period by NIS 913 million and it reduced pre-tax profit and comprehensive income before tax by the same amount. Additionally, due to a decline of 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

Due to a decline of the interest rate curve and taking into account the difference between the fair value and book value of non-marketable assets, Harel Insurance increased the insurance liabilities in the non-life insurance segment in the Reporting Period by NIS 183 million and it reduced pre-tax profit and comprehensive income before tax by the same amount (NIS 56 million in the compulsory motor sector and NIS 127 million in the liabilities and other sectors). In 2017, due to a decline of the short-term risk-free interest rate curve used for the LAT, Harel Insurance increased the insurance liabilities in the non-life insurance segment by NIS 8 million and it reduced pre-tax profit and comprehensive income before tax by the same amount.

The effect on the financial results is set out below:

	For the year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Decrease (increase) of the insurance liabilities as a result of the LAT and effects of the interest rate - life assurance	(439)	59	(50)
Increase of the insurance liabilities due to the effects of the interest rate - health insurance	(926)	-	-
Increase of the insurance liabilities due to the effects of the interest rate - non-life insurance	(183)	-	(8)
Total effects of interest rates on profit and comprehensive income before tax	(1,548)	59	(58)
Total effects of interest on profit and comprehensive income after tax	(1,019)	39	(38)

Note 3 - Significant Accounting Policies (contd.)

C. Insurance contracts (contd.)

1. Life assurance and Long-term Savings segment and Long-term care insurance in the health insurance segment (contd.)

k. Outstanding claims include mainly provision for outstanding claims for death in individual policies and in group life assurance transactions, based on notifications received about insured events and sums insured.

l. The provisions for annuity payments and the for prolonged claims in the payment of work disability and long-term care, the direct and indirect expenses relating thereto, as well as the provisions for incurred but not yet reported claims (IBNR), are included in the liabilities for insurance and investment contracts.

m. Provision for profit sharing accrued to the right of group holders of group life assurance policies and group long-term care policyholders are included in the item trade and other payables.

n. Investment Contracts:

Receipts in respect of investment contracts are not included in the item earned premiums but are recognized directly to liabilities for insurance and investments contracts. Payment of surrenders, death and term, for these contracts are not recognized in the Statement of Income, but are deducted directly from the item liabilities for insurance and investments contracts.
The Statement of Income includes investment revenues, a change in the liabilities and payments for investment contracts on account of the insureds' share of the investment revenues, management fees agents' commissions, and general and administrative expenses.

o. Presentation of insurance liabilities according to financial exposure:

Pursuant to the Commissioner's directive, the insurance liabilities listed below are presented according to the financial exposure arising from them:
1. Group LTC plan in which most of the investment risks are not imposed on the insurer.
2. Part of the liabilities in LTC plans in which the insurer does not bear most of the investment risk.
3. Part of the liabilities in P.H.I. plans in which the insurer does not bear the financial exposure.

p. An original difference for future profitability embedded in the assets and liabilities acquired was attributed to the insurance liabilities for the Eliahu transaction. This original difference was amortized in accordance with the period of the economic benefit.

2. Non-life insurance segment and health insurance segment, excluding long-term care

a. For revenue recognition see Note 3M below.

b. Changes in liabilities and payments for insurance policies, both gross and retention, include, inter alia, settlement and direct handling costs for claims paid and outstanding claims, that occurred during the reporting year, payments and updating the provision for outstanding claims that was recorded in previous years, as well as the general and administrative expenses component for claims settlement.

c. Provision for indirect expenses to settle outstanding claims:

Provisions for outstanding claims included in liabilities from insurance contracts include provisions for indirect expenses for settling claims.

Note 3 - Significant Accounting Policies (contd.)

C. Insurance contracts (contd.)

2. Non-life insurance segment and health insurance segment, excluding long-term care (contd.)

d. Liabilities for insurance contracts and Deferred Acquisition Costs:

The reserves for unexpired risks and outstanding claims included in the item liabilities for insurance contracts, and the reinsurers' share therein, included in the item reinsurance assets and deferred acquisition costs for non-life insurance and health insurance were calculated in accordance with the Supervision of Insurance Business (Methods of Calculating Provisions for Future Claims in General Insurance) Regulations 1984, including amendments, the Commissioners' instructions and generally accepted actuarial methods for calculating outstanding claims, applied at the discretion of the actuaries.

e. Liabilities for insurance contracts includes the following insurance liabilities:

1. Reserve for unexpired risks which constitutes the balance of the unearned premium reserve at the end of the reporting period. This reserve is not calculated by actuarial methods and is not dependent on any assumptions. This reserve reflects the insurance premiums in respect of the insurance period after the reporting date and is calculated on a daily basis.
2. Premium deficiency reserve (as required), in the branches motor property, compulsory motor, comprehensive household and healthcare, which is a provision for anticipated loss (premium deficiency) and is calculated on retention, based on an actuarial estimate.
3. Insurance reserves in health insurance are calculated, mostly, according to actuarial estimates.
4. For outstanding claims, see Section F below.

   The change in the reserve for unexpired risks is included in the Statement of Income under earned premiums; the change in the other insurance liabilities is included under payments and change in liabilities for insurance contracts.

f. Outstanding claims:

The outstanding claims in the financial statements are calculated using the following methods:

1. Outstanding claims and the re-insurers share therein, are included according to actuarial evaluation, except for the branches specified in sub-section 2 below.

   The actuarial calculation for general insurance in Harel Insurance is made by the actuary responsible for non-life insurance, Mr. Jeffrey Cohen, F.IL.A.A., F.I.A. Health insurance reserves in Harel Insurance and Dikla were calculated by the actuary responsible for health insurance Mr. Jonathan Brody, F.IL.A.A. Said actuaries are officers in Harel Insurance. Mr. Jonathan Brody is also an officer in Dikla.
2. Outstanding claims in the contractors insurance, directors' liability, natural perils and other lines of business are included according to the specific estimations of the claims made by the company's experts handling the claims, based, inter alia, on the opinion received from external experts. The estimates include appropriate provisions for claims settlement and handling expenses not yet paid at the date of the financial statements. The estimates also include provisions for claims that have been incurred but not yet reported (IBNR) according to Group experience.

Note 3 - Significant Accounting Policies (contd.)

C. Insurance contracts (contd.)

2. Non-life insurance segment and health insurance segment, excluding long-term care (contd.)

g. Calculation of Insurance Reserves in Non-Life Insurance

In January 2015, a Commissioner's position paper was published concerning a best practice for the calculation of insurance reserves for non-life insurance for the purpose of financial reporting as well as a circular on this subject. The Commissioner's position addresses, *inter alia*, the following topics:

(a) The principle of caution, whereby “A reserve adequate to cover the insurer's obligations" means that it is fairly likely that the reserve defined in the retention will be adequate to cover the insurer's liabilities. Regarding outstanding claims in the compulsory and liabilities lines of activity, the stipulation of “reasonably likely” will refer to an estimated probability of at least 75%. Nevertheless, insofar as the statistical analysis is limited, the actuary will apply discretion and may use accepted actuarial methods. The appropriate discounting interest for testing the caution is based on the risk-free interest curve adjusted to the non-liquid nature of the liabilities. Furthermore, this test must also consider the manner of revaluing the assets in the financial statements that are held against the liabilities.

(b) Capitalization rate for the flow of liabilities.

(c) Grouping - for the purpose of calculating margins for uncertainty in statistical branches (as defined in the circular), each branch must be addressed separately, but the risks from all the underwriting years (or loss) in the branch may be grouped together. In non-statistical branches, they may all be treated as a single group.

(d) Determining the level of insurance liabilities for policies that were sold during periods close to the reporting date and for risks after the reporting date.

h. Subrogation and salvage are taken into account in the data base from which the actuarial evaluations for the outstanding claims are calculated. In branches that are not statistical, subrogation and salvage are taken into account at the time of making the overall risk assessment of the claim on a specific basis for each claim.

i. Implementation of the Winograd Committee recommendations:

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 to 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 cause to charge 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 annuities will be 2% instead of 3%, as prescribed in the Capitalization Regulations immediately prior to the Amendment. Furthermore, the Amendment 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 this amendment and until Q2 2019, the discounting rates used to calculate the insurance liabilities are as follows: for payments in the period from 1/2020 through 12/2023 - 1% and for payments in the period commencing 1/2024 - 2%.

Note 3 - Significant Accounting Policies (contd.)

C. Insurance Contracts (contd.)

2. Non-life insurance segment and health insurance segment, excluding long-term care (Contd.)

i. Implementation of the Winograd Committee recommendations (contd.)

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 return given on low-risk investment channels), and it also determined an inflexible mechanism for updating the discounting interest rate, where necessary, by the Accountant General. The Kaminetz Committee therefore resolved to determine 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. To test whether there has been any deviation from the interest rate band, once in two years the Accountant General will examine what yield is obtained from an investment in AA 25-year corporate bonds. If in the last six months before the test date the yield deviates by more than ±1%, this mechanism will be activated.

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 Q2 2019 a decrease in the insurance liabilities of NIS 260 million in retention before tax was recorded (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.

j. Deferred Acquisition Costs:

1. Deferred acquisition costs in non-life insurance include agents' commissions and part of the general and administrative expenses related to the writing of policies in respect of the retained unearned insurance premiums. The deferred acquisition costs are calculated according to the lower of actual costs or at standard rates prescribed in the Supervision Regulations, calculated as a percentage of unearned premiums for each branch separately.
2. Deferred acquisition costs for illness and hospitalization insurance include long-term expenses resulting from the issuing of new policies, including expenses for medical examinations, underwriting commissions, marketing and general and administrative expenses.
3. Deferred acquisition costs are amortized at equal rates over the period of the policy, but no longer than six years. Deferred acquisition costs relating to cancelled policies are written off at the cancellation date.
4. The reinsurers' share of the DAC is classified under trade and other payables.

Note 3 - Significant Accounting Policies (contd.)

C. Insurance Contracts (contd.)

2. Non-life insurance segment and health insurance segment, excluding long-term care (Contd.)

k. Business received through the Israeli pool for motor vehicle insurance of the Israel Insurance Association (“the Pool”), from other insurance companies (including co-insurance) and underwriting agencies are included according to the accounts received up to the reporting date with the additional of the relevant provisions, based on the Company’s rate of participation therein.

l. Gross earned premiums include all the amounts paid by the borrowers in connection with property insurance policies written through a mortgage bank. The amounts paid to the mortgage bank for expenses are included under commission and other marketing and acquisition expenses.

m. Provision for profit sharing credited to group health insurance policyholders is recorded on the basis of the agreements in force and is included under credit and other payables, changes therein are net of premiums.

n. Mortgage insurance business

E.M.I., whose acquisition by Harel Insurance was completed on January 21, 2010, is a company that operates in Israel as an insurer in the credit insurance market for mortgages for residential properties (Monoline branch), and is subject to the conditions of the insurer's license issued by the Commissioner, including the definition of the branch in which EMI is authorized to operate, conditions concerning minimum equity, the unique nature of its insurance activity, the need for the Commissioner's approval of the policy conditions and conditions of the insurance plan, provisions concerning a reserve for unexpired risks (UPR), a reserve for outstanding claims (Loss Reserve), contingency reserve, reinsurance, provisions concerning an option for the policyholder to cancel the EMI policy, provisions concerning payment of premiums by the insured, etc.

(1) The premiums are recorded as revenues based on monthly output reports. Premiums relate principally to insurance periods during the life of the loans. Premiums from policies that commence after the reporting date are recorded as advance premiums under trade and other payables.

(2) Gross premiums - the premium received for the entire policy period net of premium refunds to insureds for policies that were cancelled before the end of the original loan period.

(3) Earned premiums - the income included in the financial statements under premiums earned are net of cancellations based on information received from the policyholders and subject to the provisions of any law, and after the deduction or addition of all the changes in the reserve for unexpired risks, and in relation to the Reporting Period.

(4) Notably, in light of the foregoing in sub-section 11 below, the Company does not record new premiums and due to the fact that the paid-up amounts are included in gross premiums as a negative amount, the gross premium might be a negative amount.

(5) Payments and changes in liabilities for insurance contracts includes, inter alia, payments for insurance contracts including direct expenses for settling claims as well as indirect expenses (general and administrative) for claims settlement and revised provision for outstanding claims and for the reserve for extraordinary risks that were recorded in previous years.

(6) The reserve for unexpired risks, the reserve for extraordinary risks, and outstanding claims ("the insurance obligations") were calculated based on the instructions in the insurer's license, amendments included, granted to EMI under the Insurance Supervision Law ("the Insurer's License"). Accordingly, no actuarial calculation is necessary to determine the insurance obligations, and they are therefore independent of any special assumptions.

(7) An original difference was attributed to the insurance obligations, reflecting their fair value on the acquisition date. The original difference in respect of the insurance obligations is amortized based on the economic life of the obligations.

Note 3 - Significant Accounting Policies (contd.)

C. Insurance Contracts (contd.)

2. Non-life insurance segment and health insurance segment, excluding long-term care (Contd.)

n. Mortgage insurance business (contd.)

(8) The reserve for unexpired risks reflects the premium component paid to the company for policy periods that apply after the reporting date ("the unearned premium"). In addition, a percentage of the premiums less the change in the reserve for unexpired risks ("the earned premium") is transferred to the reserve for extraordinary risks to cover loss and expenses in excess of the rate of the earned premium, net, for that year.

(9) Based on the information in EMI's insurer's license, EMI is unable to apply subrogation against an insured, unless the insured deliberately caused the insured event.

(10) The change in the reserve for unexpired risks appears in the Income Statement under earned premiums. The change in other insurance obligations appears under payments and changes in obligations for insurance contracts.

(11) On November 1, 2012, the Bank of Israel published an instruction concerning limits on financing rates for housing loans (LTV ratio) which will apply to loans that are approved in principle from November 1, 2012 onwards. The new instruction is a continuation of the previous measures introduced by the Supervisor of Banks in the mortgage credit market. The instruction prescribes that a bank may not approve a mortgage with an LTV ratio of more than 70%, except for a loan for the purchase of a borrower's only apartment, for which the maximum LTV ratio will be 75%. Additionally, the provision prescribes that a bank may not approve a loan to a borrower to finance an apartment for investment purposes with an LTV ratio of more than 50%. Consequently, in 2013 the format of EMI's operations was adjusted to the existing scope of activity, at the same time continuing to deal with policies which are in force and maintaining the company's ability to resume underwriting and policy issue activity. The insurance cover sold by EMI is long-term cover, where the entire premium is received in advance when the policy is issued. Accordingly, recognition of the revenue and the profit is spread over the period of the insurance risk and EMI has an insurance commitment for many years in advance. During the Reporting Period EMI recorded a new premium of an insignificant amount and it is not expected to record any significant premium as long as the provision remains in force.

o. On January 18, 2018, a memorandum of the Economic Efficiency (Legislative Amendments to Achieve Budget Targets for 2019) Law, 2018, was published. According to the memorandum, the mechanism for the settlement of accounts between the National Insurance Institute (NII) and the insurance companies regarding road accidents was changed, the NII's existing right to subrogation for road accidents will be abolished and a comprehensive arrangement will be established under which the insurance companies will transfer a fixed amount to the NII every year. The Minister of Finance will prescribe regulations concerning the amount to be transferred to the NII. With respect to road accidents that occurred between January 1, 2014 and December 31, 2018, and for which the NII has not submitted a claim or demand by January 1, 2019, the Minister of Finance will prescribe in the regulations an overall lump sum to be paid to the NII by the insurance companies for such claims or demands, the payment schedule and the amount from this sum to be paid by each insurance company. At this stage, the amount that the Company is supposed to transfer to the NII is not known or what the implementation mechanism will be, but the section "Contingent claims in the compulsory motor sector" includes provision based on past experience.

Note 3 - Significant Accounting Policies (contd.)

D. Provision for doubtful debts

1. In respect of outstanding premiums, loans and other receivables - the provision is determined specifically in respect of debts whose collection is doubtful in the opinion of management.

2. The provision in respect of reinsurers' debts which the Group's management considers doubtful is determined on the basis of individual risk estimates.

3. In addition, in determining the reinsurers' share in outstanding claims and insurance reserves, included in the item reinsurance assets, the Company and the consolidated companies take into account, among other things, an estimate of the chances of collection from the reinsurers. The share of those reinsurers who are having financial difficulties (if any) is calculated according to the actuary's recommendation, which takes into account all the risk factors. When reinsurers encounter financial difficulties, they are likely to raise various arguments related to acknowledgment of the debt. In these cases, the Group takes into account the reinsurers' willingness to reach cut-off agreements. The reinsurers' liabilities to the Group do not release the Company from its obligations to the insured parties under the insurance policies.

E. Financial instruments

1. Non-derivative financial assets

Initial recognition of financial assets

The Group initially recognizes loans, receivables and deposits at the time that they are created. All other financial assets acquired in regular way purchases, including assets designated at fair value through profit or loss, are initially recognized are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument, meaning on the date the Group undertook to purchase or sell the asset. Non-derivative financial instruments comprise investments in equity and debt securities, premiums due, and trade and other receivables, and cash and cash equivalents.

Derecognition of Financial Assets

Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Regular way sales of financial assets are recognized on the trade date, meaning on the date the Group undertook to sell the asset.

See section (2) below regarding the offset of financial assets and financial liabilities.

Classification of financial assets into categories and the accounting treatment of each category
The Group classifies its financial assets according to the following categories:

Financial assets at fair value through profit or loss
A financial asset is classified at fair value through profit or loss, if it is held for trading or if is designated as such at the time of initial recognition. Financial assets are designated at fair value though profit or loss if the Group manages this class of investment and makes purchase and sale decisions based on their fair value, in accordance with the Group's documented risk management or investment strategy. If the designation is intended to prevent an accounting mismatch or if the device includes an embedded derivative, attributable transaction costs are recognized in profit or loss as incurred. These financial assets are measured at fair value and changes therein are recognized in profit or loss.

Note 3 - Significant Accounting Policies (contd.)

E. Financial instruments (contd.)

1. Non-derivative financial assets (contd.)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, and net of any impairment losses.

Loans and receivables include cash and cash equivalents, premiums due, other receiveables and investments in non-marketable bonds.

Cash and cash equivalents include cash balances available for immediate use and call deposits. Cash equivalents include short-term highly liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value and are not limited by any lien.

Held-to-maturity investments

If the Group has the express intent and ability to hold debt securities to maturity, then such debt securities are classified as held-to-maturity. Held-to-maturity investments are initially recognized at fair value, plus attributable transaction costs. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment loss.

Available-for-sale financial assets

Available for sale financial assets are non-derivative financial assets which have been designated as available for sale financial assets or which have not been classified into one of the other categories.

The Group's investments in stocks and certain debt securities are classified as available-for-sale financial assets Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. In subsequent periods, they are measured at fair value and changes therein, other than impairment loss, gains or loss arising from foreign currency changes and the accrual of effective interest on available-for-sale debt instruments, are recognized directly in other comprehensive income and presented within equity in a reserve for equity instruments classified as available-for-sale. Dividends received for financial assets available for sale are recognized in profit or loss at the date of payment. When the investment is derecognized, the cumulative gain or loss in capital fund for available for sale financial assets, are transferred to profit or loss.

On the method of recognizing loss from impairment in profit or loss in respect of this category of assets, see Note 3I below on impairment.

2. Non-derivative financial liabilities

The Group has the following financial liabilities that are not derivatives: loans and credit from banks and other providers of credit, marketable and non-marketable debt instruments, other suppliers and creditors (trade payables).

Initial recognition of financial liabilities

The Group initially recognizes debt securities issued on the date that they originated. All other financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Note 3 - Significant Accounting Policies (contd.)

E. Financial instruments (contd.)

2. Non-derivative financial liabilities (contd.)

Financial liabilities (other than financial liabilities at fair value through profit or loss) are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are designated at fair value through profit or loss if the Group manages such liabilities and their performance is assessed based on their fair value in accordance with the Group's documented risk management strategy, providing that the designation is intended to prevent an accounting mismatch, or the liability is a combined instrument including an embedded derivative.

Transaction costs directly attributable to an expected issuance of an instrument that will be classified as a financial liability are recognized as an asset in the framework of deferred expenses in the statement of financial position. These transaction costs are deducted from the financial liability upon its initial recognition, or are amortized as financing expenses in the statement of income when the issuance is no longer expected to occur.

Derecognition of financial liabilities

Financial liabilities are derecognized when the Group's commitment, as specified in the agreement, expires or when it is settled or eliminated.

Change of conditions of debt instruments

A swap of debt instruments having substantially different terms, between an existing borrower and lender is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value. Furthermore, a substantial modification of the terms of the existing financial liability or part of it, is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

In such cases, the entire difference between the amortized cost of the original financial liability and the fair value of the new financial liability is recognized in profit or loss as financing income or expense.

The terms are substantially different if the discounted present value of the cash flows according to the new terms, including any commissions paid, less any commissions received and discounted using the original effective interest rate, is different by at least ten percent from the discounted present value of the remaining cash flows of the original financial liability.

In addition to the aforesaid quantitative criterion, the Group examines, *inter alia*, whether there have also been changes in various economic parameters inherent in the replaced debt instruments, therefore as a rule, exchanges of CPI-linked debt instruments with unlinked instruments are considered exchanges with substantially different terms even if they do not meet the aforementioned quantitative criterion.

Offset of financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when the Group currently has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3. Derivative financial instruments

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized immediately to profit or loss, as financing income or expenses. See also Section 5 below.

Note 3 - Significant Accounting Policies (contd.)

E. Financial instruments (contd.)

4. CPI-linked assets and liabilities not measured at fair value

The value of CPI-linked financial assets and liabilities not measured at fair value, are revalued at each period based on the actual increase or decrease of the index.

5. The Group passed the following resolutions for asset designation:

Assets included in the investment portfolios of yield-dependent contracts

These assets, which include marketable and non-marketable financial instruments (including investments in affiliates), are designated to fair value categories through profit or loss, for the following reasons: they are separate and distinct managed portfolios, where their presentation according to fair value significantly diminishes the accounting mismatch of the presentation of financial assets and liabilities according to different measurement bases, and the portfolio management and performance are measured according to fair value based on the documented risk management strategy, and the information about the financial instruments is reported to management (the relevant investment committee) on the basis of fair value.

Non-marketable assets (not including shares) held to cover a yield-dependent group long-term care portfolio were classified to loans and receivables.

Non-marketable assets included in investment portfolios held to cover non yield-dependent contracts (nostro)

These assets, which include earmarked bonds, other non-marketable bonds, commercial certificates, bank deposits and loans and other receivables, are included in the statement of financial position as non-marketable debt assets. These assets were classified to loans and receivables.
Non-marketable shares are classified to available-for-sale financial assets. For derivatives or embedded derivatives - see below.

Marketable assets included in investment portfolios held to cover non yield-dependent contracts (nostro) that do not include embedded derivatives or constitute derivatives (including investment reserves)

The assets held to cover yield-guaranteed liabilities that were issued from 2004 were classified up to December 31, 2013 to fair value categories through profit or loss. In 2014, based on an assessment performed by Harel Insurance, it was decided to include the portfolio assets as part of the overall portfolio of assets held against non-yield dependent contracts. Assets that were classified to fair value through profit or loss will be accounted for in the same way until they are realized, new assets were included in the total nostro portfolio and were accounted for as available for sale. This change did not affect the Group’s financial results.

Derivatives and financial assets which include separable embedded derivatives

These assets, marketable and non-marketable, are designated to fair value through profit or loss.

Backing assets for liabilities in respect of ETNs

Until October 3, 2018, and the entering into force of Amendment 28 to the Joint Investment Trust Law (“the Amendment” or “the Law”) and the subsequently promulgated regulations, the securities that serve as backing assets for ETNs were designated upon initial recognition to the fair value category by way of profit or loss, for the following reasons: these are separate and identified managed portfolios, whose statement at fair value significantly reduces an accounting mismatch. Furthermore, these portfolios are managed according to fair value and their performance is measured at fair value, in accordance with a documented risk management strategy, and the information about the financial instruments is reported to management internally on the basis of fair value.

Note 3 - Significant Accounting Policies (contd.)

E. Financial instruments (contd.)

5. The Group passed the following resolutions for asset designation (contd.)

With the entering into force of the Amendment, the ETNs became ETFs (in several stages, based on the index tracked by the note) which are closed tracker funds. In other words, they are now traded tracker funds governed by the provisions of the Law as they were updated in the Amendment. Accordingly, the Company discontinued the consolidation of the assets backing the liabilities in respect of the ETNs (as well as the liabilities for the ETNs themselves) from this date and the Statement of Financial Position does not include these assets (and liabilities).

Held-to-maturity

These assets include CPI-linked marketable bonds held as part of the liabilities that are not yield-dependent. These assets were classified as "held to maturity" for the following reasons: the Company intends and is able to hold these assets until their final date of maturity. In addition, these assets are held against insurance liabilities most of which are CPI-linked. By classifying the assets to this category, an accounting match is created which is sensitive to changes in the CPI between the assets and liabilities against which they are held.

6. Share Capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Treasury stock

When share capital recognized as equity is repurchased by the Group, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is deducted from equity. The repurchased shares are classified as treasury stock. When treasury stock is sold or subsequently reissued, the amount received is recognized as an increase in equity, and the resulting surplus on the transaction is carried to share premium, whereas a deficit on the transaction is deducted from the retained premium, insofar as there is any.

F. Fixed Assets

1. Recognition and measurement

Fixed asset items are measured at cost net of accumulated depreciation and and accumulated impairment losses, excluding owner-occupied real estate, presented at fair value, where the changes in fair value are recorded in equity under the revaluation reserve and are recognized in other comprehensive income.

The cost of the fixed assets includes expenses which can be directly attributed to the purchase of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, and any other costs directly attributable to bringing the asset to a working condition for its intended use by the management. The cost of purchased software, which is integral to the functionality of the related equipment, is capitalized as part of the cost of that equipment.

A fixed asset item, that was purchased in consideration of another non-monetary item, in a transaction with commercial substance, is measured at fair value.

When major parts of a fixed asset item (including the costs of major periodic inspections) have different useful lives, they are accounted for as separate items (major components) of fixed assets.

Gains or losses on disposal of a fixed asset item are determined by comparing the net proceeds from the disposal with the book value of the asset, and are recognized as a net amount under “other income” or “other expenses”, as relevant, in profit or loss.

Note 3 - Significant Accounting Policies (contd.)

F. Fixed Assets (contd.)

1. Recognition and measurement (contd.)

Any increase in the value of owner occupied real estate as a result of revaluation is recognized in profit or loss up to the amount at which it offsets the impairment resulting from the revaluation of that asset, which was previously recognized in profit or loss. Any subsequent, further increase is recognized in the revaluation reserve.

When performing a revaluation, depreciation accrued on the date of the revaluation is offset against the asset's gross book value, and the net amount is restated according to the estimated amount of the asset. The revaluation reserve is carried over directly to surpluses when the asset is derecognized, but not earlier.

2. Reclassification to investment property

When there is evidence of a change in use of property from owner-occupied to investment property, which is measured at fair value, the property is re-measured to fair value and reclassified as investment property. Any gain arising on re-measurement is recognized in other comprehensive income and presented within equity in a revaluation reserve, unless the gain reverses a previous impairment loss on the specific property, in which case the gain is first recognized in profit or loss. Any loss is recognized directly in profit or loss.

3. Subsequent Costs

The cost of replacing part of a fixed asset item and other subsequent expenses are recognized as part of the book value of that fixed asset, if it is probable that the future economic benefits associated with them will flow to the Group and their cost can be measured reliably. The book value of the replaced part of a fixed asset item is derecognized. The costs of day-to-day servicing are recognized in profit or loss as incurred.

4. Depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or other amount substituted for cost, less its residual value.

An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management.

Depreciation is recognized in profit or loss on a straight-line basis (unless the amount is included in the carrying amount of another asset) over the estimated useful lives of each part of the fixed asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Freehold land is not depreciated.

The rate of depreciation, based on the estimated useful life for current and comparative periods, is as follows:

• Buildings	2% - 4%
• Fixtures and office equipment	6% - 20%
• Computers and peripherals	14% - 33%
• Leasehold improvements	10% - 25%
• Motor Vehicles	15%

Leasehold improvements are depreciated using the straight line method over the period of the lease (including an option for extension available to the Group which it intends to exercise) or based on the estimated useful life of the assets, whichever is shorter.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting year and adjusted if appropriate.

Note 3 - Significant Accounting Policies (contd.)

G. Intangible Assets

(1) Surplus costs attributable to future management fees as were expected to be received are amortized over the projected period for receiving the management fees, reflecting the format for projected consumption of the future economic benefits inherent in the asset.

(2) Brand (amortized on a straight-line basis over a period of 5 to 10 years).

(3) Software development costs for the Company's own use are capitalized when the preliminary design stage is complete and it is expected that the project will be completed and the software will be used for its intended use. Capitalization ceases when the software is substantially completed and ready for its intended use. These costs are amortized in a straight line over the expected period of consumption of the economic benefit.

(4) Goodwill resulting from the acquisition of subsidiaries or the acquisition of activities, is part of intangible assets. For information on the measurement of goodwill at initial recognition, see Note 3A above.

In subsequent periods goodwill is measured at cost net of accumulated impairment loss. Goodwill is not systematically amortized, but rather tested at least annually for impairment. As for the other intangible assets, estimates of depreciation methods, useful life and retention values are reassessed at least at the end of each reporting year and adjusted where necessary.

H. Investment property

Investment property is property (land or building - or part of a building - or both) held (by the Group as owner or by the lessee under a financial lease) either to earn rental income or for capital appreciation or both, but not for use or sale during the normal course of business.

Investment property is initially measured at cost. In subsequent periods the investment property is measured at fair value, while the changes therein are recognized in profit or loss.

The Group measures its investment property using the fair value model, and accordingly it measures its investment property under construction as follows:

(1) At fair value, where the fair value of the investment property under construction can be reliably measured; and -

(2) Where the fair value cannot be reliably measured, at cost during the construction period until either construction is completed or its fair value can be reliably measured, whichever is earlier.

When investment property which is measured at fair value becomes a fixed asset (owner-occupied property), its fair value is set at this date as cost of the fixed assets for subsequent accounting treatment.

When investment property that was previously classified as a fixed asset is sold, any related amount included in the revaluation reserve is transferred to retained earnings

Note 3 - Significant Accounting Policies (contd.)

I. Impairment

1. Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is tested for impairment when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or the issuer of the debt will enter bankruptcy, adverse changes in the payment status of borrowers, or the disappearance of an active market for the security, or changes in the economic environment which confirm the insolvency of the debt issuers and observable data indicating a measurable decrease in expected cash flows from a group of financial assets.

Evidence of impairment of available-for-sale financial assets

When testing for impairment of available-for-sale financial assets that are equity instruments, the Group also examines the difference between the fair value of the asset and its original cost while taking into consideration the standard deviation of the instrument's price, the length of time the fair value of the asset is lower than its original cost and changes in the technological, economic or legal environment or in the market environment in which the issuer of the instrument operates. Furthermore, a significant or prolonged decline of the fair value below the original cost is objective evidence of impairment.

In accordance with Group policy, a decline of more than 20% below the original cost of the instrument, or a decline to below the original cost for more than nine months, is considered significant or prolonged, respectively.

Evidence of impairment of debt instruments

The Group assesses evidence of the impairment of financial assets at the level of the individual asset and at the collective level.

For significant financial assets, the need for impairment is assessed separately for each asset. Furthermore, where no specific impairment is identified for significant financial assets, the need for collective impairment is assessed with the purpose of locating an impairment that has occurred but has not yet been identified. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Accounting of impairment losses for financial assets

An impairment loss on a financial asset, measured at amortized cost, is calculated as the difference between the carrying amount of the asset and the present value of estimated future cash flows, capitalized at the original effective interest rate.

Losses for financial assets measured at amortized cost are recognized in profit or loss and reflected in a provision for loss against the balance of the assets. Interest income on the impaired assets is recognized using the interest rate that was used to discount the future cash flows for the purpose of measuring the impairment loss.

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that has been recognized in a capital reserve to profit or loss. The cumulative loss that is classified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Any additional impairment is recognized in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of net investment profit and financing income.

Note 3 - Significant Accounting Policies (contd.)

I. Impairment (contd.)

1. Non-derivative financial assets (contd.)

Reversal of impairment losses

The impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are debt securities, the reversal is recognized directly in profit or loss and the current cumulative difference (the difference between the fair value and cost) is recognized in other comprehensive income, if there is no objective evidence of impairment.

The reversal of an impairment loss for financial assets that are classified as available-for-sale that are capital instruments is recognized directly to other comprehensive income.

2. Non-financial assets

Timing of testing for impairment

The book value of the Group's non-financial assets, which are not deferred acquisition costs, investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Once a year and on the same date, or more frequently if there are indications of impairment, the Group estimates the recoverable amount of each cash generating unit that contains goodwill, or intangible assets that have indefinite useful lives or are unavailable for use.

Determining cash-generating units

To test for impairment, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

Measurement of recoverable amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or to a cash-generating unit, for which the estimated future cash flows from the asset or from cash-generating unit were not adjusted.

Allocation of goodwill to cash-generating units

In cash-generating units to which goodwill was allocated, assets are grouped together so that the level at which the goodwill is tested reflects the lowest level of the goodwill which can be monitored for internal reporting purposes, but in any event is not greater than the operating segment (before the grouping of similar segments).

Goodwill acquired in a business combination is allocated to groups of cash-generating units, including those existing in the Group before the business combination, that are expected to benefit from the synergies of the combination.

Recognition of impairment loss

Impairment losses are recognized if the book value of an asset or cash-generating unit exceeds its estimated recoverable amount, and is recognized in profit or loss. For cash-generating units that include goodwill, an impairment loss is recognized when the carrying amount of the cash-generating unit, after including the balance of goodwill, exceeds its recoverable amount. Impairment loss recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

Note 3 - Significant Accounting Policies (contd.)

I. Impairment (contd.)

2. Non-financial assets (contd.)

Reversal of impairment loss

An impairment loss in respect of goodwill is not reversed. In respect of other assets, for which impairment loss were recognized in prior periods, an assessment is performed at each reporting date for any indications that these loss have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. Investments in associates and joint ventures

After applying the equity value method, the Group determines whether it is necessary to recognize loss for impairment of the investment in affiliated companies or joint transaction. At each reporting date, the Company determines whether there is objective evidence indicating impairment of the investment in an affiliated company. Where necessary, the impairment loss is recognized as the difference between recoverable amount of the investment in the affiliate and its carrying amount. An impairment loss is recognized in profit or loss within the Company's share of the profits (losses) of equity accounted investees.

Goodwill, which accounts for part of the investment in an affiliate or joint transaction, is not recognized separately as asset and is therefore not tested separately from impairment. If objective evidence indicates that the value of the investment may have been impaired, the Group estimates the recoverable amount of the investment as the higher of its value in use and its net sale price.

In determining the value in use of an investment in an affiliate or joint transactions, the Group estimates its share of the present value of estimated future cash flows that are expected to be generated by the affiliated company or joint transaction, including cash flows from operations of the affiliated company or joint transaction and the proceeds of the final disposal of the investment, or estimates the present value of the estimated future cash flows that are expected to be derived from dividends that will be received and from the final disposal.

An impairment loss is recognized when the book value of the investment, after applying the equity method, is more than the recoverable amount, and is recognized to the Company's share of equity accounted investees. An impairment loss is not allocated to any specific asset, including goodwill which constitutes part of the investment in the affiliate or joint transaction.

An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of the investment after the impairment loss was last recognized. The carrying amount of the investment, after the reversal of the impairment loss, must not exceed the carrying amount of the investment that would have been determined using the equity method if no impairment loss had been recognized.

Note 3 - Significant Accounting Policies (contd.)

J. Employment benefits

1. Post-employment benefits

The Group has several post-employment benefit plans. These plans are usually financed by payment of contributions to insurance companies or funds, and they are classified as defined contribution plans or as defined benefit plans.

(a) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. The Group’s obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss in the periods during which related services are rendered by employees. Contributions to a defined contribution plans that are due more than 12 months after the end of the period in which the employees render the service are recognized at their present value.

(b) Defined benefit plans

A defined benefit plan is a post-employment benefit plan, which is not a defined contribution plan. The Group’s net obligation in respect of defined benefit plans for post- employment benefits is calculated separately for each plan by estimating the amount of future benefit due to an employee for his services in current and previous periods. This benefit is presented at current value net of the fair value of the plan’s assets. The Group determines the net interest liability (asset), net defined benefit liability by multiplying the (asset), net defined benefit discount rate used to measure the defined benefit obligation, as both were set at the beginning of the annual reporting period.

The discount rate is the yield at the reporting date on high-quality CPI-linked corporate bonds, whose currency is NIS and maturity date is similar to the Group’s obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

If there is an obligation, as part of a requirement for a minimum deposit, for payment of additional amounts for past services, the Company recognizes an additional obligation (increase of the net liability or decrease of the net asset) if the amounts are not available as an economic benefit in the form of a refund from the plan or reduction in future contributions.

Re-measurement of the net defined benefit liability (asset) for a defined benefit include actuarial gains and loss, the return on plan assets (excluding interest) and any change in the effect of the asset ceiling (if any, excluding interest). Re-measurements are recognized immediately directly in retained earnings through other comprehensive income. Interest costs on a defined benefit obligation and interest income on plan assets that were recognized in profit or loss are presented under payroll expenses in general and administrative expenses.

When the benefits of a plan are improved or curtailed, the portion of the increased benefit relating to past service by employees or the gain or loss on curtailment are recognized immediately in profit or loss when the plan improvement or curtailment occurs.

The Group recognizes gains and loss on the settlement of a defined benefit plan when the settlement occurs. These gains and loss are the difference between the portion of the present value of the defined benefit obligation that is settled on the date of settlement, and the settlement price, including transferred plan assets.

The Group has managers' insurance policies that were issued before 2004, according to which the profit in real terms accumulated on the severance pay component will be paid to the employees upon their retirement. In respect of these policies, the plan's assets include both the balance of the severance pay component and the balance of the profit in real terms (if there is any) on the severance pay deposits that accumulated up to the reporting date and are presented at fair value.

Note 3 - Significant Accounting Policies (contd.)

J. Employment benefits (contd.)

1. Post-employment benefits (contd.)

(b) Defined benefit plans (contd.)

The assets of these plans are for a defined benefit that includes two liability components: a defined benefits plan component for severance pay which is calculated on an actuarial basis, as noted above, and another component that is the obligation to pay the accumulated profit in real terms (if there is any) upon the retirement of the employee. This component is measured at the balance of the actual profit in real terms that accumulated at the reporting date.

The Group offsets an asset relating to one benefit plan from the liability relating to another benefit plan only when there is a legally enforceable right to use the surplus of the one plan to settle the obligation in respect of the other plan, and there is intent to settle the obligation on a net basis or to simultaneously realize the surplus of one plan and settle the obligation in the other plan.

Insurance policies in respect of employee severance benefits, which were issued by a related party, do not constitute defined benefit plan assets and are offset against the for insurance contracts liabilities.

2. Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date for high quality, CPI-linked corporate bonds denominated in shekels and that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or loss are recognized directly in profit or loss as incurred.

3. Termination benefits

Termination benefits are recognized as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.
If the benefits are payable more than 12 months after the end of the reporting period, they are discounted to their present value. The discount rate is determined in accordance with the yield at the reporting date on blue-chip, CPI-linked corporate bonds denominated in shekels that have maturity dates approximating the terms of the Group's obligations.

4. Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided or upon the actual absence of the employee when the benefit is not accumulated (such as maternity leave).
The provision for short-term employee benefits for a cash bonus or profit-sharing plan, is recognized for the amount expected to be paid, if the Group has a present legal or constructive obligation to pay this amount as a result of a past service provided by the employee and the obligation can be estimated reliably.
Employee benefits for a non-competition bonus are recognized over the period of non-competition.
The employee benefits for measurement are classified as short-term benefits or as other long-term benefits according to the company forecast for full disposal of the benefits.

Note 3 - Significant Accounting Policies (contd.)

J. Employee benefits (contd.)

5. Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognized as a salary expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards (”Vesting Period”). The fair value is determined using the binomial model. The amount recognized as an expense in respect of share-based payment awards that are conditional upon meeting service and non-market performance conditions, is adjusted to reflect the number of awards that are expected to vest.

The cost of the transactions settled using capital instruments are recognized in the statement of income in parallel with the parallel increase in equity, over the period in which the service terms or the performance terms are met and which ends at the time at which the relevant employees are entitled to remuneration. The cumulative expense that is recognized in respect of transactions that are settled with capital instruments at every reporting date until the vesting date, reflects the passage of the vesting period and the Group's best estimate in respect of number of capital instruments that will eventually vest. The charge or the credit recorded in the statement of income reflects the change in the cumulative expense that was recognized at the beginning and end of the reported period.

Where the vesting period is curtailed, the Company recognizes as yet unrecognized expenses based on the fair value determined at the grant date, over the revised vesting period. When a decision is made to curtail the vesting period so that the options vest immediately, the Company immediately recognizes all the as-yet unrecognized expenses in the period when the change was made.

The expense in respect of any grants that do not vest is not recognized for grants whose vesting depends on service conditions.

K. Liability in respect of ETNs and covered warrants

Accounting treatment up to October 3, 2018, and the entering into force of Amendment 28 to the Joint Investment Trust law (“the Amendment” or “the Law”) and the subsequently promulgated regulations or that were revised as part of the Law:

The liability in respect of ETNs was accounted for as a hybrid instrument consisting of a host contract and an embedded derivative. Accordingly, the Group separated the accounting treatment between the host contract (the index-linked certificate and is a debt instrument) and the embedded derivative. The host contract is measured according to the amortized cost at each reporting date, net of the balance of the unamortized issuance costs. The embedded derivative is measured according to its fair value.

Given that the ETNs are a saleable instrument, which can be sold back at any given moment in time, the impact of the separation of the embedded derivative and the accounting treatment of each component in to measure the hybrid instrument for the amount of redemption payable on the reporting date, disregarding the conversion fee, less the balance of the issuance expenses. The issuance expenses are attributed to the host contract, given that the value of the embedded derivative on the date of issue was zero. These issuance expenses are amortized over the lifetime of the relevant series. The Group periodically examines the estimated lifetime.

As part of the issuance of the ETNs by the consolidated company, shares of the Company are purchased to cover the ETNs. This purchase was accounted for as treasury stock.

Note 3 - Significant Accounting Policies (contd.)

K. Liability in respect of ETNs and covered warrants (contd.)

Accounting treatment after October 3, 2018, and the entering into force of Amendment 28 to the Joint Investment Trust law ("the Amendment" or "the Law") and the subsequently promulgated regulations or that were revised as part of the Law:

With the entering into force of the Amendment, the ETN's became ETFs (in several stages, based on the index tracked by the note) which are closed tracker funds. In other words, they are now traded tracker funds governed by the provisions of the Law as they were updated in the Amendment. Accordingly, from this date, the Company discontinued the consolidation of the ETN liabilities and the Statement of Financial Position does not include these liabilities.

Additionally, in view of the discontinuation of the consolidation noted above, the Company recognized the increase in equity in an amount equal to the value of the Company's shares held by the ETNs on the dates of the stages and they were accounted for as Treasury stock.

L. Provisions

Provisions are recognized if, as a result of a past event, the Group has a present, legal or constructive obligation that can be estimated reliably, and it is probable that a negative outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting future cash flow **at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific risks to the liability, and without adjustment of the Company's credit risk.** The book value of the provision is adjusted in each period in order to reflect the passage of time, and the amount of the adjustment is recognized as a financing expense.

Legal claims

Provision for claims is recognized if, as a result of a past event, the Group has a present legal or constructive obligation and the Group will more likely than not require economic resources to settle the obligation, which can be reliably estimated. If the time factor is significant, the provision is measured at present value.

M. Revenue recognition

1. Premiums

a. Life assurance and long-term care premiums, including savings premiums and except for receipts from investment contracts are mainly recognized as income when due. Cancellations are recognized upon receipt of notice from the policyholder, or as initiated by the Group due to arrears in payment, as permitted by law. Profit sharing is deducted from the premiums.

b. Non-life insurance premiums are mostly recognized as revenues on the basis of monthly output reports. Insurance premiums usually relate to an insurance period of one year.

   Some of the insurance premiums in the sickness and hospitalization and travel insurance branches are recognized as income on a daily or monthly basis.

   Premiums in the compulsory motor sector are recognized as income when they are paid, given that the insurance cover only takes effect when the premiums have been paid.

   Premiums from of policies where the insurance become applicable after the reporting date or premiums relating to periods of more than one year from the issue of the policy, as well as life assurance premiums received prior to their due date, are included in the Statement of Financial Position under trade and other payables.

   Revenues from premiums after their cancellation which were received from policyholders, and net of provisions due to non-payment of the premiums, subject to the provisions of any law, and after deduction or addition of all changes in the unearned premiums, are recorded in the statement of income under earned premiums, gross.

   Profit-sharing in group insurance is deducted from the insurance premiums.

Note 3 - Significant Accounting Policies (contd.)

M. Revenue recognition (contd.)

2. Management fees, commissions and other financial services

a. Management fees for insurance contracts and yield-dependent investment contracts:

   Management fees are calculated according to the conditions of the contracts, and in accordance with the Commissioner's instructions based on the yield and accrual of the policyholder's savings.

   Management fees for insurance contracts and investment contracts sold from January 1, 2004 are fixed management fees only.

   Management fees for insurance contracts sold until December 31, 2003 include fixed and variable management fees.

   Fixed management fees are calculated at fixed rates of the accrued savings and recorded on an accrual basis.

   Variable management fees are calculated as a percentage of the real annual profit (from January 1 to December 31) credited to the policy, net of the fixed management fees collected from that policy. Variable management fees may be collected only from real positive yield and net of real loss accumulated in previous years.

   During the year the variable management fees are recorded on an accrual based on the real monthly yield, insofar as it is positive. In months where the real yield is negative, the variable management fees are reduced to the level of the total variable management fees collected in aggregate from the beginning of the year. Negative yields in respect of which reductions were not made in the current year will be deducted, for the purpose of calculating management fees from positive yield in subsequent periods. (See also Note 28).

   Management fees for claims and the operation of insurance schemes for Clalit Health Services are on the basis of signed agreements. These agreements prescribe a rate of total assets and profit arising from the assets held against the plan's liabilities.

b. Management fee revenues from pension and provident funds are calculated as a percentage of the value of their assets at the end of each month and/or from total contributions collected each month, which are recognized as accrual-based income.

c. Management fees from affiliates are for services rendered.

d. Management fees (from mutual funds, investment portfolios etc.), success fees, and revenues from consulting, are recognized as income on a cumulative basis, according to the date on which the service is rendered or the transaction is performed.

e. Income from non-life insurance commissions in insurance agencies is recognized as incurred.

f. Revenues from life assurance commissions are recognized based on the date of entitlement to payment of the commissions according to the agreements with the insurance companies, net of the provisions for refunded commissions due to anticipated cancellations of insurance policies.

g. Revenues from reinsurance commissions in non-life insurance, life assurance, and health insurance are recognized as incurred.

Note 3 - Significant Accounting Policies (contd.)

N. Net gains (loss) from investments, financing income and financing expenses

Net gains (loss) from investments and financing income include interest income on amounts invested (including available-for-sale financial assets), income from dividends, gains (loss) on the sale of available-for-sale financial assets, revaluation of investment property, changes in the fair value of financial assets through profit or loss, gains and loss from exchange-rate differences on assets and gains (loss) from the sale of investments measured at amortized cost which are calculated as the difference between the proceeds from the sale, net, and the original or amortized cost and are recognized at the time of the sale. Interest income is recognized on accrual, using the effective interest method. Income from dividends is recognized on the date that the Group's right to receive payment. If dividends are received on marketable shares, the Company recognizes the income from the dividends on the ex-dividend date.

Financing expenses comprise interest expense on loans received, gains and loss from exchange rate differences on liabilities and changes in the time value of provisions. Credit costs are recognized in the statement of income.

In the cash flow reports, interest received and paid and dividends received are presented under cash flows from operating activities. Dividends paid are presented as cash flows from financing activities.

O. General and administrative expenses and costs

General and administrative expenses attributed to indirect expenses for claims settlement are classified as payments and the change in liabilities for insurance contracts and investment contracts and general and administrative expenses attributed to classified purchase costs appear under "Other purchase expenses and commissions". The classification is prepared in accordance with the Group's internal models which are based on direct expenses charged and indirect expenses which were allocated.

P. Income tax expense

Income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in profit or loss, , or are recognized directly in equity or in other comprehensive income to the extent they relate to items recognized directly in equity or in other comprehensive income except if the tax is relate to a business combination.

<u>Current taxes</u>

Current tax is the tax expected payable or receivable on the taxable income for the year, and is calculated using tax rates enacted or substantively enacted at the reporting date. Current taxes also include taxes in respect of previous years.

<u>Offset of current tax assets and liabilities</u>

The Group offsets current tax assets and liabilities if it has an enforceable legal right to offset current tax assets and liabilities, and it intends to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously.

<u>Uncertain tax positions</u>

A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more probable than not that the Group will have to use its economic resources to pay the obligation.

<u>Deferred taxes</u>

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group does not recognize deferred tax for the following temporary differences:

Note 3 - Significant Accounting Policies (contd.)

P. Income tax expense (contd.)

Deferred taxes (contd.)

Initial recognition of goodwill; initial recognition of assets and liabilities in a transaction that is not a business combination and which does not affect accounting profit or taxable profit or loss; differences relating to investments in subsidiaries, joint arrangements and associates, to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future, either by way of selling the investments or by way of distributing dividends in respect of the investment..

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax loss, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profit will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Offset of deferred tax assets and liabilities

The Group offsets deferred tax liabilities and assets to the extent that there is a legal right to offset current tax assets and liabilities, and they are attributed to the same tax-liable income which is taxed by the same tax authority in the same assessed company, or in different companies, that intend to clear the current tax assets and liabilities on a net basis or where the deferred tax assets and liabilities are settled simultaneously.

Deferred tax in respect of inter-company transactions in the consolidated financial statements is recognized at the tax rate applicable to the acquiring company.

Q. Transactions with a controlling shareholder

Assets and liabilities included in a transaction with a controlling shareholder are measured at fair value on the date of the transaction.

As the transaction is on the equity level, the Company includes the difference between the fair value and the consideration from the transaction in its equity.

R. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for treasury stock. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding, after adjustment for treasury stock, for the effects of all dilutive potential ordinary shares, which comprise convertible debentures, share options and share options granted to employees.

Note 3 - Significant Accounting Policies (contd.)

S. Leases

The accounting policy applied until December 31, 2018, for leases:

The tests for classifying a lease as a finance or operating lease are based on the nature of the agreements and tested on the date of the engagement in accordance with the following rules that were set out in International Accounting Standard 17 (IAS 17 - *Leases*).

Accordingly, when the group is a lessee and when all the risks and rewards connected with ownership of the leased asset are transferred to the Group, the lease is classified as a finance lease. The leased asset is measured at the beginning of the lease term as the lower of its fair value and the present value of the minimum lease payments. The leased asset is amortized over the period of its useful life or the lease term, whichever is lower. Leases that do not transfer substantially all the risks and rewards incidental to ownership of an underlying asset are classified as operating leases and the operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

The accounting policy applicable from January 1, 2019, for leases:

The Group treats contracts as lease contracts if, under the conditions of the contract, they convey the right to control the use of an identified asset for a period of time in exchange for consideration. In its assessment of whether an arrangement conveys the right to control the use of an identified asset, the Group assesses whether it has the right throughout the lease term to obtain substantially all the economic benefits from use of the identified asset; and whether it has the right to direct the identified asset's use. For lease contracts that contain non-lease components, such as services or maintenance, that are related to a lease component, the Group elected to account for the contract as a single lease component without separating the components.

Upon initial recognition, the Group recognizes a liability at the present value of the balance of future lease payments (these payments do not include certain variable lease payments), and concurrently recognizes a right-of-use asset at the same amount of the lease liability, adjusted for any prepaid or accrued lease payments, plus direct costs incurred in respect of the lease. Since the interest rate implicit in the Group's leases is not readily determinable, the incremental borrowing rate of the lessee is used.

Subsequent to initial recognition, the right-of-use asset is accounted for using the cost model and is depreciated over the shorter of the lease term or useful life of the asset, whichever is earlier. Depreciation is calculated on a straight-line basis as follows:

- Motor vehicles: 2-5 years
- Buildings 2-10 years

When there are signs of impairment, the Group assesses impairment of a right-of-use asset in accordance with IAS 36.

The Group has elected to apply the practical expedient by which short-term leases of up to one year and/or leases in which the underlying asset has a low value, are accounted for such that lease payments are recognized in profit or loss on a straight-line basis, over the lease term, without recognizing an asset and/or liability in the statement of financial position.

Assets that the Group leases to others:

Leases in which the Group leases assets to others, which in practice do not transfer all the risks and rewards associated with ownership of the underlying asset, are classified as operating leases. The Group recognizes operating lease payments as revenue on a straight-line basis over the lease term.

Initial direct costs incurred to obtain operating leases are added to the book value of the underlying asset, and recognized as an expense over the lease term on the same basis as the revenue from the lease.

Note 3 - Significant Accounting Policies (contd.)

T. New standards and interpretations not yet adopted

1. IFRS 9 (2014) – *Financial Instruments* (“IFRS 9")

IFRS 9 replaces the existing instructions in IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, and it applies to all financial assets within the scope of IAS 39. The Standard stipulates that upon initial recognition, all the financial assets will be measured at fair value. In subsequent periods, debt instruments should be measured at amortized cost only if they meet both the following conditions:

- The asset is held within the framework of a business model whose objective is to hold the assets so as to collect their contractual cash flows (“solely payments of principal and interest” [SPPI] test).
- According to the contractual conditions of the financial asset, the Company is eligible, on certain dates, to collect cash flows that are solely payments of principal and interest on the outstanding principal.

Subsequent measurement of any other debt instruments and financial assets will be at fair value. IFRS 9 distinguishes between debt instruments to be measured at fair value through profit or loss and debt instruments to be measured at fair value through other comprehensive income. Financial assets that are capital instruments will be measured in subsequent periods at fair value, and the difference will be recognized in profit and loss or other comprehensive income (loss), as the Company chooses on an instrument by instrument basis. If these are capital instruments held for trading purposes, they must be measured at fair value through profit or loss.

Furthermore, IFRS 9 includes a new expected credit loss model for most of the financial debt assets, as well as new instructions and requirements on the subject of hedge accounting.

IFRS 9 will be applied to annual periods beginning on January 1, 2018, with an option for early adoption.

In view of the Group’s decision to adopt the amendment to IFRS 4, *Insurance Contracts*, and to defer the application of IFRS 9 until the expected date for initial application of IFRS 17 concerning insurance contracts, as noted in Notes T2 and T3 below, the Group has begun, but has not yet completed, to examine the repercussions of adopting IFRS 9 on the Financial Statements.

2. Amendment to IFRS 4 – *Insurance contracts*, application of IFRS 9 - *Financial Instruments*, together with IFRS 4 (hereinafter – "the Amendment")

The Amendment presents two possible forms of relief regarding the anticipated application of IFRS 9 by insurers:

- Commencement of IFRS 9 will be deferred to January 1, 2021 (or earlier if the commencement date of IFRS 17, *Insurance Contracts*, (see Note 3T3 below) is earlier) for companies whose principal activity is the issuing of insurance contracts within the scope of IFRS 4 and that have not yet adopted an earlier version of IFRS 9. During the deferral period, the Company will continue to apply the provisions of IAS 39, Financial Instruments: Recognition and Measurement. Furthermore, companies that apply the deferment option will be required to include various disclosures in their financial statements. These disclosures include, inter alia, disclosure of fair value and changes in fair value for different groups of financial assets, based on their classification under IFRS 9, as well as disclosure concerning exposure to credit risks.
- Adjusting the results of applying IFRS 9 in respect of financial assets that relate to insurance contracts and are measured at fair value through profit or loss according to IFRS 9.

The relief in the amendment may be applied from the commencement date of IFRS 9 and it is voluntary for companies that meet the criteria defined in the amendment. In view of the fact that the Group meets the criteria permitting the said postponement of the commencement date of IFRS 9, the Group resolved to defer the application date of IFRS 9 until the expected initial date of application for IFRS 17 concerning insurance contracts.

Note 3 - Significant Accounting Policies (contd.)

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

2. Amendment to IFRS 4 – *Insurance contracts*, application of IFRS 9 - *Financial Instruments*, together with IFRS 4 (hereinafter – "the Amendment") (contd.)

In June 2019, a proposed amendment of IFRS 17 was published, which includes, inter alia, a proposal to postpone by a year the initial date of application of the Standard from January 1, 2022, and concurrently to postpone by a year the optional expedient given to insurers who meet certain criteria, to adopt the provisions of IFRS 9, Financial Instruments from January 1, 2022. In March 2020, the International Accounting Standards Board (IASB) resolved to postpone the initial date of application of IFRS 17 to January 1, 2023, (see also Note 3T3 below) and concurrently to postpone the optional expedient given to insurers to adopt the provisions of IFRS 9 from January 1, 2023.

3. IFRS 17, *Insurance Contracts* ("IFRS 17")

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts (including reinsurance contracts), replacing the existing instructions on this subject. This new standard could result in significant changes in the financial reporting of insurance companies.

Under IFRS 17, an entity will recognize and measure groups of insurance contracts according to the present risk-adjusted value of the future cash flows from these contracts, relating to all the information available about the cash flows in a manner that is consistent with market observations; plus (in the case of a liability) or net of (in the case of an asset) the amount that represents the unearned profit from the group of contracts (the contractual service margin). For each reporting period, revenues for insurance contracts are derived from changes in the liability for future cover relating to the different components of the payment to which the insurer is entitled for the contract, such as: insurance acquisition costs, risk adjustment, allocating the contractual service margin to a given period, claims and expenses forecast for the period.

Nevertheless, entities will be able to simplify measurement of the liability for certain types of contract (e.g. contracts with insurance cover of up to one year) so that the amount allocated to services not yet provided will be measured using the premium allocation approach (PAA).

IFRS 17 will be applied annual periods beginning on January 1, 2021, with an option for early application. The Standard is to be applied retrospectively and in cases where retrospective application is impractical, one of the following two approaches should be chosen: retrospective application with certain expediencies or application based on the fair value approach.

In June 2019, a proposed amendment of IFRS 17 was published, which includes, *inter alia*, a proposal to postpone by a year the initial date of application of the Standard from January 1, 2022, and concurrently to postpone by a year the optional expedient given to insurers who meet certain criteria, to adopt the provisions of IFRS 9, Financial Instruments from January 1, 2022 (see also Note 3T2 above).

In March 2020, the IASB resolved to postpone the initial date of application of the Standard to January 1, 2023. The updated IFRS 17 is expected to be published in the middle of 2020.

In February 2020, the Commissioner published a draft "Roadmap to ensure deployment by Israel's insurance companies of the adoption of IFRS 17" ("the Draft"). According to the Draft, the Capital Market, Insurance and Savings Authority intends to determine the date of initial application of the Standard in Israel for quarterly and annual periods beginning on or after January 1, 2023. At this stage, there is no intention of permitting the early adoption IFRS 17 in Israel. The Draft also sets out several milestones for the deployment period regarding several levels: information systems, operating systems and parallel running; project management; accounting policies; quantitative reviews; disclosure to the public.

The Group has begun but not yet completed examination of the implications of adopting the Standard on the financial statements. The Group does not intend to make early application of IFRS 17.

Note 4 - Operating segments

The note on Operating Segments includes several segments that constitute strategic business units of the Group. The strategic business units include different products and services and the allocation of resources and evaluation of performance are managed separately. The basic products in each segment are similar in principal with respect to their significance, the way they are distributed, the mix of customers, nature of the regulatory environment and also long-term demographic and economic characteristics that are derived from exposure whose characteristics resemble those of insurance risks. Likewise, the results of the portfolio of investments held against insurance liabilities may significantly affect profitability.

Segment performance is measured on the basis of the segmental income before taxes on income. The inter-segmental business results are eliminated as part of the adjustments made for the purpose of the preparation of the consolidated 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 branch as well as its management of pension and provident funds.

2. Health insurance

This segment consists of the group's insurance activities in the sickness and hospitalization, personal accident, long-term care, foreign workers, travel insurance and dental lines of business. The policies sold in these branches of insurance cover a range of injuries caused to the insured party as a result of illness and / or an accident, including long-term care and dental treatment. Health insurance policies are offered to both private individuals and groups.

3. Non-life insurance

This segment comprises five sub-segments:

Motor property - includes the Group's activities in selling insurance policies in the motor vehicle insurance branch ("motor property") covering damages caused to vehicle owners as a result of accident and / or theft and / or liability of the vehicle owner, or any driver, for damage to property caused to third parties in an accident.

Compulsory motor - includes the Group's activities in this branch, according to the requirements of the Motor Vehicle Insurance Ordinance (New Version), 5730-1970, ("compulsory motor"), which cover physical injury resulting from the use of a motor vehicle in accordance with the Compensation to Road Accident Victims Law, 1975.

Other liability - includes the Group's activities in the sale of policies that cover the insured party's liability vis-à-vis a third party (except for liability coverage in the compulsory motor sector, as explained above). Other liability includes the following branches - employer's liability, third-party liability, professional liability, directors and officers liability (D&O), and insurance for defective products (product liability).

Property and other branches - this includes the Group's insurance activities in all property branches (except for motor property), (such as: guarantees, homeowners, etc.).

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

4. Insurance companies overseas operating segment

The overseas segment consists of the activity of Interasco Societe Anonyme General Insurance Company S.A.G.I ("Interasco"), and Turk Nippon, an insurance company wholly owned by the Company.

Note 4 – Operating Segments (contd.)

5. Financial services segment

Group activities in the capital and financial markets are carried out through Harel Finance. Harel Finance is involved, through companies under its control, in the following activities:

- Management of mutual funds
- Management of securities portfolios for private individuals, entities and institutional customers in the Israeli and foreign capital markets.

6. Not attributed to operating segments and others

Activities that are not attributed to operating segments are comprised principally of the activities of insurance agents as well as the equity operations in the consolidated insurance companies.

Note 4 – Operating Segments (contd.)

A. Information about Reportable Segments

	As at December 31, 2019							
	Life assurance and long-term savings	Health insurance	Non-life insurance	Insurance companies abroad	Financial services	Not attributed to segments of operation and others*	Adjustments and offsets	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Assets								
Intangible assets	548	-	20	3	451	663	-	1,685
Deferred Acquisition Costs	1,299	891	251	55	-	-	(1)	2,495
Investments in equity accounted investees	445	-	561	-	-	431	-	1,437
Investment property for yield-dependent contracts	1,699	70	-	-	-	-	-	1,769
Other investment property	1,173	-	418	-	-	467	-	2,058
Financial investments for yield-dependent contracts	56,160	5,402	-	-	-	-	-	61,562
Other financial investments								
Marketable debt assets	3,965	1,830	3,201	127	1	2,185	-	11,309
Non-marketable debt assets	6,114	2,806	2,689	97	1,689	1,451	(4)	14,842
Shares	206	118	267	-	4	682	-	1,277
Other	758	340	344	96	19	1,303	-	2,860
Total other financial investments	11,043	5,094	6,501	320	1,713	5,621	(4)	30,288
Reinsurance assets	213	945	2,987	141	-	-	(5)	4,281
Premium due	175	466	669	118	-	-	-	1,428
Cash and cash equivalents for yield-dependent contracts	2,604	293	-	-	-	-	-	2,897
Other cash and cash equivalents	746	-	640	170	72	428	-	2,056
Other assets	811	56	537	63	43	1,633	(209)	2,934
Total assets	76,916	13,217	12,584	870	2,279	9,243	(219)	114,890
Total assets for yield-dependent contracts	61,763	5,439	-	-	-	-	-	67,202
Liabilities								
Liabilities for non-yield-dependent insurance contracts and investment contracts	12,699	6,175	9,810	660	-	-	(5)	29,339
Liabilities for yield-dependent insurance contracts and investment contracts	61,137	5,402	-	-	-	-	-	66,539
Financial liabilities	288	7	217	-	1,643	5,282	-	7,437
Other liabilities	980	742	1,589	93	115	1,809	(209)	5,119
Total liabilities	75,104	12,326	11,616	753	1,758	7,091	(214)	108,434

* Most of the assets presented are held to cover the equity of the Group's financial institutions. Total assets and liabilities of the insurance agencies are negligible.

Note 4 - Operating segments (contd.)

A. Information about reportable segments (contd.)

	For the year ended December 31, 2019							
	Life assurance and long-term savings	Health insurance	Non-life insurance	Insurance companies abroad	Financial services	Not attributed to segments of operation and others	Adjustments and offsets	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Premiums earned, gross	6,255	4,922	3,405	526	-	-	(4)	15,104
Premiums earned by reinsurers	160	392	1,091	106	-	-	(4)	1,745
Earned premiums in retention	6,095	4,530	2,314	420	-	-	-	13,359
Profit (loss) from investments, net, and financing income	6,651	624	235	65	13	336*	(3)	7,921
Income from management fees	1,281	4	-	-	194	8	-	1,487
Income from commissions	37	68	205	22	-	210**	(184)	358
Total income	14,064	5,226	2,754	507	207	554	(187)	23,125
Payments and changes in liabilities for insurance contracts and investment contracts , gross	12,610	4,779	2,367	411	-	-	(4)	20,163
Reinsurers' share in payments and changes in liabilities for insurance contracts	112	404	638	79	-	-	(4)	1,229
Payments and changes in liabilities for insurance contracts and investment contracts in retention	12,498	4,375	1,729	332	-	-	-	18,934
Commissions, marketing expenses and other purchasing expenses	1,038	962	698	114	-	101***	(184)	2,729
General and administrative expenses	561	275	35	26	172	145****	(3)	1,211
Other expenses	8	-	-	3	4	1***	-	16
Financing expenses (income), net	6	16	(27)	-	2	166	-	163
Total expenses	14,111	5,628	2,435	475	178	413	(187)	23,053
Company's share of profits of equity accounted investees	17	24	74	-	-	45	-	160
Profit (loss) before taxes on income	(30)	(378)	393	32	29	186	-	232
Other comprehensive income (loss) before taxes on income	254	116	165	(13)	-	282	-	804
Total comprehensive income (loss) before taxes on income	224	(262)	558	19	29	468*****	-	1,036

* Total investment profits are for 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. Of these commissions, NIS 182 million are commissions paid to these agencies by the Group's financial institutions.

*** For activity of the insurance agencies that are not fully owned by the Group.

**** Of the total general and administrative expenses, NIS 93 million is in respect of expenses of the activity of the Group's insurance agencies.

***** Total comprehensive income before income tax in respect of the activity of the Group's insurance agencies was NIS 14 million.

Note 4 - Operating segments (contd.)

A. Information about reportable segments (contd.)

	As at December 31, 2018							
	Life assurance and long-term savings	Health insurance	Non-life insurance	Insurance companies abroad	Financial services	Not attributed to segments of operation and others*	Adjustments and offsets	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Assets								
Intangible assets	555	-	20	3	456	544	-	1,578
Deferred Acquisition Costs	1,270	916	235	55	-	-	(1)	2,475
Investments in equity accounted investees	445	-	575	-	-	516	-	1,536
Investment property for yield-dependent contracts	1,565	63	-	-	-	-	-	1,628
Other investment property	1,077	-	371	-	-	399	-	1,847
Financial investments for yield-dependent contracts	47,134	4,757	-	-	-	-	-	51,891
Other financial investments								
Marketable debt assets	3,041	1,317	2,539	66	3	1,534	-	8,500
Non-marketable debt assets	6,348	2,608	2,599	90	234	1,637	-	13,516
Shares	177	102	237	-	109	539	-	1,164
Other	758	268	211	122	41	1,058	-	2,458
Total other financial investments	10,324	4,295	5,586	278	387	4,768	-	25,638
Reinsurance assets	233	698	3,241	157	-	-	(13)	4,316
Premium due	166	446	687	134	-	-	-	1,433
Cash, cash equivalents and deposits pledged for holders of ETNs and certificates of deposit	-	-	-	-	35	-	-	35
Cash and cash equivalents for yield-dependent contracts	2,815	268	-	-	-	-	-	3,083
Other cash and cash equivalents	445	-	464	141	71	500	-	1,621
Other assets	824	57	561	42	29	1,530	(103)	2,940
Total assets	66,853	11,500	11,740	810	978	8,257	(117)	100,021
Total assets for yield-dependent contracts	52,847	4,783	-	-	-	-	-	57,630
Liabilities								
Liabilities for non-yield-dependent insurance contracts and investment contracts	12,040	5,167	9,814	617	-	-	(4)	27,634
Liabilities for yield-dependent insurance contracts and investment contracts	51,985	4,757	-	-	-	-	-	56,742
Financial liabilities	689	33	255	-	329	3,962	-	5,268
Other liabilities	830	627	1,341	81	134	1,557	(113)	4,457
Total liabilities	65,544	10,584	11,410	698	463	5,519	(117)	94,101

* Most of the assets presented are held to cover the equity of the Group's financial institutions. Total assets and liabilities of the insurance agencies' operations are negligible.

Note 4 - Operating segments (contd.)

A. Information about reportable segments (contd.)

	For the year ended December 31, 2018							
	Life assurance and long-term savings	Health insurance	Non-life insurance	Insurance companies abroad	Financial services	Not attributed to segments of operation and others	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
Earned premiums in retention	5,470	4,463	2,362	367	-	-	-	12,662
Profit (loss) from investments, net, and financing 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 contracts	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 purchasing expenses	959	917	679	112	-	108***	(194)	2,581
General and administrative expenses	565	281	37	14	169	137****	(3)	1,200
Other expenses	10	-	-	2	6	1***	-	19
Financing expenses, net	11	17	26	-	-	158	(2)	210
Total expenses	6,099	4,407	2,649	410	175	404	(199)	13,945
Company's share of profits of equity accounted investees	23	17	37	-	-	67	-	144
Profit before taxes on income	328	302	136	17	34	63	(1)	879
Other comprehensive income (loss) before taxes on income	27	(13)	(54)	(12)	-	(87)	-	(139)
Total comprehensive income (loss) before taxes on income	355	289	82	5	34	(24)*****	(1)	740

* 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 192 million of this amount is commissions paid to these agencies by the Group's financial institutions.

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

**** Of total general and administrative expenses, 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 NIS 18 million.

Note 4 - Operating segments (contd.)

A. Information about reportable segments (contd.)

	For the year ended December 31, 2017							
	Life assurance and long-term savings	Health insurance	Non-life insurance	Insurance companies abroad	Financial services	Not attributed to segments of operation and others	Adjustments and offsets	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Premiums earned, gross	5,078	4,424	3,150	443	-	-	(4)	13,091
Premiums earned by reinsurers	135	199	1,012	100	-	-	(4)	1,442
Earned premiums in retention	4,943	4,225	2,138	343	-	-	-	11,649
Profit from investments, net, and financing income	4,170	443	230	26	57	251*	(14)	5,163
Income from management fees	1,092	3	-	-	144	18	-	1,257
Income from commissions	30	83	178	23	1	212**	(188)	339
Other income	-	-	-	-	-	7	-	7
Total income	10,235	4,754	2,546	392	202	488	(202)	18,415
Payments and changes in liabilities for insurance contracts and investment contracts , gross	8,404	3,688	2,427	317	-	-	(3)	14,833
Reinsurers' share of payments and change in liabilities for insurance policies	83	142	673	57	-	-	(3)	952
Payments and changes in liabilities for insurance contracts and investment contracts in retention	8,321	3,546	1,754	260	-	-	-	13,881
Commissions, marketing expenses and other purchasing expenses	859	866	646	100	-	103***	(188)	2,386
General and administrative expenses	542	263	36	15	164	139****	(4)	1,155
Other expenses	34	-	-	4	4	2***	-	44
Financing expenses (income), net	7	10	(33)	-	-	138	-	122
Total expenses	9,763	4,685	2,403	379	168	382	(192)	17,588
Company's share of profits of equity accounted investees	31	22	50	-	-	60	-	163
Profit before taxes on income	503	91	193	13	34	166	(10)	990
Other comprehensive income (loss) before taxes on income	91	19	12	(7)	-	129	-	244
Total comprehensive income before taxes on income	594	110	205	6	34	295*****	(10)	1,234

* 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 187 million of this amount is commissions paid to these agencies by the Group's financial institutions.

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

**** Of total general and administrative expenses, NIS 96 million is for expenses of the activity of the Group's insurance agencies.

***** Total comprehensive income before income tax for the activity of the Group's insurance agencies was NIS 25 million.

Note 4 - Operating segments (contd.)

B. Additional information about the non-life insurance segment

	For the year ended December 31, 2019					
	Compulsory motor	Motor property (CASCO)	Property and other branches*	Other liabilities branches**	Mortgage insurance	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Gross premiums	647	854	983	968	(4)	3,448
Reinsurance premiums	7	13	755	316	-	1,091
Premiums in retention	640	841	228	652	(4)	2,357
Change in outstanding unearned premiums, in retention	26	36	(1)	(5)	(13)	43
Earned premiums in retention	614	805	229	657	9	2,314
Profit from investments, net, and financing income	83	18	15	101	18	235
Income from commissions	-	5	160	40	-	205
Total income	697	828	404	798	27	2,754
Payments and changes in liabilities for insurance contracts and investment contracts, gross	492	498	413	997	(33)	2,367
Reinsurers' share of payments and change in liabilities for insurance contracts	(9)	15	357	275	-	638
Payments and changes in liabilities for insurance contracts and investment contracts in retention	501	483	56	722	(33)	1,729
Commissions, marketing expenses and other purchasing expenses	101	198	234	165	-	698
General and administrative expenses	8	9	8	7	3	35
Financing expenses, net	(11)	(2)	(1)	(13)	-	(27)
Total expenses (income)	599	688	297	881	(30)	2,435
Company's share of profits of equity accounted investees	30	6	2	36	-	74
Profit (loss) before taxes on income	128	146	109	(47)	57	393
Other comprehensive profit before taxes on income	62	13	4	75	11	165
Total comprehensive income before taxes on income	190	159	113	28	68	558
Liabilities for insurance contracts, gross, as at December 31, 2019	2,662	539	884	5,437	288	9,810
Liabilities for insurance contracts, in retention, as at December 31, 2019	2,545	526	158	3,306	288	6,823

* Property and other branches consist principally of the results of property loss insurance and comprehensive homeowners' insurance, whose activity accounts for 78% of total premiums earned from these branches.
** Other liabilities branches consists principally of the results of third party insurance and professional liability insurance; whose activity accounts for 77% of total premiums from these branches.

Note 4 - Operating segments (contd.)

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

	For the year ended December 31, 2018					
	Compulsory motor	**Motor property (CASCO)**	**Property and other branches***	**Other liabilities 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 premiums, in retention	(25)	4	(2)	7	(16)	(32)
Earned premiums in retention	668	804	233	647	10	2,362
Profit 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
Reinsurers' share of payments and change 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 purchasing expenses	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 profits of equity accounted investees	15	3	1	18	-	37
Profit (loss) before taxes on income	(36)	97	93	(58)	40	136
Other comprehensive profit 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, in retention, as at December 31, 2018	2,475	554	171	3,038	335	6,573

* Property and other branches consist principally of the results of property loss insurance and comprehensive homeowners' insurance, whose activity accounts for 77% of total premiums earned from these branches.
** Other liabilities branches consists principally of the results of third party insurance and professional liability insurance; whose activity accounts for 77% of total premiums from these branches.

Note 4 - Operating segments (contd.)

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

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

* Property and other branches consist principally of the results of property loss insurance and comprehensive homeowners' insurance, whose activity accounts for 80% of total premiums earned from these branches.
** Other liabilities branches consists principally of the results of third party insurance and professional liability insurance; whose activity accounts for 78% of total premiums from these branches.

Note 4 - Operating segments (contd.)

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

	For the year ended December 31, 2019				For the year ended December 31, 2018			
	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	-	-	6,255	6,255	-	-	5,614	5,614
Premiums earned by reinsurers	-	-	160	160	-	-	144	144
Premiums in retention	-	-	6,095	6,095	-	-	5,470	5,470
Profit (loss) from investments, net, and financing income	-	2	6,649	6,651	-	2	(48)	(46)
Income from management fees	257	331	693	1,281	243	319	386	948
Income from commissions	-	-	37	37	-	-	32	32
Total income	257	333	13,474	14,064	243	321	5,840	6,404
Payments and changes in liabilities for insurance contracts and investment contracts, gross	2	13	12,595	12,610	2	11	4,623	4,636
Reinsurers' share of payments and change in liabilities for insurance contracts	-	-	112	112	-	-	82	82
Payments and changes in liabilities for insurance contracts and investment contracts, in retention	2	13	12,483	12,498	2	11	4,541	4,554
Commissions, marketing expenses and other purchasing expenses	99	128	811	1,038	93	123	743	959
General and administrative expenses	91	122	348	561	92	103	370	565
Other expenses	7	1	-	8	9	1	-	10
Financing expenses, net	-	-	6	6	-	-	11	11
Total expenses	199	264	13,648	14,111	196	238	5,665	6,099
Company's share of profits of equity accounted investees	-	-	17	17	-	-	23	23
Profit (loss) before taxes on income	58	69	(157)	(30)	47	83	198	328
Other comprehensive income (loss) before taxes on income	2	5	247	254	(1)	(2)	30	27
Total comprehensive income before taxes on income	60	74	90	224	46	81	228	355

Note 4 - Operating segments (contd.)

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

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

Note 5 - Intangible Assets

A. Composition and movement

	Goodwill	Differences in origin attributed to the value of insurance portfolios	Future management fees	Brand	Computer software*	Other	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Cost							
Balance as at January 1, 2019	1,244	334	366	14	1,435	35	3,428
Additions	-	2	-	-	250	-	252
Deductions	-	-	-	-	(1)	-	(1)
Balance as at December 31, 2019	1,244	336	366	14	1,684	35	3,679
Write-downs							
Balance as at January 1, 2019	279	333	333	13	878	14	1,850
Current amortizations during the year	-	1	11	-	130	3	145
Deductions	-	-	-	-	(1)	-	(1)
Balance as at December 31, 2019	279	334	344	13	1,007	17	1,994
Book value, net, as at December 31, 2019	965	2	22	1	677	18	1,685

* Additions for computer software include additions for independent developments in 2019 in the amount of NIS 237 million.

Note 5 - Intangible Assets (contd.)

A. Composition and movement (contd.)

	Goodwill	Differences in origin attributed to the value of insurance portfolios	Future management fees	Brand	Computer software*	Other	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Cost							
Balance as at January 1, 2018	1,244	334	376	21	1,199	17	3,191
Additions	-	-	-	-	236	18	254
Deductions	-	-	(10)	(7)	-	-	(17)
Balance as at December 31, 2018	1,244	334	366	14	1,435	35	3,428
Write-downs							
Balance as at January 1, 2018	278	332	330	20	754	14	1,728
Current amortizations during the year	1	1	13	-	124	-	139
Deductions	-	-	(10)	(7)	-	-	(17)
Balance as at December 31, 2018	279	333	333	13	878	14	1,850
Book value, net, as at December 31, 2018	965	1	33	1	557	21	1,578

* Additions for computer software include additions for independently developed software in 2019 in the amount of NIS 198 million.

Note 5 - Intangible Assets (contd.)

B. Impairment of goodwill and intangible assets

To test for impairment of goodwill and intangible assets with an undefined lifespan, the assets were allocated to the following cash generating units, which form the smallest group of assets that generate cash flows from on-going use and are mostly independent of other assets and groupings:

1. Provident fund activity
2. Pension fund activity
3. Mutual fund activity
4. Portfolio management activities
5. Mortgage insurance business activity
6. Other operations

The book value of goodwill, future management fees and brand allocated to each of the above cash-generating units:

	Future management fees and brand		Goodwill	
	2019	2018	2019	2018
	NIS million	NIS million	NIS million	NIS million
Cash-generating unit:				
Provident activity (1)	**5**	13	**366**	366
Pension activity (2)	**13**	14	**145**	145
Mutual fund activity (3)	**2**	3	**421**	421
Portfolio management activity (4)	**1**	1	**10**	10
Mortgage insurance business activity (5)	**-**	-	**20**	20
Other (6)	**2**	3	**3**	3
	23	34	**965**	965

1. Provident activity
   The recoverable amount of provident fund activity is determined using estimates of future cash flows of management fees net of management costs. The real discounting rate after tax, adjusted to the specific risks of the Company, is 8.5% (10% in 2018). The projected cash flows are estimated using a real growth rate of 1.75% (1.75% in 2018), which is the average long-term growth rate in this sector.

2. Pension activity
   The recoverable amount of pension activity is determined based on an estimate of the future cash flows of management fees, net of refunds and management costs. The main parameters used for this model are: the real discounting rate after tax, adjusted to the specific risks of the company is 9.5% (11% in 2018); a wage increase of 1.5% - 3.5% a year (without any significant change relative to previous years) over the years of the forecast; cancellations based on the Company's experience and an estimate of the management fees and frozen accounts, taking into account the circular on consolidation of accounts.

3. Mutual fund activity
   The recoverable amount of mutual fund operations is determined using estimates of future cash flows of management fees net of management costs. The real discounting rate after tax that served as the basis for discounting the cash flows, adjusted to the specific risks of the company, is 8.8% (9.5% in 2018). Projected cash flows were estimated using a real growth rate of 2%, which is the average long-term growth rate in this sector.

Note 5 - Intangible Assets (contd.)

B. Impairment of goodwill and intangible assets (contd.)

4. Portfolio management activity

The recoverable amount of the portfolio management activity is determined on the basis of estimated future cash flows from management fees net of management costs. The real discounting rate after tax used for capitalizing the cash flows, adjusted to the Company's specific risk, is 9.7% (10.5% in 2018). The cash flow forecasts were estimated by applying a real growth rate of 2%, which is the accepted average long-term growth rate for this line of activity.

5. Mortgage insurance business operation

The recoverable amount of mortgage insurance business activity is determined using estimated future cash flows for the insurance activity solely in the existing portfolio. The discounting rate in the existing portfolio is the risk-free interest curve linked to the CPI plus a liquidity premium. Projected cash flows were estimated using assumptions for the key parameters: repayment rate, estimate of future claims, rate of expenses and future yield.

6. Other operations

Refers mainly to Interasco's activities.

Note 6 - Deferred Acquisition Costs

A. Composition

	As at December 31	
	2019	2018
	NIS million	NIS million
Life assurance and long-term savings	**1,299**	1,270
Health insurance	**891**	916
Non-life insurance	**251**	235
Insurance companies abroad	**55**	55
Adjustments for inter-segment transactions	**(1)**	(1)
	2,495	2,475

B. Movement in Deferred Acquisition Costs in life assurance and long-term savings and in health insurance

	Life assurance and long-term savings				
	Life assurance	Pension	Total	Health insurance	Total
	NIS million				
Balance as at January 1, 2018	954	229	1,183	876	2,059
Additions:					
Purchase commissions	220	42	262	302	564
Other purchase expenses	101	-	101	83	184
Total additions	321	42	363	385	748
Current amortization	(110)	(29)	(139)	(218)	(357)
Write down for cancellations	(137)	-	(137)	(127)	(264)
Balance as at December 31, 2018	**1,028**	**242**	**1,270**	**916**	**2,186**
Additions:					
Purchase commissions	**190**	**46**	**236**	**265**	**501**
Other purchase expenses	**113**	**-**	**113**	**83**	**196**
Total additions	**303**	**46**	**349**	**348**	**697**
Current amortization	**(117)**	**(32)**	**(149)**	**(222)**	**(371)**
Write down for cancellations	**(171)**	**-**	**(171)**	**(151)**	**(322)**
Balance as at December 31, 2019	**1,043**	**256**	**1,299**	**891**	**2,190**

Note 7 - Fixed Assets

A. **Determination of fair value**

Owner-occupied real estate is presented on the basis of the fair value defined in the valuation prepared by independent, external appraisers who have recognized professional qualifications and considerable experience in dealing with the location and type of real estate that was valued. External revaluations are performed regularly to ensure that the balance in the financial statements does not differ significantly from the value that would have been determined according to the fair value method on the reporting date.

The fair value is classified to Level 3 in the fair value hierarchy. The fair value is determined using a combination of several revaluation methodologies, including the comparative approach and capitalization of appropriate rent from similar assets. The appropriate amounts received from similar assets were discounted at rates ranging from 7% - 7.8%, based on the risk level that corresponds with the asset.

There are no interrelationships between the significant unobservable inputs.

The valuation for investment property under construction is based on estimating the fair value of the investment property after completion of its construction, less the present value of the estimated construction costs expected for its completion and less a reasonable entrepreneurial profit when relevant, taking into account a discount rate adjusted to the property's relevant risks and characteristics.

During the Reporting Period, the Company revalued owner occupied real estate by NIS 26 million before tax and NIS 19 million after tax (in 2018 NIS 44 million before tax and NIS 30 million after tax). In accordance with the Company's accounting policies described in Note 3, the change in fair value was recorded in equity under the item "revaluation reserve" and was recognized in other comprehensive income in the period.

Note 7 - Fixed Assets (contd.)

B. Movements in fixed assets

	Land and office buildings*	Computers and software	Vehicles	Furniture and equipment	Leasehold improvements	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Cost						
Balance as at January 1, 2019	1,183	446	8	160	156	1,953
Recognition of right-of-use assets in the initial application of IFRS 16 **	38	-	31	-	-	69
Balance at January 1, 2019 after initial application	1,221	446	39	160	156	2,022
Additions during the year	11	30	3	4	3	51
Additions to right-of-use assets	28	-	20	-	-	48
Adjustments attributed to the translation of financial statements for foreign activity	(1)	(1)	-	-	(1)	(3)
Revaluation	(6)	-	-	-	-	(6)
Deductions during the year	-	-	(3)	-	-	(3)
De-recognition of the cost of right-of-use assets	-	-	(1)	-	-	(1)
Balance as at December 31, 2019	1,253	475	58	164	158	2,108
Accrued depreciation						
Balance as at January 1, 2019	17	387	2	108	113	627
Additions during the year	33	41	1	7	4	86
Adjustments attributable to translation of financial statements for foreign activity	-	-	-	-	-	-
Depreciation for right-of-use asset	10	-	20	-	-	30
Revaluation	(32)	-	-	-	-	(32)
Deductions during the year	-	(1)	(1)	-	-	(2)
Balance as at December 31, 2019	28	427	22	115	117	709
Outstanding amortized cost of right-of-use assets as at December 31, 2019	56	-	32	-	-	88
Outstanding amortized cost as at December 31, 2019	1,225	48	36	49	41	1,399

* The lands are fully owned by the Group. Some of the ownership rights have not yet been registered in the name of the Company or its subsidiaries, mostly due to registration procedures or technical problems.

** See Note 2 concerning the initial application of IFRS 16, Leases. In accordance with the elected transition method, comparative figures were not restated

Note 7 - Fixed Assets (contd.)

B. Movements in fixed assets (contd.)

	Land and office buildings*	Computers and software	Vehicles	Furniture and equipment	Leasehold improvements	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Cost						
Balance as at January 1, 2018	1,164	393	6	152	153	1,868
Additions during the year	7	53	3	8	3	74
Revaluation	12	-	-	-	-	12
Deductions during the year	-	-	(1)	-	-	(1)
Balance as at December 31, 2018	1,183	446	8	160	156	1,953
Accrued depreciation						
Balance as at January 1, 2018	17	343	1	101	107	569
Additions during the year	32	44	1	7	6	90
Revaluation	(32)	-	-	-	-	(32)
Balance as at December 31, 2018	17	387	2	108	113	627
Outstanding amortized cost As at December 31, 2018	1,166	59	6	52	43	1,326

* The lands are fully owned by the Group. Some of the ownership rights have not yet been registered in the name of the Company or its subsidiaries, mostly due to registration procedures or technical problems.

Note 8 - Investments in investees

A. Composition of investments in equity accounted associates and joint ventures**

	Associates	
	As at December 31,	
	2019	2018
	NIS million	NIS million
Cost of shares	609	588
Company's share in profits accrued from date of purchase, net	534	583
Company's share in capital reserves accrued from date of purchase, net	(51)	(26)
	1,092	1,145
Long term loans and debit balances **	345	391
	1,437	1,536

* Regarding the terms of linkage and interest of loans to investees, see Note 13G.

** The Group has additional interests in these entities in the context of the profit-sharing portfolio, which are included under financial investments for yield-dependent contracts. The investment in respect of these additional rights, amounted to NIS 2,278 million and NIS 2,403 million at December 31, 2019 and 2018, respectively, and the Company's income from these investments amounted to NIS 12 million, NIS 309 million and NIS 109 million at December 31, 2019, 2018 and 2017, respectively. The Company has an additional investment of NIS 1,780 million and NIS 2,310 million at December 31, 2019 and 2018, respectively, which is held by the Company's pension and provident funds and is not included in the Company's statement of financial position.

B. Composition of investments in equity accounted associates and joint ventures, by geographical segmentation and key categories of investment

1. At December 31, 2019, 82% of the investments in associates are in real estate, 11% are in insurance, and 7% are in other sectors (at December 31, 2018 - 86% of investments in associates are in real estate, 10% are in insurance, and 4% are in other sectors).

   At December 31, 2019, in the real estate sector, 79% of the investments are in office property, 14% are residential property and about 7% are commercial property (at December 31, 2018 - 73% of the investments are in office property, 21% in residential property and about 6% are commercial property).

2. At December 31, 2019, 49% of the investments in the associates are in the USA, 29% are investments in Western Europe, and 22% are in Israel (at December 31, 2018, 46% of the investments in the associates are in the USA, 32% are in Western Europe, and 22% are in Israel).

   In 2019, about 67% of the profit was attributable to investments in the USA, 24% to investments in Israel, and 9% to investments in Western Europe (in 2018, 36% of the profit was attributable to investments in Western Europe, 34% to investments in the USA and 30% to investments in Israel; in 2017 about 50% of profit was attributable to investments in Western Europe, 30% to investments in the USA and 20% to investments in Israel).

3. The tax rate applicable to the profit for investees is similar to the statutory tax rate in Israel.

Note 8 - Investments in investees (contd.)

C. Condensed information from the financial statements about equity accounted associates each of which is insignificant on its own, adjusted to the holding rates therein at the reporting date

	As at December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Assets*	**2,445**	2,769	2,927
Liabilities	**1,052**	1,338	1,564
Book value of the investment	**1,393**	1,431	1,363

	For the year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Group's share of net profit from ongoing activity	**176**	146	156
Group's share of other comprehensive income (loss)	**(64)**	71	(54)
Group's share of total comprehensive income	**112**	217	102
Group's share of revenues of associates	**208**	281	249

* Including the balance of surplus costs and goodwill.

D. Condensed information from the financial statements about equity accounted associates each of which is insignificant on its own, adjusted to the holding rates therein at the reporting date:

	As at December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Assets*	**44**	106	118
Liabilities	**-**	1	2
Book value of the investment	**44**	105	116

	For the year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Group's share of net profit (loss) from ongoing activity	**(16)**	(2)	7
Group's share of other comprehensive income	**16**	2	-
Group's share of total comprehensive income	**-**	-	7
Group's share of the income of joint venture	**45**	3	7

* Including the balance of surplus costs and goodwill.

Note 8 - Investments in investees (contd.)

E. Additional information about investees

List of significant consolidated subsidiaries:

	Primary location of the Company's	Group's ownership rights	Loans provided by the Company to a consolidated company	Scope of the investment in a consolidated company
2019				
Harel Insurance Company Ltd.	**Israel**	**100%**	**352**	**5,011**
Harel Finance Holdings Ltd.	**Israel**	**100%**	**-**	**519**
Interasco A.E.G.A	**Greece**	**94%**	**-**	**50**
Turk Nippon Sigorta Anonim Sirketi	**Turkey**	**100%**	**-**	**65**
2018				
Harel Insurance Company Ltd.	Israel	100%	351	4,894
Harel Finance Holdings Ltd.	Israel	100%	-	514
Interasco A.E.G.A	Greece	94%	-	54
Turk Nippon Sigorta Anonim Sirketi	Turkey	100%	-	56

Dividends from investees

1. 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 as at December 31, 2018, the distributable surplus of Harel Insurance at December 31, 2018 was presented and the capital surpluses and capital requirements of Harel Insurance were reviewed, based on the capital management policy of Harel Insurance and taking into account the provisions of Solvency II. The dividend was paid on May 15, 2019.

F. Capital requirements for consolidated companies

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 June 30, 2019 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, insurance companies must include in their annual and quarterly reports, and also on the dates to be defined on their websites, a report about the solvency ratio in accordance with the appendix to the Disclosure Circular. In November 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.

Note 8 - Investments in investees (contd.)

F. Capital requirements for consolidated companies (contd.)

1. Solvency II based economic solvency regime (contd.)

On December 25, 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 June 30, 2019, 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 decline of the interest rate in the Reporting Period, past data do not necessarily reflect future performance. The calculation prepared by Harel Insurance at June 30, 2019 was not audited or received by the external auditors. 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' special report for the calculation at December 31, 2018, 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.

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 resulting capital position could be extremely volatile. At December 31, 2019, there was a further significant decrease of the risk-free interest rate curve - namely, a significant impact on the Company's solvency ratio. Notably, the Company has not yet completed the calculation for the solvency report at December 31, 2019, and this information is therefore partial only and should not be treated as an estimate in connection with the results of the calculation. Immediately prior to the date of publication of the report, the risk-free interest rate curve rose to above its level on December 31, 2019.

On February 16, 2020, a letter was published for insurance company executives on a "Draft outline for implementation of the European format of the Solvency II Directives in the" ("the Draft"). The Draft states that the Capital Market, Insurance and Savings Authority ("the Authority") intends to operate to adapt the solvency regime in Israel to the Solvency II directives and updates. The Draft sets out the key milestones for implementing the modifications and instructions with respect to reports on an economic solvency regime required in the near future, as follows:

1. Pursuant to the consulting paper regarding "Application of the transition provisions under an economic solvency regime" dated November 6, 2019, the Authority intends to formulate a framework for implementation of the provisions relating to the gradual transition for increasing the insurance reserves. Modification of the provisions of the Directive will address, inter alia, rules for the approval, management, monitoring and reporting on implementation of the transition provisions.
2. Further to the publication of Insurance Circular 2020-1-2 "Quantitative Impact Study for the review of modifications in the implementation of an economic solvency regime for insurance companies", dated January 8, 2020 and its outcomes, the Authority intends to examine the changes required in the Solvency Circular with the purpose of adapting it provisions of the revised directive.

Based on the above two items, in March 2020, the Authority intends to publish a draft amended Solvency Circular which will address the method of calculating the economic solvency ratio.

Note 8 - Investments in investees (contd.)

F. Capital requirements for consolidated companies (contd.)

1. Solvency II based economic solvency regime (contd.)

It was further noted that the Authority views the second pillar of the Directive, which has yet to be adopted in Israel and a key component of which is own risk and solvency assessment (ORSA), as a key and significant component of the implementation of risk-based solvency, and its assimilation consistently with the directives applied in Europe is of great importance in the careful, sensible management of the risks to which the insurance companies are exposed. In view of the foregoing, in March 2020, the Authority intends to publish draft provisions regarding the implementation of ORSA and solvency, based on the provisions of the current European Directive.

The Authority will work towards ensuring that the updated provisions relating to a solvency regime enter into force in accordance with the format adopted in Europe by July 2020.

The date for publication of the solvency report and submitting the Solvency reporting files for December 31, 2019, to the Commissioner will be August 31, 2020.

On March 19, 2020, the Commissioner published an additional draft amendment to the Consolidated Circular on the implementation of an economic solvency regime for insurance companies based on Solvency II" ("the Additional Draft"). According to the Additional Draft, the transition provisions will be adapted to the format set out in the European Directive, with an option to gradually increase the reserves in respect of long-term insurance products that were sold in the past until 2032. The Additional Draft also includes updates to the provisions of the Circular based on changes that were made in Europe and are relevant to the Israeli market.

Harel Insurance is studying the provisions of the draft and at this stage it is unable to estimate its effects.

2. 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.

   Pursuant to the foregoing, as part of the restructuring described in Note 40C, the Company undertook for a two-year period that if Harel Insurance fails to comply with its regulatory capital requirements in accordance with the Solvency model (SCR including transitional provisions), the Company will inject NIS 120 million into Harel Insurance.

3. Consolidated 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 December 31, 2019, the subsidiaries are in compliance with these requirements.

4. On the issuing of Series 16 bonds by means of Harel Financing & Issuing, in the Reporting Period, see Note 25H.

5. On the full early redemption of Series 3 bonds of Harel Financing & Issuing in the Reporting Period, see Note 25H.

   On the issuing of bonds (Series 17) and bonds (Series 16) by means of Harel Financing & Issuing in the Reporting Period, see Note 25H.

Note 8 - Investments in investees (contd.)

F. Capital requirements for consolidated companies (contd.)

6. Safety net

The Board of Directors of Harel Insurance approved a policy to determine and update a safety net, 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 is an increasing safety net which will be built up gradually so that at the end of the adjustment period (2024) it will be NIS 1.15 billion. The purpose of the safety net is to enable Harel Insurance to cope with crises without significantly affecting its operations and compliance with the relevant capital requirements.

Note 9 - Investment property (including investment property for yield-dependent contracts)

A. Composition and movement

	Investment property			
	for yield-dependent contracts		Other	
	2019	2018	2019	2018
	NIS million	NIS million	NIS million	NIS million
Balance as at January 1	**1,628**	1,502	**1,847**	1,742
Additions during the year				
Purchases and additions to existing assets	**28**	78	**39**	45
Total additions	**28**	78	**39**	45
Adjustment to fair value	**113**	48	**172**	60
Balance as at December 31	**1,769**	1,628	**2,058**	1,847

B. Determination of fair value

Investment property is presented at fair value, as determined in an appraisal prepared by independent appraisers who are professionally recognized and who have considerable experience with respect to the location and type of real estate being appraised. External appraisals are performed at least once a year, on different dates for various assets in the investment property portfolio. An internal review is conducted for other reporting periods with the purpose of ensuring that no significant change has taken place in the value of the asset, based on the parameters that were used for preparing the appraisal.

The estimates are classified to fair value Level 3 hierarchy.

Valuation of the property is based on net annual cash flows discounted at a rate reflecting the specific risks inherent in them. When actual rent agreements include rent payments that are different from market rent, adjustments are made to reflect the actual rent payments in the period of the contract

The valuations take into account the type of tenants that actually occupy the leasehold or are responsible for fulfilling the rental obligations or may occupy the leasehold when available property is rented out, including a general assessment of their creditworthiness; distribution of the responsibility for the property's maintenance and insurance between the Group and the tenant; and the remaining economic life of the property, in those locations where such parameters are relevant.

The fair value is determined using several revaluation methodologies, including the comparative approach, similar assets and discounting of the future cash flow arising from the asset. The value of most of the assets is determined according to the estimated cash flows and which take into account their inherent risk, and they are mostly discounted at rates of between 3.5% - 5.75% for real estate abroad and 6.5% - 8% for real estate in Israel, depending on the appropriate level of risk in the asset.

Investment property under construction is valued by estimating the fair value of the completed investment property and then deducting from that amount the present value of the estimated costs to complete construction and a reasonable profit margin, when relevant, while taking into consideration a yield adjusted for the relevant risks and characteristics of the investment property.

Investment property consists mainly of office buildings and commercial property.

There are no interrelationships between the significant unobservable inputs.

Note 9 - Investment property (including investment property for yield-dependent contracts) (contd.)

C. Changes in investment property measured at level 3

	As at December 31, 2019							
	for yield-dependent contracts				for non-yield-dependent contracts			
	Commercial property	Real estate offices	Investment property under construction	Total	Commercial property	Real estate offices	Investment property under construction	Total
	NIS million							
Balance as at January 1, 2019	910	711	7	1,628	873	969	5	1,847
Purchases	21	5	2	28	11	26	2	39
Total profits that were recognized in profit or loss:*								
Changes in fair value	39	75	(1)	113	33	139	-	172
Balance as at December 31, 2019	970	791	8	1,769	917	1,134	7	2,058

	As at December 31, 2018							
	for yield-dependent contracts				for non yield-dependent contracts			
	Commercial property	Real estate offices	Investment property under construction	Total	Commercial property	Real estate offices	Investment property under construction	Total
	NIS million							
Balance as at January 1, 2019	819	541	142	1,502	813	783	146	1,742
Purchases	59	12	7	78	28	12	5	45
Other changes	-	142	(142)	-	-	146	(146)	-
Total profits that were recognized in profit or loss:*								
Changes in fair value	32	16	-	48	32	28	-	60
Balance as at December 31, 2019	910	711	7	1,628	873	969	5	1,847

* Under net profit from investments and financing income.

D. On agreements relating to the leasing of investment property, see Note 39F.

Note 9 - Investment property (including investment property for yield-dependent contracts) (contd.)

E. Information about rights in land that the Group uses as investment property

Some of the owner-occupied or leased land in Israel, has not yet been recorded in the name of the Company or the various companies or subsidiaries at the Land Registry, mostly because of registration procedures or technical problems.

(1) Land on HaMered Street, Tel Aviv, with a book value, including the building, of NIS 17 million and NIS 17 million respectively at December 31, 2019 and 2018, which is leased from the Israel Lands Administration on a non-capitalized lease until 2032.

(2) Land on Hatikvah Street, Beersheva, with a book value, including the building, of NIS 275 million and NIS 247 million respectively at December 31, 2019 and 2018, which is leased from the Israel Lands Administration on a capitalized lease until 2050. The Group has an option for an additional lease period of 49 years from the end of the leasehold period.

(3) Land on Haim Bar Lev Road, Neve Savyon, with a book value, including the building, of NIS NIS 57 million and NIS 54 million respectively at December 31, 2019 and 2018, which is leased from the Israel Lands Administration on a capitalized lease until 2041.

(4) Land in the Shoham shopping center, with a book value, including the building, of NIS 92 million and NIS 91 million respectively at December 31, 2019 and 2018, which is leased from the Israel Lands Administration on a capitalized lease until 2042.

(5) Land on Am Ve'Olamo Street, Jerusalem, with a book value, including the building, of NIS 13 million and NIS 13 million respectively at December 31, 2019 and 2018, which is leased from the Israel Lands Administration on a capitalized lease until 2039.

(6) Lands on Yigal Alon Road, Tel Aviv, with a book value, including the building, of NIS 376 million and NIS 325 million respectively at December 31, 2019 and 2018, which are leased from the Israel Lands Administration and from the Tel Aviv Municipality on a capitalized lease until 2060 and 2059, respectively.

(7) Lands on the corner of Weizmann and HaSadna Streets and on the corner of HaManofim Road, Kfar Saba, with a book value, including the building, of NIS 136 million and NIS 127 million respectively at December 31, 2019 and 2018, which are leased from the Israel Lands Administration on a capitalized lease until 2058.

(8) Land in Kiryat Nordau, Netanya, with a book value, including the building, of NIS 183 million and NIS 166 million respectively at December 31, 2019 and 2018, which is leased from the Israel Lands Administration on a capitalized lease until 2064.

(9) Land on Tuval Road, Ramat Gan, with a book value, including the building, of NIS 25 million and NIS 24 million respectively at December 31, 2019 and 2018, which is leased from the Israel Lands Administration on a perpetual capitalized lease.

(10) Land on the corner of Galgalei HaPlada and Yahalom Binyamin Streets in Kfar Saba, with a book value, including the building, of NIS 10 million and NIS 8 million at December 31, 2019 and 2018, which is leased from the Israel Lands Administration on a capitalized lease until 2067.

(11) Land on Zalman Shazar Street, Netanya, with a book value, including the building, of NIS 617 million and NIS 578 million respectively at December 31, 2019 and 2018, which is leased from the Israel Lands Administration on a capitalized lease until 2064.

Note 10 - Trade and other receivables

A. Composition

	As at December 31	
	2019	2018
	NIS million	NIS million
Related parties	4	2
Receivables in connection with the purchase of real estate	4	29
Government authorities and institutions	3	3
Receivable income	54	40
Lease fees and prepaid expenses	122	103
Advances to service providers	7	7
Advances on account of commissions to agents	39	41
Loans provided to externals	5	-
	238	225
Insurance companies and brokers:		
Deposits	1	1
Other accounts	158	87
Total insurance companies and brokers	159	88
Receivable income from management fees	17	36
Excess (deductible)	3	4
Subrogation and residuals	17	17
Deposits for payment of claims	13	13
Receivables for securities*	788	1,110
Policyholders	11	14
Deposits made in a sick pay fund	50	45
Other	44	22
	943	1,261
Net of provision for doubtful debts	(3)	(2)
Total trade and other receivables	1,337	1,572

*Consists mainly of sureties for financial derivatives and monies deposited in banks and designated to provide new mortgage loans.

B. Changes in the provision for doubtful debts

	As at December 31	
	2019	2018
	NIS million	NIS million
Balance as at January 1	2	2
Change in provision in period	1	-
Balance as at December 31	3	2

Note 11 – Premiums due

A. Composition

	As at December 31	
	2019	2018
	NIS million	NIS million
Premiums due *	**1,446**	1,450
Net of provision for doubtful debts	**(18)**	(17)
Total premiums due	**1,428**	1,433
* including checks due and standing orders	**415**	394

B. Ageing

	As at December 31	
	2019	2018
	NIS million	NIS million
Premiums due whose value was not affected		
Excluding arrears	**1,172**	1,173
In arrears : *		
less than 90 days	**122**	116
90-180 days	**75**	78
more than 180 days	**39**	36
Total premiums due whose value was not affected	**1,408**	1,403
Premiums due whose value was affected	**20**	30
Total premiums due	**1,428**	1,433

* Consists mainly of debts in arrears in the life assurance segment. These debts are mostly backed by the redemption value of the policies.

For the linkage conditions of premiums due, see Note 37J.

C. Changes in the provision for doubtful debts from premiums due

	NIS million
Balance as at January 1, 2017	16
Change in provision in period	2
Balance as at December 31, 2017	18
Change in provision in period	(1)
Balance as at December 31, 2018	17
Change in provision in period	**1**
Balance as at December 31, 2019	**18**

Note 12 - Assets held for yield dependent contracts

A. Assets presented at fair value

	As at December 31	
	2019	2018
	NIS million	NIS million
Investment property	1,769	1,628
Financial investments		
Marketable debt assets	22,614	19,309
Non-marketable debt assets (*)	14,876	13,083
Shares	11,298	8,922
Other financial investments	12,774	10,577
Total financial investments	61,562	51,891
Cash and cash equivalents	2,897	3,083
Other	974	1,028
Total assets for yield-dependent contracts **	67,202	57,630
Payables	485	119
Financial liabilities ***	149	517
Financial liabilities for yield-dependent contracts	634	636
(*) Of which assets measured at adjusted cost	518	593
Fair value of debt assets measured at adjusted cost	581	615

** Including assets in the amount of NIS 4,602 million and NIS 4,362 million at December 31, 2019 and 2018 respectively, for a liability attributable to the group long-term care portfolio, in which most of the investment risks are not imposed on the insurer.

*** Mainly derivatives and future contracts.

On the exposure of assets held against yield-dependent liabilities, see Note 37.

On the interest rates used to determine the fair value of non-marketable financial assets, see Note 13K.

Note 12 - Assets held for yield dependent contracts (contd.)

B. Non-marketable debt assets measured at fair value hierarchy for disclosure purposes only

	As at December 31, 2019		
	Level 2	Level 3	Total
	NIS million	NIS million	NIS million
Other debt assets accounted for as loans and receivables, other than bank deposits	539	33	572
Bank deposits	9	-	9
Total	548	33	581

	As at December 31, 2018		
	Level 2	Level 3	Total
	NIS million	NIS million	NIS million
Other debt assets accounted for as loans and receivables, other than bank deposits	562	44	606
Bank deposits	9	-	9
Total	571	44	615

C. Fair value hierarchy of financial assets

The table below analyses the assets held against insurance policies and investment contracts carried at fair value through profit and loss.

	As at December 31, 2019			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	19,436	3,178	-	22,614
Non-marketable debt assets	-	13,344	1,014	14,358
Shares	8,783	7	2,508	11,298
Other	8,454	262	4,058	12,774
Total	36,673	16,791	7,580	61,044

	As at December 31, 2018			
	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 12 - Assets held for yield dependent contracts (contd.)

D. Level 3 assets measured at fair value

	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	**21**	**18**	**(23)**	**16**
Interest and dividend receipts	**(31)**	**(212)**	**(214)**	**(457)**
Purchases	**833**	**455**	**991**	**2,279**
Sales	**-**	**(284)**	**(421)**	**(705)**
Redemptions	**(206)**	**-**	**(65)**	**(271)**
Transfers from Level 3 *	**(109)**	**-**	**-**	**(109)**
Balance as at December 31, 2019	**1,014**	**2,508**	**4,058**	**7,580**
Total profits (losses) for period included in profit or loss for assets held for the year ended December 31, 2018	**19**	**38**	**(20)**	**37**

	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
Total profits for period included in profit or loss for assets held for the year ended December 31, 2018	11	314	499	824

* Mainly for securities whose rating changed.

Note 13 - Other Financial Investments

A. Composition

	As at December 31, 2019				
	Revalued at fair value through profit and loss	**Available-for-sale**	**Held to redemption**	**Loans and receivables**	**Total**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Marketable debt assets	**186**	**11,043**	**80**	**-**	**11,309**
Non-marketable debt assets	**1,689**	**-**	**-**	**13,153**	**14,842**
Shares	**4**	**1,273**	**-**	**-**	**1,277**
Other	**167**	**2,693**	**-**	**-**	**2,860**
Total	**2,046**	**15,009**	**80**	**13,153**	**30,288**

	As at December 31, 2018				
	Revalued at fair value through profit and loss	**Available-for-sale**	**Held to redemption**	**Loans and receivables**	**Total**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Marketable debt assets	215	8,169	116	-	8,500
Non-marketable debt assets	234	-	-	13,282	13,516
Shares	109	1,055	-	-	1,164
Other	171	2,287	-	-	2,458
Total	729	11,511	116	13,282	25,638

Note 13 - Other financial investments (contd.)

B. Fair value hierarchy of financial assets

The table below analyses financial assets carried at fair value.

The balance in the financial statements for cash and cash equivalents, premiums due, trade and other payables and current tax assets, corresponds with or approximates their fair values.

	As at December 31, 2019			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	10,042	1,187	-	11,229
Non-marketable debt assets	-	1,689	-	1,689
Shares	902	-	375	1,277
Other	1,135	112	1,613	2,860
Total	12,079	2,988	1,988	17,055

	As at December 31, 2018			
	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 13 - Other financial investments (contd.)

C. Level 3 assets measured at fair value

	Fair-value measurement on report 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	**(4)**	**75**	**71**
In other comprehensive income	**40**	**(27)**	**13**
Interest and dividend receipts	**(2)**	**(69)**	**(71)**
Purchases	**77**	**264**	**341**
Sales	**(2)**	**(147)**	**(149)**
Redemptions	**-**	**(30)**	**(30)**
Balance as at December 31, 2019	**375**	**1,613**	**1,988**
Total profit (loss) for period included in profit or loss for assets held in the year ended December 31, 2018	**(5)**	**76**	**71**

	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
Total profit (loss) for period included in profit or loss for assets held in the year ended December 31, 2018	(3)	53	50

Note 13 - Other financial investments (contd.)

D. Marketable debt assets

	As at December 31	
	2019	2018
	NIS million	NIS million
Government bonds		
Presented at fair value through profit or loss designated upon initial recognition	14	14
Available-for-sale	6,009	3,471
Total government bonds	6,023	3,485
Other debt assets		
Non-convertible		
Presented at fair value through profit or loss designated upon initial recognition	172	201
Held to redemption (*)	80	116
Available-for-sale	5,034	4,698
Total other non-convertible debt assets	5,286	5,015
Total marketable debt assets	11,309	8,500
Outstanding impairments recognized in profit or loss for debt assets presented as available-for-sale	-	2

(*) Fair value of marketable debt assets held to redemption	Level 1	Level 1
	NIS million	NIS million
Other debt assets:		
Non-convertible	83	121

Note 13 - Other financial investments (contd.)

E. Non-marketable debt assets

	Book value		Fair value	
	As at December 31		As at December 31	
	2019	2018	2019	2018
	NIS million	NIS million	NIS million	NIS million
Government bonds				
Accounted for as loans and receivables:				
Earmarked bonds	**5,214**	4,938	**7,344**	6,405
Total government bonds	**5,214**	4,938	**7,344**	6,405
Other non-convertible debt assets				
Accounted for as loans and receivables, excluding bank deposits	**7,361**	7,584	**8,375**	8,027
(*) Bank deposits	**2,267**	994	**2,330**	1,046
Total other non-convertible debt assets	**9,628**	8,578	**10,705**	9,073
Total non-marketable debt assets	**14,842**	13,516	**18,049**	15,478
Outstanding impairments recognized in profit or loss	**21**	17		
(*) Of which debt assets measured at fair value	**1,689**	234		

F. Non-marketable debt assets measured at fair value for disclosure purposes only, by level

	As at December 31, 2019			As at December 31, 2018		
	Level 2	Level 3	Total	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Earmarked bonds *	**7,344**	**-**	**7,344**	6,405	-	6,405
Other debt assets accounted for as loans and receivables, not including bank deposits	**6,877**	**1,498**	**8,375**	6,991	1,036	8,027
Bank deposits	**2,330**	**-**	**2,330**	1,046	-	1,046
Total	**16,551**	**1,498**	**18,049**	14,442	1,036	15,478

* The fair value of earmarked bonds was calculated according to their contractual maturity date.

Note 13 - Other financial investments (contd.)

G. Interest and linkage for debt assets

	Linkage base	Effective interest As at December 31 2019 %	2018 %
Marketable debt assets			
	CPI-linked	-	1.2
	Shekel	0.9	2.2
	Linked to foreign currency	3.0	4.6
Non-marketable debt assets			
	CPI-linked	4.4	4.3
	Shekel	2.1	3.1
	Linked to foreign currency	7.5	8.6

H. Shares

	As at December 31 2019 NIS million	2018 NIS million
Marketable		
Presented at fair value through profit or loss designated upon initial recognition	4	109
Available-for-sale	899	789
Total marketable shares	903	898
Non-marketable shares available-for-sale	374	266
Total	1,277	1,164
Outstanding impairments recognized in profit or loss	89	84

Note 13 - Other financial investments (contd.)

I. Other Financial Investments

	As at December 31	
	2019	2018
	NIS million	NIS million
Marketable		
Presented at fair value through profit or loss designated upon initial recognition	7	13
Available-for-sale	1,123	824
Derivative instruments (see Section J below)	4	14
Total marketable financial investments	1,134	851
Non-marketable		
Presented at fair value through profit or loss designated upon initial recognition	44	84
Available-for-sale	1,570	1,463
Derivative instruments (see Section J below)	112	60
Total non-marketable financial investments	1,726	1,607
Total other financial investments	2,860	2,458
Outstanding impairment recognized in profit or loss for other financial investments presented as available-for-sale	128	144
Derivative financial instruments presented in financial liabilities	364	507

Other financial investments consist mainly of investments in ETNs, certificates of participation in mutual funds, investment funds, future contracts, options and structured products. The fair value of non-marketable investments in investment funds and hedge funds is based mainly on the fair value of the underlying assets or on valuations.

On the Group's obligation to invest in investment funds, see Note 39E.

J. Derivative instruments

The exposure, net, to the underlying asset, presented in "Delta" terms for financial transactions at the reporting date:

	As at December 31	
	2019	2018
	NIS million	NIS million
Shares	250	488
CPI	3,998	4,054
Foreign currency	(4,795)	(4,838)

Note 13 - Other financial investments (contd.)

K. 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 concerning 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 dividing the market into deciles consistent with the yield to maturity of the debt asset, and determining the position of the non-marketable asset according on those deciles, and this in accordance with the risk premium derived from the prices of transactions/issuances on the non-marketable 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 revaluing non-marketable debt assets.

The yield curve presented below, and the average weighted interests for each of the rating groups presented in the table, are consistent with the assets included in each rating group.

	As at December 31	
	2019	2018
	% interest	% interest
AA and higher	**(0.1)**	0.9
A	**2.1**	3.7
BBB	**2.6**	3.9
Less than BBB	**17.5**	23.6
Not rated	**3.0**	4.0

The sources for the local rating level are the Maalot and Midroog rating companies. Data from Midroog were converted into rating symbols, on the basis of accepted conversion coefficients.

There are some difference between ratings in Israel and ratings abroad. The sources for foreign ratings are the rating companies approved by the Commissioner, S&P, Moody's and Fitch.

On internal ratings, see Note 37G.

Note 13 - Other financial investments (contd.)

L. Aging of investments in non-marketable debt assets**

	As at December 31	
	2019	2018
	NIS million	
Government bonds	5,214	4,938
Debt assets whose value was not impaired		
excluding arrears	9,619	8,560
In arrears : *		
more than 180 days	-	3
Total debt assets whose value was not affected	9,619	8,563
Debt assets whose value was impaired		
Assets whose value was affected, gross	19	18
Provision for loss	10	3
Debt assets whose value was affected, net	9	15
Total non-marketable debt assets	14,842	13,516

* Mainly loans on policies against which there are full redemption values and/or pledges.
** The above amounts do not constitute the actual amount in arrears, but the outstanding debt involved in the arrears.

M. Disclosure required in connection with the temporary exemption from the application of IFRS 9, *Financial Instruments* (see Note 3T)

The following table presents the fair value of financial assets as at December 31, 2019, allocated by two groups:
- Assets that comply with the solely payments of principal and interest (SPPI) test (not including assets held for trade or managed on a fair-value basis) (“Group A”);
- Any other financial assets (“Group B”).

Allocation of the financial assets into Group A and Group B, as described below, is based on a preliminary estimate prepared by the Company.

	As at December 31, 2019	
	Group A	Group B
	NIS million	
Investments for yield-dependent contracts	518	61,044
Other financial investments - shares	-	1,277
Other financial investments - other	-	2,860
Other financial investments - marketable debt assets	80	11,229
Other financial investments - non-marketable debt assets	13,153	1,689
Yield dependent cash and cash equivalents	2,897	-
Other cash and cash equivalents	2,056	-
Total other financial investments	18,704	78,099

Note 14 - Cash and cash equivalents

A. For yield-dependent investment contracts and insurance contracts

	As at December 31	
	2019	2018
	NIS million	NIS million
Cash and deposits for immediate withdrawal in banks	**2,897**	3,083

Cash balances held in banks as at December 31, 2019 and 2018 bear daily interest at an annual rate of 0.2%.

B. Other

	As at December 31	
	2019	2018
	NIS million	NIS million
Cash and deposits for immediate withdrawal	**1,670**	1,258
Short-term deposits	**386**	363
Cash and cash equivalents	**2,056**	1,621

Cash in banks at December 31, 2019 and 2018 bear daily interest at an annual rate of 0.2%.

Short-term deposits held in banks at December 31, 2019 and 2018 are for periods of between one week and three months. The deposits bear annual interest of 0.22% and 0.23%, respectively.

On the linkage and interest terms of the cash and short-term deposits, see Note 37J.

C. Pledged for holders of ETNs and certificates of deposit

	As at December 31	
	2019	2018
	NIS million	NIS million
Short-term deposits	**-**	35
Cash and cash equivalents	**-**	35

Note 15 – Equity

A. Composition of share capital

	As at December 31, 2019		As at December 31, 2018	
	Registered	Issued and Paid-up	Registered	Issued and Paid-up
Ordinary shares, NIS 0.1 par value each	**500,000,000**	**222,836,923**	500,000,000	222,836,923

B. Treasury stock - Company shares held by the Company and subsidiaries

	As at December 31	
	2019	2018
Percentage of issued share capital	**4%**	4%
Cost (NIS million)*	**123**	123

* At December 31, 2019 and 2018, all the Treasury stock held by the Company.

C. Rights attached to shares

1. Voting rights in the general meeting, right to dividends, rights upon liquidation of the Company, and rights to appoint company directors.
2. Marketability on the Tel Aviv Stock Exchange.

D. Dividend

The following dividends were declared by the company:

	As at December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Total dividends	**236**	214	461
Dividend per ordinary share (NIS)*	**1.10**	1.00	2.15

* Calculation of the dividend per share did not take into account 8,458,150 dormant shares at December 31, 2019, 2018 and 2017.

Note 15 – Equity (contd.)

D. Dividend (contd.)

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 financial results as at December 31, 2018. The Board of Directors was presented with information on the distributable profits, capital surpluses of the Company's subsidiaries and the Group's cash requirements, in various scenarios. The Board of Directors reviewed the Company's compliance with the profit test and solvency test prescribed in Section 203(a) of the Companies Law. Following this review, the Board of Directors confirmed that the Company was in compliance with the distribution test. The dividend was paid 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.

E. Non-controlling interests

	As at December 31	
	2019	2018
	NIS million	NIS million
Part in balance sheet value *	18	6

* Including that part of the balance of surplus attributed costs.

Note 15 - Equity (contd.)

F. Other comprehensive income

	Capital reserve for available-for-sale assets	Translation reserve for foreign activity	Capital reserve for revaluation of fixed assets	Actuarial changes	Total	Non-controlling interests	Total equity
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
For the year ended December 31, 2019							
Net change in fair value of financial assets classified as available-for-sale	**950**	**-**	**-**	**-**	**950**	**-***	**950**
Net change in fair value of financial assets classified as available-for-sale carried over to income statement	**(127)**	**-**	**-**	**-**	**(127)**	**-***	**(127)**
Loss from impairment of available-for-sale financial assets carried over to income statement	**31**	**-**	**-**	**-**	**31**	**-**	**31**
Foreign currency translation differences for foreign activity	**-**	**(69)**	**-**	**-**	**(69)**	**-**	**(69)**
Revaluation reserve for fixed asset items	**-**	**-**	**26**	**-**	**26**	**-**	**26**
Re-measurement of a defined benefit plan	**-**	**-**	**-**	**(7)**	**(7)**	**-**	**(7)**
Tax benefit (taxes on income) relating to components of other comprehensive income (loss)	**(291)**	**13**	**(7)**	**2**	**(283)**	**-***	**(283)**
Total other comprehensive income (loss) for the period, net of tax	**563**	**(56)**	**19**	**(5)**	**521**	**-***	**521**
For the year ended December 31, 2018							
Net change in fair value of financial assets classified as available-for-sale	(198)	-	-	-	(198)	-*	(198)
Net change in fair value of financial assets classified as available-for-sale carried over to income statement	(100)	-	-	-	(100)	-*	(100)
Loss from impairment of available-for-sale financial assets carried over to income statement	44	-	-	-	44	-	44
Foreign currency translation differences for foreign activity	-	62	-	-	62	-	62
Revaluation reserve for fixed asset items	-	-	44	-	44	-	44
Re-measurement of a defined benefit plan	-	-	-	9	9	-	9
Tax benefit (taxes on income) relating to components of other comprehensive income (loss)	86	(22)	(14)	(3)	47	-*	47
Total other comprehensive income (loss) for the period, net of tax	(168)	40	30	6	(92)	-*	(92)

* Less than NIS 1 million

Note 15 - Equity (contd.)

F. Other comprehensive income (contd.)

	Capital reserve for available-for-sale assets	Translation reserve for foreign activity	Capital reserve for revaluation of fixed assets	Actuarial changes	Total	Non-controlling interests	Total equity
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
For the year ended December 31, 2017							
Net change in fair value of financial assets classified as available-for-sale	332	-	-	-	332	-*	332
Net change in fair value of financial assets classified as available-for-sale carried over to income statement	(153)	-	-	-	(153)	-*	(153)
Loss from impairment of available-for-sale financial assets carried over to income statement	41	-	-	-	41	-	41
Foreign currency translation differences for foreign activity	-	(62)	-	-	(62)	-	(62)
Revaluation reserve for fixed asset items	-	-	87	-	87	-	87
Re-measurement of a defined benefit plan	-	-	-	(1)	(1)	-	(1)
Tax benefit (taxes on income) relating to components of other comprehensive income (loss)	(70)	13	(25)	-	(82)	-*	(82)
Total other comprehensive income (loss) for the period, net of tax	150	(49)	62	(1)	162	-*	162

* Less than NIS 1 million

Note 16 - Liabilities for non-yield dependent insurance and investment contracts

	As at December 31					
	2019	2018	2019	2018	2019	2018
	Gross		Reinsurance		Retention	
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Life assurance and long-term savings						
Insurance contracts	**12,634**	11,976	**109**	130	**12,525**	11,846
Investment contracts	**139**	138	**-**	-	**139**	138
	12,773	12,114	**109**	130	**12,664**	11,984
Net of amounts deposited with a subsidiary as part of a defined benefit plan for the Company's employees	**(74)**	(74)	**-**	-	**(74)**	(74)
Total life assurance and long-term savings	**12,699**	12,040	**109**	130	**12,590**	11,910
Insurance contracts included in the health insurance segment	**6,175**	5,167	**739**	673	**5,436**	4,494
Insurance contracts included in the non-life insurance segment	**9,810**	9,814	**2,987**	3,241	**6,823**	6,573
Insurance contracts included in the insurance companies overseas segment	**660**	617	**141**	148	**519**	469
Inter-segment adjustments and offsets	**(5)**	(4)	**(5)**	(4)	**-**	-
Total liabilities for non-yield-dependent insurance contracts and investment contracts	**29,339**	27,634	**3,971**	4,188	**25,368**	23,446

Note 17 - Liabilities for yield -dependent insurance and investment contracts

	As at December 31					
	2019	2018	2019	2018	2019	2018
	Gross		Reinsurance		Retention	
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Life assurance and long-term savings						
Insurance contracts	**45,035**	38,568	**104**	103	**44,931**	38,465
Investment contracts	**16,237**	13,552	**-**	-	**16,237**	13,552
	61,272	52,120	**104**	103	**61,168**	52,017
Net of amounts deposited in a subsidiary as part of a defined benefit plan for the Company's employees	**(135)**	(135)	**-**	-	**(135)**	(135)
Total life assurance and long-term savings	**61,137**	51,985	**104**	103	**61,033**	51,882
Insurance contracts included in the health insurance segment	**5,402**	4,757	**206**	25	**5,196**	4,732
Total liabilities for yield-dependent insurance contracts and investment contracts	**66,539**	56,742	**310**	128	**66,229**	56,614

The allocation between liabilities for yield-dependent investment contracts and insurance contracts and liabilities that are not yield-dependent is based on the method of linkage of the rights of the policyholders.

Note 18 - Liabilities for insurance contracts included in the non-life insurance segment

A. Liabilities for insurance contracts included in the non-life insurance segment

1. By category

	As at December 31					
	2019	2018	2019	2018	2019	2018
	Gross		Reinsurance		Retention	
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Compulsory motor and motor liabilities branches						
Provision for unearned premiums	**608**	582	**109**	105	**499**	477
Outstanding claims and provision for premium deficiency	**7,491**	7,424	**2,139**	2,388	**5,352**	5,036
Total compulsory motor and motor liabilities branches (see Section B1 below)	**8,099**	8,006	**2,248**	2,493	**5,851**	5,513
Of this - total liabilities for compulsory motor (see Section C3 below)	**2,662**	2,637	**117**	162	**2,545**	2,475
Property and other branches (including motor property - CASCO)						
Provision for unearned premiums	**756**	740	**286**	292	**470**	448
Outstanding claims and reserve for extraordinary risks	**955**	1,068	**453**	456	**502**	612
Total property and other branches (including motor property - CASCO) (see Section B2 below)	**1,711**	1,808	**739**	748	**972**	1,060
Total liabilities for insurance contracts included in non-life insurance segments	**9,810**	9,814	**2,987**	3,241	**6,823**	6,573
Deferred Acquisition Costs						
Compulsory motor and motor liabilities branches	**86**	82	**13**	12	**73**	70
Property and other branches (including motor property - CASCO)	**165**	153	**58**	58	**107**	95
Total DAC	**251**	235	**71**	70	**180**	165
Liabilities for non-life insurance policies net of DAC						
Compulsory motor	**2,641**	2,618	**117**	162	**2,524**	2,456
Other liabilities branches	**5,372**	5,306	**2,117**	2,319	**3,255**	2,987
Property and other branches (including motor property - CASCO)	**1,546**	1,655	**681**	690	**865**	965
Total liabilities in non-life insurance contracts net of DAC	**9,559**	9,579	**2,915**	3,171	**6,644**	6,408

Note 18 - Liabilities for insurance contracts included in the non-life insurance segment (contd.)

A. Liabilities for insurance contracts included in the non-life insurance segment (contd.)

2. By method of calculation

	As at December 31					
	2019	2018	2019	2018	2019	2018
	Gross		Reinsurance		Retention	
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Actuarial estimates						
Mr. Jeffrey Cohen	**7,972**	7,992	**2,370**	2,638	**5,602**	5,354
Provision based on other estimates						
Estimate of Claims Dept. for known outstanding claims	**262**	265	**219**	206	**43**	59
Addition to outstanding claims in respect of IBNR claims	**4**	-	**3**	-	**1**	-
Reserve for extraordinary risks	**208**	235	**-**	-	**208**	235
Provision for unearned premiums	**1,364**	1,322	**395**	397	**969**	925
Total liabilities for insurance contracts included in non-life insurance segment	**9,810**	9,814	**2,987**	3,241	**6,823**	6,573

Note 18 - Liabilities for insurance contracts included in the non-life insurance segment (contd.)

B. Changes in liabilities for insurance contracts included in the non-life insurance segment, net of deferred acquisition costs

1. Compulsory motor and liability branches

	As at December 31					
	2019	2018	2019	2018	2019	2018
	Gross		Reinsurance		Retention	
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Balance at beginning of year	**7,924**	7,814	**2,481**	2,871	**5,443**	4,943
Accrued cost of claims for current underwriting year	**1,430**	1,434	**216**	221	**1,214**	1,213
Change in retained amount at beginning of year due to CPI linkage and change in exchange rate and investment profit according to the capitalization assumption embedded in the liabilities	**68**	99	**24**	36	**44**	63
Change in estimate of accrued cost of claims for previous underwriting years (A)	**14**	(11)	**30**	(52)	**(16)**	41
Total change in accrued cost of claims	**1,512**	1,522	**270**	205	**1,242**	1,317
Payments to settle claims during the year:						
For current underwriting year	**14**	16	**1**	3	**13**	13
For previous underwriting years	**1,409**	1,396	**515**	592	**894**	804
Total payments for period	**1,423**	1,412	**516**	595	**907**	817
Balance at end of year	**8,013**	7,924	**2,235**	2,481	**5,778**	5,443

(A) The change in the estimated accrued cost of the claims for previous underwriting years, in the reporting year, includes NIS 63 million in the gross (about NIS 30 million in the retention) for output which is attributed to the previous underwriting year and was recorded in the reporting year.

The change in the estimated accrued cost of the claims for previous underwriting years, in 2018 includes NIS 50 million in the gross (NIS 22 million in the retention) for output which is attributed to previous underwriting years and was recorded in 2018.

* The opening and closing balances include: outstanding claims, provision for premium deficiency, reserve for extraordinary risks, unearned premium and net of deferred acquisition costs.
** The aggregate cost of claims for events in the reporting period includes the balance of outstanding, plus total claims payment including direct and indirect expenses for claims settlement.
*** Payments for claims settlement include direct and indirect expenses for their settlement (general and administrative which are recorded in claims) allocated by the loss years.

Note 18 - Liabilities for insurance contracts included in the non-life insurance segment (contd.)

B. Changes in liabilities for insurance contracts included in the non-life insurance segment, net of deferred acquisition costs (contd.)

2. Property and other branches (including motor property)

	As at December 31					
	2019	2018	2019	2018	2019	2018
	Gross		Reinsurance		Retention	
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Balance at beginning of year	**1,655**	1,560	**690**	585	**965**	975
Accrued cost of claims for events in the reporting year	**1,001**	1,055	**372**	427	**629**	628
Change in cost of accrued claims for events that preceded the reporting year (a)	**(97)**	(3)	**(1)**	26	**(96)**	(29)
Total change in accrued cost of claims	**904**	1,052	**371**	453	**533**	599
Payments to settle claims during the year:						
For events in the reporting year	**659**	665	**176**	213	**483**	452
For events preceding the reporting year	**331**	261	**198**	140	**133**	121
Total payments for period	**990**	926	**374**	353	**616**	573
Change in reserve for extraordinary risks and provision for unearned premiums, net of DAC	**(23)**	(31)	**(6)**	5	**(17)**	(36)
Change in provision for premium deficiency	**-**	-	**-**	-	**-**	-
Balance at end of year	**1,546**	1,655	**681**	690	**865**	965

(a) Change in the accrued cost of claims for events preceding the reporting year - the decrease in the reporting year is mainly attributable to a positive development in claims from old loss years in the motor property sector

* The opening and closing balances include: outstanding claims plus provision for premium shortfall, reserve for extraordinary risks, unearned premium and net of deferred acquisition costs.

** The aggregate cost of claims for events in the reporting year, includes the balance of outstanding claims at the end of the reporting year, plus total claims payments during the Reporting Period, including direct and indirect expenses for claims settlement.

*** Payments for claims settlement include direct and indirect expenses for their settlement (general and administrative which are recorded in claims) allocated by the underwriting years.

Note 18 - Liabilities for insurance policies included in the non-life insurance segment (contd.)

C. Analysis of the development of estimated liabilities for insurance contracts, net of deferred acquisition costs

1. Gross in compulsory motor branches

	As at December 31, 2019										
	Underwriting year										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	In NIS million adjusted to CPI*										
Claims paid (in aggregate) at end of year											
After one year	9	11	8	10	9	9	16	14	17	14	
After two years	64	65	57	59	66	69	80	83	90		
After three years	173	163	148	170	161	200	214	218			
After four years	299	289	279	326	313	341	395				
After five years	441	445	420	473	476	502					
After six years	627	611	549	617	635						
After seven years	762	737	656	746							
After eight years	870	839	750								
After nine years	962	926									
After ten years	1,048										
Estimate of accrued claims (including payments incl. accrual) at end of year **											
After one year	1,185	1,176	1,102	1,114	1,118	1,138	1,221	1,334	1,439	1,430	
After two years	1,226	1,188	1,101	1,151	1,059	1,209	1,262	1,341	1,432		
After three years	1,249	1,180	1,138	1,106	1,126	1,257	1,280	1,338			
After four years	1,146	1,119	1,039	1,146	1,140	1,236	1,283				
After five years	1,150	1,173	1,062	1,153	1,158	1,252					
After six years	1,182	1,204	1,055	1,158	1,178						
After seven years	1,201	1,191	1,051	1,159							
After eight years	1,195	1,190	1,057								
After nine years	1,213	1,212									
After ten years	1,221										
Surplus (deficiency) relative to first year not including accumulation ***	(75)	(93)	(18)	(53)	(119)	(114)	(62)	(4)	7		(531)
Rate of deviation relative to first year not including accumulation, in percent	6.54%	8.31%	1.73%	4.79%	11.24%	10.02%	5.08%	0.30%	(0.49%)		5.01%
Cost of accrued claims as at December 31, 2019	1,221	1,212	1,057	1,159	1,178	1,252	1,283	1,338	1,432	1,430	12,562
Cumulative payments up to December 31, 2019	1,048	926	750	746	635	502	395	218	90	14	5,324
Balance of outstanding claims	173	286	307	413	543	750	888	1,120	1,342	1,416	7,238
Outstanding claims for years up to and including 2009 underwriting year											775
											8,013
Total liabilities for insurance contracts in compulsory motor and motor liabilities branches											8,099
Net of DAC											86
Total as at December 31, 2019											8,013

* The above amounts are presented in inflation-adjusted values to allow the development to be reviewed on the basis of real values.
** The estimate of aggregate claims at the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.
*** The difference between the estimate of aggregate claims in the first year the first that does include the accrual and the estimate of aggregate claims at the report date.

Note 18 - Liabilities for insurance contracts included in the non-life insurance segment (contd.)

C. Analysis of the development of estimated liabilities for insurance contracts, net of deferred acquisition costs (contd.)

2. In self-retention in compulsory motor and liabilities branches

	As at December 31, 2019										
	Underwriting year										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	In NIS million adjusted to CPI*										
Claims paid (in aggregate) at end of year											
After one year	8	8	6	7	6	7	14	12	13	13	
After two years	45	45	39	39	41	50	68	71	78		
After three years	118	115	99	115	107	151	183	193			
After four years	206	198	188	214	205	261	333				
After five years	298	308	284	310	305	379					
After six years	423	413	371	406	409						
After seven years	512	500	443	490							
After eight years	575	568	506								
After nine years	628	624									
After ten years	678										
Estimate of accrued claims (including payments incl. accrual) at end of year **											
After one year	700	746	691	698	676	789	1,020	1,144	1,217	1,214	
After two years	742	761	704	719	669	840	1,054	1,150	1,204		
After three years	797	789	731	710	711	881	1,082	1,152			
After four years	748	743	686	739	724	882	1,078				
After five years	756	770	698	747	728	892					
After six years	774	795	691	741	729						
After seven years	771	784	687	734							
After eight years	762	781	688								
After nine years	767	788									
After ten years	776										
Surplus (deficiency) relative to first year not including accumulation ***	(28)	(45)	(2)	(24)	(60)	(103)	(58)	(8)	13		(315)
Rate of deviation relative to first year not including accumulation, in percent	3.74%	6.06%	0.29%	3.38%	8.97%	13.05%	5.69%	0.70%	(1.07%)		4.08%
Cost of accrued claims as at December 31, 2019	776	788	688	734	729	892	1,078	1,152	1,204	1,214	9,255
Cumulative payments up to December 31, 2019	678	624	506	490	409	379	333	193	78	13	3,703
Balance of outstanding claims	98	164	182	244	320	513	745	959	1,126	1,201	5,552
Outstanding claims for years up to and including 2009 underwriting year											226
											5,778
Total liabilities for insurance contracts in compulsory motor and motor liabilities branches											5,851
Net of DAC											73
Total as at December 31, 2019											5,778

* The above amounts are presented in inflation-adjusted values to allow the development to be reviewed on the basis of real values.
** The estimate of aggregate claims at the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.
*** The difference between the estimate of aggregate claims in the first year that does include the accrual and the estimate of aggregate claims at the report date.

Note 18 - Liabilities for insurance policies included in the non-life insurance segment (contd.)

C. Analysis of the development of estimated liabilities for insurance contracts, net of deferred acquisition costs (contd.)

3. Gross in compulsory motor branches

	As at December 31, 2019										
	Underwriting year										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	In NIS million adjusted to CPI*										
Claims paid (in aggregate) at end of year											
After one year	7	7	6	6	5	6	9	8	10	11	
After two years	45	42	36	36	36	43	50	54	63		
After three years	119	107	91	102	98	134	133	147			
After four years	191	170	164	187	175	220	226				
After five years	253	246	227	250	237	288					
After six years	332	316	276	299	282						
After seven years	398	367	321	337							
After eight years	434	396	345								
After nine years	452	414									
After ten years	472										
Estimate of accrued claims (including payments incl. accrual) at end of year **											
After one year	571	537	487	455	427	451	490	564	646	616	
After two years	578	542	490	454	398	482	501	552	606		
After three years	590	554	502	439	439	512	529	545			
After four years	529	487	450	474	466	528	532				
After five years	532	505	451	485	455	526					
After six years	537	507	431	466	432						
After seven years	530	490	423	446							
After eight years	515	478	409								
After nine years	503	473									
After ten years	506										
Surplus (deficiency) relative to first year not including accumulation ***	23	14	41	(7)	(34)	(75)	(42)	19	40		(21)
Rate of deviation relative to first year not including accumulation, in percent	(4.35%)	(2.87%)	(9.11%)	1.59%	8.54%	16.63%	8.57%	(3.37%)	(6.19%)		0.47%
Cost of accrued claims as at December 31, 2019	506	473	409	446	432	526	532	545	606	616	5,091
Cumulative payments up to December 31, 2019	472	414	345	337	282	288	226	147	63	11	2,585
Balance of outstanding claims	34	59	64	109	150	238	306	398	543	605	2,506
Outstanding claims for years up to and including 2009 underwriting year											135
											2,641
Total liabilities for insurance contracts in compulsory motor branches											2,662
Net of DAC											21
Total as at December 31, 2019											2,641

* The above amounts are presented in inflation-adjusted values to allow development to be reviewed on the basis of real values.
** The estimate of aggregate claims at the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.
*** The difference between the estimate of aggregate claims in the first that does include the accrual and the estimate of aggregate claims at the report date.

Note 18 - Liabilities for insurance contracts included in the non-life insurance segment (contd.)

C. Analysis of the development of estimated liabilities for insurance contracts, net of deferred acquisition costs (contd.)

4. In self-retention in compulsory motor branches

	As at December 31, 2019										
	Underwriting year										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	In NIS million adjusted to CPI*										
Claims paid (in aggregate) at end of year											
After one year	7	6	5	5	5	6	9	8	10	11	
After two years	37	34	30	29	30	39	50	54	63		
After three years	97	88	74	83	79	122	133	147			
After four years	155	138	133	152	142	199	226				
After five years	205	199	184	202	192	260					
After six years	269	256	223	241	228						
After seven years	322	297	259	272							
After eight years	351	320	279								
After nine years	366	334									
After ten years	382										
Estimate of accrued claims (including payments incl. accrual) at end of year **											
After one year	462	432	393	368	344	407	490	564	646	616	
After two years	469	440	400	372	321	436	501	552	606		
After three years	482	453	412	354	354	462	528	545			
After four years	427	393	363	383	376	477	527				
After five years	429	408	364	391	367	475					
After six years	433	409	348	376	349						
After seven years	428	396	341	360							
After eight years	416	386	331								
After nine years	406	382									
After ten years	409										
Surplus (deficiency) relative to first year not including accumulation ***	18	11	32	(6)	(28)	(68)	(37)	19	40		(19)
Rate of deviation relative to first year not including accumulation, in percent	(4.22%)	(2.80%)	(8.82%)	1.69%	8.72%	16.71%	7.55%	(3.37%)	(6.19%)		0.48%
Cost of accrued claims as at December 31, 2019	409	382	331	360	349	475	527	545	606	616	4,600
Cumulative payments up to December 31, 2019	382	334	279	272	228	260	226	147	63	11	2,202
Balance of outstanding claims	27	48	52	88	121	215	301	398	543	605	2,398
Outstanding claims for years up to and including 2009 underwriting year											126
											2,524
Total liabilities for insurance contracts in compulsory motor branches											2,545
Net of DAC											21
Total as at December 31, 2019											2,524

* The above amounts are presented in inflation-adjusted values to allow development to be reviewed based on real values.
** The estimate of aggregate claims at the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.
*** The difference between the estimate of aggregate claims in the first that does not include the accrual and the estimate of aggregate claims at the reporting date.

Note 18 - Liabilities for insurance contracts included in the non-life insurance segment (contd.)

C. Analysis of the development of estimated liabilities for insurance contracts, net of deferred acquisition costs (contd.)

5. Information about underwriting years in compulsory motor branch

	Underwriting year						
	2019	2018	2017	2016	2015	2014	2013
	NIS million						
For the year ended December 31:							
Gross premiums	646	654	561	476	482	459	481
Comprehensive income (loss) in retention for underwriting year, in aggregate	(55)	(1)	(19)	(73)	(52)	(15)	4
Cumulative effect of investment revenues on accrued comprehensive income in retention for underwriting year	21	52	59	69	67	59	70

6. Information about underwriting years in other liabilities insurance branches

	Underwriting year						
	2019	2018	2017	2016	2015	2014	2013
	NIS million						
For the year ended December 31:							
Gross premiums	901	944	906	852	842	783	765
Comprehensive income (loss) in retention for underwriting year, in aggregate	(77)	(27)	(17)	15	(12)	(33)	(16)
Cumulative effect of investment revenues on accrued profit in retention for underwriting year	20	48	70	86	75	70	81

Note 18 - Liabilities for insurance contracts included in the non-life insurance segment (contd.)

C. Analysis of the development of estimated liabilities for insurance contracts, net of deferred acquisition costs (contd.)

7. Composition of comprehensive income (loss) in compulsory motor branch

	Comprehensive loss for current underwriting year	Comprehensive profit for pervious underwriting years	Comprehensive loss for current underwriting year	Comprehensive profit for pervious underwriting years
	Gross		Retention	
	NIS million			
For the year ended December 31				
2019	**(52)**	**258**	**(55)**	**245**
2018	(75)	37	(80)	26
2017	(64)	46	(66)	45

8. Composition of comprehensive income (loss) in other liabilities branches

	Comprehensive loss for current underwriting year	Comprehensive profit (loss) for pervious underwriting years	Comprehensive loss for current underwriting year	Comprehensive profit (loss) for pervious underwriting years
	Gross		Retention	
	NIS million			
For the year ended December 31				
2019	**(49)**	**73**	**(77)**	**106**
2018	(43)	15	(58)	(22)
2017	(37)	(46)	(57)	72

* Before cancellation of the surplus income over expenses.

Note 18 - Liabilities for insurance contracts included in the non-life insurance segment (contd.)

D. Analysis of the development of estimated liabilities for insurance contracts

1. Gross in property and other branches (including motor property)

	As at December 31										
	Year of loss										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	*In NIS thousand adjusted to CPI November 2019										
Claims paid (in aggregate) at end of year											
After first year	741	741	730	837	743	735	655	606	667	659	
After second year	1,013	959	981	1,238	993	1,030	885	781	932		
After three years	1,054	1,022	1,016	1,342	1,042	1,080	937	833			
After four years	1,066	1,047	1,029	1,421	1,068	1,103	949				
After five years	1,071	1,058	1,039	1,429	1,073	1,104					
After six years	1,072	1,074	1,039	1,430	1,079						
After seven years	1,070	1,084	1,041	1,432							
After eight years	1,072	1,083	1,041								
After nine years	1,072	1,079									
After ten years	1,071										
Accrued claims (including payments) at end of year:											
After first year	1,104	1,071	1,116	1,444	1,127	1,122	1,005	921	1,058	1,001	
After second year	1,121	1,087	1,119	1,490	1,123	1,171	1,017	914	1,078		
After three years	1,107	1,098	1,107	1,450	1,107	1,192	1,017	905			
After four years	1,089	1,094	1,086	1,458	1,105	1,196	996				
After five years	1,086	1,095	1,084	1,458	1,100	1,170					
After six years	1,089	1,097	1,077	1,454	1,093						
After seven years	1,083	1,098	1,079	1,448							
After eight years	1,078	1,090	1,060								
After nine years	1,076	1,083									
After ten years	1,073										
Estimate of accrued costs, as at December 31, 2019	1,073	1,083	1,060	1,448	1,093	1,170	996	905	1,078	1,001	10,907
Cumulative payments up to December 31, 2019	1,071	1,079	1,041	1,432	1,079	1,104	949	833	932	659	10,179
Balance of outstanding claims	2	4	19	16	14	66	47	72	146	342	728
Outstanding claims for years up to and including 2009 loss year											19
Total as at December 31, 2019											747

* The estimate of claims for each year was calculated by loss years. The above amounts are presented in values adjusted to inflation to allow for a review of the development based on real values.

Note 18 - Liabilities for insurance contracts included in the non-life insurance segment (contd.)

D. Analysis of the development of estimated liabilities for insurance contracts (contd.)

2. In self-retention in property and other branches (including motor property)

	As at December 31										
	Year of loss										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Claims paid (in aggregate) at end of year											
After first year	509	511	483	501	496	504	443	443	453	483	
After second year	640	640	617	640	625	639	554	544	572		
After three years	659	653	636	657	648	641	569	554			
After four years	668	661	643	668	659	642	573				
After five years	670	662	646	669	661	643					
After six years	671	665	646	669	662						
After seven years	671	665	646	669							
After eight years	672	665	646								
After nine years	672	664									
After ten years	671										
Accrued claims (including payments) at end of year:											
After first year	704	693	683	713	696	681	608	615	630	629	
After second year	692	689	682	710	691	687	608	605	622		
After three years	690	683	676	693	682	674	602	585			
After four years	682	681	669	683	679	667	587				
After five years	681	680	666	685	676	653					
After six years	683	678	662	684	670						
After seven years	681	676	664	678							
After eight years	677	670	650								
After nine years	674	667									
After ten years	673										
Estimate of accrued costs, as at December 31, 2019	673	667	650	678	670	653	587	585	622	629	6,414
Cumulative payments up to December 31, 2019	671	664	646	669	662	643	573	554	572	483	6,137
Balance of outstanding claims	2	3	4	9	8	10	14	31	50	146	277
Outstanding claims for years up to and including 2009 loss year											17
Total as at December 31, 2019											294

* The estimate of claims for each year was calculated by loss years. The above amounts are presented in values adjusted to inflation to allow for a review of the development based on real values.

Note 19 - Additional information about the life assurance and long-term savings segment

A. Liabilities for insurance contracts and investment contracts by exposure

1. Data as at December 31, 2019

	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		
	Up to 1990*	Up to 2003	Not yield-dependent	Yield dependent	Personal lines	Group	Total
				NIS million			
By insurance exposure							
Liabilities for insurance contracts							
Annuity without guaranteed annuity options	14	160	1	3,831	-	-	4,006
Annuity with guaranteed annuity options:							
Up to May 2001	5,437	14,294	-	-	-	-	19,731
From June 2001	-	2,976	11	11,650	-	-	14,637
Annuity in payment	1,785	1,293	1,587	1,646	-	-	6,311
Capital (excl. option for annuity)	1,407	4,209	1	3,385	-	-	9,002
Supplementary reserve for annuity**	674	412	-	1	-	-	1,087
Other risk components	63	444	-	616	1,266	297	2,686
Total for insurance contracts	9,380	23,788	1,600	21,129	1,266	297	57,460
Liabilities for investment contracts	-	-	139	16,237	-	-	16,376
Total	9,380	23,788	1,739	37,366	1,266	297	73,836
By financial exposure							
Yield-dependent	188	23,618	-	36,976	320	35	61,137
Not yield-dependent ***	9,192	170	1,739	390	946	262	12,699
Total	9,380	23,788	1,739	37,366	1,266	297	73,836

* The products issued until 1990 (including increases in respect thereof) are mainly guaranteed yield and they are mostly backed by earmarked bonds.

** In addition to a supplementary reserve for annuity which is included in the liabilities for insurance contracts, there is also a future liability in the amount of NIS 856 million which will be recognized in profit or loss over the remaining life of the policy until retirement age. For additional information, see Note 37E.

*** Liabilities which form an exposure for the Company in respect of minimum guaranteed yield.

Note 19 - Additional information about the life assurance and long-term savings segment (contd.)

A. Liabilities for insurance contracts and investment contracts by exposure (contd.)

1. Data As at December 31, 2018

	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		
	Up to 1990*	Up to 2003	Not yield-dependent	Yield dependent	Personal lines	Group	Total
	NIS million						
By insurance exposure							
Liabilities for insurance contracts							
Annuity without guaranteed annuity options	12	141	1	2,759	-	-	2,913
Annuity with guaranteed annuity options:							
Up to May 2001	5,124	12,890	-	-	-	-	18,014
From June 2001	-	2,668	12	10,112	-	-	12,792
Annuity in payment	1,562	961	1,438	1,027	-	-	4,988
Capital (excl. option for annuity)	1,499	4,108	1	2,546	-	-	8,154
Supplementary reserve for annuity**	639	287	-	-	-	-	926
Other risk components	63	461	-	587	1,150	287	2,548
Total for insurance contracts	8,899	21,516	1,452	17,031	1,150	287	50,335
Liabilities for investment contracts	-	-	138	13,552	-	-	13,690
Total	8,899	21,516	1,590	30,583	1,150	287	64,025
By financial exposure							
Yield-dependent	179	21,320	-	30,182	272	32	51,985
Not yield-dependent ***	8,720	196	1,590	401	878	255	12,040
Total	8,899	21,516	1,590	30,583	1,150	287	64,025

* The products issued until 1990 (including increases in respect thereof) are mainly guaranteed yield and are mostly backed by earmarked bonds.

** In addition to the supplementary reserve for annuity included in the liabilities for insurance contracts, there is also a future liability of NIS 676 million, to be recognized in profit or loss over the life of the policy remaining until retirement age. For additional information, see Note 37 E.

*** The liabilities that form an exposure for the Company for guaranteeing a minimum yield.

Note 19 - Additional information about the life assurance and long-term savings segment (contd.)

B. Results, by category of policy

1. Data For the year ended December 31, 2019

	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:							
Masorti/Meurav	17	25	-	-	-	-	42
Savings component	59	677	-	3,640	-	-	4,376
Other	23	219	-	285	1,161	158	1,846
Total	99	921	-	3,925	1,161	158	6,264
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(9)
Total							6,255
Financial margin including management fees - in terms of comprehensive income (2)	258	388	(96)	305	-	-	855
Payments and changes in liabilities for insurance contracts, gross	865	3,554	257	5,741	629	147	11,193
Payments and change in liabilities for investment contracts (3)	-	-	-	1,402	-	-	1,402
Profit (loss) from life assurance business	(238)	189	(203)	56	37	2	(157)
Other comprehensive income (loss) from life assurance business	118	3	91	8	22	5	247
Total comprehensive income (loss) from life assurance business	(120)	192	(112)	64	59	7	90
Profit from pension and provident							127
Other comprehensive income from pension and provident							7
Total comprehensive income from life assurance and long-term savings	-	-	-	-	-	-	224
Amounts received for insurance contracts recognized directly in insurance reserves	-	-	18	3,311	-	-	3,329
Annualized premium for insurance contracts - new business (4)	-	-	-	135	147	-	282
Single premium for insurance contracts	1	3	-	2,053	-	-	2,057
Annualized premium for investment contracts - new business (4)	-	-	-	50	-	-	50
Single premiums for investment contracts	-	-	18	3,067	-	-	3,085
Transfers to Company for insurance contracts and investment contracts (5)				671			671
Transfers from Company for insurance contracts and insurance contracts (5)	12	238		594			844

1 The products issued until 1990 (including increases in respect thereof) are mainly guaranteed yield and are mostly 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 percentage multiplied by the average reserve. The financial margin for non-yield dependent policies that were issued from 2004 onwards also includes the effect of the change in the discounting rates used for calculating the insurance liabilities. In this instance, investment revenues also include the change in the fair value of available-for-sale financial assets which is recognized in the statement of comprehensive income. In yield-dependent contracts, the financial margin is the total fixed and variable management fees which are calculated based on the yield and the average balance of the insurance reserves.
3 The line "payments and changes in liabilities for investment contracts" only includes the amount of profits (losses) from investments for investment contracts.
4. Increases in existing policies are not included as part of the premium paid for new business, but as part of the performance of the original policy.
5. Not including internal movement.

Note 19 - Additional information about the life assurance and long-term savings segment (contd.)

B. Results, by category of policy (contd.)

2. Data For the year ended December 31, 2018

	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:							
Masorti/Meurav	20	30	-	-	-	-	50
Savings component	62	683	-	3,016	-	-	3,761
Other	26	224	-	261	1,121	180	1,812
Total	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
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 (3)	-	-	1	(202)	-	-	(201)
Profit (loss) from life assurance business	(28)	26	117	(23)	101	5	198
Other comprehensive income (loss) from life assurance business	52	3	(45)	6	11	3	30
Total comprehensive income (loss) from life assurance business	24	29	72	(17)	112	8	228
Profit from pension and provident							130
Other comprehensive loss from pension and provident							(3)
Total comprehensive income from life assurance and long-term savings							355
Amounts received for insurance contracts recognized directly in insurance reserves	-	-	130	4,788	-	-	4,918
Annualized premium for insurance contracts - new business (4)	-	-	-	290	162	-	452
Single premium for insurance contracts	-	2	-	1,466	-	-	1,468
Annualized premium for investment contracts - new business (4)	-	-	-	59	-	-	59
Non-recurring premiums for investment contracts	-	-	130	4,556	-	-	4,686
Transfers to Company for insurance contracts and investment contracts (5)				518			518
Transfers from Company for insurance contracts and insurance contracts (5)	12	182		335			529

1 The products issued until 1990 (including increases in respect thereof) are mainly guaranteed yield and are mostly 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 percentage multiplied by the average reserve. The financial margin for non-yield dependent policies that were issued from 2004 onwards also includes the effect of the change in the discounting rates used for calculating the insurance liabilities. In this instance, investment revenues also include the change in the fair value of available-for-sale financial assets which is recognized in the statement of comprehensive income. In yield-dependent contracts, the financial margin is the total fixed and variable management fees which are calculated based on the yield and the average balance of the insurance reserves.
3 The line "payments and changes in liabilities for investment contracts" only includes the amount of profits (losses) from investments for investment contracts.
4. Increases in existing policies are not included as part of the premium paid for new business, but as part of the performance of the original policy.
5. Not including internal movement.

Note 19 - Additional information about the life assurance and long-term savings segment (contd.)

B. Results, by category of policy (contd.)

3. Data For the year ended December 31, 2017

	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:							
Masorti/Meurav	23	34	-	-	-	-	57
Savings component	66	690	-	2,555	-	-	3,311
Other	28	229	-	248	1,029	186	1,720
Total	117	953	-	2,803	1,029	186	5,088
Premiums for amounts deposited in a subsidiary as part of a defined benefit plan for the Group's employees							(10)
Total							5,078
Financial margin including management fees - in terms of comprehensive income (2)	190	355	(8)	214	-	-	751
Payments and changes in liabilities for insurance contracts, gross	512	2,736	91	3,747	466	188	7,740
Payments and change in liabilities for investment contracts (3)	-	-	-	652	-	-	652
Profit (loss) from life assurance business	65	215	(39)	(28)	196	(11)	398
Other comprehensive income (loss) from pension and provident	47	2	25	3	9	2	88
Total comprehensive income (loss) from life assurance business	112	217	(14)	(25)	205	(9)	486
Profit from pension and provident							105
Other comprehensive income from pension and provident							3
Total comprehensive income from life assurance and long-term savings							594
Amounts received for investment contracts recognized directly in insurance reserves	-	-	-	4,162	-	-	4,162
Annualized premium for insurance contracts - new business (4)	-	-	-	275	167	-	442
Single premiums for insurance contracts	-	2	-	1,133	-	-	1,135
Annualized premium for investment contracts - new business (4)	-	-	-	55	-	-	55
Single premiums for investment contracts	-	-	-	3,962	-	-	3,962
Transfers to Company for insurance contracts and investment contracts (5)	-	-	-	512	-	-	512
Transfers from Company for contracts and investment contracts (5)	7	58	-	308	-	-	373

1 The products issued until 1990 (including increases in respect thereof) are mainly guaranteed yield and are mostly 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 percentage multiplied by the average reserve. The financial margin for non-yield dependent policies that were issued from 2004 onwards also includes the effect of the change in the discounting rates used for calculating the insurance liabilities. In this instance, investment revenues also include the change in the fair value of available-for-sale financial assets which is recognized in the statement of comprehensive income. In yield-dependent contracts, the financial margin is the total fixed and variable management fees which are calculated based on the yield and the average balance of the insurance reserves.
3 The line "payments and changes in liabilities for investment contracts" only includes the amount of profits (losses) from investments for investment contracts.
4. Increases in existing policies are not included as part of the premium paid for new business, but as part of the performance of the original policy.
5. Not including internal movement.

Note 20 - Insurance liabilities in the health insurance segment

A. Insurance liabilities by financial exposure

Data as at December 31, 2019

	Long-term care (LTC)		Other		
	Personal lines	Group	long-term	short-term	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Yield-dependent	521	4,881	-	-	5,402
Other	3,917	355	1,699	204	6,175
Total insurance liabilities	4,438	5,236	1,699	204	11,577

Data as at December 31, 2018

	Long-term care (LTC)		Other		
	Personal lines	Group	long-term	short-term	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Yield-dependent	455	4,302	-	-	4,757
Other	2,753	524	1,675	215	5,167
Total insurance liabilities	3,208	4,826	1,675	215	9,924

Note 20 - Insurance liabilities in the health insurance segment

B. Insurance liabilities by insurance exposure

Data as at December 31, 2019

	Long-term care (LTC)		Other		
	Personal lines	Group	long-term	short-term	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Annuity in payment	735	3,275	-	-	4,010
Other risk components	3,703	1,961	1,699	204	7,567
Total liabilities for insurance policies	4,438	5,236	1,699	204	11,577

Data as at December 31, 2018

	Long-term care (LTC)		Other		
	Personal lines	Group	long-term	short-term	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Annuity in payment	611	3,105	-	-	3,716
Other risk components	2,597	1,721	1,675	215	6,208
Total liabilities for insurance policies	3,208	4,826	1,675	215	9,924

The principal coverages included in other short-term health insurance are foreign workers, overseas travel, insurance for sick days, personal accidents up to 12 months, etc.

The principal coverages included in other long-term health insurance are medical expenses, personal accidents over 12 months, critical illness, dental treatment, etc.

Note 20 - Insurance liabilities in the health insurance segment (contd.)

C. Results by policy category

Data for the year ended December 31, 2019

	Long-term care (LTC)		Other*		
	Personal lines	Group	long-term**	short-term**	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Gross premiums	755	1,377	2,327	472	4,931
Payments and changes in liabilities for insurance contracts, gross	1,429	1,754	1,289	307	4,779
Profit (loss) from health insurance business	(633)	(48)	290	13	(378)
Other comprehensive income from health insurance business	60	13	42	1	116
Total comprehensive income (loss) from health insurance business	(573)	(35)	332	14	(262)
Annualized personal lines premium - new business	46	-	180	-	226

* Of this, personal lines premiums in the amount of NIS 1,829 million and group premiums in the amount of NIS 970 million.

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

Data for the year ended December 31, 2018

	Long-term care (LTC)		Other*		
	Personal lines	Group	long-term**	short-term**	Total
	NIS million	NIS million	NIS million	NIS million	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
Profit (loss) from health insurance business	86	(54)****	269****	1****	302
Other comprehensive income (loss) from health insurance business	-	1	(14)	-	(13)
Total comprehensive income (loss) from health insurance business	86	(53)	255	1	289
Annualized personal lines premium - new business	139	-	247	-	386

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

** Of this, personal lines premiums in the amount of NIS 1,797 million and group premiums in the amount of NIS 909 million.

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

**** Reclassified.

Note 20 - Insurance liabilities in the health insurance segment (contd.)

C. Results by policy category (contd.)

Data for the year ended December 31, 2017

	Long-term care (LTC)		Other*		
	Personal lines	Group	long-term**	short-term**	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Gross premiums	590	1,278	2,102	459	4,429
Payments and changes in liabilities for insurance contracts, gross	466	1,517	1,415	290	3,688
Profit (loss) from health insurance business	121	(84)	54	-	91
Other comprehensive income (loss) from health insurance business	10	6	3	-	19
Total comprehensive income (loss) from health insurance business	131	(78)	57	-	110
Annualized personal lines premium - new business	48	-	187	-	235

* Of this, personal lines premiums in the amount of NIS 1,678 million and group premiums in the amount of NIS 883 million.

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

Note 21 - Changes in liabilities for yield-dependent and non-yield-dependent insurance contracts, investment contracts and health insurance

	Life assurance and long-term savings			
	Insurance contracts	Investment contracts	Total	Health insurance
	NIS million	NIS million	NIS million	NIS million
Balance as at January 1, 2018	48,938	10,588	59,526	9,467
Interest, linkage differences and investment profit (loss) (1)	19	(199)	(180)	126
Increase for premiums recognized in liabilities (2)	3,894	4,918	8,812	373
Decrease for management fees from accrual*	(280)	(106)	(386)	-
Reduction for claims, redemptions and end of period	(1,803)	(1,511)	(3,314)	-
Changes on account of change in assumptions (4) (5)	76	-	76	(130)
Other changes (3)	(300)	-	(300)	88
Balance as at December 31, 2018	**50,544**	**13,690**	**64,234**	**9,924**
Interest, linkage differences and investment profit (loss) (1)	**5,634**	**1,411**	**7,045**	**974**
Increase for premiums recognized in liabilities (2)	**4,636**	**3,329**	**7,965**	**285**
Decrease for management fees from accrual	**(570)**	**(124)**	**(694)**	**-**
Reduction for claims, redemptions and end of period	**(1,970)**	**(1,930)**	**(3,900)**	**-**
Changes on account of change in assumptions (4) (5)	**118**	**-**	**118**	**348**
Other changes (3)	**(723)**	**-**	**(723)**	**46**
Balance as at December 31, 2019	**57,669**	**16,376**	**74,045**	**11,577**

(1) Interest, linkage differences and profit (loss) on investments - this item includes interest, linkage differences and investment profit (loss) for the balance at the beginning of the year, plus interest, linkage differences and investment profit (loss) in respect of premiums for saving only which were recorded during the Reporting Period.

(2) An increase for premiums recognized in liabilities - this premium does not include the premium recorded as an income for the Group. The premium includes the premium for saving and part of the premium on products with a fixed premium, net of management fees collected as a percentage of the premium.

(3) Other changes - this item includes changes in the reserve for outstanding claims, reserve for time-based claims, IBNR, annuity in payment, etc. (based on the assumptions used at the end of the previous year. This item also includes the effect of interest, linkage differences and investment profit that was not included under "interest, linkage differences and investment profit" such as: interest, linkage differences, and investment profit on claims payments and premiums that are not saving, and reducing future profitability attributed to insurance liabilities in respect of the acquisition of the Eliahu insurance portfolio.

(4) Life assurance and long-term savings segment - the changes in 2019 are attributable to the implementation of an insurance circular on the “Amendment of the Provisions of the Consolidated Circular concerning the measurement of liability - Update of the demographic assumptions in life assurance and updated model for mortality improvements for insurance companies and pension funds” which led to an increase of NIS 91 million in the insurance liabilities. Additionally, a study in connection with the assumption of the cancellation rate for insureds who are expected to exercise their right to annuity (TUR) was revised which led to an increase of NIS 27 million in the insurance liabilities. For additional information, see Note 37E2. The changes in 2018 are mainly attributable to a revision of the rate of eligibility to current and future Hetz bonds, the percentage of expenses in Gimla claims and a revision of the assumption for Gimla take-up rates all of which led to an increase of NIS 76 million in the insurance liabilities.

(5) Health segment - the changes in 2019 were affected by a sharp decline of the interest rate curve which led to an increase of NIS 558 million in the insurance liabilities in the long-term care sector (NIS 500 increase in retention). This increase was partially offset by implementation of an insurance circular on the “Amendment of the Provisions of the Consolidated Circular concerning the measurement of liability - Update of the demographic assumptions in life assurance and updated model for mortality improvements for insurance companies and pension funds” which led to a decrease of NIS 98 million in the insurance liabilities (decrease of NIS 70 million in the retention) and to several studies that were conducted in connection with the cost of claims in the personal lines health sector on cover for medication, ambulatory care and surgery that led to a decrease in the insurance liabilities in the amount of NIS 112 million (decrease of NIS 112 million in the retention). For additional information, see Note 37E2. The changes in 2018 are mainly attributable to revised cancellation and morbidity assumptions in the health sector, which led to a decrease of NIS 145 million in the insurance liabilities (a decrease of NIS 138 million in the retention) and revised assumptions for cancellations, morbidity and expenses in the personal-lines LTC sector, which led to an increase of NIS 15 million in the insurance liabilities (NIS 18 million increase in the retention).

Note 22 - Assets and Liabilities for Employee Benefits

Employee benefits include short-term benefits, post-employment benefits, other long-term benefits and severance benefits.

Post-employment benefits

Israel labor and severance pay laws require the Company to make severance payments to an employee upon dismissal or retirement or to make regular deposits with a defined contribution plan, under Section 14, as noted below. The Company's liabilities for said are treated as post-employment benefits.
The calculation of the Company's liability for employee benefits is based on a binding employment agreement and on the employees' salaries, which, in the opinion of management, create the right to receive severance compensation.

Post-employments benefits are generally financed by deposits to a defined benefit plan or to a defined contribution plan, as detailed below:

Defined contribution plans
Part of the severance payments are subject to Section 14 of Severance Pay Law, 1963, and accordingly, regular deposits by the Company with pension funds and / or insurance policies with insurance companies, exempt it from any additional liability to employees, for whom deposits were made, as noted above. These deposits and deposits with provident funds constitute defined contribution plans. Expenses incurred in respect of these defined contribution plans in 2019, 2018 and 2017 amounted to NIS 38 million, NIS 37 million, and NIS 34 million, respectively, and were included under general and administrative expenses.

Defined benefit plans
Part of the severance payments which are not covered by deposits with the defined contribution plan, as stated above, are treated by the Company as a defined benefits plan, under which a liability for employee benefit is recorded and for which the Group deposits funds with central severance pay funds and appropriate insurance policies.

Plan assets
The plan’s assets include assets held by a long-term employee benefit fund (provident fund for salaried employees and pension funds) as well as appropriate insurance policies.

A. Composition of liabilities for employee benefits, net

	As at December 31	
	2019	**2018**
	NIS million	**NIS million**
Liabilities for financed defined benefit plan	**360**	346
Liabilities for non-financed defined benefit plan - see Section C below	**32**	29
Net of fair value of plan’s assets	**(110)**	(121)
Total liabilities, net, for defined benefit plans	**282**	254

Note 22 - Assets and Liabilities for Employee Benefits (contd.)

B. Information about defined benefit plans

1. Changes in the present value of the liability and the fair value of the assets for a defined benefit plan

	Obligation for a defined benefit plan		Fair value of plan's assets		Total liability (asset), net recognized for a defined benefit plan	
	2019	2018	2019	2018	2019	2018
Balance as at January 1	**375**	376	**121**	124	**254**	252
Expenses recognized in profit or loss						
Cost of interest	**13**	13	**3**	3	**10**	10
Cost of ongoing service	**20**	19	**-**	-	**20**	19
Movement in wage tax	**2**	-	**-**	-	**2**	-
Expenses (income) recognized in other comprehensive income						
Actuarial loss (profit), attributed to changes in financial assumptions	**21**	(6)	**1**	(1)	**20**	(5)
Other actuarial profit	**(11)**	(8)	**-**	-	**(11)**	(8)
Actual yield net of interest income	**-**	-	**2**	(4)	**(2)**	4
Additional movements						
Paid benefits	**(29)**	(19)	**(6)**	(5)	**(23)**	(14)
Employer's contributions to plan	**-**	-	**3**	4	**(3)**	(4)
Transfers	**1**	-	**(1)**	-	**2**	-
Other	**-**	-	**(13)**	-	**13**	-
Balance as at December 31	**392**	375	**110**	121	**282**	254

2. Possible, reasonable changes in the reporting date for one of the actuarial assumptions, assuming that the other assumptions remain unchanged, affect the liability for a defined benefit as follows:

	As at December 31, 2019	
	One-percent increase	One-percent decrease
	NIS million	NIS million
Rate of future wage increases	**15**	**(10)**
Departure rates	**(4)**	**5**
Discount rate	**(12)**	**13**

	As at December 31, 2018	
	One-percent increase	One-percent decrease
	NIS million	NIS million
Rate of future wage increases	11	(8)
Departure rates	(2)	3
Discount rate	(8)	11

Note 22 - Assets and Liabilities for Employee Benefits (contd.)

B. Information about defined benefit plans (contd.)

3. Key actuarial assumptions used to determine liability for the defined benefit plan

	2019	2018	2017
	%	%	%
Discount rate	**0.22-0.58**	1.03-1.87	0.66-1.46
Expected rate of salary increases (weighted average)	**2.3**	2.3	2.4
Expected rate of inflation	**2**	2	2

4. Additional information

a. Actual return on the plan's assets in 2019 is 4.4% (in 2017 - 2.8% and in 2017 2.9%).

b. The Group's estimate of the expected deposits in 2020 in a funded, defined benefit plan is NIS 2.7 million.

c. The Group's estimate of the duration of the plan at the end of the Reporting Period is 6.24 years and for 2018 is 5.68 years.

C. Liability for a non-financed defined benefit plan

	As at December 31	
	2019	2018
	NIS million	NIS million
Liability for early retirement	**10**	10
Liability for advance notice	**19**	16
Liability for adjustment period	**3**	3
	32	29

Note 23 - Trade and other payables

	As at December 31	
	2019	2018
	NIS million	NIS million
Employees and other liabilities for wages and salaries	**106**	103
Payable expenses	**171**	263
Suppliers and service providers	**189**	188
Government authorities and institutions	**80**	68
Reinsurer's share of DAC	**81**	80
Liabilities for leases	**84**	-
	711	702
Insurance companies and brokers:		
Reinsurers' deposits	**1,316**	1,117
Other accounts	**311**	296
Total insurance companies	**1,627**	1,413
Insurance agents	**416**	412
Policyholders and members	**292**	329
Profit sharing for policyholders	**47**	38
Prepaid premiums	**258**	297
Interest and principal due - subordinated liability notes	**6**	8
Liabilities for investment in securities	**239**	9
Other	**97**	47
	1,355	1,140
Total other payables	**3,693**	3,255

For information about the assets and liabilities allocated by linkage bases, see Note 37J.

Note 24 - Obligations for ETNs and certificates of deposit

A. Composition:

	As at December 31	
	2019	2018
	NIS million	NIS million
Liability for certificates of deposit *	**-**	33
	-	33

B. The backing assets are presented in the Statement of Financial Position, as follows:

	As at December 31	
	2019	2018
	NIS million	NIS million
Cash equivalents and deposits pledged for holders of ETNs and certificates of deposit	**-**	35
Total assets	**-**	35

Note 25 - Financial liabilities

This note provides information on the contractual terms of financial liabilities. Additional information regarding the Group's exposure to interest, foreign currency, and liquidity risks is presented in Note 37 - Risk management.

A. Financial liabilities

	Book value		Fair value	
	As at December 31		As at December 31	
	2019	2018	2019	2018
	NIS million	NIS million	NIS million	NIS million
Financial liabilities presented at amortized cost				
Bank loans *	**530**	459	**557**	473
Loans from non-bank corporations	**-**	31	**-**	31
Loans from related parties	**12**	11	**12**	11
Short-term credit from banks and others	**-**	121	**-**	121
Bonds *	**6,091**	3,415	**6,670**	3,584
	6,633	4,037	**7,239**	4,220
Financial liabilities stated at fair value through profit or loss				
Bank loans	**-**	-	**-**	-
Derivatives (1)	**513**	1,024	**513**	1,024
Short selling (2)	**291**	207	**291**	207
	804	1,231	**804**	1,231
Total financial liabilities	**7,437**	5,268	**8,043**	5,451
Subordinated liability notes issued for the purpose of compliance with the capital requirements	**4,739**	3,516		

* Including subordinated liability notes.

(1) Derivative instruments held against insurance liabilities as part of the Group's asset liability policy ("ALM"). Of the above, NIS 364 million and NIS 507 million at December 31, 2019 and 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 stems from the management of exposure to foreign currency and the CPI by means of derivatives. Against these liabilities, the financial institutions deposited collateral under conditions prescribed in the contract. The Group's financial institutions have approved credit facilities for their derivative activity. Accordingly, the Group's financial institutions deposited NIS 755 million and NIS 1,099 million at December 31, 2019 and 2018, respectively, as collateral to cover its liabilities arising from this activity.

(2) Starting in 2016, a subsidiary of the Company entered into agreement with a bank to perform several short-sale transactions of Israel government bonds against bank deposits, in which the subsidiary will deposit sums of money against the short sale by the bank by the redemption date of the bonds. At December 31, 2019, the balance of the backing deposits is NIS 295 million. After the date of the report, another transaction was performed in the amount of NIS 100 million.

B. The interest rates used to determine the fair value

	As at December 31	
	2019	2018
In percent		
Loans	**1.87**	2.75
Bonds	**0.95**	2.31

Note 25 - Financial liabilities (contd.)

C. Financial liabilities presented at amortized cost – additional information

Category of liability	Category of capital	Date of issue	Par value on date of issue (NIS M)	Issuing entity	Rating company	Rating	Linkage conditions	Marketable / non-marketable	Type of interest	% interest	Book value as at December 31, 2019 (NIS M)	Fair value as at December 31, 2019 (NIS M)	Dates of the principal payments	Dates of the interest payments	Final maturity date	Right to early redemption	Compliance with financial covenants
Bank loans																	
Loan		27/11/2008	200	Bank			Shekel	Non-marketable	Fixed	3.14%	98	100	Semi-annual	Semi-annual	25/11/2022		See Section H(5)a
Loan		14/12/2014	250	Bank			Shekel	Non-marketable	Fixed	4.40%	242	265	Semi-annual	Semi-annual	24/12/2026		See Section H(5)b
Loan		25/11/2019	100	Bank			Shekel	Non-marketable	Variable	Bank of Israel interest + 0.3%	100	100	Semi-annual	Semi-annual	25/11/2026		See Section H(5)c
Loan		25/11/2019	90	Bank			Shekel	Non-marketable	Fixed	2.55%	90	92	Semi-annual	Semi-annual	25/11/2026		See Section H(5)c
Subordinated liability note	Hybrid Tier-2	16/02/2011	100	Harel Insurance Company Ltd.			Shekel	Non-marketable	Variable	Bank of Israel interest + 2.85%	-	-	On maturity date	Semi-annual	16/02/2022	16/02/2019	
Total loans from banks											530	557					
Loans from non-bank corporations																	
Loan		07/03/2013	100	Institutional investor			Shekel linked	Non-marketable	Fixed	2.70%	-	-	Annual	Semi-annual	07/03/2019		
Loans from related parties																	
Loan		18/05/2015	10	Principal shareholder (interested party)			Shekel	Non-marketable	Variable	3.05%	12	12	On maturity date	On maturity date	18/05/2020		
Short-term credit from banks and others																	
On-call loan			-	Bank			Shekel	Non-marketable	Variable	Prime-0.5%	-	-	On-call	On-call	-		
Bonds																	
Non-marketable bonds	Subordinated Tier-2	18/02/2004	200	Harel Insurance Company Ltd.			Shekel linked	Non-marketable	Fixed	5.55%	-	-	Annual	Annual	31/03/2019	-	
Series 1 bonds	Subordinated Tier-2	28/11/2006	650	Harel Issuing	Maalot	AA	Shekel linked	Marketable	Fixed	4.65%	61	66	Annual	Annual	31/12/2021	-	
Series 3 bonds	Hybrid Tier-2	25/05/2010 19/07/2010	150	Harel Issuing	Maalot	AA-	Shekel	Marketable	Variable	1.800%+Makam	-	-	On maturity date	Quarterly	31/05/2022	31/05/2019	
Series 4 bonds	Hybrid Tier-2	25/05/2010	199	Harel Issuing	Maalot	AA-	Shekel linked	Marketable	Fixed	3.90%	217	220	On maturity date	Semi-annual	31/05/2023	31/05/2020	
Series 5 bonds	Hybrid Tier-2	25/05/2010 31/08/2011	399	Harel Issuing	Maalot	AA-	Shekel linked	Marketable	Fixed	3.90%	434	460	On maturity date	Semi-annual	31/05/2024	31/05/2021	
Series 6 bonds	Hybrid Tier-3	04/04/2012 08/05/2012 01/01/2013 29/01/2014 05/06/2014	240	Harel Issuing	Maalot	AA-	Shekel linked	Marketable	Fixed	3.85%	253	286	On maturity date	Semi-annual	31/05/2025	31/05/2023	
Series 7 bonds	Hybrid Tier-3	04/04/2012 01/01/2013 20/07/2013 29/01/2014 05/06/2014	250	Harel Issuing	Maalot	AA-	Shekel linked	Marketable	Fixed	3.85%	266	306	On maturity date	Semi-annual	31/05/2026	31/05/2024	
Series 8 bonds	Hybrid Tier-3	25/06/2013 29/01/2014	225	Harel Issuing	Maalot	AA-	Shekel linked	Marketable	Fixed	2.80%	228	245	On maturity date	Semi-annual	31/05/2024	31/05/2022	
Series 9 bonds	Hybrid Tier-2	07/01/2015 19/01/2017	295	Harel Issuing	Maalot	AA-	Shekel linked	Marketable	Fixed	2.40%	278	337	On maturity date	Semi-annual	31/12/2028	30/06/2020 31/12/2025	
Series 10 bonds	Hybrid Tier-2	07/01/2015 19/01/2017	295	Harel Issuing	Maalot	AA-	Shekel linked	Marketable	Fixed	2.40%	277	340	On maturity date	Semi-annual	31/12/2029	30/06/2020 31/12/2026	

* The bonds include a condition whereby Harel Financing & Issuing may make early repayment of the bonds, or part thereof. The exercising of this right is subject to meeting one of the following conditions: (a) obtaining the Commissioner's approval; or (b) Harel Insurance must have surplus capital so that the recognized capital after the repayment is 120% of the required capital; or (c) concurrent with the early repayment, Harel Financing & Issuing will issue a capital instrument of the same or superior quality.

Note 25 - Financial liabilities (contd.)

C. Financial liabilities presented at amortized cost – additional information (contd.)

Category of liability	Category of capital	Date of issue	Par value on date of issue (NIS M)	Issuing entity	Rating company	Rating	Linkage conditions	Marketable / non-marketable	Type of interest	% interest	Book value as at December 31, 2019 (NIS M)	Fair value as at December 31, 2019 (NIS M)	Dates of the principal payments	Dates of the interest payments	Final maturity date	Right to early redemption	Compliance with financial covenants
Bonds (contd.)																	
Series 11 bonds	Hybrid Tier-2	02/09/2015 21/09/2015	300	Harel Issuing	Maalot	AA-	Shekel	Marketable	Fixed	4.36%	297	359	On maturity date	Semi-annual	31/12/2030	02/09/2020 31/12/2027	
Series 12 bonds	Hybrid Tier-2	03/04/2016 25/07/2016	240	Harel Issuing	Maalot	AA-	Shekel	Marketable	Fixed	3.95%	234	281	On maturity date	Semi-annual	31/12/2031	31/03/2021 31/12/2028	
Series 13 bonds	Hybrid Tier-2	03/04/2016 25/07/2016	240	Harel Issuing	Maalot	AA-	Shekel	Marketable	Fixed	3.95%	234	282	On maturity date	Semi-annual	31/12/2032	31/03/2021 31/12/2029	
Series 14 bonds	Tier-2	25/01/2018 05/12/2018 02/12/2019	316	Harel Issuing	Maalot	AA-	Shekel	Marketable	Fixed	3.05%	730	789	On maturity date	Semi-annual	31/12/2033	31/12/2022 31/12/2030	
Series 15 bonds	Tier-2	25/01/2018 05/12/2018	316	Harel Issuing	Maalot	AA-	Shekel	Marketable	Fixed	3.05%	290	342	On maturity date	Semi-annual	31/12/2034	31/12/2022 31/12/2031	
Series 16 bonds	Tier-2	18/04/2019	600	Harel Issuing	Maalot	AA-	Shekel	Marketable	Fixed	2.91%	594	649	On maturity date	Semi-annual	30/06/2029	30/06/2024 30/06/2026	
Series 17 bonds	Tier-2	02/12/2019	350	Harel Issuing	Maalot	AA-	Shekel	Marketable	Fixed	1.79%	346	349	On maturity date	Semi-annual	31/12/2030	31/12/2025 31/12/2027	
Harel Deposit Series 1 bond		05/08/19 12/09/19 07/11/19	1,349,659	Harel Exchange Traded Deposit Ltd.	Midroog	AAA	Shekel	Marketable	Variable	0.24%	1,352	1,359	On maturity date	Annual	04/08/2024	At any given moment with 37 days advance notice	
Total bonds											6,091	6,670					
Total											6,633	7,239					

* The bonds include a condition whereby Harel Financing & Issuing may make early repayment of the bonds, or part thereof. The exercising of this right is subject to meeting one of the following conditions: (a) obtaining the Commissioner's approval; or (b) Harel Insurance must have surplus capital so that the recognized capital after the repayment is 120% of the required capital; or (c) concurrent with the early repayment, Harel Financing & Issuing will issue a capital instrument of the same or superior quality.

Note 25 - Financial liabilities (contd.)

C. Financial liabilities presented at amortized cost – additional information (contd.)

Category of liability	Category of capital	Date of issue	Par value on date of issue (NIS M)	Issuing entity	Rating company	Rating	Linkage conditions	Marketable / non-marketable	Type of interest	% interest	Book value as at December 31, 2018 (NIS M)	Fair value as at December 31, 2018 (NIS M)	Dates of the principal payments	Dates of the interest payments	Final maturity date	Right to early redemption	Compliance with financial covenants
Bank loans																	
Loan	-	27/11/2008	200	Bank	-	-	Shekel	Non-marketable	Fixed	3.14%	114	116	Semi-annual	Semi-annual	25/11/2022	-	See Section H(5)a
Loan	-	14/12/2014	250	Bank	-	-	Shekel	Non-marketable	Fixed	4.40%	245	257	Semi-annual	Semi-annual	14/12/2026	-	See Section H(5)b
Subordinated liability note	Hybrid Tier-2	16/02/2011	100	Harel Insurance Company Ltd.	Internal	AA	Shekel	Non-marketable	Variable	Bank of Israel interest + 2.85%	100	100	On maturity date	Semi-annual	16/02/2022	16/02/2019	See Section H(5)c
Total loans from banks											459	473					
Loans from non-bank corporations																	
Loan	-	07/03/2013	100	Institutional investor	-	-	Shekel linked	Non-marketable	Fixed	2.70%	31	31	Annual	Semi-annual	07/03/2019	-	
Loans from related parties																	
Loan	-	18/05/2015	10	Principal shareholder (interested party)	-	-	Shekel	Non-marketable	Variable	3.05%	11	11	On maturity date	On maturity date	18/05/2020	-	
Short-term credit from banks and others																	
On-call loan	-	-	-	Bank	-	-	Shekel	Non-marketable	Variable	Prime -0.5%	121	121	On-call	On-call	-	-	
Bonds																	
Non-marketable bonds	Subordinated Tier-2	18/02/2004	200	Harel Insurance Company Ltd.	Maalot	AA	Shekel linked	Non-marketable	Fixed	5.6%	24	24	Annual	Annual	31/03/2019	-	
Series 1 bonds	Subordinated Tier-2	28/11/2006	650	Harel Issuing	Maalot	AA	Shekel linked	Marketable	Fixed	4.7%	92	99	Annual	Annual	31/12/2021	-	
Series 2 bonds	Hybrid Tier-2	25/05/2010 19/07/2010	150	Harel Issuing	Maalot	AA-	Shekel	Marketable	Variable	Makam +1.8%	-	-	On maturity date	Quarterly	31/05/2021	31/05/2018	
Series 3 bonds	Hybrid Tier-2	25/05/2010 19/07/2010	150	Harel Issuing	Maalot	AA-	Shekel	Marketable	Variable	Makam +1.8%	15	16	On maturity date	Quarterly	31/05/2022	31/05/2019	
Series 4 bonds	Hybrid Tier-2	25/05/2010	199	Harel Issuing	Maalot	AA-	Shekel linked	Marketable	Fixed	3.9%	216	226	On maturity date	Semi-annual	31/05/2023	31/05/2020	
Series 5 bonds	Hybrid Tier-2	25/05/2010 31/08/2011	399	Harel Issuing	Maalot	AA-	Shekel linked	Marketable	Fixed	3.9%	432	468	On maturity date	Semi-annual	31/05/2024	31/05/2021	
Series 6 bonds	Hybrid Tier-3	04/04/2012 08/05/2012 01/01/2013 29/01/2014 05/06/2014	240	Harel Issuing	Maalot	AA-	Shekel linked	Marketable	Fixed	3.9%	254	279	On maturity date	Semi-annual	31/05/2025	31/05/2023	
Series 7 bonds	Hybrid Tier-3	04/04/2012 01/01/2013 20/07/2013 29/01/2014 05/06/2014	250	Harel Issuing	Maalot	AA-	Shekel linked	Marketable	Fixed	3.9%	266	292	On maturity date	Semi-annual	31/05/2026	31/05/2024	
Series 8 bonds	Hybrid Tier-3	25/06/2013 29/01/2014	225	Harel Issuing	Maalot	AA-	Shekel linked	Marketable	Fixed	2.8%	227	244	On maturity date	Semi-annual	31/05/2024	31/05/2022	
Series 9 bonds	Hybrid Tier-2	07/01/2015 19/01/2017	295	Harel Issuing	Maalot	AA-	Shekel linked	Marketable	Fixed	2.4%	275	302	On maturity date	Semi-annual	31/12/2028	31/01/2020 31/12/2025	
Series 10 bonds	Hybrid Tier-2	07/01/2015 19/01/2017	295	Harel Issuing	Maalot	AA-	Shekel linked	Marketable	Fixed	2.4%	274	301	On maturity date	Semi-annual	31/12/2029	31/01/2020 31/12/2026	

* The bonds include a condition whereby Harel Financing & Issuing may make early repayment of the bonds, or part thereof. The exercising of this right is subject to meeting one of the following conditions: (a) obtaining the Commissioner's approval; or (b) Harel Insurance must have surplus capital so that the recognized capital after the repayment is 120% of the required capital; or (c) concurrent with the early repayment, Harel Financing & Issuing will issue a capital instrument of the same or superior quality.

Note 25 - Financial liabilities (contd.)

C. Financial liabilities presented at amortized cost – additional information (contd.)

Category of liability	Category of capital	Date of issue	Par value on date of issue (NIS M)	Issuing entity	Rating company	Rating	Linkage conditions	Marketable / non-marketable	Type of interest	% interest	Book value As at December 31, 2018 (NIS M)	Fair value As at December 31, 2018 (NIS M)	Dates of the principal payments	Dates of the interest payments	Final maturity date	Right to early redemption	Compliance with financial covenants
Bonds (contd.)																	
Series 11 bonds	Hybrid Tier-2	02/09/2015 21/09/2015	300	Harel Issuing	Maalot	AA-	Shekel	Marketable	Fixed	4.4%	297	314	On maturity date	Semi-annual	31/12/2030	31/12/2027	
Series 12 bonds	Hybrid Tier-2	03/04/2016 25/07/2016	240	Harel Issuing	Maalot	AA-	Shekel	Marketable	Fixed	4.0%	234	239	On maturity date	Semi-annual	31/12/2031	31/03/2021 31/12/2028	
Series 13 bonds	Hybrid Tier-2	03/04/2016 25/07/2016	240	Harel Issuing	Maalot	AA-	Shekel	Marketable	Fixed	3.95%	233	235	On maturity date	Semi-annual	31/12/2032	31/03/2021 31/12/2029	
Series 14 bonds	Hybrid Tier-2	25/01/2018 05/12/2018	316	Harel Issuing	Maalot	AA-	Shekel	Marketable	Fixed	3.05%	288	276	On maturity date	Semi-annual	31/12/2033	31/12/2022 31/12/2030	
Series 15 bonds	Hybrid Tier-2	25/01/2018 05/12/2018	316	Harel Issuing	Maalot	AA-	Shekel	Marketable	Fixed	3.05%	288	269	On maturity date	Semi-annual	31/12/2034	31/12/2022 31/12/2031	
Total bonds											3,415	3,584					
Total											4,037	4,220					

* The bonds include a condition whereby Harel Financing & Issuing may make early repayment of the bonds, or part thereof. The exercising of this right is subject to meeting one of the following conditions: (a) obtaining the Commissioner's approval; or (b) Harel Insurance must have surplus capital so that the recognized capital after the repayment is 120% of the required capital; or (c) concurrent with the early repayment, Harel Financing & Issuing will issue a capital instrument of the same or superior quality.

Note 25 - Financial liabilities (contd.)

D. Financial liabilities measured at fair value hierarchy for disclosure purposes only

	As at December 31, 2019		
	Level 1	Level 2	Total
	NIS million	NIS million	NIS million
Bonds	6,670	-	6,670
Loans from related parties	-	12	12
Bank loans	-	557	557
Total	6,670	569	7,239

	As at December 31, 2018		
	Level 1	Level 2	Total
	NIS million	NIS million	NIS million
Bonds	3,560	24	3,584
Loans from related parties	-	11	11
Short-term credit from banks and other corporations	-	121	121
Bank loans	-	473	473
Loans from non-bank corporations	-	31	31
Total	3,560	660	4,220

E. Financial liabilities presented at amortized cost – information about linkage and interest

	Effective interest	
	As at December 31	
	2019	2018
Linkage bases		
CPI-linked	3.5%	3.6%
Shekel	2.6%	4.0%

Note 25 - Financial liabilities (contd.)

F. Fair value hierarchy of financial liabilities presented at fair value via profit or loss

The table below presents financial liabilities presented at fair value. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical instruments
Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly
Level 3: inputs that are not based on observable market data (unobservable inputs).

	As at December 31, 2019		
	Level 1	Level 2	Total
	NIS million	NIS million	NIS million
Derivatives	49	464	513
Short selling	291	-	291
Total financial liabilities stated at fair value through profit or loss	340	464	804

	As at December 31, 2018		
	Level 1	Level 2	Total
	NIS million	NIS million	NIS million
Derivatives	214	810	1,024
Short selling	207	-	207
Total financial liabilities stated at fair value through profit or loss	421	810	1,231

G. Financial liabilities presented at fair value – interest rates used to determine the fair value

The fair value of the derivatives is measured using assessment techniques which include a method for discounting future cash flows determined by a company that provides interest rate quotes.

Note 25 - Financial liabilities (contd.)

H. Additional Information

1. Issue of bonds (Series 16) by means of Harel Financing & Issuing

On April 16, 2019, Harel Financing & Issuing published a shelf offering report based on a shelf prospectus dated February 27, 2017, the validity of which was extended through February 27, 2020. In total, Harel Financing & Issuing issued 600,000,000 par value bonds (Series 16) by way of the issue of a new series, 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).

2. Issue of Series 17 bonds and Series 14 bonds by means of Harel Financing & Issuing

In November 2019, Harel Financing & Issuing published a shelf offering report based on a shelf prospectus dated February 27, 2017, the validity of which was extended through February 27, 2020. In total, Harel Financing & Issuing issued 350,000,000 par value bonds (Series 17) by way of the issue of a new series, and 412,844,000 par value bonds (Series 14), by way of an expansion of a traded series.

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 made an undertaking towards the trustee for the Series 17 bonds and Series 14 bonds to comply with the payment conditions of the bonds.

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

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

4. Expansion of bonds by a second-tier subsidiary of the Harel Finance

On August 5, 2019, Harel Exchange Traded Deposit Ltd. (“Harel Exchange Traded Deposit”), which is a wholly owned second-tier subsidiary of Harel Finance, issued Series 1 bonds in the amount of NIS 810 million by means of a prospectus (“Series 1 bonds”). The Series 1 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 Series 1 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 Exchange Traded Deposit, 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 on November 7, 2019, the bond series was expanded by a further NIS 110 million.

On January 22, 2020, after the date of the report, Harel Exchange Traded Deposit issued Series 2 bonds in the amount of NIS 110 million (“Series 2 bonds”). The Series 2 bonds, which received a preliminary rating of Aaa from Midroog, are not CPI-linked and bear interest at a fixed annual rate of 1.2%, are due for repayment as a lump sum on August 24, 2027. 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.

Additionally, on February 10, 2020, an additional expansion of Series 1 bonds was performed in the amount of NIS 122 million.

Note 25 - Financial liabilities (contd.)

H. Additional Information (contd.)

5. Financial covenants

a. A bank loan of NIS 200 million, with a book value of NIS 98 and NIS 114 million at December 31, 2019 and 2018, respectively - the Company undertook to comply with certain financial covenants, including financial covenants relating to its equity and holdings in subsidiaries, as follows: (1) an undertaking not to pledge material assets: (2) not to transfer control of significant companies; (3) it will retain full control of Harel Insurance; (4) a rating above BBB for bonds issued by Harel Insurance; (5) the ratio of net financial debt to investment in investee companies will not be more than 0.35; (6) the ratio of net financial debt to shareholders equity will not be more than 0.5. At the date of publication of the financial statements, the Company is in compliance with these financial covenants.

b. A bank loan in the amount of NIS 250 million with a book value of NIS 243 million and NIS 245 million at December 31, 2019 and 2018, respectively - the defined financial covenants are: (1) no charge will be placed on material assets; (2) significant companies or their key business operations will not be sold or transferred; (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) Harel Investments will retain a cash reserve equal to two annual maturities. Should Harel fail to retain the full cash reserve, the said amount will be deposited, plus interest, in a pledged account (about NIS 100 million plus interest).

   The agreement also stipulates that if the controlling shareholders cease to hold the regulatory control core according to the instructions of the Superintendent of the Capital Market, Insurance and Savings at the Ministry of Finance, this will be grounds for immediate recall of the loan. At the date of publication of this report, the Company is in compliance with the prescribed financial covenants.

c. Bank loans in the amount of NIS 190 million with a boll value of NIS 190 million at December 31, 2019

   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.

6. On the extension of a shelf prospectus by Harel Financing & Issuing after the Report Date, see Note 40.

Note 25 - Financial liabilities (contd.)

I. Unamortized issuance expenses

The outstanding liability notes at December 31, 2019 and 2018, are net of issuance and discounting expenses, net, for which the outstanding amount is NIS 80 and NIS 106 million for 2019 and 2018, respectively (issuance and discounting expenses are amortized according to the effective interest method.

J. Maalot rating

1. 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.
2. On November 28, 2019, Maalot announced affirmation of an ‘ilAA+' rating for the subsidiary Harel Insurance and a change in the rating outlook from positive to stable due to the expectation of further volatility in profitability and equity. Maalot’s announcement also included affirmation of the 'ilAA' rating for the Series 1 liability notes of Harel Financing & Issuing. Additionally, an 'ilAA-' rating was affirmed for tier-2 and tier-3 capital and for tier-2 capital issued by Harel Financing & Issuing as part of the Series 4-17 bonds.

K. Ratings for issuances by a second-tier subsidiary - Harel Financing & Issuing

1. 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.
2. 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. Rating for the issuance - 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.
4. On November 28, 2019, Maalot determined a rating of ‘ilAA-’ for the issue of tier-2 capital instruments in the amount of NIS 800 million. The rating was determined for the issue of a new series of bonds (Series 17), for up to NIS 350 million and for the expansion of an existing series of bonds (Series 14) of up to NIS 450 million. This amount includes the initial facility provided on November 13, 2019, in the amount of up to NIS 500 million.

L. Maturity dates

	As at December 31	
	2019	2018
	NIS million	
First year	**336**	322
Second year	**542**	330
Third year	**305**	510
Fourth year	**330**	277
Fifth year and thereafter	**5,120**	2,598
Total	**6,633**	4,037

On the maturity dates of non-capitalized financial liabilities, see Note 37D.

Note 26 - Earned premiums in retention

	For the year ended December 31, 2019		
	Gross	Reinsurance	Retention
	NIS million	NIS million	NIS million
Premiums in life assurance	**6,255**	**125**	**6,130**
Premiums in health insurance	**4,931**	**376**	**4,555**
Premiums in non-life insurance	**3,448**	**1,091**	**2,357**
Premiums in foreign insurance	**571**	**106**	**465**
Inter-segment adjustments and offsets	**(4)**	**(4)**	**-**
Total premiums	**15,201**	**1,694**	**13,507**
Net of - change in outstanding unearned premiums	**(97)**	**51**	**(148)**
Total earned premiums	**15,104**	**1,745**	**13,359**

	For the year ended December 31, 2018		
	Gross	Reinsurance	Retention
	NIS million	NIS million	NIS million
Premiums in life assurance	5,614	143	5,471
Premiums in health insurance	4,698	221	4,477
Premiums in non-life insurance	3,401	1,071	2,330
Premiums in foreign insurance	547	118	429
Inter-segment adjustments and offsets	(4)	(4)	-
Total premiums	14,256	1,549	12,707
Net of - change in outstanding unearned premiums	(76)	(31)	(45)
Total earned premiums	14,180	1,518	12,662

	For the year ended December 31, 2017		
	Gross	Reinsurance	Retention
	NIS million	NIS million	NIS million
Premiums in life assurance	5,078	134	4,944
Premiums in health insurance	4,429	208	4,221
Premiums in non-life insurance	3,093	1,013	2,080
Premiums in foreign insurance	506	124	382
Inter-segment adjustments and offsets	(4)	(4)	-
Total premiums	13,102	1,475	11,627
Net of - change in outstanding unearned premiums	(11)	(33)	22
Total earned premiums	13,091	1,442	11,649

Note 27 - Net profit (loss) from investments, and financing income

	For the year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Profits (losses) from assets held against yield-dependent insurance liabilities			
Investment property	**218**	141	133
Financial investments:			
Marketable debt assets	**1,054**	(81)	588
Non-marketable debt assets	**969**	99	534
Shares	**1,492**	81	679
Other	**2,722**	(904)	1,887
Cash and cash equivalents	**(83)**	96	(32)
Total profits (losses) from assets held against yield-dependent liabilities, net	**6,372**	(568)	3,789
Profits (losses) from assets held against liabilities that are not yield-dependent, capital and other			
Income from investment property:			
Revaluation of investment property	**172**	60	101
Current revenues for investment property	**112**	112	101
Total income from investment property	**284**	172	202
Profits (losses) from financial investments, excluding interest and linkage differences, exchange rate differences and dividends for:			
Available-for-sale assets (A)	**192**	128	128
Assets presented at fair value through profit or loss (B)	**147**	(50)	98
Assets presented as loans and receivables (C)	**(4)**	3	(6)
Total profits from financial investments, excluding interest and linkage differences, exchange rate differences and dividends	**335**	81	220
Income and expenses for ETNs			
Income (expenses) from short-term investments in ETNs	**-**	(14,023)	1,299
Income (expenses) for revaluation of ETNs	**-**	13,829	(1,529)
Income from interest on (ETNs)	**-**	115	129
Income from dividends on ETNs	**-**	64	91
Borrowings on ETNs, net	**-**	5	5
Income from management fees on ETNs	**-**	59	50
Total profits from ETNs, net	**-**	49	45
Income from interest 1 and linkage differences from financial assets that are not measured at fair value through profit or loss	**813**	903	774
Income (expenses) from interest and linkage differences from financial assets measured at fair value through profit or loss	**(84)**	(5)	11
Profit (loss) from exchange rate differences *	**172**	(98)	87
Income from dividends	**29**	26	35
Total profit from investments, net, and financing income	**7,921**	560	5,163
The aforementioned revenues include interest for financial assets that are not measured presented at fair value through profit or loss whose value was affected	**1**	1	-

* On exchange rate differences in respect of financial liabilities, see Note 34.

Note 27 - Net profit (loss) from investments, and financing income (contd.)

A. Net profit (loss) from investments for available for sale assets

	For the year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Net profit from securities sold	**179**	139	130
Net increases in value (impairments) recognized in profit or loss	**13**	(11)	(2)
Total profit from investments for available-for-sale assets	**192**	128	128

B. Profit (loss) from investments in respect of assets that are presented at fair value through profit or loss

	For the year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Changes in fair value, net, including profit from sale:			
for assets designated upon initial recognition	**66**	(18)	49
for assets held for trade	**81**	(32)	49
Total profits (losses) from investments for assets presented at fair value through profit or loss	**147**	(50)	98

C. Profit (loss) from investments for assets presented as loans and receivables

	For the year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Net increases in value (impairments) recognized in profit or loss	**(4)**	3	(6)
Total loss from investments for available-for-sale assets presented as loans and receivables	**(4)**	3	(6)

D. Movements in the capital reserve in respect of available-for-sale assets

	For the year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Opening balance	**312**	480	330
Unrealized profits (losses)	**950**	(198)	332
Profit, net, from sale of securities	**(127)**	(100)	(153)
Impairment losses recognized in profit or loss	**31**	44	41
Effect of tax	**(291)**	86	(70)
Closing balance	**875**	312	480

Note 28 - Income from management fees

	For the year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Management fees in provident branch	**257**	243	223
Management fees in pension branch	**331**	319	300
Mutual fund management fees	**173**	130	123
Fixed management fees for life assurance contracts	**305**	281	258
Variable management fees for life assurance contracts*	**265**	-	237
Management fees for investment contracts	**123**	105	74
Total management fees from members and policyholders	**1,454**	1,078	1,215
Other management fees	**33**	37	42
Total income from management fees	**1,487**	1,115	1,257

* For additional information, see Note 3M(2).

Note 29 - Income from Commissions

	For the year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Reinsurance commission, net of the change in DAC, in respect of reinsurance	**331**	316	314
Insurance agencies' commission	**23**	23	21
Other commissions	**4**	4	4
Total income from commissions	**358**	343	339

Note 30 - Payments and changes in liabilities for insurance and investment contracts in retention

	For the year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
For life assurance contracts			
Claims paid and outstanding, cases of death, disability and other	**1,106**	1,032	961
Net of reinsurance	**102**	81	90
	1,004	951	871
Policies redeemed	**1,763**	1,360	1,183
Policies ended	**224**	259	238
Annuity	**404**	351	318
Total claims and other payments	**3,395**	2,921	2,610
Increase in liabilities for life assurance contracts (excluding change in outstanding) in retention	**7,820**	1,933	5,137
Increase (decrease) in liabilities for investment contracts due to yield component and related expenses	**1,283**	(300)	574
Total change in liabilities and payments for insurance contracts and investment contracts in retention	**12,498**	4,554	8,321
Total payments and change in liabilities for non-life insurance policies			
Gross	**2,367**	2,558	2,427
Reinsurance	**638**	651	673
Retention	**1,729**	1,907	1,754
Total payments and change in liabilities for health insurance contracts			
Gross	**4,779**	3,335	3,688
Reinsurance	**404**	143	142
Retention	**4,375**	3,192	3,546
Total payments and change in liabilities for insurance policies abroad			
Gross	**411**	365	317
Reinsurance	**79**	83	57
Retention	**332**	282	260
Total payments and change in liabilities for insurance contracts and investment contracts in retention	**18,934**	9,935	13,881

Note 31 - Commissions, marketing, and other acquisition costs

	For the year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Acquisition commissions	1,029	1,053	1,000
Other acquisition expenses	514	513	488
Change in DAC	(20)	(135)	(157)
Total acquisition costs	1,523	1,431	1,331
Other current commissions	955	915	827
Other marketing expenses	251	235	228
Total commissions, marketing expenses and other acquisition costs	2,729	2,581	2,386

Note 32 - General and Administrative Expenses

	For the year ended December 31		
	2019	2018*	2017*
	NIS million	NIS million	NIS million
Payroll and related expenses	1,282	1,310 (*)	1,253 (*)
Computerization expenses	136	128	117
Maintenance of buildings and equipment	111	118 (*)	123 (*)
Depreciation and amortization	246	214	186
Office operation expenses	37	40	50
Advertising and marketing	55	43 (*)	41 (*)
Professional and legal advice	84	81 (*)	85 (*)
Operating expenses	2	13	11
Stock exchange and distribution commissions	52	48	44
Bank expenses	46	45	41
Operating expenses for Group policy	50	50	48
Other	114	92 (*)	99 (*)
Total general and administrative expenses	2,215	2,182	2,098
Net of:			
Amounts classified under Change in liabilities and payments for insurance contracts	239	234	227
Amounts classified under Commissions, marketing expenses and other acquisition costs	765	748	716
Total general and administrative expenses	1,211	1,200	1,155
General and administrative expenses include expenses for automation in the amount of	348	351	316

* Reclassified

Note 33 - Other Expenses

	For the year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Amortization of intangible assets	**15**	15	40
Other	**1**	4	4
Total other expenses	**16**	19	44

Note 34 -Financing Expenses

	For the year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Interest and linkage difference expenses for subordinated liability notes and liabilities to banks	**168**	156	138
Interest and linkage difference expenses for reinsurers	**23**	28	19
Net exchange rate differences for liabilities *	**(28)**	26	(34)
Interest expenses on lease liabilities	**1**	-	-
Other commissions and financing expenses	**(1)**	-	(1)
Total financing expenses, net	**163**	210	122

* On exchange rate differences in respect of financial investments, see Note 27.

Note 35 - Taxes on Income

A. Tax laws applicable to Group companies

1. General

Harel Insurance, Dikla Insurance Agency, EMI and the pension fund management companies, provident fund management companies and the other companies in the group are "financial institutions" within the definition of that term in the Value Added Tax Law - 1975 ("the VAT Law").

Taxes on income applicable to financial institutions include corporate tax and profit tax, as defined in the Value Added Tax Law.

Revenues earned by the company and the other investee companies are subject to corporate tax as defined in the Income Tax Ordinance.

B. Special tax arrangements for the insurance sector

Agreement with the tax authorities

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

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

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

C. Tax rates applicable to revenues of the Group companies

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

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

The following statutory taxation rates apply to financial institutions, including the subsidiaries which are financial institutions:

Year	Company Tax Rate	Profit Tax Rate	Tax rate for financial institutions
2017	24%	17%	35.04%
2018 and thereafter	23%	17%	34.19%

Note 35 - Taxes on Income (contd.)

D. Tax Assessments

Final Tax Assessments

Final tax assessments up to and including the 2014 tax year were issued for the Company and additional consolidated subsidiaries, except for certain companies for which a final assessment up to the end of the 2015, 2016 and 2017 tax years was issued.

E. Carry-forward losses for tax purposes

Certain subsidiaries have business losses for tax purposes which are carried forward to future tax years, for which no deferred taxes were recorded in the financial statements for 2019 and 2018 due to the expectation that they will not be utilized given the possibility of taxable income in the future. At December 31, 2019 and 2018, they amount to NIS 35 million and NIS 56 million, respectively.

In 2019, Harel Insurance recognized current tax income of NIS 76 million in respect of receivable wage tax.

F. Composition of income tax expenses (revenues)

	For the year ended December 31		
	2019	**2018**	**2017**
	NIS million	**NIS million**	**NIS million**
Current taxes	**8**	259	261
Deferred taxes relating to creation and reversal of temporary differences (see also Section G below)	**(13)**	(13)	53
Taxes for previous years	**(2)**	(1)	(6)
Effect of change in tax rate on deferred taxes	**-**	-	(2)
	(7)	245	306

Note 35 - Taxes on Income (contd.)

G. Deferred taxes

1. Composition and movement of deferred taxes

	Deferred Acquisition Costs (DAC)	Employee benefits	Financial Instruments	Intangible assets	Losses for tax purposes	Other property	Total
	NIS million						
Outstanding deferred tax asset (liability) at January 1, 2018 *	(188)	24	(201)	(180)	45	(411)	(911)
Changes recognized in profit or loss	24	1	4	(4)	(3)	(9)	13
Changes recognized in other comprehensive income	-	(5)	86	-	-	(34)	47
Outstanding deferred tax asset (liability) at December 31, 2018	**(164)**	**20**	**(111)**	**(184)**	**42**	**(454)**	**(851)**
Changes recognized in profit or loss	**17**	**5**	**-**	**(21)**	**47**	**(35)**	**13**
Changes recognized in other comprehensive income	**-**	**3**	**(291)**	**-**	**-**	**5**	**(283)**
Outstanding deferred tax asset (liability) at December 31, 2019	**(147)**	**28**	**(402)**	**(205)**	**89**	**(484)**	**(1,121)**

2. Deferred taxes are presented in the statement of financial position as follows:

	As at December 31	
	2019	**2018**
	NIS million	NIS million
Deferred tax assets	**12**	13
Deferred tax liabilities	**1,133**	864
	(1,121)	(851)

Note 35 - Taxes on Income (contd.)

H. Reconciliation between the theoretical tax on the pre-tax profit and tax expenses

The reconciliation between the tax that would have been applicable had all income and expenses, profit and loss in the income statement been tax liable at the statutory rates applicable to financial institutions, and taxes on income recognized in the income statement:

	For the year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
Profit before taxes on income	**232**	879	990
Total statutory tax rate applicable to financial institutions	**34.19%**	34.19%	35.04%
Tax computed according to statutory tax rate	**79**	301	347
Write-down for non-application of profit tax on companies that are a financial institution	**(20)**	(17)	(14)
	59	284	333
Increase (decrease) in taxes on income arising from the following:			
Expenses that cannot be deducted for tax purposes	**9**	6	5
Tax exempt and tax liable income at special tax rate	**(6)**	-	-
Group's share of profits of associates	**(55)**	(49)	(57)
Taxes on partnerships and foreign companies	**47**	34	75
Differences in basis of measurement	**(60)**	(32)	(42)
Increase in losses for tax purposes for which deferred taxes were not recognized in the past	**2**	3	1
Revision of deferred tax balances for changes in the tax rates	**-**	-	(3)
Taxes for previous years	**(2)**	(1)	(6)
Other	**(1)**	-	-
Taxes on income	**(7)**	245	306
Average, effective tax rate	**(3.02%)**	27.87%	30.91%

Note 36 - Profit per share

A. Basic profit (earnings) per share

The calculation of basic profit (earnings) per share for the years ended December 31, 2019, 2018 and 2017, was based on the profit attributable to the Company's ordinary shareholders in the amount of NIS 239 million, NIS 634 million and NIS 684 million, respectively, divided by a weighted average of the number of ordinary shares in circulation in each of the years, as follows:

Weighted average of the number of ordinary shares

	For the year ended December 31		
	2019	**2018**	**2017**
	Number of shares in thousands		
Balance as at January 1	**214,379**	213,150	212,578
Effect of self-issuance (purchase) of shares, net	**-**	(118)	572
Weighted average of the number of ordinary shares used for calculating basic earnings per share	**214,379**	213,032	213,150

B. Diluted profit per share

Weighted average of the number of ordinary shares (diluted)

	For the year ended December 31		
	2019	**2018**	**2017**
	Number of shares in thousands		
Weighted average of number of ordinary shares used to calculate basic earnings per share	**214,379**	213,032	213,150
Effect of stock options on shares	**-**	14	87
Weighted average of number of ordinary shares used to calculate diluted earnings per share	**214,379**	213,046	213,237

Profit attributed to holders of ordinary shares (diluted)

	For the year ended December 31		
	2019	**2018**	**2017**
	NIS million		
Diluted profit attributed to the Company's shareholders	**239**	634	684

Note 37 - Risk management

General

The Group's activity exposes it to a variety of risks, the most important of which are: insurance risks, market risks and credit risks. Liquidity risks, operating risks, legal risks, goodwill risks and business-related risks can be added to these risks. Various catastrophic events have broad repercussions for the different risks.

This Note includes, inter alia, a concise description of the risk-management policy, work processes for identifying, measuring and managing the risks and the existing controls in connection with the risks to which the Group is exposed.

A. Risk management policy and processes

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits, at the same time complying with the regulatory requirements and adhering for the Group's business targets, for its goodwill and for preserving its financial robustness.

The Group's risk management policy is based on:

- Corporate governance which is built on three lines of defense: management of the business segments, control and risk management entities, and internal controls.
- Clearly defined allocation of responsibility and delegation of powers in relation to the activity entailed in risk taking by the Group's entities.
- Determining limitations and exposure limits to risks.
- Defining an equity management plan, including a safety net over and above the capital requirements.
- Implementation of a risk management framework which includes activity to identify, measure, estimate and monitor risks and new points of risk.
- Maintaining a reasonable internal control environment which is written into clear procedures and arrangement of oversight and risk control, allowing for the distribution, offsetting, and/or transfer of risks to another entity, and limiting them to a pre-defined level.
- Support for decision making processes by reporting on the risk profile for the relevant entities.

Harel manages its risks taking a group view and the risk manager is responsible for the risk management of Harel Insurance and the financial institutions it controls as well as the risk management of Harel Finance. The risk manager works independently of the business units, taking an objective view of the risks, and works in conjunction with other support units.

The functions of the risk manager include, *inter alia*, responsibility to ensure that work processes are in place to identify, evaluate, measure and report the risks, and to address the risks that are inherent in the operating segments and new products and in significant transactions

The Board of Directors and the boards of the subsidiaries supervise the business activities that involve risk-taking and the Company's risk management procedures by establishing risk management policy and strategy. Risk management includes, inter alia, risk-management procedures and limits to exposure to risks, as well as the manner of compliance with defined procedures and exposure limitations.

Note 37 - Risk management (contd.)

General (contd.)

A. Risk management policy and processes (contd.)

The Board of Directors regularly receives reports, and examines information relating to risk management in the various sectors. This information includes, inter alia, risk studies and controls, and the degree of exposure to the various risks vis-à-vis limitations and significant changes in the Company’s risk profile. In addition, the Board of Directors receives reports on quantitative indices of the risks and estimates their potential effect on the Company’s future financial position and the equity it is required to hold against these risks. These effects are calculated using internal models, extreme tests, and sensitivity analyses.

At the end of 2012, a Group Board of Directors' committee for risk management was established. Its functions include the discussion of subjects relating to risk management and it formulates recommendations for the Board of Directors. From 2019, in accordance with the regulatory instructions, joint meetings in the risk management committee were prohibited as a result of which separate risk management committees were established for insurance and for pension and provident. The committee operates in accordance with the requirements of section 11 in Financial Institutions Circular 2018-9-31 regarding “Board of Directors of Financial Institutions”.

The Group's financial institutions hold a quarterly reporting procedure in which officers in the various areas of activity report on material changes in the Group's risk profile to the risk manager and she in turn reports to management and the Board of Directors.

The methods and work procedures employed in relation to risk management are regularly examined and revised, taking into account the Group's risk-management policy, changes in the business environment in Israel and worldwide, and the instructions and requirements of the regulator.

Capital requirements apply to the Group’s insurance companies by virtue of the Solvency II regime. The Board of Directors established a capital safety net in addition to the regulatory capital requirements, to enable the companies to absorb unforeseen losses that might occur in equity and in the capital requirements, due to changes in the key risk factors to which the Company is exposed. The safety net was created, taking into account the nature of the activity of Harel Insurance, the experience accumulated in periods of crisis and also taking into account various loss scenarios.

The Group makes efforts to improve the tools is uses to monitor the different forms of risk and many of the Group’s work procedures are regulated by means of detailed procedures. Furthermore, the Group invests considerable resources in the training and allocation of manpower, computerization and work procedures relating to risk management, in compliance with published, binding regulations, and by implementing the Group’s risk management goals and objectives.

The following describes policy and work procedures relating to the identification, measurement and assessment, control and amortization, monitoring and reporting of the different risks to which the Group is exposed.

Note 37 - Risk management (contd.)

General (contd.)

A. Risk management policy and processes (contd.)

Market and liquidity risks

The financial risks are managed by distributing them between investment channels, lines of business, issuers and among assets in Israel and foreign assets, reviewing and analyzing the assets before an investment decision is made and during the life of the investment, and by meeting the exposure limitations.

Various limitations to the exposure to market risks, which are designed to limit the damage which may be caused as a result of unforeseeable changes in markets, relate, inter alia, to the maximum amounts to be invested in shares, real-estate funds, to maximum exposure to corporate bonds consistent with their rating, to maximum exposure to an individual investment, exposure to linkage sectors and interest exposure. Market risk management policy is subject to the Investment Regulations.

Market risks were quantified and assessed using an automated system in the risk management department. The calculations relate to market risks in members' portfolios and in the Nostro investment portfolios of the Group's financial institutions from the accounting and economic perspective. The main instrument used for measuring market risk is various extreme scenarios that provide an indication of possible loss in the Nostro and in members' portfolios. These scenarios are based on historical or hypothetical events and their underlying assumptions are periodically revised in line with changes in the economic environment, the risk factors and characteristics of the portfolios.

In members' portfolios, the different investment portfolios are assessed against benchmark portfolios, by means of various risk indices. The liquidity risk is managed at investment portfolio level by means of limitations that are consistent with the type and size of the portfolio and liquidity indices that include warning thresholds.

In the nostro portfolio, exposure stemming from the characteristics of assets is addressed separately from those of liabilities (ALM). The review and management of the correlation between the assets and liabilities include an analysis of sensitivity to different market scenarios.

Reports concerning the risk and exposure indices as against the set limitations are presented to the investment committees and support the decision-making and investment management processes.

Moreover, the audit unit and investment division conduct ongoing audits regarding compliance with the investment regulations and investment policy of the different investment portfolios.

The investment policy and restrictions concerning the Nostro investments of companies in the capital market and financial services wing that manage the Nostro portfolios, is determined by the relevant boards of directors and supervised by the various control entities. Furthermore, regarding companies in the capital market and financial services wing, the investment policy is set taking into account, among other things, the needs of the customers, regulation, and prospectus-related commitments.

For information about sensitivity to market risks, see Section C below. For information about sensitivity to liquidity risks, see Section D below.

Note 37 - Risk management (contd.)

A. Description of risk management methods and processes (contd.)

Insurance risks

The insurance risks are also spread, reduced or limited by means of underwriting procedures and rules for accepting business, as well as by means of reinsurance arrangements.
The different risk management processes in non-life insurance, include, *inter alia*: actuarial costing and assessment of insurance commitments, the costing of new products and collective agreements, underwriting procedures and restrictions in the various business units, procedures for handling claims, determining and managing reinsurance, and monitoring the profitability of coverages in the policies. Procedures for identifying and controlling new and existing actuarial risks are performed by means of risk surveys and periodic reports from the appointed actuaries.

In addition, comprehensive, periodic studies and reviews are conducted to test the Group's exposure to various risks such as earthquakes in general insurance, and trial studies regarding risks such as mortality, morbidity, cancellations, and the like, in life and health insurance.

A quantitative assessment of the insurance risks is performed by examining scenarios for the key risk factors to which the Company is exposed.

For information about sensitivity to insurance risks, see Section E below.

Credit risks

The Company’s policy for the management of credit risk is based on distributing and diversifying the credit portfolio and controlled management of the risks, with the purpose of attaining an appropriate return for the risk taken, based on defined limitations, while at the same time understanding the Company’s risk management profile and detailing the areas of responsibility of the entities involved in the process of identifying, measuring, monitoring and controlling the credit risk. The framework for providing and management credit also includes procedures and methodologies, that must be followed.

The credit activity performed by the investment division is subject to the Investment Regulations and Commissioner's circulars on credit risk management and based on policy defined by the boards of directors of the Group's financial institutions. The Investment Regulations prescribe exposure limits to a single borrower and group of borrowers, as well as the providing of credit according to categories of collateral, etc. The Commissioner's circulars on credit risk management provide a framework for procedural, professional, and operating support and their purpose is to ensure that control and oversight mechanisms are in place for management of the credit risks to which the financial institution is exposed.

A specific estimate of the credit risk for a non-marketable debt is prepared in the credit system in the investment division, using an expert--guided rating model based on a methodology similar to that used by the rating companies. The model approved by the Ministry of Finance.

At the level of the overall portfolio, the Risk Management Department quantifies the credit risks inherent in the investment assets by reviewing the average rating of the non-governmental debt in these portfolios, and estimating and presenting the expected loss (EL) and the unexpected loss (UL) in respect of the non-marketable credit risks. At individual transaction level - an expert risk management opinion is received for new areas of activity and significant large or complex transactions, based on the defined parameters.

In the investment division, the non-marketable credit management unit that undertakes the risk is segregated from the independent unit that controls the activity. The process of monitoring borrowers’ solvency and the quality of collateral is carried out as part of the work processes for approving credit approved by the boards of directors. Regarding marketable credit, solvency, the quality of the collateral and problematic debts are monitored.

Note 37 - Risk management (contd.)

A. Description of risk management methods and processes (contd.)

Credit risks (contd.)

Regarding credit risk in exposure to reinsurers, the policy of exposure to reinsurers is approved every year by the boards of directors of the Group's insurance companies, based on the Commissioner's circular on this subject.
For information about the exposure to credit risks, see Section G below.

Operating risks

Operating risk is an integral part of all activities, products, systems and work processes carried out in the Company. Awareness and management of the operating risk at all levels is therefore important.

Managers at the Company's different management echelons are responsible for the ongoing management of operating risk and taking action to minimize the risk. The managers receive professional support from the risk management department which is charged with directing the methodology and implementation of the policy, from the overall perspective. Some of the operating risks are managed by other control entities, for example manager of the SOX department, compliance and enforcement, the head of information security and head of deployment for crisis management.

The Company routinely assesses its exposure to operating risks and takes measures to reduce them. The risk management department conducts an independent assessment of operating risks, with particular emphasis on fraud and embezzlement risks, IT and cyber risks, and business continuity risks.

In 2019, a process was completed to characterize and assimilate the information system for the management of operating risk, which is expected to support all risk management processes: management of the process of reporting and investigating events, conducting risk studies based on a risk assessment methodology, ongoing update of risk maps, management of amortization and control plans by means of reports

In addition to the on-going control activity of work procedures, the Group has designated control units which test compliance with procedures by different entities, with the limits defined and provisions of law, and which assist the operations managers to meet their operating risks responsibilities.

There are also automated controls in the operating systems aimed at limiting exposure to operating risk.

The nature of the activity, organizational structure and hierarchy of powers that set the Company apart, as well as the volume of funds that it manages, also expose it to the possibility of fraud and embezzlement by entities within and outside the Company. The Company has defined a policy that includes a methodical work framework to prevent, detect, report and respond to fraud and embezzlement that mitigates losses from such events. The key policies are reflected in the Company's work processes, actual work procedures and ethical code, the purpose of which is to guide the Company's employees regarding conduct, discipline and ethics in the work place.

Regarding legal risks, including compliance risks, the Company's Corporate Counsel is responsible for managing the legal risk, and where necessary she takes legal advice from outside sources and provides support and answers for all the legal aspects of the Company's activity. In this context, ongoing management of the legal risk is reflected mainly in providing ongoing legal advice to the Company's competent organs on the different subjects entailed in its operations, in preparing agreements and insurance policies, in managing the Company's legal knowledge, including updating the relevant entities of changes in the various statutory provisions and regulations that may affect the work of the Company, in adapting agreements and procedures to these changes, and routinely revising the agreements and documents that the Company uses, and in coordinating class actions against the Company and supervising the professional entities that handle these actions on the Company's behalf.

Note 37 - Risk management (contd.)

A. Description of risk management methods and processes (contd.)

Operating risks (contd.)

In order to satisfy the Company's responsibility for compliance with the requirements of the Law, the Company has appointed aCompliance and Enforcement Officer who assists Company employees in fulfilling their responsibility to comply with the provisions relevant to them. The Company defined an enforcement plan, as part of the implementation of the Law to Improved Enforcement in the Capital Market, which amends the Supervision of Financial Services (Insurance) Law, 1981, and the Supervision of Financial Services (Provident Funds) Law, 2005, and it appointed entities to be responsible for implementing and overseeing implementation of the plan.

Pursuant to the provisions of the Prohibition on Money Laundering Order that entered into force in March 2018 and Financial Institutions Circular 2018-9-2 on the subject of the management of money laundering risks from February 2018, the Company established a risk management policy on the subject and appointed an official to take responsibility for fulfilling obligations, based on the regulatory requirements, so as to ensure that an appropriate organizational infrastructure and measures to mitigate the risk are in place. The Company also formulated procedures for the implementation of a policy to manage money laundering and terror financing risks, and it updated relevant procedures to ensure that they address, among other things, the KYC process, classification of accounts that are high-risk for money laundering and terror financing, ensure that ongoing controls are in place and that records and reports are kept properly. Additionally, the Company adopted a risk-based approach so as to identify, estimate and effectively deal with money laundering and terror financing risks, in which context a survey was conducted to identify and assess the money laundering and terror financing risks in its different activities.

The IT system is a key component of the Company's proper management and operation. The Company's Board of Directors approved a policy document on the subject of IT management.

IT risks are routinely assessed both in relation to the management of significant IT processes and to the information and infrastructure systems. Risks arising from significant IT processes are handled as part of the control approach applied by Harel Hamishmar Computers, pursuant to Financial Institutions Circular 2010-9-4, on "Management of Information Technologies by Financial Institutions". The risk management department, together with Harel Hamishmar Computers, performs periodic studies to assess the potential impact of IT risks on the Company's core processes.

The Company's activity is exposed to cyber risks that could arise from unauthorized users, disruption of activity as a result of tampering with network activity or the shutdown of services, damage to systems, theft of digital assets, penetration of malicious codes or malware, penetration of the system or the divulging of information. The Company's approach to the management of cyber risks and data security consists of three layers: technology protection, the handling of events, and a layer of regulation, organization and methods (O&M). In addition to operating deployment, the company has purchased insurance cover against computer crime which includes cyber events. On August 31, 2016, a circular for financial institutions, 2016-9-14, was published on "Management of Cyber Risks by Financial Institutions". The circular defines principles for the management of cyber risks by financial institutions and mandates the management of such risks. The instructions address the following, among others: corporate governance - positions and areas of responsibility, risk assessment, cyber protection, detection and control, system security, communications and operation, user and password management, outsourcing, cloud computer services, physical and environmental security, security of channels of communication with customers and outside entities.

Note 37 - Risk management (contd.)

A. Description of risk management methods and processes (contd.)

Operating risks (contd.)

Regarding information security and cyber risks, and consistent with the circular on "Management of Cyber Risks by Financial Institutions", the boards of directors of the Group's financial institutions adopted and approved a policy on the management of cyber risks. The risk management department, together with Harel Hamishmar Computers, performs a periodic study of the Company's exposure to cyber risks.

Consistent with Financial Institutions Circular 2018-9-19 on the subject of outsourcing, from June 2018, the Company established a policy and formulated work processes which, among other things, include guidelines and criteria for defining activity as significant, principles for entering into outsourcing agreements and mechanisms to effectively oversee, monitor and control significant activities that are outsourced.

The Group's deployment for further DRP activity and business continuity takes place at two levels: deployment for a failure of the computer systems, deployment for a catastrophe at head office and deployment for a situation involving the unavailability of employees. Furthermore, the Group drills potential catastrophe events in which selected logistic processes are tested and key systems and software programs are run from the alternative site.

B. Regulatory requirements

Management of the Group's insurance and financial risks is guided by regulatory requirements which have been published in recent years, and include, among others:

- Provisions of the Consolidated Circular, Chapter 10 - Risk Management
- Provisions of a financial institutions circular regarding the board of directors of a financial institution which includes a requirement to establish a policy on exposure to risks, exposure limits, procedures and instruments for the measurement and control of risks
- Provisions of the Consolidated Circular on credit risk management and on the management of exposure to reinsurers
- Provisions of the Solvency II based economic solvency regime in Israel.
- Provisions concerning the handling of specific categories of operating risks: embezzlement and fraud, management of cyber risks and IT risks, business continuity management, compliance risks, money laundering, outsourcing, and control over financial reporting (SOX).
- Various instructions included in the TASE Regulations.

Note 37 - Risk management (contd.)

C. Market risk

Market risk is the risk that the fair value or future cash flows of financial assets, financial liabilities, or insurance liabilities will change as a result of changes in market prices. Market risks include, inter alia, risks relating to interest rates, share price, credit margins, real estate prices, changes in the CPI and foreign currency.

1. Yield-dependent contracts

Yield-dependent liabilities are liabilities for contracts where the insurance benefits to which the beneficiary is entitled are dependent on the yield generated by certain investments made by the Company, net of management fees, as follows:

- Regarding policies issued until 2004 - fixed management fees and variable management fees of 15% on the real yield after deduction of fixed management fees.
- Regarding policies issued in or after 2004 - fixed management fees.

Regarding the assets and liabilities in respect of these products, the insurance companies do not have direct exposure for changes in the interest rate, in the fair value of investments or the CPI, other than a possible effect on the K factor in profit-sharing policies. This exposure was included in the table in Section 2 below. The effect of the financial results on the insurance company's profit is limited to the exposure derived from variable management fees which change according to fluctuations in yields credited to the policyholders (for policies issued until 2004), and the overall volume of liabilities, from which the fixed management fees of the insurer regarding all yield dependent products are derived.

In view of the foregoing, the sensitivity tests and repayment dates of the liabilities specified in the following sections do not include yield-dependent contracts.

Any 1% change in the real return on the investments which are part of the yield-dependent contracts issued until 2004, for which the volume of liabilities at December 31, 2019 is NIS 23.6 billion, affects management fees by about NIS 32 million. The effect of this change on policies issued in or after 2004 is insignificant.

2. Sensitivity tests relating to market risks

The following is a sensitivity analysis in relation to the effect of changes in these variables on profit (loss) for the period, and equity. The sensitivity analysis is based on the carrying amount (book value) and not on the economic value.

The sensitivity analysis is conducted with respect to financial assets, financial liabilities, and insurance and investment contract liabilities for the relevant risk variable, at each reporting date, assuming that all other variables remain constant. Thus, for example, a change in interest assumes that all other parameters are unchanged. The sensitivity analysis does not include the effect of yield dependent contracts as noted above. In addition, said changes do not reflect any significant or a lasting impairment in value of assets presented at amortized cost or of available-for-sale assets, and accordingly impairment loss were not included in respect of these assets.

The sensitivity test reflects only direct effects, without any secondary effects.

Notably, the sensitivities are not linear, such that changes which are greater or smaller than those described below are not necessarily a simple extrapolation of the effect of those changes.

Note 37 - Risk management (contd.)

C. Market risk (contd.)

2. Sensitivity tests relating to market risks (contd.)

	As at December 31, 2019							
	Interest rates (1)		Investments in instruments (2,5)		% change in CPI CPI (6)		% change in foreign currency exchange rate (4)	
	+1%	-1%	+10%	-10%	+1%	-1%	+10%	-10%
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Profit and loss	**712**	**(1,555)**	**17**	**(17)**	**(30)**	**30**	**(67)**	**67**
Comprehensive income (equity) (3)	**366**	**(1,159)**	**254**	**(254)**	**(30)**	**30**	**61**	**(61)**

	As at December 31, 2018							
	Interest rates (1)		Investments in capital instruments (2,5)		% change in CPI CPI (6)		% change in foreign currency exchange rate (4)	
	+1%	-1%	+10%	-10%	+1%	-1%	+10%	-10%
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Profit and loss	282	(912)	36	(36)	(32)	32	(56)	56
Comprehensive income (equity) (3)	24	(624)	246	(246)	(32)	32	59	(59)

(1) The sensitivity analysis with respect to changes in the interest rate also refers to instruments at fixed interest and instruments with variable interest. Regarding fixed-interest instruments, the sensitivity analyses are in relation to the book value of the instruments, and regarding the instruments with variable interest, the sensitivity analyses refer to the effect on performance during the current year.

Furthermore, had the insurance circular concerning the LAT which was published on March 29, 2020 (see also Note 3C 1I) been in force on December 31, 2019, then according to initial estimates prepared by the Company, in the event of a 1% decrease in the interest rate, comprehensive income after tax would have increased by NIS 200 million (from (1,159) million to (959) million), and in the event of a 1% increase in the interest rate, comprehensive income after tax would have declined by NIS 160 million (from NIS 366 million to NIS 206 million).

Note 37 - Risk management (contd.)

C. Market risk (contd.)

2. Sensitivity tests relating to market risks (contd.)

(2) The analysis of sensitivity to interest rates also included the possible effect on the insurance liabilities. The effect of a 1% decrease in the interest rate on profit and comprehensive income for insurance liabilities that are included in the sensitivity test is estimated at NIS 1,603 million (NIS 932 million at December 31, 2018). The effect of a 1% increase in the interest rate on profit and comprehensive income for insurance liabilities that are included in the sensitivity test is estimated at NIS 751 million (NIS 297 million at December 31, 2018).

As part of the calculation of the insurance liabilities, from time to time the Group tests the interest rates used for calculating the insurance liabilities, in relation to the characteristics of the liability, the relevant average duration, and the appropriate interest rate for each category of liability. Additionally, there is exposure to changes in the discount interest rates due to a review of the adequacy of the reserves included in the calculation of the insurance liabilities.

An analysis of the sensitivity to interest rate changes included the effects of changes in the said discounting interest rates. The sensitivity analysis also included fixed and variable interest marketable bonds, non-marketable debt assets and variable interest financial liabilities, derivative instruments and structured products. The note on direct risk below includes cash, debt assets, liabilities for insurance policies and other investment contracts and financial liabilities.

The percentage of assets out of all assets that are not yield dependent to which a sensitivity test was applied is 30%.

(3) Investments in instruments which have no fixed cash flow, or alternatively where the Company has no information on cash flow (based on the definitions in IFRS7, do not include investments in affiliates).

(4) Sensitivity analyses in relation to equity also give expression to the effect on profit or loss for the period.

(5) The main foreign currency is the US dollar, as noted in the linkage balance in Section I below.

(6) In view of the Finance Ministry's instructions in Insurance Circular 2011-1-1, mutual funds that invest in debt assets were included in the sensitivity to investments in capital instruments.

(7) Pursuant to the Finance Ministry's instructions in Insurance Circular 2011-1-1, the test of sensitivity to the CPI does not include the reserve for unearned premiums.

3. Direct interest rate risk

Direct interest risk is the risk that a change in the market interest rate will cause a change in the fair value or cash flows from the asset or liability. This risk refers to assets that are settled in cash. The addition of the word “direct” emphasizes the fact that a change in the interest rate can also affect other types of assets, but not directly, such as the effect of a change in the interest rate on share prices.

Note 37 - Risk management (contd.)

C. Market risk (contd.)

3. Direct interest rate risk (contd.)

Following is a list of the assets and liabilities by exposure to interest rate risks:

	As at December 31, 2019		
	Not yield-dependent (1)	Yield dependent	Total
	NIS million	NIS million	NIS million
Assets with direct interest risk			
Marketable debt assets	11,309	22,614	33,923
Non-marketable debt assets:			
Hetz bonds	5,214	140	5,354
Other	9,628	14,736	24,364
Other financial investments	116	389	505
Cash and cash equivalents	2,056	2,897	4,953
Reinsurance assets	3,971	310	4,281
Total assets with direct interest risk	32,294	41,086	73,380
Assets without direct interest risk (2)	15,394	26,116	41,510
Total assets	47,688	67,202	114,890
Liabilities with direct interest risk			
Financial liabilities	7,285	149	7,434
Liabilities for insurance contracts and investment contracts (3)	29,339	66,539	95,878
Liabilities for ETNs and certificates of deposit	-	-	-
Other	282	-	282
Total liabilities with direct interest risk	36,906	66,688	103,594
Liabilities without direct interest risk (4)	4,355	485	4,840
Equity	6,456	-	6,456
Total equity and liabilities	47,717	67,173	114,890
Total assets net of liabilities and equity	(29)	29	-
Off-balance sheet risk	702	2,328	3,030

(1) In non-yield-dependent life assurance, most of the liabilities are for yield-guaranteed policies which are backed partially by earmarked (Hetz) bonds issued by the Bank of Israel throughout the policy period. The Company therefore has overlapping financial cover for some of the liabilities with respect to interest and linkage throughout the life of the policies. At December 31, 2019 the earmarked bonds cover 56.9% of all the non-yield-dependent liabilities in life assurance issued until 1990.
For the Company's other investments for life assurance business, there is exposure to the interest rates prevailing at the time of recycling the investments whose duration of life may be lower than the average duration of the insurance liabilities. In respect of these products, and of on-going claims in payment, in long-term care insurance and work disability insurance, the calculation for insurance liabilities is based on the tariff interest rate.

(2) Assets on which there is no direct interest risk include shares, funds, fixed assets and investment property, deferred acquisition costs and other property, as well as balance-sheet groups of financial assets on which the interest risk is relatively low (premiums due, current balances of insurance companies, and other receivables).

(3) The method of determining the discounting interest rates used to calculate the insurance liabilities in life assurance and in non-life insurance is detailed in Section E in this Note, in the part which refers to the principal assumptions used for the actuarial estimate.

(4) Liabilities with no direct interest risk include tax reserves, various debit and credit balances, etc.

Note 37 - Risk management (contd.)

C. Market risk (contd.)

3. Direct interest rate risk (contd.)

	As at December 31, 2018			
	Not yield-dependent (1)	Yield dependent	ETNs and deposit certificates	Total
	NIS million	NIS million	NIS million	NIS million
Assets with direct interest risk				
Marketable debt assets	8,500	19,309	-	27,809
Non-marketable debt assets:				
Hetz bonds	4,938	130	-	5,068
Other	8,578	12,953	-	21,531
Other financial investments	74	78	-	152
Cash and cash equivalents	1,621	3,083	35	4,739
Reinsurance assets	4,188	128	-	4,316
Total assets with direct interest risk	27,899	35,681	35	63,615
Assets without direct interest risk (2)	14,457	21,949	-	36,406
Total assets	42,356	57,630	35	100,021
Liabilities with direct interest risk				
Financial liabilities	4,744	517	-	5,261
Liabilities for insurance contracts and investment contracts (3)	27,634	56,742	-	84,376
Liabilities for ETNs and certificates of deposit	-	-	33	33
Other	254	-	-	254
Total liabilities with direct interest risk	32,632	57,259	33	89,924
Liabilities without direct interest risk (4)	4,058	119	-	4,177
Equity	5,920	-	-	5,920
Total equity and liabilities	42,610	57,378	33	100,021
Total assets net of liabilities and equity	(254)	252	2	-
Off-balance sheet risk	713	2,220	-	2,933

(1) In non-yield-dependent life assurance, most of the liabilities are for yield-guaranteed policies which are backed partially by earmarked (Hetz) bonds issued by the Bank of Israel throughout the policy period. The Company therefore has overlapping financial cover for some of the liabilities with respect to interest and linkage throughout the life of the policies. At December 31, 2018, the earmarked bonds cover 56.8% of all the non-yield-dependent liabilities in life assurance issued until 1990.
For the Company's other investments for life assurance business, there is exposure to the interest rates prevailing at the time of recycling the investments whose duration of life may be lower than the average duration of the insurance liabilities. In respect of these products, and of on-going claims in payment, in long-term care insurance and work disability insurance, the calculation for insurance liabilities is based on the tariff interest rate.

(2) Assets on which there is no direct interest risk include shares, funds, fixed assets and investment property, deferred acquisition costs and other property, as well as balance-sheet groups of financial assets on which the interest risk is relatively low (premiums due, current balances of insurance companies, and other receivables).

(3) The method of determining the discounting interest rates used to calculate the insurance liabilities in life assurance and in non-life insurance is detailed in Section E in this Note, in the part which refers to the principal assumptions used for the actuarial estimate.

(4) Liabilities with no direct interest risk include tax reserves, various debit and credit balances, etc.

Note 37 - Risk management (contd.)

D. Liquidity risk

Liquidity risk is the risk that the Company may be forced to dispose of its assets at an inferior price in order to meet its obligations.

The Group is exposed to risks relating to uncertainty regarding the date on which it will be required to pay claims and other benefits to its policyholders relative to the volume of money available for this purpose at that time. However, a significant part of its insurance liabilities in the life assurance segment is not exposed to liquidity risks because of the nature of the insurance policies, as described below. It should be noted, however, that the possible need to raise funds in unexpectedly and within a short period, may require rapid disposal of significant assets at sale prices which do not necessarily reflect their market values.

Yield dependent policies - life assurance – according to the conditions of the contracts, their owners are entitled to receive the value of said investments and nothing more. Accordingly, if the value of the investments decreased for any reason whatsoever, there will be a similar decrease in the Company's liabilities. Accordingly, the Group is not exposed to any liquidity risks.

Contracts which are not yield-dependent – in life assurance – 15.4% of the life assurance portfolio is policies which are not yield dependent but guarantee an agreed yield. These policies are backed partially by earmarked bonds issued by the Bank of Israel. The Company may sell these bonds when redemption of these policies is required.

The Group's liquidity risk is therefore mainly attributable to outstanding assets that are not earmarked bonds and are not assets against yield-dependent contracts. At the report date, these assets account for 22% (NIS 25 billion) of all Group assets. Of these asset balances, about NIS 5.3 billion are marketable securities available for immediate disposal.

1. Management of assets and liabilities

The Group manages its assets and liabilities in accordance with the Insurance Supervision Law and subsequent regulations.

The following tables summarize the maturity dates of undiscounted insurance and financial liabilities of the Group since the amounts are not discounted, they are not consistent with the balance of insurance and financial liabilities in the Statement of Financial Position.

The maturity dates of life assurance and health liabilities are included in the tables as follows:

- Savings money based on their contractual maturity dates, namely - retirement age, excluding cancellation discounts, assuming that the entire saving will be withdrawn as lump sum and not as an annuity.
- Liabilities for annuities in payment, work disability in payment, long-term care in payment and healthcare based on the projected payment dates according to the actuarial estimate.
- The liability in respect of outstanding claims and the risk reserves in respect of life assurance and health insurance contracts are reported in the column "no defined repayment date".
- Maturity dates of non-life insurance liabilities were included in the tables in accordance with projected maturity dates, based on the Group's actuarial estimates.
- Insurance liabilities in grouped property branches and in branches not signed by the actuary are included in the column with a repayment date of " up to 3 years".
- Maturity dates of financial and investment contract liabilities were included on the basis of their contractual maturity dates. If the counter-parties to these contracts are entitled to choose the timing of the settlement, the liability is included on the basis of the earliest date when the Group may be required to settle its liability.

Note 37 - Risk management (contd.)

D. Liquidity risk (contd.)

2. Liabilities for life assurance contracts* and health insurance contracts

	Up to one year	More than one and up to 5 years	More than 5 and up to 10 years	More than 10 and up to 15 years	More than 15 years	Without any defined maturity date	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
As at December 31, 2019	**3,297**	**4,373**	**3,250**	**1,774**	**1,112**	**7,021**	**20,827**
As at December 31, 2018	3,367	4,074	3,297	1,931	1,199	5,595	19,463

Not including flow for yield-dependent contracts.

3. Liabilities for non-life insurance contracts

	Up to 3 years	More than 3 and up to 5 years	More than 5 years	Without any defined maturity date	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
As at December 31, 2019	**4,857**	**1,674**	**3,154**	**288**	**9,973**
As at December 31, 2018	5,333	1,820	2,666	334	10,153

4. Financial liabilities and liabilities for investment contracts

	Up to one year	More than one and up to 5 years	More than 5 and up to 10 years	More than 10 and up to 15 years	More than 15 years	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
As at December 31, 2019						
Financial liabilities	**1,148**	**2,229**	**4,245**	**1,093**	**10**	**8,725**
Liabilities for investment contracts *	**16,377**	**-**	**-**	**-**	**-**	**16,377**
As at December 31, 2018						
Financial liabilities	1,372	2,362	1,859	932	3	6,528
Liabilities for investment contracts *	13,691	-	-	-	-	13,691

* Liabilities of up to one year include liabilities for yield-dependent investment contracts. At December 31, 2019 and 2018, these outstanding liabilities amounted to NIS 16,237 and NIS 13,552 million, respectively, and are due for repayment upon request (on-call). These liabilities were classified as repayable up to a year, despite the fact that in practice their actual repayment dates could be many years later..

Note 37- Risk management (contd.)

D. Liquidity risk (contd.)

5. Financial liabilities and liabilities for investment contracts

	Average effective interest rate	Up to one month	1-3 months	More than 3 months	Up to one year	1-5 years	More than 5 years	Total
	%	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
At December 31, 2019								
Lease liabilities	**1.4%-2.7%**	**3**	**5**	**20**	**28**	**39**	**18**	**85**

E. Insurance risks

The insurance risk includes, inter alia:

Underwriting risks: The risk of incorrect pricing because of deficiencies in the underwriting process, and the gap between the risk when pricing and determining the premium, and actual occurrence, such that the premiums collected are not sufficient to cover future claims and expenses. These differences may result from random changes in business results and changes in the average cost of claims and/or claim frequencies, as a result of various factors.

Reserve risks: The risk of incorrect evaluation of insurance liabilities which may lead to a situation where the actuarial reserves are inadequate to cover all liabilities and claims. The actuarial models are used by the Group to evaluate its insurance liabilities, are based on the assumptions that patterns of conduct and past claims are an indication of future events. The Company's exposure consists of the following risks:

1. Model risk - the risk of choosing an incorrect model for pricing and/or evaluating insurance liabilities.
2. Parameter risk - the risk of using incorrect parameters, including a risk that the amount that will be paid for settlement of the company's insurance liabilities, or that the date of settlement of the insurance liability, will be different than expected.

Catastrophe risk: Exposure to an isolated event of great significance (catastrophe) such as natural perils and disasters, war, terror or earthquake that will result in accumulated loss on a large scale. The most significant catastrophe to which the Group is exposed to an earthquake in Israel.

At the date of the report, the maximum anticipated loss in non-life insurance business as a result of exposure to single large loss or accumulative loss for a particularly large event, under a maximum probable loss (MPL) of 2% is NIS 13,063 million gross and NIS 160 million in self-retention. In accordance with the Company’s risk management policy, the Company acquires more extensive reinsurance cover to cover a particularly large loss with the probability of maximum loss and accordingly, the actual cover is higher than the maximum loss noted above.

For information about the various insurance products for which the insurer has exposure to insurance risk, see details of insurance liabilities, by insurance risk, in Note 3C - Additional information about the non-life insurance sector.

Note 37- Risk management (contd.)

E. Insurance risks (contd.)

1. Insurance risk in life assurance and health insurance policies

A. General

The following is at a description of the various insurance products and assumptions that are used for calculating the liabilities, by product type.

As a rule, and in accordance with the Commissioner's provisions, insurance liabilities are calculated by the actuary, using accepted actuarial methods and consistent with previous years. These liabilities are calculated in accordance with relevant coverage data such as age and sex of the insured party, policy period, commencement date of the insurance, type of insurance, periodic premium, and the sum insured.

B. Actuarial methods for calculating insurance liabilities

1. "Adif" and "Investment Track" plans.

   These policies have an identified savings' component. The basic and principal reserve is the amount of accumulated savings accrued plus yield in accordance based on the policy conditions, as follows:

   - Fund linked to the return on the investment portfolio (yield dependent contracts).
   - Fund linked to the CPI plus a guaranteed fixed interest or entitlement to a guaranteed yield, against matching assets (guaranteed yield policies).

   With respect to other insurance components attached to these policies (disability, death, long-term care, etc.) - the insurance liability is calculated separately as stated below.

2. "Me'urav" polices and the like (plans of the "Traditional" type)

   "Me'urav" and similar policies combine a savings component in the event that the insured party is still alive at the end of the policy term, with a risk component for death over the policy term. The insurance liability for these products is calculated for all coverage, using discounted cash flows for expected claims, including payment at the end of the term, less expected future premiums. This calculation is based on the assumptions used in pricing the products and/or assumptions based on claims experience, including interest rates ("tariff interest") and mortality or morbidity tables, (see also sub-section e.2 below). The calculation was made using the "Net Premium Reserve" method which does not include under expected receipts, the component that was included in the premium tariff to cover commissions and expenses, and on the other hand, does not deduct expected expenses and commissions. The reserve for yield-dependent traditional products is calculated in accordance with returns actually earned less management fees.

3. Liabilities for annuities in payment out are calculated pursuant to life expectancy, based on updated mortality tables which were prepared after considering the group's experience, with the help of data published by the Ministry of Finance actuary in a circular issued by the Commissioner. For additional information, see Note 3C above

Note 37- Risk management (contd.)

E. Insurance risks (contd.)

1. Insurance risk in life assurance and health insurance policies (contd.)

B. Actuarial methods for calculating insurance liabilities (contd.)

4. Liabilities for whole-life annuities in respect of policies in force (in payment and paid up) that have not yet reached the exercising of the annuity stage, or have reached the age of retirement but payment has not yet commenced, is calculated in accordance with the probability of withdrawal of the annuity for the anticipated life expectancy, on the basis of updated mortality tables. When updating the mortality tables, there is a gradual increase of the liability for annuity taking into account expected profit from the policies, until the insureds reach retirement age, in accordance with circulars issued by the Commissioner. The lower the guaranteed annuity coefficients in the policies, the greater the required increase. For additional information, see Note 3C above.

   Other life assurance policies and health policies insurance include pure risk products (work disability, death, long-term care, critical illness, incapacity etc.) which are sold as stand-alone policies or are attached to basic policies such as "Adif," Investment Track or "Masorti". Liabilities for these policies are calculated using actuarial methods. For some of these policies, the calculation is made using the Gross Premium Reserve in which the expected flow of receipts includes all premium components less expected commissions and expenses. Regarding on-going claims, in long-term care insurance and work disability insurance, the insurance liability is calculated based on the anticipated duration of the payment period, discounted using the tariff interest.

   The insurance liability in the long-term care policies purchased as part of the transaction to acquire the operations of Eliahu is calculated using the Net Premium Reserve Method, in view of the different specifications of this policy, relative to Harel’s existing plans.

5. Liabilities for ongoing claims in payment in long-term care (LTC) and work disability (P.H.I.) insurance are calculated are calculated on the basis of individual assessments for each claim, based on the following parameters: amount of monthly compensation, the maximum period for payment of the claim, seniority of the claim and status of the claim. A reserve for IBNR is added to this amount, which is calculated statistically on the basis of past experience.

6. Insurance liabilities for group insurance include a reserve for IBNR (claims incurred but not yet reported), a provision for continuity and a provision for future loss, as necessary.

7. Liabilities for outstanding claims in health insurance are calculated based on the Company’s experience.

8. Liabilities for outstanding life-assurance claims consist principally of provisions for outstanding claims for death.

9. The liabilities for outstanding claims in respect of IBNR claims in life assurance and health insurance are usually calculated based on the Company's experience.

10. Special provision is recorded if the Liability Adequacy Test, described in Note 3C shows that it is necessary.

Note 37- Risk management (contd.)

E. Insurance risks (contd.)

1. Insurance risk in life assurance and health insurance policies (contd.)

C. Key assumptions used for calculating insurance liabilities

1. Discounting rate

For Meurav and similar insurance policies ("Traditional") (see 1B above) and pure risk products with fixed premiums, the interest rate that serves for discounting is as follows:

- For insurance policies backed partially by earmarked bonds, tariff interest of between 3% and 5%, CPI-linked.
- For yield-dependent products, issued from 1991 onwards, tariff interest of 2.5%, linked. In accordance with terms of the policies, changes in interest rates will be charged to the insured parties. The discounting interest rate may change due to significant changes in the interest rate in the economy for the long term.

On the revised discounting interest rates, see Note 3C.

2. Mortality and morbidity rates

A. The mortality rates used in the calculation of insurance liabilities for death of policyholders before they reach retirement age (i.e. not including the death of insureds who receive annuities and monthly compensation for work disability or long-term care) are generally the same as the rates used in determining the tariff.

B. The liability for whole-life annuity payments for insureds who are already receiving an annuity is calculated in accordance with revised mortality tables published by the actuary in the Finance Ministry. These tables are also used for the mortality calculations for insureds who have not yet begun to receive an annuity from the expected date for receiving the annuity. Up to the anticipated date for receiving the annuity, a revised mortality table is used which is calculated on the basis of the Company's experience.

The mortality tables published by the Finance Ministry's actuary are also used when conducting a Liability Adequacy Test, described in Note 3C.

An increase in the assumption of mortality rates, following an increase in the actual mortality rate, to a level that exceeds the existing assumption, will require an increase in the insurance liability for mortality of insured parties before they reach retirement age, and a reduction in the liability for all-life annuity payments. It should be noted that the last few decades have seen an opposite trend of increases in longevity and decreases in mortality. The mortality assumption which is used to calculate annuity liabilities takes into account a discount for future increases in longevity.

C. Morbidity rates consider the frequency of claims for critical illness, work disability, long-term care, operations and hospitalization, incapacity because of accident, etc. These rates were set on the basis of the Company's experience.

An increase in the assumptions for morbidity rates will result in an increase in the insurance liability for incidence from critical illness, disability, long-term care, operations, hospitalization and incapacity due to accidents.

Note 37- Risk management (contd.)

E. Insurance risks (contd.)

1. Insurance risk in life assurance and health insurance policies (contd.)

C. Key assumptions used for calculating insurance liabilities (contd.)

3. Annuity take-up rates

   Life assurance policies, which include a savings component, were managed, for money deposited up to 2008, in two tracks: a capital track and an annuity track. From 2008, all policies are annuity based. In some policies, the insured party may choose the track upon retirement. As the amount of insurance liability is different in each of the two tracks, the Company must determine the percentage of insurance plans in which the policyholders choose the annuity track. This rate is set in accordance with the instructions of the Capital Market, Insurance and Savings Authority, with adjustments for the Company's experience. For additional information, see Section E2 below.

4. Cancellation Rates

   The rate of cancellation affects the insurance liabilities, in respect of some health insurance contracts and all-life annuity contracts during the period before payments begin. Cancellation of insurance policies could result from cancellation initiated by the Company because the payment of premiums has ceased, or due to surrender by the policyholders. The assumptions regarding cancellation rates are based on the Company's experience, the type of product, the lifespan of the product and sales trends.

5. Continuity Rates

   Some policies allow the insured to continue to be covered under the same terms even if the group contract is not renewed. The Company recognizes a liability with respect to the option based on assumptions regarding rates of continuity of group insurance policies and rates of policy continuity with policyholders after termination of the group contract.

   The higher the probability that the group contract will not be renewed (i.e. higher continuity rate) the greater the insurance liability due continuation of the insurance under the previous terms, without underwriting adjustment for changes in the health of the insured party.

Note 37- Risk management (contd.)

E. Insurance risks (contd.)

1. Insurance risk in life assurance and health insurance policies (contd.)

C. Key assumptions used for calculating insurance liabilities (contd.)

6. Sensitivity tests in life assurance and health insurance

The sensitivity tests refer to the assumptions underlying the calculation of the insurance liabilities in the books.

As at December 31, 2019

	Cancellation Rates (Redemptions, Settlements, Reductions)		Morbidity Rate		Mortality Rate		Annuity take-up Rate**	
	+10%	-10%	+10%	-10%	+10%	-10%	+5%	-5%
	NIS million							
Profit (loss)	80	(99)	(566)	517	903	(1,170)	(211)	98

As at December 31, 2018

	Cancellation Rates (Redemptions, Settlements, Reductions)		Morbidity Rate		Mortality Rate		Annuity take-up Rate**	
	+10%	-10%	+10%	-10%	+10%	-10%	+5%	-5%
	NIS million							
Profit (loss)	99	(122)	(434)	387	516	(379)	(61)	61

* For the amount of the supplementary reserve for annuity, see Note 19A.

Note 37 - Risk management (contd.)

E. Insurance risks (contd.)

2. Changes in the key assumptions used for calculating the insurance liabilities in the life assurance segment and health insurance segment

In the reporting year, some of the assumptions used for assessing the reserves were revised, based on the cumulative experience acquired by the Company.

Following are principle effects on the financial results in the life and health segments:

	2019	2018	2017
	NIS million	NIS million	NIS million
Life assurance segment			
Application of a circular on revised mortality tables	(91)	-	-
Revised cancellation assumptions	(27)	-	-
Revised assumptions in relation to take-up of Gimla (annuity)	-	(38)	-
Revised rate of expenses for Gimla claims	-	33	-
Revised rate of eligibility to current and future Hetz bonds	-	(71)	-
Revised morbidity assumptions in the critical illness sector	-	-	59
Total effect of changes in key assumptions in life assurance segment	(118)	(76)	59
Health insurance segment			
Personal lines health			
Revised assumptions in relation to cancellation rate	-	(107)	(82)
Revised assumptions in relation to morbidity rate	112	245	-
Revised rate of expenses	-	-	(16)
	112	138	(98)
Personal lines LTC			
Application of a circular on revised mortality tables	70	-	-
Revised assumptions in relation to cancellation rate	-	(42)	25
Revised assumptions in relation to morbidity rate	-	12	(29)
Revised rate of expenses	-	12	-
	70	(18)	(4)
Total effect of changes in the key assumptions in the health insurance segment	182	120	(102)
Total effect of changes in the key assumptions in the life and health segments before tax	64	44	(43)
Total effect of changes in the key assumptions in the life and health segments after tax	42	29	(28)

* 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 the Company 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. In the Reporting Period, the Company reduced the insurance liabilities in the health insurance segment by NIS 70 million and it increased pre-tax profit and comprehensive income before tax by the same amount.

Note 37 - Risk management (contd.)

E. Insurance risks (contd.)

3. Insurance risk in non-life insurance policies

The following is an analysis of various insurance products, methods and assumptions used in calculating liabilities in accordance with product type.

The Group has insurance contracts in the field of non-life insurance, mainly in the compulsory motor sectors, liabilities, motor property (CASCO), and property insurance.

Compulsory motor insurance policies cover the policyholder and the driver for all liabilities that they may incur under the Compensation for Road Accident Victims Law, 1975, due to physical injury as a result of the use of the motor vehicle, to the driver, to passengers of the vehicle, or to pedestrians injured by the vehicle. Compulsory motor vehicle claims are "long tail", that is – a long time lag from the date of the event until final settlement of the claim.

Liability insurance is geared to cover debts of an insured party for damage that he may cause to a third party. The main types of insurance include - third party, employers' liability, professional liability, product liability, and directors and officers (D&O) liabilities. The timing of submitting the claim and settlement is affected by a number of factors such as type of coverage, policy terms, legislation, and legal precedents. Generally, liability claims are "long tail".

Policies that insure against motor vehicle damage and third party motor property damage grant the insured party coverage for property damage. The coverage is generally limited to the value of the vehicle that was damaged. The premium for motor vehicle property insurance requires approval, as does the policy in general, by the Commissioner, and is an actuarial and partially differential rate (which is not uniform for all insured parties and is adjusted for risk). Said tariff is based on a number of parameters, those related to the vehicle of the insured policyholder (such as type of vehicle, year of manufacture, etc.), and those related to the specifications of the insured party (age of the driver, claims experience etc.). The underwriting process is performed partially by means of the actual tariff and through a set of procedures designed to check the insured’s claims experience, which include presentation of proof of "no-claims" from the previous insurer for the last three years, proof of updated protection, which are integrated automatically during the issue of the policies.

In most cases, motor vehicle insurance policies are issued for a period of one year. In addition, in most cases, claims against these policies are settled close to the date of the insurance event.

Property insurance is intended to grant the insured party coverage against physical damage to his property and loss of profit following damage to his property.

The main risks that are covered by the policies are - risk of fire, explosions, burglary, earthquakes and natural perils. Property insurance sometimes includes cover for loss of profit following physical damage to the property. Property insurance is an important part of residential, business, engineering, and cargo (maritime, land, air) insurance policies. In most cases, claims against these policies are settled close to the date of the insurance event.

Note 37 - Risk management (contd.)

E. Insurance risks (contd.)

3. Insurance risk in non-life insurance policies (contd.)

A. Principles for calculating the actuarial estimate in non-life insurance

General

(a) Liabilities for non-life insurance contracts include the following key components:

- provision for unearned premiums
- premium deficiency
- outstanding claims
- and net of - deferred acquisition costs

The provision for unearned premiums and deferred acquisition costs is calculated independent of any assumptions, and accordingly is not exposed to any reserve risk. Regarding the manner of calculating the provisions, see the Note on significant accounting principles.

(b) In accordance with the Commissioner's instructions, in the grouped and non-grouped branches, outstanding claims are calculated by the actuary responsible for non-life insurance, using accepted actuarial methods consistent with the previous year. The actuary has the discretion to choose the appropriate actuarial method for all insurance branches, and for each event year/underwriting year, based on the extent to which the method is appropriate for the branch. Sometimes a combination of methods is used. The evaluations are based primarily on experience with developments in claims payments and/or developments in the amount payments and individual evaluations. The evaluations include assumptions regarding the cost of an average claim, claim handling costs, and frequency of claims. Additional assumptions may relate to changes in interest rates, timing of payments, payments of claims including direct and indirect costs to settle claims, less subrogation and deductibles.

(c) The use of actuarial methods based on claim development is appropriate mainly when there is stable and adequate information on claims payments and/or individual evaluations in order to evaluate the total estimated cost of the claim. If information on actual claims experience is not sufficient, the actuary, occasionally, makes use of a weighted calculation, taking into account known estimates (in the company and/or the branch) and actual claims development. A greater weight is given to an estimation based on experience gained over time and additional information on claims.

(d) Qualitative evaluations and discretion are also used regarding the possibility that past trends will not continue in the future. For example - following a non-recurring event, internal changes such as a change in the portfolio mix, in underwriting policy, and procedures on handling claims, and for the effect of external factors such as legal decisions, legislation etc. When these changes are not fully reflected in past experience, the actuary updates the models and/or makes specific provisions on the basis of statistical and/or legal evaluations, as relevant.

(e) In other branches where an actuarial model is not applied, the provision is based (gross and on retention) on professional opinions prepared by company experts, and on recommendations of legal counsel.

(f) The re-insurers' share of outstanding claims is estimated taking into account the type of treaty (proportionate/not proportionate), actual claims experience and the premium that was transferred to the reinsurer.

(g) The estimate of outstanding claims for the Company's share of the Pool, in incoming business and co-insurance received from other insurance companies (leading insurers) was based on a calculation made by the Pool or by the other insurers.

Note 37 - Risk management (contd.)

E. Insurance risks (contd.)

3. Insurance risk in non-life insurance policies (contd.)

B. Actuarial methods used in the key branches of insurance

Actuarial estimates are based mainly on information in respect of claims paid and individual estimates that also include direct expenses for claims settlement, net of subrogation and deductibles. Notably, in accordance with instructions of the Commissioner of Insurance, the provisions must also include indirect costs for claims settlement for all underwriting years.

(a) Property loss sector (excluding insurance for the work of building contractors, natural perils and terror damages) and comprehensive household (including mortgage banks) branches

The models used by the group include - a payments development model, outstanding claims development model, a quantitative claims model (with use of the following methods - "Link Ratios", "Chain Ladder") and averages for a development period up to two and a half years, plus a tail for any subsequent development period. For old, open claims, (with a loss year before two and half years ago), the Group takes the contingent claims as they were valued by the claims department in non-life insurance. Extraordinary events are treated separately.

In the mortgage bank branch, where the company is not the "leader," the provision is taken as reported by the leading insurer. The calculation is made on a gross basis, before the share of the reinsurers. The reinsurers' share in proportional (Quota Share) treaties is calculated based on the agreements.

In the comprehensive homeowners sector (including mortgage banks), a stochastic model is used to estimate the reserve (Bootstrap model) for the purpose of compliance with the Commissioner's position on the best practice for calculating non-life insurance reserves.

(b) Motor property branch

1. Accidents

The models used by the group include - a payments development model, outstanding claims development model, a quantitative claims model (using the following methods - "Link Ratios", "Chain Ladder") and averages for development terms up to two and a half years, plus a tail for any subsequent development period.

In respect of old and open claims (where damage was more than two and a half years ago), the group accepts the outstanding claims as evaluated by the non-life insurance claims division.

Extraordinary events are treated separately.

2. Total loss / theft

In respect of known claims, the outstanding claims are as they were estimated by the non-life claims department.

Regarding unreported claims, the number of claims not yet reported is determined using the Link Ratios and Chain Ladder methods. The cost of claims is determined by the averages method. The calculation is made on a gross basis, before the reinsurer's share. The reinsurer's share in proportional contracts is calculated in accordance with the reinsurance treaties.

In the motor property sector, a stochastic model is used to estimate the reserve (Bootstrap model) for the purpose of compliance with the Commissioner's position on the best practice for calculating non-life insurance reserves.

Note 37 - Risk management (contd.)

E. Insurance risks (contd.)

3. Insurance risk in non-life insurance policies (contd.)

B. Actuarial methods used in the key branches of insurance (contd.)

(c) Compulsory motor

The models used by the group include - a payments development model, outstanding claims development model, a quantitative claims model (with use of the following methods - "Link Ratios", "Chain Ladder"), and averages for development periods of up to 17 years, plus a tail for subsequent periods of development. For later underwriting years the company uses the Bornhuetter - Ferguson (BF) method. In addition, the standard deviation is calculated using the Thomas Mach method.

In respect of old and open claims the company includes the amount of outstanding claims, as estimated by the non-life insurance claims division. The reserve for the company's share in the residual insurance arrangement ("the Pool") is based on a calculation prepared by the Pool.

A stochastic model is used to estimate the reserve (Bootstrap model) for the purpose of compliance with the Commissioner's position on the best practice for calculating non-life insurance reserves.

(d) Liabilities branches - employers' liability, third party liability (including facultative claims), professional liability (including doctors and managers liability) and product liability.

The models used by the group include - a payments development model, outstanding claims development model, a quantitative claims model (using the following methods - "Link Ratios", "Chain Ladder"), and averages for development periods of up to 17 years, plus a tail for subsequent periods of development. For later underwriting years the company uses the Bornhuetter-Ferguson (BF) method. In addition, standard deviations are calculated using the Thomas Mach method.

In respect of old open claims, outstanding claims are included as estimated by the non-life insurance claims division. In the liabilities sectors, excluding third party liability, the provision in respect of facultative claims is the maximum between total of outstanding claims, as estimated individually by the non-life insurance claims division, and total outstanding claims calculated using said actuarial model. In the third party liability the provision for facultative claims is made based on a separate actuarial model.

The calculation is made gross, before the reinsurers' share. The reinsurers' share is calculated in accordance with the agreements. In XOL reinsurance - the company takes into consideration the estimates of the known big claims, as well as the premium paid to reinsurers in recent years.

A stochastic model is used to estimate the reserve (Bootstrap model) for the purpose of compliance with the Commissioner's position on the best practice for calculating non-life insurance reserves.

Note 37 - Risk management (contd.)

E. Insurance risks (contd.)

3. Insurance risk in non-life insurance policies (contd.)

B. Actuarial methods used in the key branches of insurance (contd.)

(e) Provisions based on other evaluations (non-actuarial)

In accordance with the Commissioner's instructions, Harel Insurance also examined the calculation of the actuarial provisions for the following sectors: work performed by building contractors, natural perils, terror losses and sale guarantees. Due to a lack of statistically significant information, an actuarial model was not applied in these branches. The outstanding claims with respect to these branches were included based on estimates that included the following components:

1. Known outstanding claims, including an appropriate provision for settlement and handling expenses up to the end of the period, and which have not yet been paid at the date of the financial statements. This provision is based, mainly, on an individual evaluation of each claim according to an opinion received from the Company's attorneys and its experts handling the claims.
2. Provision for claims incurred but not yet reported (IBNR) and provision for claims incurred but not enough reported (IBNER) is based on Harel Insurance's actual experience.

Note 37 - Risk management (contd.)

E. Insurance risks (contd.)

3. Insurance risk in non-life insurance policies (contd.)

C. Key assumptions used in preparing the actuarial evaluations

1. The actuarial models are based on data adjusted to the date of the report, under the basic assumption that in future, the cost of claims will increase by the amount of the increase in the CPI and provisions will be discounted in accordance with the best practice instructions and the risk-free interest rate curve adjusted to the non-liquid nature of the liabilities, and taking into account the difference between the fair value and book value of the non-marketable assets.
2. A supplement is included for the risk margin in the liabilities branches which is based on a calculation of standard deviation using the Thomas Mack method.
3. Claims development tail - use is made of a tail, as described above.

4. Changes in the key assumptions used to calculate the insurance liabilities for non-life insurance contracts

On a revision of the interest rates used for discounting, see Note 3C.

In the past year, no other significant changes were made in the model and the actuarial assumptions used for calculating the insurance liabilities.

F. Risks Involved in Financial Activities

Financial activity exposes the group to various risks the most important of which are: market risk (including foreign currency risk and fair value risk in respect of interest rates, and index risks), credit risk, liquidity risk and operating risk.

1. Market risk

The Company's subsidiaries in the financial services sector are directly or indirectly involved in such areas as investment management, portfolio management, financial products, mutual fund management and hedge fund management, and therefore operate in a capital market characterized by fluctuations, arising, inter alia, from the effects of political, governmental, security and economic factors in Israel and the world, over which the Group has no control. Such fluctuations, together with the fact that some of the companies cover their obligations with derivatives, which are more volatile, influence the scope of public activity in the capital markets and the prices of securities. Market risk is defined as "the risk of losses on on and off balance-sheet positions attributable to changes in market prices".

2. Credit risk

The companies are exposed to the credit risks of various bodies, including institutions in which cash and securities have been deposited and subsequently used to borrow securities that are assets of the subsidiaries, or their customers, as well as bodies that have issued derivatives that are purchased by the subsidiary. When subsidiaries deposit securities with a foreign bank or broker, the exposure arises from the fact that should the foreign bank or broker become insolvent, a significant amount of time may pass before the subsidiaries are able to retrieve the securities that were deposited, as above, if at all.

Note 37 - Risk management (contd.)

F. Risks Involved in Financial Activities (contd.)

3. Operating risks

An operating risk is defined as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events".

Operating risk is an integral part of all activities, products, systems and work processes carried out in the Company. Awareness and management of the operating risk at all levels is therefore important.

Managers at the Company's different management echelons are responsible for the ongoing management of operating risk and taking action to minimize the risk, with professional support from the risk management and control department. Some of the operating risks are managed by other control entities, for the compliance officer, the head of information security and head of deployment for crisis management.

The Company routinely assesses its exposure to operating risks and takes measures to reduce them.

4. Liquidity risk

Harel Finance Group works to maintain the existing balance between the ongoing financing it receives and existing flexibility, by using overdraft facilities and loans from banks and others.

Liquidity risk reflects the exposure to a situation in which there is a shortage of cash or available sources of credit for the purpose of conducting activity, at times when the issuer has an immediate need for liquid assets.

5. Interest rate risk

Likewise, there are risks in operations involving financial instruments that stem from changes in the interest rates. Sometimes, interest rates are a parameter in pricing derivative financial instruments, and are used by the Group to manage its investments. An unexpected change in the interest rate may cause the Group a gain or loss attributable to its holding of financial instruments, the prices of which changed as a result of the interest rate change.

6. Risk in respect of changes in the underlying assets and indices

In their activity in securities, commodities, financial instruments and derivative assets, the Company and the subsidiary aim to hedge the exposure to changes in the underlying assets (share indices, bond indices, stocks, commodities and/or futures contracts), although such activity is not risk free. As noted above, in this activity the Company is exposed to changes in the underlying assets, the most important of which are outlined below:

Changes in the price of the underlying assets - a change in the price of the underlying assets exposes the Company and/or the subsidiary to losses or profits on amounts in which the Company is exposed from to time to time to those underlying assets.

Sharp fluctuations in the underlying asset - sharp fluctuations in the underlying asset of derivative assets in the short term cause an increase in the premiums paid on the purchase of options, which reflect the market uncertainty and might affect the scope of the assets and liabilities of the Company and/or the subsidiary for options that are created and/or acquired, and this in turn may positively or negatively affect the business results stemming from this activity.

Suspension of trade and trading difficulties - the suspension of trade and/or other trading difficulties in the underlying assets or options or future contracts, such as low volumes of trade, may make it impossible to perform transactions and/or conversions and may create a situation in which open positions cannot be closed and daily balancing operations cannot be performed.

Note 37 - Risk management (contd.)

F. Risks Involved in Financial Activities (contd.)

7. Interest rate changes

Activity in financial instruments includes risks arising from changes in the interest rates in Israel and/or abroad and from changes in the interest rates on deposits in Israel and/or abroad. Interest rates are one of the parameters used to price derivative financial instruments, and may be used by the Group for managing its investments. Unexpected changes in the interest rates may cause the Company and/or the subsidiary a gain or loss arising from the holding of financial instruments, the prices of which change as a result of these interest rate changes. To reduce the Company's exposure to interest rate changes, the Company reserved the right to change the interest rates which are subtracted from or added to the price of the ETNs that the Company issues to the public.

8. Change in standard deviation (SD)

Changes in the SD inherent in options on the indices that are tracked by the ETNs issued by the Company or on any component of the futures contracts or on shares that are tracked by the ETNs issued by the Company, might, in the event of a purchase or a sale, affect the business results arising from this activity. These changes are sometimes caused by an excess or absence of volatility in the underlying asset. To reduce the Company's exposure to changes in the SD, the Company hedges and limits its risk in the activity by means of options that are not part of whole contracts.

9. Compromising the tracking of changes in the underlying asset

Compromising the Company's ability to track the changes in the underlying asset or securities included in the underlying asset, as applicable, might create a situation in which the Company is unable to hedge the exposure to changes in the underlying asset. In light of the fact that this damage may occur, in part due to a failure of the computer systems used by the Company, the Company attempts to reduce this exposure, in part by means of backup systems.

10. Change in weight of securities in the index in index-related events

On pre-arranged dates, the TASE adjusts the weights and changes the mix of the index in accordance with criteria known in advance. When the Company does not make the necessary weight adjustment, an exposure may be created for the Company which might cause losses.

11. Changes in the return on cash surpluses

The use of derivative instruments to cover the Company's obligations towards ETN holders creates cash surpluses that are invested in financial instruments which provide a different return depending on the pricing of the derivative assets. A change in the return received on the cash balances, whether due to a reduction and/or increase in interest rates in Israel and/or abroad, or to a change in the interest rate margins applied in Israel and/or abroad, might have a positive or negative impact on the Company's business results and on ability to pay for the conversion or sale to ETN holders of any particular series. To reduce the Company's exposure to interest rate changes, the Company reserved the right to change the interest rates which are subtracted from or added to the price of the ETNs that the Company issues to the public.

12. Changes in the players and improvement of the capital market

Subject to the limitations that apply to the activity of the Company and/or the subsidiary in the financial instruments sector, the Company and/or the subsidiary attempt to take advantage of opportunities such as price differences arising from the lack of sophistication of the capital market. The expected entry of additional entities to trading in financial instruments and improvement of the capital market might limit such opportunities, and this may negatively affect the Company's business results.

Note 37 - Risk management (contd.)

F. Risks Involved in Financial Activities (contd.)

13. Price discrepancies between derivative assets and the underlying assets

On index products (and for their underlying assets) for which there are derivate assets and the Company is fully or partially covered in relation to these index products by means of the aforementioned derivatives, there is a risk of creating discrepancies between the prices of the derivative assets on the relevant underlying assets and the relevant underlying assets. A direct outcome could be that the Company's business results are compromised and it is unable to pay the conversion or exercised amounts or the proceeds of the conversion to the holders of these index products.

14. Short trading

Short trading increases the Company's exposure to securities with low tradability, suspension of trading or other marketable difficulties. To reduce this risk, the Company adopted a policy of reducing its exposure to securities and underlying assets.

15. Unexpected conversion or sale by a significant part of the ETN holders

If a significant part of the holders of ETNs of a particular series wish to convert / sell the ETNs on a date not foreseen by the Company, there is a risk of the Company's ability to convert / exercise all the assets and transfer to the ETN holders the full proceeds of the conversion / sale on that date.

16. Breach event relating to one series of ETNs

The risk that a breach event relating to one series of ETNs will affect the holders of ETNs in the other series. To reduce the serious exposure, the Company takes action to create legal segregation between the Company's obligations towards the holders of each series of index products that it issues, in part by pledging the relevant assets for each series in favor of the Company's obligations in connection with that series.

17. Business licenses

Given that the Company's activity involves the holding of financial instruments that track indices or futures contracts, the use of the index or futures contracts requires a license. Expiry of the license to use any particular index or futures contract might cause the Company to perform a forced conversion or forced sale, as applicable, of the relevant ETNs.

18. Change in the leverage of complex certificates

In notes that are leveraged in points, the percentage change is volatile - it is reduced when the underlying asset increases and increases when the underlying asset decreases. These complex certificates might create market exposure and cause losses as a result of a sharp change in the underlying asset. Additionally, in ETNs that are comprised of several underlying assets, an increase in one asset may cause an increase in its relative weight in the total value of the ETN and reduce the weight of the other underlying assets, and vice versa. This could create a mix that differs from the basic mix of the note and as a result change the risk entailed in holding the note. Furthermore, on the quarterly balancing date, the Company is required to take action to adjust the weights of the backing asset in accordance with the basic weights. If such action is not taken on time, an exposure is created to the underlying asset.

Note 37 - Risk management (contd.)

F. Risks Involved in Financial Activities (contd.)

19. Risk due to regulatory changes

The advertising and distribution of the Company's products among investors are subject to regulatory restrictions that may delay expansion of the Company's activity and penetration of its products among private investors. Furthermore, changes in legislation and standards relating to securities in general and financial products in particular might compromise the Company's ability to operate in this operating segment and adversely affect the Company's profitability in this segment, including as a result of costs incurred by the Company due to these regulatory changes, as in the case of a requirement to provide additional equity.

20. Currency exposure

In ETNs in which the underlying asset is not traded in shekels, there may be surplus or short currency exposure that could cause losses or gains (in shekel terms) as a result of fluctuating exchange rates. Additionally, currency adjusted notes are typically characterized by quanto risk - for information see Section 21 below.

21. Risk of exposure in respect of quanto

Where the backing asset is not linked to the currency of the note, changes in the price of the backing asset or the currency to which it is linked create positions in the underlying asset or the currency to which the backing asset is linked.

G. Information about credit risks

1. Distribution of debt assets, by location

	As at December 31, 2019		
	Marketable	Non-marketable	Total
	NIS million	NIS million	NIS million
In Israel	**10,122**	**14,123**	**24,245**
Abroad	**1,187**	**719**	**1,906**
Total debt assets	**11,309**	**14,842**	**26,151**

	As at December 31, 2018		
	Marketable	Non-marketable	Total
	NIS million	NIS million	NIS million
In Israel	7,195	12,915	20,110
Abroad	1,305	601	1,906
Total debt assets	8,500	13,516	22,016

Note 37 - Risk management (contd.)

G. Information about credit risk (contd.)

2. Assets by rating levels

1. Debt assets in Israel

	Local rating*				
	As at December 31, 2019				
	AA- and higher	A+ to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Debt assets in Israel					
Marketable debt assets					
Government bonds	5,821	-	-	-	5,821
Corporate bonds	3,590	681	14	16	4,301
Total marketable debt assets in Israel	9,411	681	14	16	10,122
Non-marketable debt assets					
Government bonds	5,214	-	-	-	5,214
Corporate bonds	1,113	18	14	1	1,146
Deposits in banks and financial institutions	2,171	-	-	-	2,171
Other debt assets by collateral:					
Mortgages	-	-	-	810	810
Loans on policies	-	-	-	16	16
Loans for which shares that confer control are pledged	122	70	-	-	192
Other sureties	1,573	1,881	-	1,118	4,572
Not secured	-	-	-	2	2
Total non-marketable debt assets in Israel	10,193	1,969	14	1,947	14,123
Total debt assets in Israel	19,604	2,650	28	1,963	24,245
Of this - debt assets with an internal rating **	503	850	14	-	1,367

* The sources for the rating level in Israel are the rating companies approved by the Commissioner. The rating data were converted to the rating symbols of S&P, based on generally accepted conversion coefficients. Each rating includes all ranges, e.g.: an A rating is made up of A- to A+.

** Pursuant to the Commissioner's circulars 2007-9-15 and 2007-9-16, the Group has the organizational and management infrastructure for credit management. In this context, the Company monitors and reviews all the debt assets in which it invests. The Group prepares an internal rating for debt assets that have no external rating issued by a rating company, see Section G3 below.

The debt assets presented in the following table as internally rated debt assets are those for which there is no external rating.

Note 37 - Risk management (contd.)

G. Information about credit risk (contd.)

2. Assets by rating levels (contd.)

1. Debt assets in Israel (contd.)

	Local rating*				
	As at December 31, 2018				
	AA- and higher	A+ to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Debt assets in Israel					
Marketable debt assets					
Government bonds	3,332	-	-	-	3,332
Corporate bonds	3,007	844	-	12	3,863
Total marketable debt assets in Israel	6,339	844	-	12	7,195
Non-marketable debt assets					
Government bonds	4,938	-	-	-	4,938
Corporate bonds	1,298	52	21	2	1,373
Deposits in banks and financial institutions	904	-	-	-	904
Other debt assets by collateral:					
Mortgages	-	-	-	901	901
Loans on policies	-	-	-	20	20
Loans for which shares that confer control are pledged	69	167	-	-	236
Other sureties	1,573	1,905	-	1,065	4,543
Total non-marketable debt assets in Israel	8,782	2,124	21	1,988	12,915
Total debt assets in Israel	15,121	2,968	21	2,000	20,110
Of this - debt assets with an internal rating **	397	763	21	-	1,181

* The sources for the rating level in Israel are the rating companies approved by the Commissioner. The rating data were converted to the rating symbols of S&P, based on generally accepted conversion coefficients. Each rating includes all ranges, e.g.: an A rating is made up of A- to A+.

** Pursuant to the Commissioner's circulars 2007-9-15-and 2007-9-16, the Group has the organizational and management infrastructure for credit management. In this context, the Company monitors and reviews all the debt assets in which it invests. The Group prepares an internal rating for debt assets where no external rating is issued by a rating company, see Section G3 below.

The debt assets presented in the following table as internally rated debt assets are those for which there is no external rating.

Note 37 - Risk management (contd.)

G. Information about credit risk (contd.)

2. Assets by rating levels (contd.)

2. Debt assets abroad

	International rating *				
	As at December 31, 2019				
	A- and higher	BBB to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Debt assets abroad					
Marketable debt assets					
Government bonds	94	8	100	-	202
Corporate bonds	63	862	33	27	985
Total marketable debt assets abroad	157	870	133	27	1,187
Non-marketable debt assets					
Deposits in banks and financial institutions	-	-	96	-	96
Other debt assets	225	12	-	386	623
Total non-marketable debt assets abroad	225	12	96	386	719
Total debt assets abroad	382	882	229	413	1,906
Of this - debt assets with an internal rating **	225	12	-	-	237

	International rating *				
	As at December 31, 2018				
	A- and higher	BBB to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Debt assets abroad					
Marketable debt assets					
Government bonds	108	-	45	-	153
Corporate bonds	131	968	53	-	1,152
Total marketable debt assets abroad	239	968	98	-	1,305
Non-marketable debt assets					
Deposits in banks and financial institutions	-	-	90	-	90
Other debt assets	192	58	-	261	511
Total non-marketable debt assets abroad	192	58	90	261	601
Total debt assets abroad	431	1,026	188	261	1,906
Of this - debt assets with an internal rating **	192	7	-	-	199

* The sources for the rating level abroad are the rating companies approved by the Commissioner – Moody's S&P, and Fitch. Each rating category includes all ranges, e.g.: an A rating is A- to A+.

** Pursuant to the Commissioner's circulars 2007-9-15-and 2007-9-16, the Group has the organizational and management infrastructure for credit management. In this context, the Company monitors and reviews all the debt assets in which it invests. The Group prepares an internal rating for debt assets where no external rating is issued by a rating company, see Section G3 below.

The debt assets presented in the following table as internally rated debt assets are those for which there is no external rating.

Note 37 - Risk management (contd.)

G. Information about credit risk (contd.)

2. Assets by rating level (contd.)

3. Credit risk on other assets in Israel

	Local rating*				
	As at December 31, 2019				
	AA- and higher	A+ to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Loans to equity accounted investees **	-	-	-	21	21
Other receivables (1)	431	-	-	548	979
Deferred tax assets	12	-	-	-	12
Current tax assets	186	-	-	-	186
Other financial investments	121	20	-	1,238	1,379
Cash and cash equivalents	1,677	136	5	-	1,818
	2,427	156	5	1,807	4,395

	Local rating*				
	As at December 31, 2018				
	AA- and higher	A+ to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Loans to equity accounted investees **	-	-	-	23	23
Other receivables (1)	817	-	2	422	1,241
Deferred tax assets	13	-	-	-	13
Current tax assets	29	-	-	-	29
Other financial investments	65	22	-	1,031	1,118
Cash and cash equivalents	1,296	181	-	-	1,477
	2,220	203	2	1,476	3,901

* The sources for the rating level abroad are the rating companies approved by the Commissioner. The rating data were converted to the rating symbols of S&P, based on generally accepted conversion coefficients. Each rating includes all ranges, e.g.: an A rating is made up of A- to A+.

** Included under equity accounted investees.

(1) Of this amount, NIS 436 million and NIS 695 million at December 31, 2019 and 2018, respectively, are in respect of assets for yield-dependent contracts.

Note 37 - Risk management (contd.)

G. Information about credit risk (contd.)

2. Assets by rating level (contd.)

4. Credit risk for other assets abroad

	International rating *				
	As at December 31, 2019				
	AA- and higher	A+ to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Loans to equity accounted investees **	-	-	-	324	324
Other receivables (1)	-	325	-	33	358
Other financial investments	4	-	-	1,477	1,481
Cash and cash equivalents	113	-	125	-	238
	117	325	125	1,834	2,401

	International rating *				
	As at December 31, 2018				
	AA- and higher	A+ to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Loans to equity accounted investees **	-	-	-	368	368
Other receivables	-	282	-	49	331
Other financial investments	37	-	-	1,303	1,340
Cash and cash equivalents	23	5	116	-	144
	60	287	116	1,720	2,183

* The sources for the rating level abroad are the rating companies approved by the Commissioner - Moody's, S&P and Fitch. Each rating includes all ranges, e.g.: an A rating is A- to A+.

** Included under investment in equity accounted investees.

(1) Of this amount, NIS 8 million at December 31, 2019 is in respect of assets for yield-dependent contracts.

Note 37 - Risk management (contd.)

G. Information about credit risk (contd.)

2. Assets by rating level (contd.)

5. Credit risks for off balance-sheet instruments in Israel

	Local rating*				
	As at December 31, 2019				
	AA- and higher	A+ to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Unutilized credit facilities***	199	276	-	35	510
Financial guarantees provided that are not accounted for as insurance contracts**	-	49	-	-	49
Total credit exposure for guarantees and unutilized credit facilities	199	325	-	35	559

	Local rating*				
	As at December 31, 2018				
	AA- and higher	A+ to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Unutilized credit facilities***	192	299	-	89	580
Financial guarantees provided that are not accounted for as insurance contracts**	-	51	-	-	51
Total credit exposure for guarantees and unutilized credit facilities	192	350	-	89	631

* The sources for the rating level in Israel are the rating companies approved by the Commissioner. The rating data were converted to the rating symbols of S&P, based on generally accepted conversion coefficients. Each rating includes all ranges, e.g.: an A rating is made up of A- to A+.

Regarding off-balance-sheet credit exposure, it is noted that this table does not include guarantees issued by banks, at the request of companies of the group, in favor of third parties, to comply with commitments vis-à-vis tenders in which the companies participated, and as part of their regular operations.

** At December 31, 2019, there are no guarantees provided to companies abroad (at December 31, 2018, there are no guarantees provided to companies abroad).

*** Most of the securities are internally rated.

Note 37 - Risk management (contd.)

G. Information about credit risk (contd.)

2. Assets by rating level (contd.)

6. Credit risks for off balance-sheet instruments abroad

	International rating *				
	As at December 31, 2019				
	A- and higher	BBB to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Unutilized credit facilities	1	48	-	143	192
	1	48	-	143	192

	International rating *				
	As at December 31, 2018				
	A- and higher	BBB to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Unutilized credit facilities	1	4	-	128	133
	1	4	-	128	133

* The sources for the rating level abroad are the rating companies approved by the Commissioner - Moody's, S&P, and Fitch. Each rating includes all ranges, e.g.: an A rating is A- to A+.

Note 37 - Risk management (contd.)

G. Information about credit risk (contd.)

3. Additional information about credit risks

1. Pursuant to the Commissioner's approval from November 11, 2015, Harel Insurance will be able to allocate capital on account of non-marketable debt assets that were rated in accordance with the internal credit rating model under the Supervision of Financial Services (Insurance) (Minimum Equity Required of an Insurer), 1998, as of the fourth quarter of 2015.

   The Commissioner’s approval dated November 11, 2015 further stipulated that the Company’s internal rating is not valid for estimating non-marketable credit for financial institutions, including banks and insurance companies; credit backed by an underlying asset; credit provided to companies involved in real-estate construction and non-marketable credit for financing projects, and that for all the above, Harel Insurance will not be permitted to reduce the surplus equity allocation.

   The approval further stipulates that if the loan is rated by an external source, capital must be allocated according to the lower of the ratings.

2. There is a difference in the rating scales for debt assets in Israel and debt assets abroad. In 2009, the rating companies published a conversion scale between the local rating and the international rating.

3. Information about credit risks in this note does not include assets yield-dependent contracts that are presented in a separate note.

4. On reinsurers’ balances, see Section I – reinsurance assets.

5. On the balance of outstanding premiums due, see Note 11.

Note 37 - Risk management (contd.)

G. Information about credit risk (contd.)

4. Exposure to economic sectors for investments in marketable and non-marketable financial debt assets

	As at December 31, 2019			As at December 31, 2018		
	Balance sheet credit risk		Off-balance sheet	Balance sheet credit risk		Off-balance sheet
	NIS million	% of Total	NIS million	NIS million	% of Total	NIS million
Economic branch						
Industry	**275**	**1.1%**	**-**	340	1.5%	-
Construction and real estate	**5,146**	**19.6%**	**488**	4,859	22.1%	513
Electricity and water	**933**	**3.6%**	**83**	1,060	4.8%	61
Commerce	**144**	**0.6%**	**-**	167	0.8%	-
Hotels and tourism	**54**	**0.2%**	**4**	53	0.2%	4
Transportation and storage	**257**	**1.0%**	**28**	313	1.4%	-
Communications and computer services	**465**	**1.8%**	**4**	711	3.2%	8
Banks	**5,010**	**19.2%**	**-**	3,523	16.0%	-
Financial services	**536**	**2.0%**	**54**	526	2.4%	72
Other business services	**876**	**3.3%**	**7**	688	3.1%	9
Public services	**147**	**0.6%**	**34**	166	0.8%	46
Private people	**1,037**	**4.0%**	**-**	1,152	5.2%	-
Other	**34**	**0.0%**	**-**	35	0.2%	-
	14,914	**57.0%**	**702**	13,593	61.7%	713
State bonds	**11,237**	**43.0%**	**-**	8,423	38.3%	-
	26,151	**100%**	**702**	22,016	100%	713

Note 37 - Risk management (contd.)

G. Information about credit risk (contd.)

5. Exposure to economic branches for investments in equity instruments

	As at December 31, 2019					
	Traded on TA-125	Traded on Yeter share index	Non-marketable	Abroad	Total	% of total
	NIS million					
Economic branch						
Industry	115	-	21	122	258	20.2%
Construction and real estate	152	9	56	39	256	20.0%
Electricity and water	45	11	-	13	69	5.4%
Commerce	53	19	-	2	74	5.8%
Hotels and tourism	-	-	-	2	2	0.2%
Transportation and storage	-	-	-	6	6	0.5%
Communications and computer services	82	-	59	79	220	17.2%
Banks	233	-	-	-	233	18.2%
Financial services	19	6	-	14	39	3.1%
Other business services	35	21	64	-	120	9.4%
Total	734	66	200	277	1,277	100%

	As at December 31, 2018					
	Traded on TA-125	Traded on Yeter share index	Non-marketable	Abroad	Total	% of total
	NIS million					
Economic branch						
Industry	123	-	11	160	294	25.3%
Construction and real estate	82	8	45	39	174	14.9%
Electricity and water	35	12	-	12	59	5.1%
Commerce	38	12	-	-	50	4.3%
Transportation and storage	-	-	1	1	2	0.2%
Communications and computer services	98	1	39	33	171	14.7%
Banks	195	-	-	18	213	18.3%
Financial services	41	3	-	-	44	3.8%
Other business services	56	63	20	18	157	13.4%
Total	668	99	116	281	1,164	100%

Note 37 - Risk management (contd.)

H. Geographical risks

	As at December 31, 2019									
	Government bonds	Corporate bonds	Shares	ETFs	Mutual funds	Investment property	Other investments (*)	Total balance sheet exposure	Derivatives in delta terms	Total
	NIS million									
List of countries / regions to which the exposure is more than 1% of the total investments										
Britain	-	114	1	6	2	125	366	614	13	627
Germany	-	1	38	7	4	-	1,308	1,358	5	1,363
United States	-	448	304	125	-	68	2,593	3,538	200	3,738
Israel	10,833	5,443	783	-	604	1,865	10,100	29,628	(13)	29,615
Other	116	426	148	71	311	-	3,153	4,225	30	4,255
Total	10,949	6,432	1,274	209	921	2,058	17,520	39,363	235	39,598

	As at December 31, 2018									
	Government bonds	Corporate bonds	Shares	ETNs	Mutual funds	Investment property	Other investments (*)	Total balance sheet exposure	Derivatives in delta terms	Total
	NIS million									
List of countries / regions to which the exposure is more than 1% of the total investments										
Britain	-	113	-	10	3	101	409	636	21	657
Germany	-	71	33	7	3	-	1,755	1,869	21	1,890
United States	-	508	293	101	41	79	2,616	3,638	382	4,020
Israel	8,170	5,197	666	15	437	1,667	8,408	24,560	(84)	24,476
Other	55	496	167	82	137	-	2,604	3,541	134	3,675
Total	8,225	6,385	1,159	215	621	1,847	15,792	34,244	474	34,718

* Other investments include reinsurance assets, investments in associate companies, cash and other financial investments that were not included in other columns.

Note 37 - Risk management (contd.)

I. Reinsurance

1. General

The Group insures part of its business with reinsurers, most of which are foreign reinsurance companies. However, reinsurance does not release the direct insurers from their obligations to their policyholders under the insurance policies.

The Group is exposed to risks from uncertainty regarding the ability of the reinsurers to pay their share of liabilities for insurance policies (reinsurance assets) and their debts for claims paid. This exposure is managed by regularly monitoring the position of the reinsurers in the global market and whether they meet their financial commitments.

The Group is exposed to a concentration of credit risk to a single reinsurer, because of the structure of the reinsurance market and the limited number of reinsurers holding appropriate ratings.

In accordance with guidelines issued by the Commissioner, the boards of directors of the Group's insurance companies, set out, once a year, a framework for maximum exposure to reinsurers, with whom the Group has and/or will have agreements, based on international ratings. The Group manages its exposure by evaluating each re-insurer separately.

Additionally, the Group's exposure is well distributed among the various reinsurers, and the primary reinsurers hold high international ratings.

Note 37 - Risk management (contd.)

I. Reinsurance (contd.)

2. Information about exposure to credit risks of reinsurers

As at December 31, 2019

	Rating	Total premiums to reinsurers for 2019	Debit (credit) balances net (B)	Reinsurance assets in life assurance	Reinsurance assets in health insurance	Reinsurance assets in property insurance	Reinsurance assets in liabilities insurance	Reinsurers' deposits	Total Exposure (A) (C)	Debts in arrears between six months and a year
		NIS million								
Rating group (D)										
AA- and higher										
Zurich Insurance Company	AA-	381	(13)	-	4	219	720	24	906	-
Swiss Re	AA-	175	(42)	112	80	39	501	164	526	-
National Indemnity	AA+	8	15	-	-	13	352	126	254	-
Scor	AA-	204	34	15	538	29	68	508	176	-
Other		306	(45)	78	248	152	122	323	232	1
		1,074	(51)	205	870	452	1,763	1,145	2,094	1
A										
LEXINGTON	A+	-	-	-	-	-	185	-	185	
Watford Re	A-	13	(3)	-	-	-	80	-	77	
Korean Re	A	90	(3)	-	2	81	28	26	82	
LLOYDS UNDERWRITER	A+	34	4	-	-	14	29	1	46	
EVEREST	A+	8	2	-	-	6	27	-	35	
Other		408	(75)	7	72	235	140	138	241	-
		553	(75)	7	74	336	489	165	666	-
Less than BBB- or not rated		61	(9)	1	1	36	36	6	59	-
		1,694	(135)	213	946	831	2,291	1,316	2,830	1

(a) Total exposure to reinsurers is: net debit (credit) balances, reinsurance assets, net of the deposits and net of the sum of letters of credit received from the reinsurers as a guarantee of their liabilities. The balances do not include the balances of insurance companies for of co-insurance.

(b) After amortizing the provision for doubtful debts in the amount of NIS 4.1 million.

(c) Total provision for doubtful debts plus a reduction of the reinsurers' share of the outstanding claims and reserves amounts to NIS 4.1 million, which accounts for 0.15% of the exposure.

(d) The ratings were determined based on the rating issued by recognized rating companies such as Moody's, S&P, etc. The different ratings were converted to the S&P rating scale using a key determined in the Ways of Investment Regulations.

(e) The total exposure of the reinsurers to earthquakes with MPL of 2.4% is NIS 12,903 million, of which the share of the most significant reinsurer is 26.2%.

(f) There are no other reinsurers in addition to those listed above for whom the exposure is more than 10% of the overall exposure of the reinsurers or for which the premium is more than 10% of all premiums paid to reinsurers in 2019.

(g) The unrated group includes balances in respect of outstanding claims through brokers up to and including 2003, for which the exposure is NIS 47,000.

Note 37 - Risk management (contd.)

I. Reinsurance (contd.)

2. Information about exposure to credit risks of reinsurers (contd.)

As at December 31, 2018

	Rating	Total premiums to reinsurers for 2018	Debit (credit) balances net (B)	Reinsurance assets in life assurance	Reinsurance assets in health insurance	Reinsurance assets in property insurance	Reinsurance assets in liabilities insurance	Reinsurers' deposits	Total Exposure (A) (C)
		NIS million							
Rating group (D)									
AA- and higher									
Munich Reinsurance	AA-	391	(16)	-	5	235	640	27	837
Zurich Insurance Company	AA-	71	(23)	53	66	14	520	105	525
National Indemnity	AA+	8	18	-	-	20	472	166	344
Swiss Re	AA-	134	(35)	118	15	44	178	128	192
Scor	AA-	63	(5)	15	22	31	77	30	110
Other		265	(46)	38	507	128	103	500	230
		932	(107)	224	615	472	1,990	956	2,238
A									
Lexington	A+	-	-	-	-	-	197	-	197
Watford Re	A-	15	(1)	-	-	-	85	-	84
Korean Re	A	101	(2)	-	3	86	24	28	83
Everest	A+	6	2	-	1	6	41	-	50
Other		416	(45)	8	78	237	159	127	310
		538	(46)	8	82	329	506	155	724
BBB		79	(12)	1	2	45	42	6	72
Less than BBB- or not rated		1,549	(165)	233	699	846	2,538	1,117	3,034

(a) Total exposure to reinsurers is: net debit (credit) balances, reinsurance assets, net of the deposits and net of the amount of credit notes received from the reinsurers as a guarantee of their liabilities. The balances do not include the balances of insurance companies in respect of co-insurance.
(b) After amortizing the provision for doubtful debts in the amount of NIS 4.4 million.
(c) Total provision for doubtful debts plus a reduction of the reinsurers' share of the outstanding claims and reserves amounts to NIS 4.4 million, which accounts for 0.15% of the exposure.
(d) The ratings were determined based on the rating issued by recognized rating companies such as Moody's, S&P, etc. The different ratings were converted to the S&P rating scale using a key determined in the Ways of Investment Regulations.
(e) The total exposure of the reinsurers to earthquakes with MPL of 2% is NIS 10,354 million, of which the share of the most significant reinsurer is 27.7%.
(f) There are no other reinsurers in addition to those listed above for whom the exposure is more than 10% of the overall exposure of the reinsurers or for which the premium is more than 10% of all premiums paid to reinsurers in 2018.
(g) The unrated group includes balances in respect of outstanding claims through brokers up to and including 2003, for which the exposure is NIS 47,000.

Note 37 – Risk management (contd.)

J. Assets and liabilities according to linkage bases

	As at December 31, 2019					
	In NIS unlinked	In NIS CPI-linked	In foreign currency or linked to FC *	Non financial and other items	Liabilities for yield-dependent contracts	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Assets						
Intangible assets	-	-	-	1,685	-	1,685
Deferred tax assets	-	-	-	12	-	12
Deferred Acquisition Costs	-	-	54	2,438	3	2,495
Fixed assets	-	-	-	1,399	-	1,399
Investments in equity accounted investees	-	-	-	1,437	-	1,437
Investment property for yield-dependent contracts	-	-	-	-	1,769	1,769
Other investment property	-	-	-	2,058	-	2,058
Reinsurance assets	396	3,362	213	-	310	4,281
Trade and other receivables	368	4	529	-	436	1,337
Current tax assets	-	186	-	-	-	186
Premiums due	144	785	274	-	225	1,428
Financial investments for yield-dependent contracts	-	-	-	-	61,562	61,562
Other financial investments:						
Marketable debt assets	2,691	7,291	1,327	-	-	11,309
Non-marketable debt assets	4,508	9,435	899	-	-	14,842
Shares	-	-	-	1,277	-	1,277
Other	107	4	2	2,747	-	2,860
Total other financial investments	7,306	16,730	2,228	4,024	-	30,288
Cash and cash equivalents for yield-dependent contracts	-	-	-	-	2,897	2,897
Other cash and cash equivalents	1,634	-	422	-	-	2,056
Total assets	9,848	21,067	3,720	13,053	67,202	114,890

* Most of the policies issued by the Group are denominated in shekels and the exposure to changes in exchange rates is insignificant. Where there is exposure to exchange rates, it is mainly the result of exposure to the dollar and euro.

Note 37 – Risk management (contd.)

J. Assets and liabilities according to linkage bases (contd.)

	As at December 31, 2019					
	In NIS unlinked	In NIS CPI-linked	In foreign currency or linked to FC *	Non financial and other items	Liabilities for yield-dependent contracts	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Total equity	-	-	-	6,456	-	6,456
Liabilities						
Liabilities for non-yield-dependent insurance contracts and investment contracts	1,301	27,203	835	-	-	29,339
Liabilities for yield-dependent insurance contracts and investment contracts	-	-	-	-	66,539	66,539
Deferred tax liabilities	-	-	-	1,133	-	1,133
Liabilities for employee benefits, net	282	-	-	-	-	282
Trade and other payables	2,700	8	500	-	485	3,693
Current tax liabilities	-	11	-	-	-	11
Financial liabilities	4,977	2,303	5	3	149	7,437
Total liabilities	9,260	29,525	1,340	1,136	67,173	108,434
Total equity and liabilities	9,260	29,525	1,340	7,592	67,173	114,890
Total balance sheet exposure, net	588	(8,458)	2,380	5,461	29	-
Exposure to underlying assets through derivatives in delta terms	788	3,994	(5,028)	246	-	-
Total exposure	1,376	(4,464)	(2,648)	5,707	29	-

* Most of the policies issued by the Group are denominated in shekels and the exposure to changes in exchange rates is insignificant. Where there is exposure to exchange rates, it is mainly the result of exposure to the dollar and euro.

Note 37 – Risk management (contd.)

J. Assets and liabilities according to linkage bases (contd.)

	As at December 31, 2018						
	In NIS unlinked	In NIS CPI-linked	In foreign currency or linked to FC *	Non financial and other items	ETNs linkage to various indices	Liabilities for yield-dependent contracts	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Assets							
Intangible assets	-	-	-	1,578	-	-	1,578
Deferred tax assets	-	-	-	13	-	-	13
Deferred Acquisition Costs	-	-	54	2,418	-	3	2,475
Fixed assets	-	-	-	1,326	-	-	1,326
Investments in equity accounted investees	-	-	-	1,536	-	-	1,536
Investment property for yield-dependent contracts	-	-	-	-	-	1,628	1,628
Other investment property	-	-	-	1,847	-	-	1,847
Reinsurance assets	396	3,539	253	-	-	128	4,316
Trade and other receivables	312	1	568	-	-	691	1,572
Current tax assets	-	29	-	-	-	-	29
Premiums due	146	788	293	-	-	206	1,433
Financial investments for yield-dependent contracts	-	-	-	-	-	51,891	51,891
Other financial investments:							
Marketable debt assets	1,891	5,168	1,441	-	-	-	8,500
Non-marketable debt assets	3,110	9,584	822	-	-	-	13,516
Shares	-	-	-	1,164	-	-	1,164
Other	16	21	18	2,403	-	-	2,458
Total other financial investments	5,017	14,773	2,281	3,567	-	-	25,638
Cash, cash equivalents and deposits pledged for bearers of ETNs	-	-	-	-	35	-	35
Cash and cash equivalents for yield-dependent contracts	-	-	-	-	-	3,083	3,083
Other cash and cash equivalents	1,321	-	300	-	-	-	1,621
Total assets	7,192	19,130	3,749	12,285	35	57,630	100,021

* Most of the policies issued by the Group are denominated in shekels and the exposure to changes in exchange rates is insignificant. Where there is exposure to exchange rates, it is mainly the result of exposure to the dollar euro.

Note 37 – Risk management (contd.)

J. Assets and liabilities according to linkage bases (contd.)

	As at December 31, 2018						
	In NIS unlinked	In NIS CPI-linked	In foreign currency or linked to FC *	Non financial and other items	ETNs linkage to various indices	Liabilities for yield-dependent contracts	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Total equity	-	-	-	5,920	-	-	5,920
Liabilities							
Liabilities for non-yield-dependent insurance contracts and investment contracts	1,247	25,543	844	-	-	-	27,634
Liabilities for yield-dependent insurance contracts and investment contracts	-	-	-	-	-	56,742	56,742
Liabilities for ETNs and covered warrants	-	-	-	-	33	-	33
Deferred tax liabilities	-	-	-	864	-	-	864
Liabilities for employee benefits, net	254	-	-	-	-	-	254
Trade and other payables	2,707	9	420	-	-	119	3,255
Current tax liabilities	-	51	-	-	-	-	51
Financial liabilities	2,286	2,288	151	26	-	517	5,268
Total liabilities	6,494	27,891	1,415	890	33	57,378	94,101
Total equity and liabilities	6,494	27,891	1,415	6,810	33	57,378	100,021
Total balance sheet exposure, net	698	(8,761)	2,334	5,475	2	252	-
Exposure to underlying assets through derivatives in delta terms	723	4,033	(5,244)	488	-	-	-
Total exposure	1,421	(4,728)	(2,910)	5,963	2	252	-

* Most of the policies issued by the Group are denominated in shekels and the exposure to changes in exchange rates is insignificant. Where there is exposure to exchange rates, it is mainly the result of exposure to the dollar and euro.

Note 37 - Risk management (contd.)

K. Information about financial investments for yield-dependent contracts

1. Composition of investments by linkage bases

	As at December 31, 2019				
	in NIS Not linked	in NIS CPI-linked	in foreign currency or linked to FC	Non-financial and other items	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Investment property	-	-	-	1,769	1,769
Cash and cash equivalents	2,040	-	857	-	2,897
Marketable debt assets	9,300	10,038	3,276	-	22,614
Non-marketable debt assets	7,502	5,188	2,186	-	14,876
Shares	-	-	-	11,298	11,298
Other financial investments	258	-	5	12,511	12,774
Other	660	311	-	3	974
Total assets	19,760	15,537	6,324	25,581	67,202
Exposure to underlying assets through derivative instruments in delta terms	9,015	(55)	(15,214)	6,254	-

	As at December 31, 2018				
	in NIS Not linked	in NIS CPI-linked	in foreign currency or linked to FC	Non-financial and other items	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Investment property	-	-	-	1,628	1,628
Cash and cash equivalents	2,483	-	600	-	3,083
Marketable debt assets	7,649	8,402	3,258	-	19,309
Non-marketable debt assets	6,199	5,061	1,823	-	13,083
Shares	-	-	-	8,922	8,922
Other financial investments	33	-	38	10,506	10,577
Other	897	128	-	3	1,028
Total assets	17,261	13,591	5,719	21,059	57,630
Exposure to underlying assets through derivative instruments in delta terms	7,413	(60)	(13,742)	6,389	-

Note 37 - Risk management (contd.)

K. Information about financial investments for yield-dependent contracts (contd.)

2. Credit risk for assets in Israel

	Local rating*				
	As at December 31, 2019				
	AA- and higher	A+ to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Debt assets in Israel:					
Government bonds	14,837	-	-	-	14,837
Other debt assets - marketable	3,326	1,277	36	109	4,748
Other debt assets - not marketable	4,638	4,469	24	4,175	13,306
Total debt assets in Israel	22,801	5,746	60	4,284	32,891
Of this - debt assets with an internal rating	1,214	2,166	24	-	3,404

	Local rating*				
	As at December 31, 2018				
	AA- and higher	A+ to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Debt assets in Israel:					
Government bonds	11,531	-	-	-	11,531
Other debt assets - marketable	2,717	1,888	8	169	4,782
Other debt assets - not marketable	3,968	4,259	28	3,810	12,065
Total debt assets in Israel	18,216	6,147	36	3,979	28,378
Of this - debt assets with an internal rating	734	1,764	28	-	2,526

The book value is an approximation of the maximum credit risk. Consequently the “total” column represents the maximum credit risk.

* The sources for the rating level in Israel are the Maalot and Midroog rating companies. Data from Midroog was transferred to rating symbols according to accepted conversion coefficients. Each rating covers all ranges, e.g. A includes A- to A+.

Note 37 - Risk management (contd.)

K. Information on financial investments for yield-dependent contracts (contd.)

3. Credit risks for assets abroad

	International rating *				
	As at December 31, 2019				
	A- and higher	BBB to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Debt assets abroad:					
Total debt assets abroad	1,101	2,388	329	781	4,599
Of this – rated assets with an internal rating	670	35	-	-	705

	International rating *				
	As at December 31, 2018				
	A- and higher	BBB to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Debt assets abroad:					
Total debt assets abroad	1,183	2,244	297	290	4,014
Of this – rated assets with an internal rating	496	12	-	-	508

The book value is an approximation of the maximum credit risk. Consequently the "total" column represents maximum credit risk.

* The sources for the rating level abroad are the rating companies approved by the Commissioner – Moody's, S&P, and Fitch. Each rating covers all ranges, e.g. A includes A- to A+.

Note 38 - Balances and transactions with interested and related parties

A. Controlling Shareholders and Subsidiaries

At the date of the report, the Company's controlling shareholders, Mssrs. Yair Hamburger, Gideon Hamburger and Nurit Manor ("the Controlling Shareholders"), hold 46.49% of the Company's voting rights and issued share capital. The controlling shareholders hold the Company through G.Y.N. Financial Consulting & Investment Management 2017 LP, which they fully own and control, and which they hold, as limited partners, through private, companies, wholly owned by each of the Controlling Shareholders ("the GYN Partnership") and they also hold the general partner in the GYN Partnership.

During the Reporting Period, the Company's controlling shareholders sold 3% of the Company's shares which had been held through the GYN Partnership.

During the normal course of business, the Company and its investees perform transactions with the entities who are considered the controlling shareholders or in which those entities considered to be the controlling shareholders have a personal interest, including transactions with companies in which the Company's controlling shareholders have a personal interest, as well as commitments to perform transactions that are under ordinary commercial conditions, as part of the rendering of services by the Group to the controlling shareholders and their investee companies (e.g. insurance, long-term savings products and financial services) to the extent that these transactions constitute negligible transactions in accordance with the procedure adopted by the Company, as defined in Article 41(A3)(1) to the Securities (Annual Financial Reports) Regulations, 2010, they are not detailed separately in these reports.

On March 22, 2020 and March 31, 2020, the Audit Committee and Board of Directors, respectively, determined that a transaction with a controlling shareholder will be deemed a negligible transaction if it meets all the following conditions:

(a) It is not an extraordinary transaction (according to the meaning of this term in the Companies Law).

(b) In respect of insurance transactions, long-term savings and finances: the rules relating to benefits applied to the controlling shareholders are also applied to all the Group's employees, as approved by the Board of Directors.

(c) The sum insured in the Company's self-retention in each policy does not exceed NIS 10 million and the sum insured in each policy does not exceed NIS 50 million. This limitation does not apply to savings policies.

(d) Other agreements, the cumulative cost of which for the Group is not more than NIS 100,000.

It is stipulated that any transaction for the rendering of services by a controlling shareholder or his relative will not be classified as a negligible transaction. It is further stipulated that separate transactions, which are interdependent, so that in practice they are part of the same transaction, will be considered a single transaction.
Transactions that meet the above negligibility transactions do not require special approval.

B. Benefits and bonuses for key management personnel (including directors)

The Group's senior officers are entitled, in addition to their salaries, to non-cash benefits (company car, etc.). The Group deposits funds on their behalf with a defined benefit plan and defined contribution plan for the purpose of post-employment benefit payments.

Note 38 - Balances and transactions with interested and related parties (contd.)

B. Benefits and bonuses for key management personnel (including directors) (contd.)

When the general meeting approved the Company's compensation policy on November 30, 2017, it was stipulated that the policy applies to directors serving in the Company and/or its subsidiaries, so that they are entitled to compensation for their service on the board of directors and on committees appointed by the board of directors, as defined in the Companies (Rules for the Compensation and Expenses of External Directors) Regulations, 2000, and they are not entitled to any bonus or additional compensation. In addition to the provisions prescribed in the Companies (Rules for the Compensation and Expenses of External Directors) Regulations, 2000, compensation paid to external directors serving the Company and its subsidiaries, is also subject to the provisions prescribed in Regulation 2 of the Companies (Matters that do not Constitute an Interest) Regulations, 2006. Where a director is appointed to another position that is not membership of the board of directors and/or the committees appointed by the board of directors, the compensation will be determined in accordance with the nature of the position and it will be submitted for the approval of the general meeting.

1. The Company's compensation policy

The purpose of the compensation policy is to motivate and direct the senior managers in line with the Company's goals and strategic plan, emphasizing increased competition in the recruitment and retention of quality manpower in the Group's senior management positions. All this with the goal of creating long-term economic value for the Company and its shareholders. The compensation policy was devised, taking into account, *inter alia*, the size of the Company and the nature of its operations, advancement of the Company's goals, strategy, long-term work plan and risk-management policy, as well as the employment conditions and bonuses that were Company practice in previous years, salary levels and terms of service and employment which are generally accepted among Israel's insurance and finance companies and large banks, and based on organizational considerations, including the payroll costs of different groups of employees and the desired wage differences between them.

The compensation policy relates to different categories of officers, and also the manner of compensating the Company's serving directors.

The compensation policy addresses a range of employment conditions for officers who are not directors, including the following components: (a) the compensation to be determined for each officer in line with his seniority, knowledge, experience, qualifications and contribution to the Group's results, and based on the defined benchmark group; (b) it was determined that a margin will be maintained between the CEO's salary and that of the other officers who are subordinate to the CEO; (c) minimum ratios were defined between the fixed components in the employment conditions and the overall employment conditions; (d) it was determined that a fixed salary component may be paid which does not entitle the recipient to social benefits; (e) provisions were prescribed concerning performance-linked annual bonuses, including the maximum amount of such bonuses for the CEOs and for officers who are subordinate to the CEOs; (f) provisions were prescribed concerning the possibility of paying special bonuses, which are not related to the annual bonuses, for outstanding performance in special projects. These special bonuses are designed for officers who are not the CEO and are not the controlling shareholders, and they are limited in the budget to an insignificant amount; (g) provisions were prescribed concerning a capital bonus, which may only be given to CEOs; (h) provisions were prescribed concerning insurance and indemnity for officers and directors; (i) provisions were prescribed concerning termination of employment conditions, including with respect to the following components: (i) severance pay at a maximum rate of up to 200% (double that required by law), subject to meeting conditions of seniority and other conditions; (ii) an advance notice period (of termination) of no more than 6 months; (iii) an adjustment bonus of up to 6 monthly salaries; (iv) compensation for a non-competition commitment. It was determined that a non-competition agreement will be drawn up in exceptional cases only and subject to the conditions set out in the compensation policy.

Note 38 - Balances and transactions with interested and related parties (contd.)

B. Benefits and bonuses for key management personnel (including directors) (contd.)

1. The Company's compensation policy (contd.)

Details about the annual bonuses: provisions were prescribed whereby performance-linked bonuses will only be paid in years in which the Company's results are satisfactory. Likewise, to prevent the taking of short-term risks, the volume of the performance-linked bonuses is limited, according to a multiple of the monthly salaries. It was also determined that the bonuses will be calculated on the basis of meeting long-term goals and not only one-time, current annual targets. To this end, the compensation plan stipulates that different parameters will be computed for the current year and for the two preceding years, so that when determining the overall score for calculation of the annual bonus, the parameters in the current year will be given a weighting of 50%, the weight of the preceding year will be 30%, and the weight of the year preceding that year will be 20%.

The performance-linked annual bonus includes a discretionary component which is limited to 20% for the CEO[1] and the other officers (other than officers in positions of oversight and control).

The compensation policy includes a provision whereby the Company will generally honor existing agreements, even where they deviate from the compensation policy, unless the compensation policy contains a different specific instruction.

The compensation policy includes a ceiling for the projected annual cost of employment of Company executives.

Pursuant to the Compensation for Executives of Financial Institutions (Special Approval and Non-allowance of an Expense for Tax Purposes on account of Extraordinary Compensation) Law, 2016, ("Compensation of Company Executives Law"), the compensation policy defines a maximum projected annual cost of employment for key functionaries (the following details the relevant provisions for the senior officers serving at the date of this report):

Regarding the Company's CEO - the projected annual cost of employment of the Company's CEO will not exceed the cost of employment for which the projected annual expense, based on a full-time position, is 35 times the projected annual expense for the lowest compensation paid to a full-time Company employee in the calendar year preceding the year for which the cost of employment of the CEO of the Company is calculated. The Company will bear the tax expense arising from the "surplus cost" (i.e. the "surplus cost" will not be tax deductible for the Company) as noted in Section 4 of the Compensation of Company Executives Law.

Regarding the Chairman of the Board - in accordance with the approval of the Company's general meeting, the projected annual cost of the employment of the Chairman of the Board does not exceed NIS 2.5 million. The Company will bear the tax expense arising from the "surplus cost" (i.e. the "surplus cost" will not be tax deductible for the Company) as noted in Section 4 of the Compensation of Company Executives Law.

Regarding the Group's other executives and employees, the compensation policy stipulates that the projected annual cost of their employment will not exceed NIS 2.5 million unless it is approved by the Compensation Committee and Board of Directors for extraordinary reasons. The Group will bear the tax expense arising from the surplus cost (to the extent that the projected annual cost of employment, including statutory severance pay and employer's compensation exceeds NIS 2.5 million).

On November 30, 2017, after the subject was approved by the Board of Directors and Compensation Committee, the Company's general meeting approved the revised compensation policy of the Company ("Revised Compensation Policy"). A further revision was made to the compensation policy which revised the method of calculating the linear indices which are used to determine the quantitative part of the variable compensation for the Company's senior officers. For additional information about the revisions, see an Immediate Report of the Company dated October 25, 2017, ref.: 2017-01-093856.

[1] At this date, the CEO's compensation does not include a variable bonus component.

Note 38 - Balances and transactions with interested and related parties (contd.)

B. Benefits and bonuses for key management personnel (including directors) (contd.)

1. The Company's compensation policy (contd.)

The Company's compensation policy stipulates that it will serve as a guideline (but not binding) also for the Company's key subsidiaries. For information about the compensation policy that was adopted by the Group's financial institutions, see Section 2 below.

2. Compensation policy for the Group's financial institutions

In November 2013, the Company's subsidiaries that are financial institutions ("the Financial Institutions"), adopted a compensation policy which is based on the Company's compensation policy. The compensation policy of the Group's financial institutions was revised several times, over the years, in accordance with the updated regulatory provisions that were published.

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 topics, among others, were revised:

(a) The list of functionaries who are subject to the compensation policy was curtailed, 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 subordinate 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, the control functions were excluded from the directive on measuring the variable component using financial variables, market variables and accounting variables.

Note 38 - Balances and transactions with interested and related parties (contd.)

B. Benefits and bonuses for key management personnel (including directors) (contd.)

2. Compensation policy for the Group's financial institutions (contd.)

(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 this was necessary under the provisions of the circular and the policy), to the extent that the total retirement bonus is not more than three salaries.

3. Employment conditions – the Controlling Shareholders

On November 30, 2017, the general meeting of the Company approved the employment conditions of the Company's controlling shareholders (after they had been approved by the compensation committee of the Company on October 19, 2017, and by the Board of Directors of the Company on October 25, 2017).

In re-approving the agreements with the controlling shareholders, no changes were made compared with their present employment conditions. It is stipulated that the employment conditions of the controlling shareholders are significantly lower than the employment conditions that were approved for the controlling shareholders at a general meeting of the Company on November 17, 2014, due to a waiver notice submitted to the Company by the controlling shareholders, as specified below.

According to the law on the date of this report, the agreements with the controlling shareholders must be re-approved three years after the date on which those agreements came into force (November 30, 2020), since they are controlling shareholders in the Company.

Notably, prior to holding the aforementioned general meeting which approved the revised employment conditions of the controlling shareholders, on September 22, 2016, the Company received waiver notices from the controlling shareholders, Mr. Yair Hamburger, Mr. Gideon Hamburger and Mr. Yoav Manor stating that in view of the Compensation for Executives Law, they are waiving their right to the annual bonuses under their employment conditions, as well their entitlement to a full grossing-up of the cost of car maintenance, commencing October 12, 2016 ("the Effective Date"). Consequently, as of the Effective Date, the projected annual cost of employment for Mr. Yair Hamburger will not exceed NIS 2.5 million per annum, and the projected annual cost of employment each for Mssrs. Gideon Hamburger and Yoav Manor will not be more than 80% of the projected annual cost of employment of Mr. Yair Hamburger. Based on the foregoing, the bonus for the controlling shareholders for 2016 already reflects the information in the waiver notices.

Under the revised employment conditions of the controlling shareholders, as specified in this section above, the controlling shareholders are not entitled to receive any bonus for 2019.

Note 38 - Balances and transactions with interested and related parties (contd.)

B. Benefits and bonuses for key management personnel (including directors) (contd.)

3. Employment conditions – the Controlling Shareholders (contd.)

(a) Employment conditions - Mr. Yair Hamburger:

Mr. Yair Hamburger has been head of Harel Insurance and Finance Group since its establishment, and he serves as Chairman of the Board of Directors of the Company and Chairman of the Board of Directors of Harel Insurance. Additionally, Mr. Yair Hamburger serves on the boards of directors of the following Group companies: Turk Nippon, Interasco, Harel Finance, Harel Mutual Funds, Chairman of the Board of Directors of Harel Financing & Issuing, member of the non-yield dependent (Nostro) investment committee of the Group's financial institutions and a director in other Group companies.

Mr. Yair Hamburger serves the Company and its subsidiaries full time and he holds no other business positions other than those in Harel Group.

Mr. Yair Hamburger’s monthly salary is NIS 160,000 (in this section: “the Salary”). The Salary is CPI-linked and revised in accordance with the increase in the CPI once a year, for the January salary every year. The Company makes provision for social benefits according to generally accepted standards. Yair Hamburger is entitled to 22 days annual vacation. Unutilized vacation days, including in respect of the period of Mr. Yair Hamburger's employment from the commencement date of his employment for the Company will be accumulated and may be redeemed when his employment terminates. Mr. Gideon Hamburger is entitled to 30 days paid sick leave a year, and these days may also be accumulated, although he will not be entitled to redeem them when his employment for the Company terminates. Mr. Hamburger is entitled to 13 days convalescence a year. Likewise, Mr. Hamburger is entitled to contributions to an education fund in respect of his salary (7.5% of his salary at the employer's expense, and 2.5% at the employee's expense).

Mr. Yair Hamburger is entitled to a Company car at a cost of up to NIS 650,000, linked to the CPI of December 2011 (NIS 675,265 at December 31, 2019). Should Mr. Hamburger choose to purchase a more expensive car, he will pay the difference in cost. As noted in the foreword to this Section 3 above, in accordance with the waiver notices submitted by the Company’s controlling shareholders on September 22, 2016, commencing October 12, 2016, Mr. Yair Hamburger is not entitled to full grossing up of the maintenance cost of his car.

Yair Hamburger is not entitled to participate in the Company’s stock options plan. Additionally, it is stipulated that Yair Hamburger is not entitled to any additional remuneration for serving as a director in Group companies.

Mr. Yair Hamburger received a letter of indemnity, as part of the resolutions passed by the Company and approved by the general meeting in July 2006. Mr. Hamburger is included in the directors and officers insurance (D&O) drawn up by the Company, under the same conditions as the other directors and officers of the Company.

As noted in the foreword to this Section 3 above, in accordance with the waiver notices submitted by the Company’s controlling shareholders on September 22, 2016, commencing October 12, 2016, Mr. Yair Hamburger is not entitled to an annual bonus.

Upon termination of the employment relationship for any reason whatsoever, Yair Hamburger will be entitled to compensation in the amount of severance to which he is entitled by law in the event of dismissal, less any amounts accrued on his behalf for severance pay in the provident fund/managers’ insurance policy, and ownership of the provident fund/managers insurance fund into which the contributions were paid will be transferred to Mr. Hamburger (“Severance Pay”).

Note 38 - Balances and transactions with interested and related parties (contd.)

B. Benefits and bonuses for key management personnel (including directors) (contd.)

3. Employment conditions – the Controlling Shareholders (contd.)

(a) Employment conditions - Mr. Yair Hamburger (contd.)

Upon terminating his employment in the Company, Mr. Yair Hamburger is entitled to double severance pay, i.e. an additional 100% compensation (over and above the statutory compensation).

Pursuant to the provisions of the revised compensation policy for the Group's financial institutions, part of the additional compensation (over and above the 100%) ("retirement bonus") that is accrued for the period of employment after December 31, 2016, will be paid in installments, as follows: 1/3 of the deferred amount will be paid 12 months from the end of the year in which Mr. Yair Hamburger retires; 1/3 of the deferred amount will be paid 24 months from the end of the year in which Mr. Yair Hamburger retires; 1/3 of the deferred amount will be paid 42 months from the end of the year in which Mr. Yair Hamburger retires. Deferred amounts will be paid on the dates noted above, subject to meeting all the following conditions: no errors are found in the calculation of the amount of the bonus and it did not emerge that the bonus was given based on a risk level that, in retrospect, was found did not materially reflect the actual exposure of the financial institution or the members' monies; based on the last financial statements published before the date of payment, Harel Insurance is in compliance with the capital requirements that apply to it; Harel Insurance presented comprehensive income in the last financial statements (quarterly or annual) published prior to the date of payment. If either of the last two conditions noted above are not met, the payment will be postponed to such time as the conditions are met.

Mr. Yair Hamburger undertook not to compete with the Company and its business, including through employment by or the rendering of services to a corporation in competition with the Company, for a period of 36 months from the termination of his employment in the Company.

It is stipulated that the advance notice period is 30 days only. Mr. Yair Hamburger will not be entitled to an adjustment period or adjustment fee.

(b) Employment conditions – Mr. Gideon Hamburger:

Mr. Gideon Hamburger has held senior positions in the Harel Group since its establishment and currently holds the following key positions: member of the Company's Board of Directors and president of Harel, member of the Board of Interasco, Harel Finance and Harel Financing & Issuing. Additionally, Mr. Gideon Hamburger handles reinsurance matters both for Harel Insurance and the Group's other insurance companies.

Mr. Gideon Hamburger serves the Company and its subsidiaries full time and he holds no other business positions other than those in Harel Group.

Mr. Gideon Hamburger's monthly salary is NIS 127,000 (in this section: "the Salary"). The Salary is CPI-linked and is revised in accordance with the increase in the CPI once a year, for the January salary every year. The Company makes provision for social benefits according to generally accepted standards. Gideon Hamburger is entitled to 22 days annual vacation. Unutilized vacation days, including in respect of the period of Mr. Gideon Hamburger's employment from the date his employment for the Company commenced, will be accumulated and may be redeemed when his employment terminates. Mr. Gideon Hamburger is entitled to 30 days paid sick leave a year, and these days may also be accumulated, although he will not be entitled to redeem them when his employment for the Company terminates. Mr. Hamburger is entitled to 13 days convalescence a year. Likewise, Mr. Hamburger is entitled to contributions to an education fund in respect of his salary (7.5% of his salary at the employer's expense, and 2.5% at the employee's expense).

Mr. Gideon Hamburger is entitled to a Company car at a cost of up to NIS 650,000, linked to the CPI of December 2011 (NIS 675,265 at December 31, 2018). Should Gideon Hamburger choose to purchase a more expensive car, he will pay the difference in cost. As noted in the foreword to this Section 3 above, in accordance with the waiver notices submitted by the Company's controlling shareholders on September 22, 2016, commencing October 12, 2016, Mr. Gideon Hamburger is not entitled to full grossing up of the maintenance cost of his car.

Note 38 - Balances and transactions with interested and related parties (contd.)

B. Benefits and bonuses for key management personnel (including directors) (contd.)

3. Employment conditions – the Controlling Shareholders (contd.)

(b) Employment conditions – Mr. Gideon Hamburger (contd.)

Mr. Gideon Hamburger is not entitled to participate in the Company’s stock options plan. Additionally, it is stipulated that Mr. Gideon Hamburger is not entitled to any additional remuneration for serving as a director in Group companies.

Mr. Gideon Hamburger received a letter of indemnity, as part of the Company's decisions as approved by the general meeting in July 2006. Mr. Hamburger is included in the directors and officers insurance (D&O) drawn up by the Company, under the same conditions as the other directors and officers of the Company.

As noted in the foreword to this Section 3 above, in accordance with the waiver notices submitted by the Company’s controlling shareholders on September 22, 2016, commencing October 12, 2016, Mr. Gideon Hamburger is not entitled to an annual bonus.

Upon termination of the employment relationship for any reason whatsoever, Gideon Hamburger will be entitled to double the severance pay he is entitled to by law, in the event of dismissal (namely, an additional 100% severance pay over and above the statutory severance pay rate), net of any amounts accrued on his behalf for severance pay in the provident fund/managers’ insurance policy, and ownership of the provident fund/managers insurance fund into which the contributions were paid will be transferred to Mr. Hamburger (“Severance Pay”).

The provisions of the revised compensation policy of the Financial Institutions prescribe scheduling of part of the additional severance pay (beyond 100%) ("the Retirement Bonus") accumulated in respect of an employment period after December 31, 2016, in the following manner: 1/3 of the deferred amount will be paid 12 months after the end of the year of Gideon Hamburger's retirement; 1/3 will be paid 24 months after the end of the year of his retirement, and 1/3 will be paid 42 months from the end of the year of his retirement Deferred amounts will be paid on the dates noted above, subject to meeting all the following conditions: no errors are found in the calculation of the amount of the bonus and it did not emerge that the bonus was given based on a risk level that in retrospect was found did not materially reflect the actual exposure of the financial institution or the members’ monies; based on the last financial statements published before the date of payment, Harel Insurance is in compliance with the capital requirements applicable to it; Harel Insurance presented comprehensive income in the last financial statements (quarterly or annual) published prior to the date of payment. If either of the last two conditions noted above are not met, the payment will be postponed to such time as the conditions are met.

Mr. Gideon Hamburger undertook not to compete with the Company and its business, including through employment by or the rendering of services to a corporation in competition with the Company, for a period of 36 months from the termination of his employment in the Company.

It is stipulated that the advance notice period is 30 days only. Mr. Gideon Hamburger will not be entitled to an adjustment period or an adjustment fee.

(c) Employment conditions – Mr. Yoav Manor:

Mr. Yoav Manor Mr. Yoav Manor has held senior positions in Harel Group since its establishment. He is currently a Company director, Acting Chairman of the Board of Directors of Harel Hamishmar Computers., which provides computer and automation services to various companies in Harel Group, and is a director in the following Group companies: Harel Investments, Harel Insurance, Harel Finance, Harel Financing & Issuing, and other subsidiaries of the Company.

Mr. Manor serves the Company and its subsidiaries full time and he holds no other business positions other than those in Harel Group.

Yoav Manor’s monthly salary is NIS 127,000 (in this section: “the Salary”). The Salary is CPI-linked and revised in accordance with the increase in the CPI once a year, for the January salary every year.

Note 38 - Balances and transactions with interested and related parties (contd.)

B. Benefits and bonuses for key management personnel (including directors) (contd.)

3. Employment conditions – the Controlling Shareholders (contd.)

(c) Employment conditions – Mr. Yoav Manor (contd.)

The Company makes provision for social benefits according to generally accepted standards. Yoav Manor is entitled to 22 days annual vacation. Unutilized vacation days, including in respect of the period of Mr. Yoav Manor's employment from the commencement date of his employment for the Company, will be accumulated and may be redeemed when his employment terminates. Yoav Manor is entitled to 30 days paid sick leave a year, and these days may also be accumulated, although he will not be entitled to redeem them when his employment for the Company terminates. Mr. Manor is entitled to 13 days convalescence a year. Likewise, Mr. Manor is entitled to contributions to an education fund in respect of his salary (7.5% of his salary at the employer's expense, and 2.5% at the employee's expense).

Yoav Manor is entitled to a Company car at a cost of up to NIS 650,000, linked to the CPI of December 2011 (NIS 675,265 at December 31, 2018). Should Yoav Manor choose to purchase a more expensive car, he will pay the difference in cost. As noted in the foreword to this Section 3 above, in accordance with the waiver notices submitted by the Company's controlling shareholders on September 22, 2016, commencing October 12, 2016, Mr. Yoav Manor is not entitled to full grossing up of the maintenance cost of his car.

Yoav Manor is not entitled to participate in the Company's stock options plan. Additionally, it is stipulated that he is not entitled to any additional remuneration for serving as a director in Group companies.

Yoav Manor received a letter of indemnity as part of the Company's decisions as approved by the general meeting in July 2006. Mr. Manor is included in the directors and officers insurance (D&O) drawn up by the Company, under the same conditions as the other directors and officers of the Company.

As noted in the foreword to this Section 3 above, in accordance with the waiver notices submitted by the Company's controlling shareholders on September 22, 2016, commencing October 12, 2016, Mr. Yoav Manor is not entitled to an annual bonus.

Upon termination of the employment relationship for any reason whatsoever, Yoav Manor will be entitled to double the severance pay due by law if he is dismissed (i.e. severance pay of 100% beyond the statutory severance pay), less the amounts accrued on his behalf in respect of severance pay in provident funds / managers insurance, and ownership of the provident funds / managers insurance into which payments were made on his behalf will be transferred to him ("Severance Pay").

The provisions of the revised compensation policy of the Financial Institutions prescribe scheduling of part of the additional severance (beyond 100%) ("the Retirement Bonus") accumulated in respect of an employment period after December 31, 2016, in the following manner: 1/3 of the deferred amount will be paid 12 months after the end of the year of Yoav Manor's retirement; 1/3 will be paid 24 months after the end of the year of his retirement, and 1/3 will be paid 42 months after the end of the year of his retirement Deferred amounts will be paid on the dates noted above, subject to meeting all the following conditions: no errors are found in the calculation of the amount of the bonus and it did not emerge that the bonus was given based on a risk level that in retrospect was found did not materially reflect the actual exposure of the financial institution or the members' monies; based on the last financial statements published before the date of payment, Harel Insurance is in compliance with the capital requirements applicable to it; Harel Insurance presented comprehensive income in the last financial statements (quarterly or annual) published prior to the date of payment. If either of the last two conditions noted above are not met, the payment will be postponed to such time as the conditions are met.

Note 38 - Balances and transactions with interested and related parties (contd.)

B. Benefits and bonuses for key management personnel (including directors) (contd.)

3. Employment conditions – the Controlling Shareholders (contd.)

(c) Employment conditions – Mr. Yoav Manor (contd.)

Mr. Yoav Manor undertook not to compete with the Company and its business, including through employment by or the rendering of services to a corporation in competition with the Company, for a period of 36 months from the termination of his employment in the Company.

It is stipulated that the advance notice period is 30 days only. Mr. Yoav Manor will not be entitled to an adjustment period or an adjustment fee.

4. Employment conditions of the CEO of the Company and CEO of Harel Insurance - Mr. Michel Siboni

Mr. Siboni has been CEO of Harel Insurance since 2009 and he also served as Co-CEO of the Company (in addition to his position as CEO of Harel Insurance) from 2011 until the end of 2015, when it was decided that he would concentrate on his principal role as CEO of Harel Insurance with the purpose of directing a strategic change within the Group. Consequently, he stepped down as CEO of the Company and a CEO was appointed to replace him. In January 2017, Mr. Siboni agreed, once again, to undertake the position of Company CEO, and this for no additional remuneration for this position.[2]

Following revision of the compensation policy for the Group's financial institutions, the employment agreement of the CEO of Harel Insurance, dated August 25, 2013, was updated so as to correspond with the revised compensation policy of the financial institutions and the provisions of the Compensation of Company Executives Law. The revised employment agreement applies as of October 12, 2016 ("the Revision Date"). As a rule, the revised employment conditions are consistent with the Company's compensation policy, while retaining components that exist in the previous employment conditions.

Details of Mr. Michel Siboni's current employment conditions:

<u>Period of employment</u>

The provisions of the employment agreement apply for an unlimited period. Notwithstanding the foregoing, both parties may terminate the agreement at any time, by giving 180 days advance notice.

<u>Current salary</u>

Commencing January 2018, Mr. Siboni's monthly salary is NIS 248,000.

<u>Fringe benefits</u>

Mr. Michel Siboni is entitled to a refund of reasonable expenses incurred while fulfilling his duties, including costs of a telephone / mobile phone, membership fees of professional organizations, subscription to newspapers and professional literature, professional liability insurance, periodic medical examinations, group health / dental insurance for Harel Group employees, group term (life) assurance policy for senior Harel Group executives, group work disability policy for Harel Group employees, attending in-house training and incentive trips for agents (with spouse), wellbeing activities as accepted in Harel Group (e.g. pre-festival gifts, vacation, meals, team-building activities, etc.), purchase of Harel Group insurance products under conditions offered to the Group's employees, purchase of Harel Finance financial products under conditions offered to Group employees.

[2] Accordingly, Mr. Siboni's compensation will not change if for any reason, he steps down as Company CEO and continues to serves as CEO of Harel Insurance.

Note 38 - Balances and transactions with interested and related parties (contd.)

B. Benefits and bonuses for key management personnel (including directors) (contd.)

4. Employment conditions of the CEO of the Company and CEO of Harel Insurance - Mr. Michel Siboni (contd.)

Michel Siboni is entitled, at any time, to receive a company car from Harel Insurance, as generally accepted for the Company's CEO. Should he decide to accept a company car for his own use, the tax value will be recognized as part of his ongoing salary and it will constitute part of the base for provisions under the provisions of the employment agreement.

The Company will make provision for social benefits according to generally accepted standards for pension, severance pay and work disability. Likewise, Michel Siboni is entitled to contributions to an education fund in respect of his salary (7.5% of his salary at the employer's expense, and 2.5% at the employee's expense).

Michel Siboni is entitled to 10 days convalescence a year according to the tariff published by the Coordinating Bureau of Economic Organizations (no change from the present employment agreement).

Michel Siboni is entitled to 35 days paid vacation a year. Michel Siboni is entitled to 30 days paid sick leave a year, and he may accumulate these days up to a total of 180 days, although he will not be entitled to redeem them when his employment for the Company terminates.

Michel Siboni was granted an indemnity note, as part of the Company's decisions as approved by the general meeting in July 2006 and by a general meeting in March 2012.

<u>Termination of employment</u>

Mr. Siboni is entitled to a salary for an 8-month adjustment period.

Michel Siboni will be entitled to severance pay of 200% (double the statutory severance pay) for the period commencing August 1, 2009 until the date of the revision of the employment agreement (October 2016). For the period from the start of his employment in the Company and up to July 31, 2009 (the date of his appointment as CEO of Harel Insurance), Mr. Siboni will be entitled to 150% severance pay (in the present employment agreement the amount is 100% for this period).

Mr. Siboni undertook not to compete with the Company when his employment ends, for a period of 7 years from the termination of his employment in the Company, in return for a non-competition bonus of NIS 5,000,000. Under the non-competition commitment, Michel Siboni undertook that during the non-competition period he will not serve as the CEO of an insurance company in Israel, either as a salaried employee or as a service provider, and he also undertook not to utilize the knowledge he gained and will gain in the Company in the area of health insurance, and accordingly he undertook not to serve as a consultant to insurance companies in the field of health insurance.

Based on the Company's compensation policy, Mr. Siboni will be entitled, together with members of his family, to continue to be included in the group insurance policy of Harel employees even after his employment ends, for payment of the premiums, according to the standard amounts for all Group employees.

Past rights accumulated by the CEO of Harel Insurance and for which provision was made in the past in the financial statements of Harel Insurance, in respect of the increased severance pay to which the CEO is entitled up to the revision date as well as the adjustment fees, were deposited in trust in a savings policy on behalf of the CEO of Harel Insurance, and they will be released when his entitlement to receive this money is satisfied, upon termination of his employment by Harel Insurance. Upon making this deposit, Harel Insurance was exempted from all its obligations towards the CEO of Harel Insurance in connection with these amounts, when the date of termination of his employment is reached.

For information about the Company entering into agreement with Mr. Siboni regarding Hamazpen – Shutaphim Laderech Ltd., see Note 38E.

Note 38 - Balances and transactions with interested and related parties (contd.)

B. Benefits and bonuses for key management personnel (including directors) (contd.)

5. Benefits and bonuses for the employment of key management personnel (including the chairman), include:

	For the year ended December 31					
	2019		2018		2017	
	No. of people	NIS million	No. of people	NIS million	No. of people	NIS million
Short-term employee benefits*	9	21	9	20	10	21
Post-employment benefits	9	2	9	2	10	2
Total payroll costs		23		22		23

* The above information includes an estimate of the bonus for the key group accordance with the compensation policy for the reporting year. The final calculation of the bonus amounts for the reporting year will be prepared in April, after the Company has comparison figures for other companies (return on equity, nostro yield, etc.). Consequently, there may be a difference between the estimate and the final calculation of the amount of the bonuses.

6. Benefits and bonuses for key management personnel who are directors that are not employed by the company:

	For the year ended December 31					
	2019		2018		2017	
	No. of people	NIS million	No. of people	NIS million	No. of people	NIS million
Directors' fees*	7	2	7	2	6	2

* Refers to directors fees received directly from the Company only.

7. The Company participates (for itself and for the Group companies) in D&O insurance which is acquired from Harel Insurance:

Amount paid for the company and for Group companies:

	For the year ended December 31		
	2019	2018	2017
	NIS million	NIS million	NIS million
For D&O liability insurance	3	2	1

Note 38 - Balances and transactions with interested and related parties (contd.)

C. Balances with interested and related parties

	As at December 31, 2019	
	Controlling shareholder	Principal shareholders* and other related parties
	NIS million	NIS million
Assets		
Trade and other receivables	-	4
Financial investments for yield-dependent contracts	-	712
Other financial investments		
Non-marketable debt assets	-	158
Liabilities		
Liabilities for employee benefits, net	17	11

	As at December 31, 2018	
	Controlling shareholder	Principal shareholders* and other related parties
	NIS million	NIS million
Assets		
Trade and other receivables	-	2
Financial investments for yield-dependent contracts	-	734
Other financial investments		
Non-marketable debt assets	-	171**
Liabilities		
Liabilities for employee benefits, net	17	8

* The highest debt asset balance during the year of principal shareholders (interested parties) was NIS 956 million (in 2018, NIS 1,010 million).

** Insignificant restatement of comparative figures.

Note 38 - Balances and transactions with interested and related parties (contd.)

D. Transactions with interested and related parties

	Controlling shareholder	Principal shareholders * and other related parties
	NIS million	NIS million
For the year ended December 31, 2019		
Profits from investments, net, and financing income	**-**	**40**
Income from management fees	**-**	**8**
Commissions, marketing expenses and other purchasing expenses	**-**	**73**
General and administrative expenses	**7**	**26**

	Controlling shareholder	Principal shareholders * and other related parties
	NIS million	NIS million
For the year ended December 31, 2018		
Profits from investments, net, and financing income	-	65**
Income from management fees	-	8
Commissions, marketing expenses and other purchasing expenses	-	72
General and administrative expenses	7	28**

	Controlling shareholder	Principal shareholders * and other related parties
	NIS million	NIS million
For the year ended December 31, 2017		
Losses from investments, net, and financing income	-	21
Income from management fees	-	12
Commissions, marketing expenses and other purchasing expenses	-	73
General and administrative expenses	7	28**

* Senior officers of the Company may periodically purchase insurance policies, insurance contracts or other financial products issued by the Group under market conditions and during the normal course of business. Insofar as these transactions come under the definition of "negligible transactions", they are not specified in the financial statements.

** Insignificant restatement of comparative figures.

Note 38 - Balances and transactions with interested and related parties (contd.)

E. Agreements with controlling shareholders and executives

1. Agreement with an architect

On January 2011, the Company entered into an agreement, which was amended in January 2016, December 2017, and December 2018, to obtain architectural services from Mr. Miki Kornhauser, who is the brother-in-law of Mr. Yair Hamburger, the controlling shareholder and Chairman of the Board of Directors of the Company ("the Agreement" and/or "the Engagement"). Under the Agreement, Mr. Kornhauser provides on-going architectural services to the Company and its subsidiaries in various projects undertaken by the Company.

The Company's Audit Committee and Board of Directors approved an amendment to the Agreement whereby the agreement period will be extended to December 31, 2020, and the monthly consideration for the architecture services will remain at NIS 28,000. For additional information about the agreement, see an Immediate Report of the Company dated December 25, 2019 (ref: 2019-01-113613).

2. Bonus for senior officers for 2019

In April 2020, the bonuses for officers of the Company and officers who were included in the compensation plan will be submitted for the approval of the Board of Directors of the Company. The bonuses included in this report 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. The final calculation and approval of the bonuses will be prepared by the end of April 2020.

3. Bonus for senior officers for 2018

In April 2019, after receiving the approval of the Compensation Committee, the Company's Board of Directors, approved bonuses for the Company officers and functionaries who are included in the compensation plan. The bonuses were calculated on the basis of actual data and based on estimates relating mainly to comparison figures for the results of the operations of other insurance companies included in the comparison group.

4. D&O liability insurance

The D&O liability policy applies to currently serving senior executives in the Company and its subsidiaries as well as to those who have served the Company and/or its subsidiaries from time to time (including senior officers in the Company or subsidiaries who are considered controlling shareholders or their family members as well as senior officers where the controlling shareholder of the Company may be considered to have a personal interest in the granting of letters of indemnity to them).

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

Note 38 - Balances and transactions with interested and related parties (contd.)

E. Agreements with controlling shareholders and executives (contd.)

5. Commitment to indemnify Company officers and directors

   On January 29, 2012, and on January 30, 2012, the Audit Committee and Board of Directors of the Company, respectively, approved amended indemnity notes for its senior officers and directors, including directors who are controlling shareholders of the Company. On March 5, 2012, the General Meeting approved the granting of the amended indemnity notes to the Company's senior officers and directors, including to controlling shareholders. There is no change to the Company's limit of liability in the amended indemnity notes, but they include an option for indemnity based on the permitted indemnity under the Administrative Enforcement Powers Law. The indemnity notes will be given to the senior officers currently serving the Company and those who may serve the Company from time to time (including senior officers who are deemed controlling shareholders or their relatives, as well as senior officers where a controlling shareholder of the Company may be construed as having a personal interest in granting them the indemnity notes). It is stipulated that the decision to approve the amended indemnity notes does not cancel the existing indemnity notes, but is in addition to them.

6. Options

   During the course **of** 35,070 and 2,320 stock options, respectively, were exercised and/or forfeited, accounting for the balance of the all the existing options in circulation and that were granted by the Company between 2009 and 2012 to executives and employees in the Company and in consolidated subsidiaries as part of the 2009, 2010 and 2011 stock options plans. During the reported years, no amounts were recognized in profit or loss in respect of these aforementioned options.

7. Entering into an 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 38 - Balances and transactions with interested and related parties (contd.)

E. Agreements with controlling shareholders and executives (contd.)

8. Agreements to provide services

a. Under an agreement between the Company and some of its subsidiaries, the Company is entitled to management fees of 0.5% of the premiums collected by the insurance companies, 3% of the management fees collected by the provident fund management companies, and management fees of 0.5% of the contributions received by the pension fund management companies on the comprehensive pension funds that they manage, and this in return for management and consulting services rendered by the Company to the said companies with respect to marketing, finance, business planning, participation in the board of directors, and other areas of management. The agreement has been in force since January 1, 2009 and it can be canceled at the end of each calendar year. According to the terms of the agreement, the management fees at an annual rate of 0.5% of the annual contributions are not paid for contributions to be received from the IDF. Within the context of approving this agreement, a ceiling of NIS 50 million per year was set for the management fees that Harel Pension pays Harel Investments.

b. On March 23, 2016, and on March 22, 2016, the boards of directors of Harel Insurance and Harel Pension, respectively, approved a revised agreement between Harel Insurance and Harel Pension for operating services that Harel Insurance provides to Harel Pension. Under this revised agreement, the management and operating fees will be determined on the basis of the actual expenses incurred by Harel Insurance for these services. The new management agreement includes an allocation of direct expenses and indirect expenses based on a certain percentage of the volume of the assets under management, excluding the assets of members covered by the IDF pension arrangement, as long as they are active members through this arrangement and are entitled to the fixed management fees prescribed therein. The change in this agreement creates a more reasonable allocation of expenses for each year of the agreement. Nevertheless, the change in the agreement does not have any significant effect in the long term. Implementation of the agreement is not expected to significantly affect the Group's performance

c. In April 2013, Harel Insurance entered into agreement with ICIC, according to which Harel Insurance provides ICIC with various services, including legal advice, back-office services, risk management, customer relations, etc. ICIC undertook to pay Harel Insurance NIS 80,000 per month for these services. The agreement is for a period of five years, where each party has the right to cancel the agreement by giving 90-days advance notice. In August 2016, a supplement to this agreement was approved so that it also includes logistics services, which include mainly services such as: post, vehicle servicing, leasing and telephony in respect of which an additional NIS 8,000 per month will be paid to Harel Insurance. In January 2019, a further supplement to the agreement was approved in which the agreement period was extended for an additional five years and it was determined that: (1) from November 2018, the services that Harel Insurance will provide to ICIC will not include the writing of meeting minutes, coordination of board meetings and board committees and the distribution of background material to these meetings; (2) the total monthly payment that ICIC will pay Harel Insurance for all the services it renders in this agreement will be NIS 80,000. In March 2019, an additional supplement to the agreement was approved, in which Harel Insurance allocated to ICIC a 75% position for risk management. Pursuant to the foregoing, the monthly consideration that ICIC will pay Harel Insurance for all the services provided to it was updated to NIS 91,000..

d. On March 23, 2016, the Board of Directors of Harel Insurance approved an agreement with Harel Finance and ICIC, both sister companies of Harel Insurance, was presented for the approval of the Board of Directors of Harel Insurance. Accordingly, Harel Insurance will enter into rental agreements with Dikla, ICIC and Harel Finance to rent office space and shops in Beit Hameah, a property that is owned by Harel Insurance.

e. Agreement to provide claims settlement services

Claims in respect of medical malpractice policies are handled by MCI, which is fully controlled by Madanes Insurance Agency Ltd. (in which the Company has a 25% stake), in view of the special knowledge and experience that this company has in handling medical malpractice claims. Commencing in December 2015, settlement of some of the medical malpractice claims for certain underwriting years was handled by a company owned jointly by Harel (5%) and the reinsurers Munich Re (75%) and Swiss Re (20%).

Note 38 - Balances and transactions with interested and related parties (contd.)

E. Agreements with controlling shareholders and executives (contd.)

8. Agreements to provide services (contd.)

f. In December 2015, ICIC entered into agreement with Harel Hamishmar Computers Ltd. The nature of the agreement is to receive computer services for the ongoing activity and management of all ICIC's business, including infrastructure services, operating services, support, maintenance, information security and business continuity. The agreement is for 10 years where both parties may terminate the agreement by giving one year's advance notice.

g. Pursuant to an agreement which was approved by the Board of Directors of the Company on March 30, 2014, EMI pays the Company annual management fees of NIS 250,000 for a variety of services that it receives from the Company and for officers in Harel Investments who serve as directors in EMI. This agreement replaces a previous agreement relating to management fees that came to an end on December 31, 2013 and was not renewed.

9. 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") with the purpose of operating in the field of financing for small and medium businesses, including providing mezzanine loans to small or medium businesses so that the Company's share of Hamazpen will be 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.

In the Reporting Period, the Company entered into agreement with its CEO, Mr. Michel Siboni whereby the Company sold shares in Hamazpen to Mr. 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 Michel Siboni as a shareholder in Hamazpen. Following this sale, the Company holds 70% of the issued and paid-up capital of Hamazpen. Since Hamazpen had not yet commenced operations at the date of the sale of the shares 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, Mr. Michel Siboni's investment in Hamazpen was made according to the value of the shareholders' equity of Hamazpen at that time. 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, Michel Siboni is entitled to rights of refusal and tag-along rights should the Company sell Hamazpen shares (after the first four years in which none of the shareholders may sell their 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.

Concurrently, Mr. Michel Siboni was appointed as Chairman of the Board of Hamzpen, without being entitled to any further consideration whatsoever for this office. In the founders' agreement, the parties agreed upon a mechanism for Hamazpen to finance its activity, in which the parties undertook to make an initial injection of NIS 40 million in Hamazpen by way of providing shareholders' loans, each pro rata to its share in Hamazpen and it was also determined that the Alon Partnership and Mr. Siboni will be entitled to receive from the Company, in order to provide the above-mentioned shareholders' loans, non-recourse loans of NIS

Note 38 - Balances and transactions with interested and related parties (contd.)

E. Agreements with controlling shareholders and executives (contd.)

9. Establishment of Hamazpen and entering into agreement with the CEO of the Company in the "Hamazpen - Shutaphim Laderech Ltd." Transaction (contd.)

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 Michel Siboni receives from the Company will bear interest at an annual rate of 3.8%. These loans were provided in November 2019.

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 proportionate 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% for the Alon Partnership and 3.8% for Mr. Michel Siboni when referring 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 economic appraisal to be commissioned at that time, if and when, by the Company.

The founders agreement also prescribes provisions for providing 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 as shareholders' loans 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 as a loan for one year. If the loan is not extended, the unsettled balance may be treated as amounts received on account of the Company's shares and the shareholders' holdings in Hamazpen will be diluted 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 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 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. Siboni bore the cost of this benefit in a manner that its entire cost was 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.

Note 38 - Balances and transactions with interested and related parties (contd.)

E. Agreements with controlling shareholders and executives (contd.)

9. Establishment of Hamazpen and entering into agreement with the CEO of the Company in the "Hamazpen - Shutaphim Laderech Ltd." Transaction (contd.)

In December 2019, Hamazpen entered into agreement with Harel Insurance to receive a credit facility in the amount of NIS 150 million for the purpose of providing credit to its customers. As collateral for providing this credit facility, the Company signed a letter of undertaking to invest the required amounts in the capital of Hamazpen from time to time to ensure that, at all times, Hamazpen's equity will not fall below 15% of the total balance sheet of Hamazpen.

In 2019, the Company injected capital of NIS 28 million into Hamazpen.

Note 39 - 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 clients. The complexity of these arrangements contain, *inter alia*, a potential for interpretative and other claims, among other reasons due to information gaps between the Group and other parties to the insurance contracts, and the Group's other products, relating to a series of commercial and regulatory conditions. It is impossible to predict the types of claims which may be raised in this sector and the resulting exposure in connection with the Group's products, which are raised during the course of various legal proceedings, *inter alia*, through the litigation mechanism prescribed 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 profit 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 in all 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 "Superintendent's position papers", "rulings in principal" on various matters, 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, the agreements with the policyholders, members and customers are over a period of many years during which changes may occur in policies, regulations and legal trends, including through court rulings. 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 operate to review compliance with the regulatory provisions and rectify 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 details the stages for implementing the optimization project. The optimization project is scheduled for completion on June 30, 2016. At this date, the Company has completed the optimization activity for most of the issues that were included in the work plan. Nevertheless, several issues are outstanding which continued and will continue on a regular basis after the date scheduled for completion. In accordance with the requirements of the circular, the Company also performs ongoing optimization and saves the optimization activity conducted as part of the project.

Furthermore, there is a general exposure due to complaints issued from time to time to the Commissioner of the Capital Market, Insurance and Savings in the Ministry of Finance against the Group's financial institutions, regarding the rights of insured relating to the insurance policies and/or the law. These complaints are handled on a current basis by the Company's public complaints division. The decisions of the Capital Market, Insurance and Savings Authority on these complaints, if and to the extent that any decision is made, might also be given as broad rulings that apply to extensive groups of insureds. Additionally, sometimes the complaining entities even threaten to take steps regarding their complaints in the form of a class action. At this time, it is impossible to estimate whether there is exposure for such complaints nor is it possible to gauge whether the Commissioner will issue a cross-the board decision on these complaints and/or whether class actions will be filed as a result of these steps and it is therefore impossible to estimate the potential exposure to such complaints. Consequently, no provision for this exposure has been included. Additionally, as part of the policy applied by the Ministry of Finance Capital Market, Insurance & Savings Authority to enhance the controls and audits of financial institutions, from time to time the Capital Market, Insurance and Savings Authority conducts in-depth audits of various areas of activity performed by the Group's financial institutions.

Note 39 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

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

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

Within the context of investments in debt assets by the Group companies, 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 in accordance with 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 indemnity Clalit Health Services for losses sustained by Clalit if and insofar as any losses are sustained, as a result of the split of operations, under the conditions set out in the indemnity note.

Following are details of the exposure for class actions and motions for their recognition as class actions filed against the Company and/or companies in the Group.

In motions for the certification of actions as class actions that are listed below, in which, based, *inter alia*, on expert legal opinions that it received management believes that it is more likely than not that the defense arguments of the Company (or subsidiary) will be dismissed and certification of the action as a class action will be accepted, or where there is 50% or more chance that in the final event the arguments of the Company (or subsidiary) will be accepted, that it is likely that a proposed compromise settlement, that does not include an obligation for a monetary payment which is not negligible will be accepted no provision was included in the financial statements. In applications to approve a legal action as a class action regarding a claim, fully or partly, where it is more reasonable that the defense arguments will be rejected, provision was made in the financial statements to cover the exposure estimated by the Company's management and/or the managements of subsidiaries.

In the motions to approve an action as a class action, in Sections 49, 50, and 51 below, it is not possible at this early stage to estimate the chances of the applications to be approved as a class action and therefore no provision has been included in the financial statements for these claims**.**

Note 39 - 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 a motion for its certification as a class action. The subject of the action is the allegation that the respondents unlawfully collected a "sub-annual factor fee" (a fee that insurance companies are allowed to collect when the amount of the annual premium is actually paid in installments). The plaintiffs claim damages in the amount of NIS 1,683.54 for each insurance year. The plaintiffs estimate that the total claim for the entire class that they wish to represent against all defendants is about NSI 2.3 billion, of which about NIS 307 million is against Harel Insurance. On February 1, 2010, the court approved a request for a procedural arrangement between the parties, according to which the plaintiff will strike out the claim that Harel Insurance collected a sub-annual factor fee exceeding the rate permitted in policies that were issued before 1992 as well. As instructed by the court, the plaintiff submitted an amended claim and request for its certification as a class action. On December 29, 2013 the Commissioner filed a position supporting the position of the defendants that there is no reason to charge a sub-annual policy factor on the savings component of life insurance combined savings and other risk policies, including nursing, work disability and accidental disability. On July 19, 2016, the Tel Aviv District Court approved the claim as a class action in connection with the collection of a sub-annual factor on the premium component which is known as the policy factor and on the savings component in combined savings and life assurance policies, and in connection with the collection of a sub-annual policy factor in health, disability, critical illness, work disability and long-term care policies. In December 2016, an application was filed for permission to appeal the decision of Tel Aviv District Court. Following the Supreme Court ruling in January 2017, the respondents responded to the application for permission to appeal the decision to approve the action as a class action and the application 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 application for permission to appeal and on the appeal. On May 31, 2018, the Supreme Court accepted the motion for permission to appeal, heard it as an appeal and accepted it, reversing the ruling of the District Court and dismissing the motion for certification of the action as a class action. On June 26, 2018, a motion was served to Harel Insurance to hold a further hearing on the judgment, that the plaintiffs filed in the Supreme Court. In its decision dated 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 appear at the proceeding in person and in February 2020 he submitted his position supporting the judgment and the trend it reflects to strengthen the weight that should be given to the regulator’s professional position in the interpretation of his instructions and that in his view, there should be no involvement in the decision made in the judgment which is the subject of the proceeding with respect to adopting the interpretive position of the Capital Market Authority.

Note 39 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

2. In April 2010, a legal action and an 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 relate to 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 opinion of the Commissioner was submitted stating that the provisions of the policy are binding with respect to the method of collecting the premium after the death of the insured or in the period following cancellation of the policy, and that the actuarial opinion that the Respondents had submitted to the court was incomplete for the purpose of proving that the Respondents had priced the premiums in a manner that shows that they took into account that the premiums would not be refunded to the policyholders for the period after the death of the insured or in the period after cancellation of the policy. On June 23, 2015, the Central (Lod) District Court partially certified hearing of the claim as a class action. The court certified the claim as a class action against Harel Insurance, but only on the subject of 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 ordered that a reviewer be appointed for the compromise settlement. In December 2019, the reviewer’s opinion was submitted to the court in relation to Harel Insurance in which the compromise settlement is appropriate, fair and reasonable, when taking into account the affairs of the class members.

Note 39 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

3. In May 2011, a claim was filed at the Central District Court against the subsidiary Harel Insurance and three other insurance companies (hereinafter together: “the Defendants”), together with an application for recognition as a class action. The subject of the claim is an allegation that the respondents 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 claimants allege that according to instructions issued by the Commissioner in the Capital Market, Insurance and Savings Division 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 respondents 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 respondents' amounts to NIS 2,325 million, and against Harel Insurance, consistent with its share of the market, to 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. Furthermore, 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 amount actually 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 a 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 group in whose name the class action is litigated is insureds of the defendants who have combined life assurance and savings policies that were drawn up between 1992-2003, where the savings accrued by the insureds was compromised on account of the collection of the policy factor. In May 2017, the Defendants filed an application in the Supreme Court for permission to appeal this decision in which context the compromise settlement was dismissed and the motion to certify the claim as a class action was partially approved. In 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. The parties are conducting a mediation process.

Note 39 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

4. 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 and against the IDF Disabled Veterans Organization (hereinafter together: “the Defendants”). The class action argument 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 action for all group members he wishes to represent at NIS 46 million. On June 5, 2014, the Tel Aviv District Court approved conducting the claim as a class action. The group that was approved is all the beneficiaries of IDF veterans who died between 2006 and 2012, after reaching the age of 75 and before reaching the age of 76, who suffered an insured event after reaching the age of 75 and before reaching the age of 76, and who did not receive insurance benefits from Harel Insurance. On July 6, 2014, the defendants filed a motion 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 handed down. 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 of March 20, 2016, the Tel Aviv district court instructed the class to be expanded so as to include all the beneficiaries of the IDF veterans who had died between 2013 and 2016. The court instructed that the Commissioner’s position must be received on the dispute which is the subject of the action. 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.

5. In December 2012, an action 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 action 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. In his application, the plaintiff does not mention the total sum that it claims for the entire 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 will be made in the future to the class members. The 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 39 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

6. 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 the hearing of the action 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. As recommended by the court, in August 2016, the Defendants withdrew the application for permission to appeal.

7. 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 full 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 insured, 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, in accordance with the court’s comments. In September 2016, the Attorney General’s position was submitted to the court in which he does not oppose the compromise settlement and leaves approval of the decision in the court’s hands. In his position, the Attorney General made several remarks relating to the text 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 according to which 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.

Note 39 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

8. In October 2013, 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 refrains from paying compensation to insureds who performed surgery that was fully or partially paid for by their HMOs, at a rate of half the amount that it saved from the full cost of the surgery, due to the participation of the HMOs. The overall loss claimed for all members of the class amounts to NIS 14 million. In March 2016, a compromise agreement 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 an examiner for the compromise settlement. In November 2017, the examiner's opinion was submitted to the court, stating that the compensation mechanism set forth in the compromise settlement was reasonable and fair. 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 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. (formerly called "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).

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 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 the proceedings before the District Court until further notice.

Note 39 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

11. 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. (formerly called "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 instructions of the Commissioner and the provisions of the law. The Plaintiff estimates the total loss claimed for all members of the Group that it wishes to represent at NIS 35 million. The court passed the motion to accept the position of the Commissioner relating to the disputes that are the subject of the motion for certification of the action as a class action. In January 2016, the position of the Commissioner of Insurance 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.

Note 39 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

12. 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 ("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 class that the Plaintiffs wish to represent, amounts to NIS 48 million against all the Defendants. The court submitted 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 conducted by the parties was unsuccessful and the hearing of the action was returned to the court.

13. In November 2014, a motion for certification of a claim as a class action was filed against the subsidiary Harel Insurance and Standard Insurance Ltd. and against other insurance companies and insurance agencies (together: "the Defendants") in the Lod Central District Court. The subject of the action is the allegation that when the holders of Isracard and CAL credit cards call the sales call centers run by the Defendants in order to activate an overseas travel insurance policy that they are entitled to receive free of charge ("the Basic Policy"), the Defendants ostensibly market 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 their policyholders, 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. 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.

Note 39 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

14. In August 2015, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action, against the subsidiary Dikla Insurance Agency Ltd. (formerly called "Dikla Insurance Company Ltd.") ("Dikla"). The subject of the action is the allegation 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 circulars 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.

15. In September 2015, an action was filed in the Lod Central District Court together with a motion for its certification as a class action against the subsidiaries Harel Insurance and Dikla Insurance Agency Ltd. (formerly called "Dikla Insurance Company Ltd.") ("Dikla"), and against three other insurance companies (hereinafter 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 on the action was returned to the court.

16. 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 4 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 the insurance agents with commissions 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 by a total of NIS 2 billion.

Note 39 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

17. In February 2016, an action and motion 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 and they are unable to move their money to another pension fund, without giving them advance notice. This ostensibly in breach of the applicable 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 that the hearing be transferred to the District Labor Court.

18. 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 Insurance ("Harel Insurance"). 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 the 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 vehicles such as taxis. The parties are conducting a mediation process.

Note 39 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

19. In March 2016, an action was filed in the Lod Central District Court against the Company, together with an application for its certification as a class action against the subsidiary Harel Insurance ("Harel Insurance"). The subject of the action is the allegation that Harel Insurance 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 of voluntary disclosure. The personal loss claimed by the Plaintiff is estimated at NIS 33,729 thousand.

    The Plaintiff has not quantified the total loss claimed for all members of the group that she wishes to represent, although she estimates it to be tens of millions of shekels. In February 2017, the court passed the motion to accept the Commissioner' position on the questions arising from the motion for certification. In May 2017, the Commissioner submitted his position whereby monies in pension savings that are payable to beneficiaries as a result of death during the work period are not insurance benefits and are not covered by Section 28 of the Insurance Contracts Law, and that from now on Harel Insurance must also link the savings to the investment index in the period after the insured's death and until the money is transferred to the beneficiaries. The Commissioner also noted that in his opinion, in this case, unjust enrichment does not apply. In November 2019, the parties filed a motion in the court to certify a compromise settlement in which it was agreed, *inter alia*, that Harel Insurance will pay the class members who were defined in the compromise settlement compensation at a rate prescribed in the compromise settlement for alleged loss with respect to the difference between the total amount of savings had they been linked to the investment index to which the money was linked prior to the death of the insured, net of management fees, and the amount that was actually paid, and that from the date specified in the compromise settlement, Harel Insurance will manage the savings in the policies of the class members defined in the compromise settlement even after the insured's death, in the investment track in which they were managed before his death. Validity of the compromise settlement is contingent on the court's approval.

20. In August 2016, an action was filed in the Central Region Lod District Court, together with a motion 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 may be collected by law, but without an instruction in the contract allowing it to collect this component. 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 NIS 132 million. In April 2017, the court instructed that the hearing regarding the application should be transferred to the District Labor Court in Tel Aviv. In February 2018, the court ordered that the Commissioner submit his opinion regarding the proceedings. In June 2018, the Capital Market Authority's position was filed supporting the position of Harel Pension.

Note 39 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

21. In September 2016, an action was filed in the Lod Central District Court together with an application for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly 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 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.

22. In September 2016, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance 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 Group that they wish to represent against Harel Insurance amounts to NIS 2.2 billion, and NIS 4.45 billion against all the Defendants.

Note 39 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

23. In October 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 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 it wishes to represent against Harel Insurance, although it 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.

24. In October 2016, 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, 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 group it seeks to represent in the amount of NIS 30.1 million. In January 2018, a decision was reached to consolidate the hearing with additional applications for approval of pending class action cases related to direct expenses in provident funds and continuing education funds. In February 2018, the court ruled that the Commissioner's opinion regarding the proceeding should be accepted. In May 2018, the Commissioner's position supporting the Defendants was submitted to the court, according to 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.

Note 39 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

25. In December 2016, an action was filed in the Lod Central District Court, together with an application for its certification as a class action, against the second-tier subsidiary Harel Pension and Provident Ltd. ("Harel Pension & Provident"). The subject of the action is the allegation that Harel Pension and Provident ostensibly increases the management fees collected from its members in the comprehensive pension fund without giving them due notice, and that when their money is deposited in the general pension fund due to cumulative deposits in the comprehensive fund that exceed the limit prescribed by law, it allegedly collects management fees from them at a rate that is higher than the management fees paid in the comprehensive pension fund, without informing them of this. The personal loss claimed by the Plaintiff is estimated at NIS 265 and he mentions that he is unable to estimate the overall loss claimed for all members of the group that he seeks to represent. The hearing for 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 In January 2020, the parties filed a motion in the court to certify a compromise settlement in which it was agreed, *inter alia*, that Harel Pension & Provident will pay the class members, as they were defined in the certification decision, an amount derived from the difference between the management fees actually collected from them and the fees that would have been collected from them had the relevant management fees been applied in the general fund, and the yield in respect thereof, in accordance with the mechanism set out in the compromise settlement. Validity of the compromise settlement is contingent on the court's approval.

26. 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 insurance fees for insured 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.

27. 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 group they wish to represent to be at least NIS 12.25 million.

Note 39 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

28. 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 group that it wishes to represent at NIS 1.4 million. In March 2020, an agreed motion for abandonment of the motion for certification against Dikla by the Plaintiff was filed in the Tel Aviv District Labor Court in which the court was asked to approve the Plaintiff's abandonment of the motion for certification and the action. The motion for abandonment is subject to the court's approval.

29. In February 2017, an action was filed in the Tel Aviv District Court together with a motion 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 sustained by the class members that it wishes to represent at NIS 5.9 million. In January 2020, the parties filed a motion to certify a compromise settlement in the Tel Aviv District Court, in which it was agreed, *inter alia*, that the Defendants will transfer an amount equal to 75% of the handling fees they had collected, as they are defined in the compromise settlement, in the relevant period, plus linkage and interest differences, to the relevant provident funds which had provided the loans in respect of which handling fees had been collected, or to the relevant track, as defined in the compromise settlement with respect to a loan from policyholders' money. Validity of the compromise settlement is contingent on the court's approval.

30. 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 and 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 Economics Department does not have the relevant jurisdiction to hear the motions for certification and that the action will be heard as a civil proceeding. In January 2020, the parties filed a motion to certify a compromise settlement in the Tel Aviv District Court, in which it was agreed, inter alia, that the Defendants will transfer an amount equal to 75% of the handling fees they had collected, as they are defined in the compromise settlement, in the relevant period, plus linkage and interest differences, to the relevant provident funds which had provided the loans in respect of which handling fees had been collected, or to the relevant track, as defined in the compromise settlement with respect to a loan from policyholders' money. Validity of the compromise settlement is contingent on the court's approval.

Note 39 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

31. 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 damage caused to all members of the group it seeks to represent at approximately NIS 127.1 million. In January 2018, the decision was reached to combine the hearing with additional applications for approval of pending class action cases related to direct expenses in provident funds and continuing education funds. In February 2018, the court ruled that the Commissioner's opinion regarding the proceeding should be accepted. In May 2018, the Commissioner's position supporting the Defendants was submitted to the court, according to 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.

32. 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 class it seeks to represent but it estimates the loss at more than NIS 2.5 million. In February 2019, the court instructed that the hearing be transferred to the District Labor Court.

33. 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 class they wish to represent, however they estimate it to be tens of millions of shekels. The parties are conducting a mediation process.

34. 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 class it seeks to represent in the amount of NIS 42 million.

Note 39 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

35. 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 and against two additional insurance companies, Clalit Health Services ("Clalit") and Maccabi Health Services ("Maccabi") ("the Defendants"). The subject of the action is the claim that the Defendants allegedly refuse to provide long-term care insurance to people on the autistic spectrum, or that it sets unreasonable conditions for accepting them for the insurance without basing these decisions on relevant actuarial or medical statistics regarding the insurance risk and without explaining their decision as legally required. The Plaintiffs have not quantified the loss claimed for all members of the group they wish to represent, however they estimate it to be from tens to hundreds of millions of shekels. In June 2019, the court ordered the application to be submitted for obtaining the position of the Attorney General on questions arising from the application for certification. In January 2020, the Attorney General announced that his position was the same as the position he had submitted in a parallel case and which supports the arguments of Harel Insurance.

36. In January 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 and against five additional insurance companies (hereinafter together: "the Defendants"). The subject of the action was the allegation that the Defendants, ostensibly, illegally refrained from paying insurance benefits to policyholders, third parties and beneficiaries for the VAT component that applies to the cost of damages in those instances where the damages were not actually repaired. The Plaintiff estimates the total damage claimed to all members of the group it wishes to represent in the action against Harel Insurance at NIS 19 million for each year, and the period for which it seeks to claim is from June 4, 2001, or alternatively, from 7 years prior to the date that the previous claim was filed and/or 7 years prior to the date that this motion was filed. The action and motion for certification are on the same grounds for which the prior action and application for its certification as a class action were filed against the Defendants, and on January 3, 2018, the Supreme Court dismissed an appeal regarding the decision of the Lod Central District Court from February 20, 2017, striking out the motion.

37. 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 & 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 neglected to make it clear to new members joining the pension funds that they manager, who have no survivors, that they not need insurance cover for death and there is therefore no need for them to enroll in the track which includes insurance for risk of death, and that also neglected to make it clear to these new members that two years after the enrollment date they will automatically be transferred to an insurance track that includes cover for death and consequently, if their family status remains unchanged they must inform the fund that they do not wish this insurance. The Plaintiffs state that they are unable to estimate the overall loss claimed for all members of the class the wish to represent.

38. In April 2018, an action was filed in the Lod Central District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly pays insureds who have policies for surgery that do not provide compensation at a rate of half the expenses saved if the surgery is performed by the HMOs, but they receive an undertaking for payment of this compensation for amounts that are actually less than half of the expenses subsequently saved by the company, and it is therefore ostensibly in breach of its undertaking towards them. The Plaintiff estimates the total loss claimed by all members of the class it wishes to represent to be more than NIS 7 million.

Note 39 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

39. In June 2018, a claim was filed in the Jerusalem District Court together with a motion for its certification as a class action against the subsidiary Harel Insurance and against another insurance company ("the Defendants'). The subject of the action is the allegation that the Defendants refuse to recognize surgery performed for which there is a medical need as an insured event under the conditions of their health insurance policies, on the grounds that it is preventive surgery. The Plaintiff has not estimated the total loss claimed by all members of the class that it wishes to represent.

40. 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 B). 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.

41. 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.

42. 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 class that it wishes to represent at NIS 1.8 million. In January 2020, an agreed motion for abandonment of the motion for certification against Harel Insurance by the Plaintiff was filed in the Tel Aviv Magistrate's Court in which the court was asked to approve the Plaintiff's abandonment of the motion for certification and the action and to instruct that the motion for certification be struck out and that the Plaintiff's personal claim should be dismissed. The motion for abandonment is subject to the court's approval.

43. 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.

Note 39 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

44. 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.

45. 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.

46. 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. In February 2020, the Company filed a motion for abandonment *in limine* of the motion for certification of the claim as a class action.

47. 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.

48. In October 2019, an action was filed in the Jerusalem Magistrates Court together with a motion for its certification as a class action against the consolidated subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly rejects travel insurance claims relating to the cancellation or curtailing of overseas travel due to the death or hospitalization of a close relative, based on exclusions in the policy that allegedly do not comply with the provisions of the Contracts (Insurance) Law, 1981 and allegedly are not included in the policy schedule that Harel Insurance sends to insureds. The applicant estimates the overall loss caused to all members of the class it wishes to represent at about a million and a half shekels.

Note 39 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

49. In December 2019, 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. The subject of the action is the allegation that Harel Insurance ostensibly only disclosed to its policyholders who purchased Magen 1 life assurance policies with a variable premium and/or Harel LeAtid work disability policies, at the time of the purchase, the premium to be paid only for a few years and not for the entire policy period. The Plaintiff does not quantify the total loss caused to all members of the class it wishes to represent but he estimates the loss at hundreds of millions of shekels.

Actions filed after the Reporting Period

50. In January 2020, an action was filed in the Beersheba District Court, together with a motion for its certification as a class action, against the consolidated subsidiary Harel Insurance and against Kranot Hashotrim Be'Israel Ltd. (Israel Police funds). The subject of the action is the allegation that Harel Insurance ostensibly failed to provide its insureds who hold group life assurance with the insurance policy and that it ostensibly neglected to disclose to them changes that were made in the policy incidental to renewal of the policy. The Plaintiffs did not quantify the financial loss alleged for all members of the classes they wish to represent, but they estimate the overall non-financial loss for all the class members at NIS 400 million.

51. In January 2020, an action was filed in the Central District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance and against two other insurance companies and a roadside assistance / breakdown service company (“the Defendants”). The action alleges that the Defendants ostensibly provide their customers with substitute windshields that are not original and are not standard certified, and this ostensibly in contravention of their undertakings towards their customers in the agreements with them. The Plaintiffs do not quantify the overall loss claimed for all members of the classes they wish to represent, but they estimate that it is substantially more than NIS 2.5 million.

Note 39 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

Summary table:

The following table summarizes the amounts claimed as part of the contingent applications for the certification of class actions, actions that were certified 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.

Category	No. of claims	Amount claimed in NIS million
Claims certified as a class action:		
Amount relating to the Company and/or subsidiaries is specified	6	996
Claim referring to several companies where no specific amount is attributed to the Company and/or subsidiaries	1	225
Amount of the claim not specified	1	
Contingent applications for certification as class actions:		
Amount relating to Company and/or subsidiaries is specified	24	4,360
Claim referring to several companies where no specific amount is attributed to the Company and/or subsidiaries	5	3,598
Amount of the claim is not specified	14	

The total provision for claims filed against the Company as described above at December 31, 2019 and December 31, 2018, amounts to about NIS 134 million and NIS 130 million, respectively.

Note 39 - Contingent liabilities and commitments (contd.)

B. Other contingent liabilities that were settled after the Reporting Period

In June 2004, a claim was filed with the Tel Aviv District Court and an application to approve it as a derivative claim against the subsidiary Yedidim Holdings Management (1994) Ltd. (hereinafter: "Yedidim"), the former Chairman and CEO of Yedidim, and against an additional subsidiary, Harel Pension Funds Management Services (1987) Ltd., which on the date of filing the claim was the controlling shareholder in Yedidim ("the Defendants") by the minority shareholders Leatid Pension Fund Management Ltd., which on the date 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 to Atidit Pension Fund Ltd. ("Atidit"), a pension fund managed by Leatid, for the use of Atidit's various resources, such as: the use of the operating infrastructure and reputation, the use of Adidit property, for taking a continuing pension fund and the loss of profit. In addition the plaintiffs claim royalties of NIS 3,177 thousand in the framework of their personal claim. In July 2010, after investigations had been conducted and written summaries had been submitted as part of the application to approve the derivative claim, the Court accepted the application and granted the plaintiffs the option of suing the defendants in Leatid's name in respect of rights to which they claim Leatid is entitled. In August 2015, the court dismissed the Plaintiffs' arguments in the matter of the derivative claim and it ruled that they are precluded from making any claim regarding rights stemming from the establishment of the new pension fund and that LeAtid is not entitled to compensation for the use of Atidit's resources for the purpose of setting up the new fund. The court accepted the Plaintiffs' personal claim for royalties. In October 2015, the Plaintiffs appealed the ruling on the derivative claim in the Supreme Court, in which they asked for the ruling to be cancelled and the derivative claim to be accepted, and alternatively to return the case to the District Court for a hearing on the subject of the loss. In September-December 2015, LeAtid transferred to the Plaintiffs the amounts that in its opinion reflect the full amount that it owes the Plaintiffs under the provisions of the judgment. However the Plaintiffs argued that the amount transferred is not the final amount to which they are entitled according to the judgment. Accordingly, the court appointed an expert to rule on the financial issues that are in dispute. The main point of the dispute between the parties concerned the interest to be added to the principal. At a meeting held with the appointed expert, additional disagreements emerged between the parties. Accordingly, a petition was filed in the court on behalf of the Plaintiffs in which they asked that the expert also address the issue of commissions that are in 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. In August 2016, the court handed down its decision accepting the position of the Defendants that the interest rate according to which the expert will perform the review and calculate the royalties is the rate in respect of a delay in transferring money from the banking system. Regarding the personal claim, in January 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. In May 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, whereby the court dismissed the Plaintiffs argument regarding the commissions. In February 2018, the expert submitted his final expert opinion to the court. In March 2018, the Plaintiffs appealed the opinion of the court-appointed expert which addresses payment of the commissions to which the Plaintiffs are entitled. In May 2018, the Defendants filed a response to the appeal. At that date, the difference between the positions of the parties is NIS 171,000 (including interest). The appeal was heard in July 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. In October 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. In February 2020, a hearing was held on the parties' appeals, in which

Note 39 - Contingent liabilities and commitments (contd.)

B. Other contingent liabilities that were settled after the Reporting Period (contd.)

both parties accepted the court's recommendation and retracted their appeals. Accordingly, both appeals were dismissed.

C. Claims that were settled in the Reporting Period

1. In November 2015, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance and against an additional insurance company (hereinafter together: "the Defendants"). The subject of the action was the allegation that the Defendants allegedly arbitrarily deduct various amounts from the loss amounts claimed by third parties for the insured's negligence. This, ostensibly, with the general reason of "contributory negligence" by the third party without explanation, as required in the provisions of the law. The Plaintiffs argue that the Defendants are therefore in breach of the statutory provisions, including the Commissioner's circulars, they are in breach of a statutory obligation, act in bad faith and practice unjust enrichment. 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.

Note 39 - Contingent liabilities and commitments (contd.)

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

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.

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 against two other insurance companies (hereinafter: "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.

Note 39 - Contingent liabilities and commitments (contd.)

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

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 these tests are not excluded 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 of 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 Harel Pension is therefore 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 39 - Contingent liabilities and commitments (contd.)

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

10. 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 was the allegation that the Defendants generally credit women policyholders reaching the age of retirement, in respect of 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, on the grounds 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 cover period, is ostensibly lower. The Plaintiffs argued 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. Within the context of the hearing on the appeal, the court instructed that the material be submitted to the Commissioner of Insurance for his position. In December 2016, the Commissioner’s position was submitted to the court supporting the position of the insurance companies that the action should not be heard as a class action given that it does not involve unacceptable discrimination. On December 3, 2019, the National Labor Court accepted the Defendants appeal and revoked the decision of the Tel Aviv District Labor Court from August 17, 2014 to approve conducting the claim as a class action. On December 30, 2019, the court instructed dismissal of the Plaintiffs’ personal claims.

Note 39 - Contingent liabilities and commitments (contd.)

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

11. 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. (under its previous name Dikla Insurance Company Ltd.) ("Dikla") and against Clalit Health Services ("Clalit") (hereinafter together: "the Defendants"). The subject of the action was 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("the Second Entitlement Period"),, in which the insured is eligible for insurance that are less than the benefits in the First 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 ("Grounds for the First Claim"). The Plaintiff argued 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 argued 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 ("Grounds for the Second Claim"). The Plaintiff argues that in this manner, Dikla practiced unjust enrichment, was in breach of the provisions of the Insurance Contracts Law, 1981, the Supervision of Financial Services (Insurance) Law, 1981 and the provisions of the insurance policy. In November 2016, the Plaintiff filed a motion for a partial ruling on the motion for certification. In March 2017, the court dismissed the Plaintiff's motion for a partial ruling on the motion for certification. In a hearing that took place in July 2017, the court approved the parties' agreement to terminate the proceeding in the outline in which context the Company's external auditors were appointed as experts for the court to perform a due diligence of the process of refunding the payment by Dikla. In January 2018, the reviewer's opinion was submitted to the court. In October 2018, and further to Dikla's announcement that it had taken action to rectify the fault described in the Cause of the First Claim and to the payment of differences to eligible policyholders and that the parties had agreed to the method of terminating the proceeding, the Tel Aviv District Court certified the action as a class action in the Cause for the First Claim and it dismissed the motion for certification of the action as a class action with respect to the Cause of the Second Claim Additionally, attorneys' fees and compensation of insignificant amounts were awarded to the Plaintiff. Subsequently, on February 27, 2020, a ruling was given on the action instructing the contribution of the outstanding amounts that Dikla had been unable to pay to the eligible parties on account of the First Claim and which fully exhausts the arguments and claims in respect of this claim as well as a final verdict in respect of the Cause of the Second Claim, which was dismissed.

Note 39 - Contingent liabilities and commitments (contd.)

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

12. In September 2016, 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 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. According to the Plaintiff the purpose of this is to reduce the amounts of indemnification to which its insureds are entitled. The Plaintiff argues that Harel is therefore in breach of contract, in breach of the instructions of the Commissioner, that it refrains from providing proper disclosure of the amounts of indemnity to which insureds are entitled and acts fraudulently. In June 2017, the parties filed a motion in the court to approve a compromise settlement in which the method of calculating the insurance compensation was agreed for members of the class who, after the date of approval of the arrangement, will submit an insurance claim for indemnity in respect of expenses for surgery they underwent, as well as a mechanism for supplementing the amounts of insurance compensation for class members, who received such indemnity in the past. In November 2017, the Attorney General's position was submitted to the court in which he does not oppose the compromise settlement. In his position, the Attorney General made several remarks relating to the agreement, he expressed his support for the parties' motion to appoint a reviewer for the agreement and he asked to submit a supplementary 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. On March 15, 2020, the court validated the revised compromise settlement as a judgment.

13. 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 ("Motion for Certification"). The subject of the action was 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 pension contributions for them 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. In March 2020, an agreed motion for abandonment of the motion for certification against Standard by the Plaintiff was filed in the Tel Aviv District Labor Court in which the court was asked to approve the Plaintiff's abandonment of the motion for certification and the action. On March 16, 2020, the Labor Court approved the Plaintiff's motion to abandon the motion for certification.

Note 39 - Contingent liabilities and commitments (contd.)

D. Claims that were settled after the Reporting Period

1. Group Long-term care [LTC] policy for members of Clalit Health Services

   Harel Insurance is the insurer in a group LTC policy for members of Clalit Health Services. In May 2018, Clalit Health Services published a tender for group LTC insurance for members of the HMO. Harel Insurance submitted a bid for this Tender. In September 2018, Harel Insurance was informed that it had been awarded the Tender.

2. Award of the Accountant General's tender

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

3. Undertaking to invest in investment funds

   The Company and its subsidiaries have an undertaking to invest in investment funds in the amount of NIS 11,408 million, of which NIS 10,317 million is from money in profit-sharing policies, pension and provident activity.

E. Leases in which the Group is the lessor

The minimum lease fees due to be received in future for non-cancellable commercial lease contracts as at December 31, 2019 and 2018, are:

	2019	2018
	NIS million	NIS million
First year	**208**	196
Second year to five years	**578**	533
More than 5 years	**410**	391
	1,196	1,120

Note 39 - Contingent liabilities and commitments (contd.)

F. Other topics

1. Supervision of Financial Services (Provident Funds) (Direct Expenses on Account of Transactions Performed) (Amendment) Regulations, 2018

   On November 28, 2019, draft Supervision of Financial Services (Provident Funds) (Direct Expenses for Performing Transactions) (Temporary Provision) Regulations, 2019, were published, which propose extending until the end of 2021 the Supervision of Financial Services (Provident Funds) (Direct Expenses for Performing Transactions) (Amendment) Regulations, 2018, in which the temporary provision which defines additional categories of direct expenses for performing transactions in provident fund assets and limiting certain expenses to 0.25% of the total revalued amount of the institutional investor's assets, was extended to the end of 2019.

   On January 2, 2020, the Capital Market, Insurance and Savings Authority published a letter of clarification that under the provisions of Section 38 of the Basic Law: the Knesset, the temporary provision will remain in force until three months have passed from the date of convening the 23rd Knesset.

2. Regulation of ETN activity under the Joint Investment Trust Law, 1994

   On August 3, 2017, the Joint Investment Trust Law (Amendment No. 28), 2017, was published. According to the amendment, the ETNs will become closed (traded) tracker mutual funds, and the provisions of the Joint Investment Trust Law will apply to these funds, *mutatis mutandis*, together with special arrangements to be prescribed in the regulations or instructions of the Israel Securities Authority with respect to ETFs. On July 12, 2018, various regulations were published as part of the amendment. The Law and the regulations entered into force on October 3, 2018. Accordingly, commencing with the annual report for 2018, Harel Sal ceased to include the ETN assets and liabilities in its financial statements. Consequently, from this date, the assets and liabilities of Harel Finance diminished significantly. See also Note 8F.

3. Assimilation of strategy and the restructuring of Harel Insurance

   In the past few years, Harel's strategic plan has been successfully implemented. The plan is based on developing the capability of Harel's digital tools while analyzing the data already in Harel's possession. This has enabled the Harel 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, Harel 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 Harel and with Harel'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.

Note 40 - Material events after the date of the financial statements

A. Fluctuations in the interest rate curve

After the Reporting Period, extreme fluctuations were recorded in the interest rate curve This volatility could affect the insurance liabilities as well as the value of the Company's financial assets. Immediately prior to the date of publication of the financial statements, the risk-free interest rate curve rose to above its level on December 31, 2019.

B. Outbreak of the Corona virus

After the Reporting Period, following the outbreak of the Corona virus the world over, prices on the leading share and bond indices in Israel and worldwide plummeted, drastically affecting the results of the Company's operations. Immediately prior to the date of publication of the financial reports, the impact of the sharply falling capital markets in respect of the marketable portfolio which is not held to cover yield-dependent liabilities, is an estimated gross investment loss of NIS 870 million (before tax). Furthermore, there was an estimated decrease of 11% in the value of the Group's AUM, which is likely to affect the volume of management fees the Group will collect.

Additionally, pursuant to the mechanism for collecting management fees prescribed in the legislative arrangement, insurance companies will not collect variable management fees in respect of yield-dependent policies sold between 1991 and 2003, until investment profits are attained in respect of the assets held to cover yield-dependent liabilities, which will cover the accrued investment losses. According to the mechanism described above, due to real negative yields on profit sharing policies that were sold between 1991 and 2003, Harel Insurance did not record variable management fees from the beginning of 2020, but only fixed management fees. Until a real positive yield is not attained to cover the investment losses accumulated to the policyholders' debit, Harel Insurance will not be able to collect variable management fees. Immediately prior to the date of publication of the financial statements, the estimate for the non-collection of management fees due to the real, negative yield until a cumulative positive yield is attained was NIS 320 million.

As noted in Note 40A above, immediately prior to the date of publication of the report, the risk-free interest rate curve rose to above its level on December 31, 2019, which could cause the insurance liabilities to decrease. On the other hand, an increase of the interest rate curve could negatively impact the value of the Company's financial and other assets in a manner that might reduce this aforesaid impact. Notably, the information described above should not be construed as an estimate of the Company's financial results. This information is only partial and it does not include other components of profit or loss from investments and other effects.

Furthermore, further losses in the capital markets in Israel and worldwide could affect liquidity in the markets as well as the interest rate conditions for futures products in the Group's financial services segment.

At the date of publication of the financial statements, some requests have been made to redeem moneys from the pension funds and provident funds, as well as to transfer money between the different investment tracks. However, overall, we can say that savers are showing restraint in this regard and the volume of such requests is insignificant. In the education funds, in which the time frame for the savings is significantly shorter, there has been an increase in the redemption of liquid savings. In the mutual funds sector, which is also characterized by savings in the shorter term, there has been a significant marked increase in redemptions. Furthermore, the crisis could lead to greater exposure to credit default in the Group's credit insurance activity.

Note 40 - Material events after the date of the financial statements (contd.)

B. Outbreak of the Corona virus (contd.)

Additionally, the economic situation in Israel and worldwide could affect the different insurance sectors in which the Group operates.

In light of the fact that the crisis is characterized by a great deal of uncertainty regarding its duration and the steps to be taken by the State and by other countries around the world, the Group is unable to estimate the scope of these effects on its activity in general and on the financial services sector in particular, in the short and/or long term, including on the recoverability of the Company's intangible assets.

The Group is watching the developments closely and assessing all the repercussions constantly and on a daily basis, while providing an ongoing response to the changing situation..

C. 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, 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. The restructuring is expected to enter into force on April 1, 2020. See also Note 8F(2).

D. Restructuring - transfer of all the share capital of Standard to Harel Insurance for the purpose of the merger of Standard into Harel Insurance

In February 2020, the relevant organs of the Company, Harel Insurance and Standard approved the merger in which all the Company's holdings in Standard will be transferred to Harel Insurance against an allocation of shares of Harel Insurance to the Company. This will be performed as part of the restructuring of the Group, after which Standard will be fully merged with and into Harel Insurance and Standard will be dissolved. The merger of Standard will facilitate concentration of the Company's marketing activity and it is part of the strategic measures being implemented by the Group to concentrate similar activity and simplify the Group's organizational structure. So far, not all the necessary regulatory approvals have been received for performing this merger. The merger is expected to enter into force on April 1, 2020, subject to meeting all the conditions precedent. As a preliminary measure and integral part of the merger, on January 1, 2020, all the employees of Standard were transferred to Harel Insurance. To all intents and purposes, this transfer will maintain full continuity of rights and is in accordance with their employment conditions in Standard.

Note 40 - Material events after the date of the financial statements (contd.)

E. Shelf prospectus - Harel Financing & Issuing

In February 2020, the shelf prospectus of Harel Financing & Issuing was published. By virtue of this shelf prospectus, Harel Financing & Issuing will be able to place different categories of securities, in accordance with the statutory provisions. This shelf prospectus replaced a previous shelf prospectus of the Company from February 2017, which was in force until February 2020. It is stipulated that at the date of publication of this report, no concrete decision has been made about the issue on the basis of the aforementioned shelf prospectus.

HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD.

Annexes to the Financial Statements

Annex A - Harel Insurance Company Ltd., additional information about other financial investments *

A. Marketable debt assets

	As at December 31			
	2019	2019	2018	2018
	Book value	Amortized cost	Book value	Amortized cost
	NIS million	NIS million	NIS million	NIS million
Government bonds				
Presented at fair value through profit or loss designated upon initial recognition	14	11	14	12
Available-for-sale	5,759	5,458	3,294	3,316
Total government bonds	5,773	5,469	3,308	3,328
Other debt assets				
Non-convertible				
Presented at fair value through profit or loss designated upon initial recognition	172	143	196	179
Held to redemption	79	79	117	117
Available-for-sale	4,888	4,593	4,545	4,588
Total other non-convertible debt assets	5,139	4,815	4,858	4,884
Total marketable debt assets	10,912	10,284	8,166	8,212
Outstanding impairments recognized in profit or loss for debt assets presented as available-for-sale	-		2	

B. Shares

	As at December 31			
	2019	2019	2018	2018
	Book value	Cost	Book value	Cost
	NIS million	NIS million	NIS million	NIS million
Marketable	855	636	730	659
Non-marketable	374	272	267	203
Total shares	1,229	908	997	862
Outstanding impairments recognized in profit or loss for shares presented as available-for-sale	87		79	

* The Annex refers to Harel Insurance separate financial statements and to investee companies that are not insurance companies.

Annex A - Harel Insurance Company Ltd., additional information about other financial investments (contd.)

C. Other financial investments

	As at December 31			
	2019	2019	2018	2018
	Book value	Cost	Book value	Cost
	NIS million	NIS million	NIS million	NIS million
Marketable				
Presented at fair value through profit or loss designated upon initial recognition	-	-	-	-
Available-for-sale	419	391	261	239
Derivative financial instruments	4	-	1	-
Total marketable financial investments	423	391	262	239
Non-marketable				
Presented at fair value through profit or loss designated upon initial recognition	43	47	75	78
Available-for-sale	1,527	1,181	1,434	1,058
Derivative financial instruments	107	-	52	-
Total non-marketable financial investments	1,677	1,228	1,561	1,136
Total other financial investments	2,100	1,619	1,823	1,375
Outstanding impairment recognized in profit or loss for other financial investments presented as available-for-sale	126		142	
Derivative financial instruments presented in financial liabilities	364		487	

* The Annex refers to Harel Insurance separate financial statements and investee companies that are not insurance companies.

Annex B - E.M.I. - Ezer Mortgage Insurance Company Ltd., additional information about other financial investments

A. Marketable debt assets

	As at December 31			
	2019	2019	2018	2018
	Book value	Amortized cost	Book value	Amortized cost
	NIS million	NIS million	NIS million	NIS million
Government bonds				
Available-for-sale	121	118	123	123
Total government bonds	121	118	123	123
Other debt assets				
non-convertible				
Available-for-sale	124	116	141	140
Total other non-convertible debt assets	124	116	141	140
Total marketable debt assets	245	234	264	263

B. Shares

	As at December 31			
	2019	2019	2018	2018
	Book value	Cost	Book value	Cost
	NIS million	NIS million	NIS million	NIS million
Marketable	44	36	58	55
Total shares	44	36	58	55
Outstanding impairments recognized in profit or loss for shares presented as available-for-sale	2		5	

Annex B - E.M.I. - Ezer Mortgage Insurance Company Ltd , additional information regarding other financial investments (contd.)

C. Other financial investments

	As at December 31			
	2019	2019	2018	2018
	Book value	Cost	Book value	Cost
	NIS million	NIS million	NIS million	NIS million
Marketable				
Available-for-sale	21	19	21	19
Total marketable financial investments	21	19	21	19
Non-marketable				
Available-for-sale	31	15	30	16
Derivative financial instruments	2	-	1	-
Total non-marketable financial investments	33	15	31	16
Total other financial investments	54	34	52	35
Outstanding impairment recognized in profit or loss for other financial investments presented as available-for-sale	1		1	
Derivative financial instruments presented in financial liabilities	-		18	

Harel Insurance Investments and Financial Services Ltd.

Chapter 4

Separate Financial Information for the Company

Contents

	Page
Special auditor's report on separate financial information pursuant to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970	4-3
Separate Financial Statements	
Financial information from the Consolidated Statements of Financial Position	4-4
Financial information from the Consolidated Statements of Income	4-5
Financial information from the Consolidated Statements of Comprehensive Income	4-6
Financial information from the Consolidated Statements of Changes in Equity	4-7
Financial information from the Consolidated Statement of Cash Flows	4-9
Notes	4-11

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.
3 Abba Hillel Street, Ramat Gan

Dear Sirs,

Re: Special Auditor's Report on Separate Financial Information pursuant to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the separate financial information presented pursuant to Regulation 9c of the Securities Regulations (Periodic and Immediate Reports), 1970, of Harel Insurance Investments and Financial Services Ltd. ("the Company") as at December 31, 2019 and 2018, and for each of the three years, the last of which ended December 31, 2019 and is included from pages 4-4 to 4-18 (inclusive) in the Periodic Report of the Company. The separate financial information is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on the separate financial information based on our audit.

We did not audit the financial statements of equity accounted investees and a joint venture, in which the investment is NIS 1,019 million and NIS 2,111 million as at December 31, 2019 and 2018 respectively, and the Company's share in their profit is NIS 75 million, NIS 173 million and, NIS 111 million, for each of the three years the last of which ended December 31, 2019. The financial statements of those companies and a joint venture were audited by other auditors, whose reports were furnished to us, and our opinion, to the extent that it relates to amounts included for those subsidiaries and joint venture, is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel. Such standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial data. An audit also includes assessing the accounting principles used in preparing the separate financial information and the significant estimates made by the Company's Board of Directors and Management, as well as evaluating the reasonability of the separate financial information. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the other auditors, the separate financial information is, in all material aspects, in conformity with the provisions of Regulation 9c of the Securities Regulations (Periodic and Immediate Reports), 1970.

Somekh Chaikin
Certified Public Accountants

March 31, 2020

Harel Insurance Investments and Financial Services Ltd.

Financial information from the Consolidated Statements of Financial Position as at December 31

	Note	2019 NIS million	2018 NIS million
Assets			
Fixed assets		**28**	1
Investments in equity accounted investee companies	7	**5,943**	5,414
Loans to investee companies	7	**352**	351
Investment property		**23**	22
Other receivables		**25**	13
Other financial investments	4		
Other		**591**	419
Total other financial investments		**591**	419
Cash and cash equivalents	3	**77**	235
Total assets		**7,039**	6,455
Equity			
Share capital and share premium		**359**	359
Treasury shares		**(123)**	(123)
Capital reserves		**957**	431
Retained earnings		**5,245**	5,247
Total equity		**6,438**	5,914
Liabilities			
Deferred tax liabilities		**2**	-
Liabilities for employee benefits		**17**	17
Trade and other payables		**41**	128
Current tax liabilities	6	**9**	4
Financial liabilities	5	**532**	392
Total liabilities		**601**	541
Total liabilities and equity		**7,039**	6,455

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

Date of Approval of the Financial Statements: March 31, 2020

The accompanying Notes are an integral part of the separate financial information

Harel Insurance Investments and Financial Services Ltd.

Financial information from the Consolidated Statements of Financial Position as at December 31

	Note	2019 NIS million	2018 NIS million	2017 NIS million
Profit from investments, net, and financing income		**24**	16	15
Income from management fees		**129**	111	103
Total income		**153**	127	118
General and administrative expenses		**15**	17	18
Financing expenses		**15**	16	18
Total expenses		**30**	33	36
Company's share of profits of equity accounted investees		**144**	562	622
Profit before taxes on income		**267**	656	704
Taxes on income	6	**28**	22	20
Profit for the year attributed to shareholders of the Company		**239**	634	684

The accompanying Notes are an integral part of the separate financial information

Financial information from the Consolidated Statements of Comprehensive Income (Loss) for the year ended December 31

	2019	2018	2017
	NIS million	NIS million	NIS million
Profit for year	**239**	634	684
Other items of comprehensive income that after initial recognition as part of comprehensive income were or will be transferred to profit or loss			
Net change in fair value of financial assets classified as available-for-sale	**8**	(1)	1
Net change in fair value of available-for-sale financial assets carried over to income statement	**(1)**	-	-
Foreign currency translation differences for foreign operations	**(20)**	(12)	(7)
Group's share of the comprehensive income (loss) of investees	**535**	(80)	167
Income tax relating 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	**521**	(93)	161
Other items of comprehensive income that will not be transferred to profit or loss			
Remeasurement of a defined benefit plan	**-**	1	2
Taxes on income for other items of comprehensive income which will not be carried over to profit or loss	**-**	-	(1)
Other comprehensive income for the period that will not be transferred to profit or loss, net of tax	**-**	1	1
Other comprehensive income (loss) for the period, net of tax	**521**	(92)	162
Total comprehensive income for the period attributed to shareholders of the Company	**760**	542	846

The accompanying Notes are an integral part of the separate financial information

Harel Insurance Investments and Financial Services Ltd.

Financial information from the Statements of Changes in Equity

	Share capital and premium	Capital reserve for assets available for sale	Translation reserve for foreign operations	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
Balance as at January 1, 2019	359	312	(89)	1	(123)	(49)	256	5,247	5,914
Total comprehensive income (loss) for the year									
Profit for the year	-	-	-	-	-	-	-	239	239
Other comprehensive income (loss)	-	563	(56)	-	-	-	19	(5)	521
Total comprehensive income (loss) for the year	-	563	(56)	-	-	-	19	234	760
Dividend distributed	-	-	-	-	-	-	-	(236)	(236)
Balance as at December 31, 2019	359	875	(145)	1	(123)	(49)	275	5,245	6,438

The accompanying Notes are an integral part of the separate financial information

Financial information from the Statements of Changes in Equity (contd.)

	Share capital and premium	Capital reserve for assets available for sale	Translation reserve for foreign operations	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 thousand	NIS million	NIS million	NIS million
Balance as at January 1, 2017	351	330	(80)	4	(158)	(49)	164	4,599	5,161
Total comprehensive income (loss) for year									
Profit for year	-	-	-	-	-	-	-	684	684
Other comprehensive income (loss)	-	150	(49)	-	-	-	62	(1)	162
Total comprehensive income (loss) for year	-	150	(49)	-	-	-	62	683	846
Dividend distributed	-	-	-	-	-	-	-	(461)	(461)
Purchase of Treasury shares	-	-	-	-	(18)	-	-	-	(18)
Re-issuance of Treasury shares	(15)	-	-	-	45	-	-	-	30
Exercising of options	3	-	-	(3)	-	-	-	-	-
Balance as at December 31, 2017	339	480	(129)	1	(131)	(49)	226	4,821	5,558
Total comprehensive income for year									
Profit for year	-	-	-	-	-	-	-	634	634
Other comprehensive income (loss)	-	(168)	40	-	-	-	30	6	(92)
Total comprehensive income (loss) for year	-	(168)	40	-	-	-	30	640	542
Dividend distributed	-	-	-	-	-	-	-	(214)	(214)
Purchase of Treasury shares	19	-	-	-	9	-	-	-	28
Re-issuance of Treasury shares	-	-	-	-	(7)	-	-	-	(7)
Exercising of options	1	-	-	-	6	-	-	-	7
Balance as at December 31, 2018	359	312	(89)	1	(123)	(49)	256	5,247	5,914

The accompanying Notes are an integral part of the separate financial information.

Harel Insurance Investments and Financial Services Ltd.

Financial information from the Consolidated Statements of Cash Flows for the year ended December 31

	Annex	2019 NIS million	2018 NIS million	2017 NIS million
Cash flows from operating activities				
Before taxes on income	A	**101**	97	77
Income tax paid		**(21)**	(23)	(12)
Net cash provided by current operations		**80**	74	65
Cash flow from investing activities				
Investment in investees		**(29)**	-	-
Investment in fixed assets		**-**	-	(1)
Proceeds from sale of fixed assets		**1**	1	-
Dividend and interest from investees		**143**	217	512
Financial investments, net		**(158)**	(62)	(108)
Loans and capital notes provided to investees		**(1)**	-	-
Repayment of loans and capital notes provided to investees		**15**	99	15
Net cash provided by (used for) investment activity		**(29)**	255	418
Cash flows from financing activities				
Raising (repayment) of loans from banks and others		**137**	(50)	(49)
Repayment of lease liabilities		**(3)**	-	-
Dividends to Company shareholders		**(343)**	(107)	(461)
Net cash used for financing activity		**(209)**	(157)	(510)
Net increase (decrease) in cash and cash equivalents		**(158)**	172	(27)
Cash and cash equivalents at beginning of the period		**235**	63	90
Cash and cash equivalents at end of the period		**77**	235	63

The accompanying Notes are an integral part of the separate financial information

Financial information from the Consolidated Statements of Cash Flows for the year ended December 31 (contd.)

	2019	2018	2017
	NIS million	NIS million	NIS million
Annex A - Cash flows from operating activities before taxes on income			
Profit for year	**239**	634	684
Items that do not involve cash flows:			
Company's share of profits of equity accounted investees	**(144)**	(562)	(622)
Net losses (profits) from financial investments	**(7)**	2	1
Change in fair value of investment property	**(1)**	(1)	-
Financing expenses (income), net	**2**	(3)	(1)
Taxes on income	**28**	22	20
Depreciation and amortization	**1**	-	-
Changes in other statement of financial position items			
Trade and other receivables	**(12)**	(3)	7
Trade and other payables	**(5)**	8	(12)
Total adjustments required to present cash flows from operating activities	**(138)**	(537)	(607)
Total cash flows from operating activity before taxes on income	**101**	97	77

The accompanying Notes are an integral part of the separate financial information.

NOTE 1 - General

Below is a summary of financial information from the Group's Consolidated Financial Statements at December 31, 2019 ("Consolidated Statements"), published as part of the Periodic Report, pertaining to the Company itself ("Separate Financial Information"), which is presented pursuant to Regulation 9C ("the Regulation") and the Tenth Schedule to the Securities Regulations (Periodic and Immediate Reports), 1970 ("the Tenth Schedule"), with respect to the separate financial information of the corporation. This separate financial information should be read together with the Consolidated Statements.

In this Separate Financial Information -

The Company	-	Harel Insurance Investments and Financial Services Ltd.
Investee companies	-	Consolidated companies and companies, including partnerships in which the Company's investment therein is included, directly or indirectly, in the financial statements on the equity basis.
The Commissioner	-	The Commissioner of Insurance, according to its meaning in the Supervision Law, or the Commissioner, according to its meaning in the Provident Funds Law, as applicable.
Date of the Report	-	The date of the Statement of Financial Position

NOTE 2 - Significant accounting policies applied in the Separate Financial Information

Other than that specified in Section C below, the accounting policies that were specified in the Consolidated Statements were consistently applied by the Company for all the periods presented in the Separate Financial Information, including the method for classifying financial information in the Consolidated Statements, with the necessary changes:

A. Presentation of the financial information

1. Information about the financial position

This information includes information about the amounts of the assets and liabilities included in the Consolidated Statements which refer to the Company separately (other than for investees) while providing a breakdown by categories of assets and liabilities. Additionally, this information includes information about a net amount, based on the Consolidated Statements, attributed to the Company's separate shareholders, of the total assets net of the total liabilities in respect of investees, including goodwill.

NOTE 2 - Significant accounting policies applied in the Separate Financial Information (contd.)

A. Presentation of the financial information (contd.)

2. Information about profit and loss and other comprehensive income

This information includes information about the amounts of the assets and liabilities included in the Consolidated Statements, divided between profit or loss and other comprehensive income, attributed to the Company itself (excluding for investees), detailed by categories of income and expenses. Furthermore, the data includes information about a net amount, based on the Consolidated Statements which refer to the Company's separate shareholders, of total income net of total expenses for the results of the activity of investees, including impairment of goodwill, impairment or derecognition of an investment in an associate, as well as an impairment or derecognition of an investment in an equity accounted company under joint control.

3. Information about cash flows

The financial information includes information about the cash flows included in the separate consolidated financial statements (other than for investees), taken from the consolidated statement of cash flows, segmented by flow from current operations, investment activity and financing activity while specifying their components. Cash flows from current activities, investment activity and financing activity in respect of transactions with investees are presented separately as net amounts, as part of the related activity, based on the nature of the transaction.

B. Transactions between the Company and investees

1. Presentation

Intra-group balances and income and expenses arising from intra-group transactions, that were derecognized in the preparation of the Consolidated Statements, were presented separately from the balance for investees and the profit relating to investees, together with similar third-party balances. Unrealized gains and losses attributed to transactions between the Company and its investees, were presented as part of the balance relating to investees and as part of the profit relating to investees.

2. Measurement

Transactions performed between the Company and its subsidiaries were measured in accordance with the principles of recognition and measurement set out in International Financial Reporting Standards ("IFRS"). These principles outline the accounting treatment for third-party transactions.

C. First-time application of new accounting standards

On January 1, 2019, the Company applied, for the first time, IFRIC 16, Leases, and IFRIC 23, Uncertainty over Income Tax Treatments. For more information, see Note 2H to the Consolidated Financial Statements.

NOTE 3 - Cash and cash equivalents

	As at December 31	
	2019	2018
	NIS million	NIS million
Cash and deposits for immediate withdrawal in banks	**77**	235
	77	235

Surplus cash is deposited from time to time in banks for periods of between one week and three months with interest at an annual rate of 0.2% in 2018 (0.02% in 2018).

NOTE 4 - Financial instruments

A. Segmentation by groups of financial assets

All the Company's other financial investments are classified as available-for-sale.

B. Information about linkage

	As at December 31, 2019			
	Non-monetary financial instruments	NIS not CPI-linked	NIS CPI-linked	Total
	NIS million	NIS million	NIS million	NIS million
Other financial investments	**588**	**3**	**-**	**591**
Total	**588**	**3**	**-**	**591**

	As at December 31, 2018			
	Non-monetary financial instruments	NIS not CPI-linked	NIS CPI-linked	Total
	NIS million	NIS million	NIS million	NIS million
Other financial investments	419	-	-	419
Total	419	-	-	419

NOTE 5 – Financial liabilities

	Book value		Fair value	
	As at December 31		As at December 31	
	2019	2018	2019	2018
	NIS million	NIS million	NIS million	NIS million
Loans from banks	**530**	359	**557**	373
Loans from non-bank corporations	**-**	31	**-**	31
Loans from related parties	**2**	2	**2**	2
	532	392	**559**	406

1. The Company has the following loans from banks:

A. A bank loan in the amount of NIS 200 million, with a book value of NIS 98 million and NIS 114 million at December 31, 2019 and 2018, respectively. The Company undertook to comply with certain financial covenants, including financial covenants regarding this loan, including financial covenants relating to its equity and holdings in subsidiaries, as follows: (1) an undertaking not to pledge material assets: (2) not to transfer control of significant companies; (3) it will retain full control of Harel Insurance; (4) a rating above BBB for bonds issued by Harel Insurance; (5) the ratio of net financial debt to investment in investee companies will not be more than 0.35; (6) the ratio of net financial debt to equity will not be more than 0.5. At the date of publication of the financial statements, the Company is in compliance with these financial covenants.

A bank loan in the amount of NIS 250 million, with a book value of NIS 242 million and NIS 245 million at December 31, 2019 and 2018, respectively. The Company undertook to comply with certain financial covenants in relation to this loan, as follows: (1) no charge will be placed on material assets; (2) significant companies or their key business operations will not be sold or transferred; (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) Harel Investments will retain a cash reserve equal to two annual maturities. Should Harel fail to retain the full cash reserve, the said amount will be deposited, plus interest, in a pledged account (about NIS 100 million plus interest). The agreement also stipulates that if the controlling shareholders cease to hold the regulatory control core according to the instructions of the Commissioner of the Capital Market, Insurance and Savings at the Ministry of Finance, this will be grounds for immediate recall of the loan. At the date of publication of the financial statements, the Company is in compliance with the prescribed financial covenants.

B. Bank loans in the amount of NIS 190 million, with a book value of NIS 190 million at December 31, 2019

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% per 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.

NOTE 5 – Financial liabilities (contd.)

1. The Company has the following loans from banks: (contd.)
   B. Bank loans in the amount of NIS 190 million, with a book value of NIS 190 million at December 31, 2019 (contd.)

   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.

NOTE 6 – Income Tax

A. Composition of income tax expenses

	For the year ended December 31		
	2019	**2018**	**2017**
	NIS million	**NIS million**	**NIS million**
Current tax expenses	**28**	22	20
	28	22	20

B. Deferred tax assets and liabilities that were recognized

Movements in deferred taxes and taxes in respect of years prior to 2019 are insignificant and less than NIS 1 million.

NOTE 7 - Material relationships, Agreements and Transactions with Investees

A. Principal loans and capital notes provided by the Company to the investees

			Balance as at December 31	
Borrowing company	**Grant date**	**Par value**	**2019**	**2018**
		NIS million	**NIS million**	**NIS million**
Standard Insurance Ltd. (1)	August 5, 2013	3	**3**	3
Bar Tavai Property Company Ltd. (1)	June 30, 2010	2	**2**	3
Harel Finance Holdings Ltd. (1)	July 1, 2004	61	**61**	61
Harel Finance Holdings Ltd. (1)	March 20, 2012	16	**16**	16
Harel Finance Holdings Ltd. (1)	January 1, 2012	22	**22**	22
Harel Finance Holdings Ltd. (1)	February 10, 2011	36	**36**	36
Harel Finance Holdings Ltd. (1)	April 4, 2013	83	**83**	83
Harel Mutual Funds Ltd. (1)	September 9, 2008	179	**179**	194
Harel Insurance Company Ltd. (2)	March 31, 2014	50	**51**	50
Harel Insurance Company Ltd. (2)	December 15, 2014	300	**301**	301
		752	**754**	769

(1) The capital notes are not linked and do not bear interest.

(2) The capital notes are CPI-linked and bear interest.

B. Material transactions with investees

1. Loans and capital notes for investee companies

   In the Reporting Period, Harel Mutual Funds Ltd., a subsidiary of Harel Finance, a company wholly owned by the Company, partially repaid a capital note in the amount of NIS 15 million. The repayment was made from the independent sources of Harel Mutual Funds Ltd.

2. On agreements for the provision of services, see Note 38E to the Consolidated Financial Statements.

3. Distribution of a dividend to the Company

   (a) 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 as at December 31, 2018, the distributable surplus of Harel Insurance at December 31, 2018 was presented and the capital surpluses and capital requirements of Harel Insurance were reviewed, based on the capital management policy of Harel Insurance and taking into account the provisions of Solvency II. The dividend was paid on May 15, 2019.

NOTE 7 - Material relationships, Agreements and Transactions with Investees (contd.)

B. Material transactions with investees (contd.)

3. Distribution of a dividend to the Company (contd.)

   (b) On June 30, 2019, Harel UK distributed a dividend to the Company in the amount of USD 380,000.

   (c) On November 28, 2019, Harel UK distributed a dividend to the Company in the amount of USD 200,000.

NOTE 8 - Equity requirements of investee companies

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) Regulations, 1998, or any other regulation or law that may replace them, and also to supplement at all times the equity of the provident fund and pension fund management companies it controls, to the amount prescribed in the Income Tax (Rules for the Approval and Management of Provident Funds) Regulations, 1965, or any other regulation or law that may replace them. This undertaking is irrevocable and will remain in force as long as the Company controls the financial institutions, directly or indirectly.

NOTE 9 – Material events during the Reporting Period

1. Dividends

   (a) 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.

   (b) 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.

NOTE 9 – Material events during the Reporting Period (contd.)

2. On the establishment of Hamazpen and entering into agreement with the CEO of the Company in the Hamazpen - Shutaphim Laderech Ltd. transaction, see Note 38 to the Consolidated Statements.
3. On the revised compensation policy for the Group's financial institutions, see Note 38 to the Consolidated Statements.
4. On Directors and Officers liability insurance (D&O), see Note 38 to the Consolidated Statements.
5. On the issue and expansion of the Series A bonds by a second-tier subsidiary of the Company, see Note 25 to the Consolidated Statements.
6. On a restructuring in Harel Insurance, see Note 39 to the Consolidated Statements.
7. On compensation and bonuses for key management personnel (including directors), see Note 38 to the Consolidated Statements.
8. On the Company's compensation policy, see Note 38 to the Consolidated Statements.
9. On an agreement with an architect, see Note 38 to the Consolidated Statements.
10. On a bonus for 2018 and 2019 for senior officers, see Note 38 to the Consolidated Statements.
11. On the sale of 3% of the Company's shares by the Company's controlling shareholder, see Note 38 to the Consolidated Statements.

NOTE 10 – Significant events after the Reporting Period

1. On the fluctuating interest rate curve, see Note 40 to the Consolidated Statements.
2. On the outbreak of the Corona virus, see Note 40 to the Consolidated Statements.
3. On a restructuring - transfer of all the share capital of Standard to Harel Insurance for the purpose of the merger of Standard into Harel Insurance, see Note 40 to the Consolidated Statements.
4. On a restructuring - Harel Pension & Provident, see Note 40 to the Consolidated Statements.
5. On the publication of a shelf prospectus by means of Harel Financing & Issuing, see Note 40 to the Consolidated Statements.

Harel Insurance Investments and Financial Services Ltd.

Chapter 5

Additional Information about the Company

Contents

Regulation 10A - Quarterly Financial Statements 5-4

Regulation 11 - List of investments in subsidiaries and related companies 5-6

Regulation 12 - Changes in investments in subsidiaries and related companies 5-9

Regulation 13 - Revenues of subsidiaries and related companies and the Company's income from them 5-9

Regulation 20 - Trade on the Stock Exchange - securities listed for trade - dates and reasons for the suspension of trading 5-11

Regulation 21(A) - Compensation paid to senior officers and interested parties 5-12

Regulation 21A – Control of the Corporation 5-23

Regulation 22 - Transactions with a controlling shareholder 5-23

Regulation 24 - Shares held by interested parties and senior officers in the Company 5-30

Regulation 24A - Registered capital, issued capital and convertible securities 5-30

Regulation 24B – Register of shareholders of the Corporation 5-31

Regulation 26 - The Company's directors 5-32

Regulation 26A - Senior officers of the Company (other than directors) 5-41

Regulation 26B - Company's Authorized Signatories 5-44

Regulation 27 - The Company's Auditors 5-44

Regulation 28 - Changes in the Articles and Memorandum of Incorporation 5-44

Regulation 29 - Recommendations of the Board of Directors and an Extraordinary General Meeting 5-44

Regulation 29A – Resolutions passed by the Company 5-44

Additional Information about the Company

Name of the Company	:	**Harel Insurance Investments and Financial Services Ltd.**
Company Registration Number	:	52-003398-6
Address	:	3 Abba Hillel Street, Ramat-Gan, Israel
Telephone	:	03-7547575
Fax	:	03-7547100
Date of Statement of Financial Position	:	December 31, 2019
Date of Report	:	March 31, 2020

Regulation 10A - Quarterly Financial Statements

Condensed Consolidated Quarterly Statements of Income for 2019 (NIS million)

	2019	Q4	Q3	Q2	Q1
Premiums earned, gross	15,104	3,727	4,015	3,666	3,696
Premiums earned by reinsurers	1,745	432	448	437	428
Premiums earned in retention	13,359	3,295	3,567	3,229	3,268
Profit from investments, net, and financing income	7,921	2,273	856	1,861	2,931
Income from management fees	1,487	436	369	322	360
Income from commissions	358	81	88	95	94
Total Income	23,125	6,085	4,880	5,507	6,653
Payments and changes in liabilities for insurance contracts and investment contracts, gross	20,163	5,187	4,786	4,394	5,796
Reinsurers' share in payments and changes in liabilities for insurance contracts	1,229	328	320	200	381
Payments and changes in liabilities for insurance contracts and investment contracts, in retention	18,934	4,859	4,466	4,194	5,415
Commission, marketing and other acquisition expenses	2,729	687	691	687	664
General and administrative expenses	1,211	303	308	299	301
Other expenses	16	4	5	3	4
Financing expenses, net	163	41	16	84	22
Total expenses	23,053	5,894	5,486	5,267	6,406
Company’s share of profit of equity-accounted investees	160	57	14	81	8
Profit (loss) before income tax	232	248	(592)	321	255
Income tax (tax benefit)	(7)	79	(227)	71	70
Profit (loss) for period	239	169	(365)	250	185

Condensed Consolidated Statements of Comprehensive Income for 2019 (NIS million)

	2019	Q4	Q3	Q2	Q1
Profit (loss) for period	239	169	(365)	250	185
Other items of comprehensive income (loss) which after initial recognition under comprehensive income were or will be transferred to profit or loss					
Net change in fair value of financial assets available for sale	950	213	259	173	305
Net change in fair value of financial assets available for sale transferred to statement of income	(127)	(24)	(35)	(41)	(27)
Loss from impairment of financial assets classified as available for sale transferred to statement of income	31	5	10	13	3
Foreign currency translation difference for foreign operations	(69)	17	(29)	(20)	(37)
Income tax attributed to available-for-sale financial assets	(291)	(66)	(79)	(49)	(97)
Tax benefit (income tax) attributed to other components of comprehensive income which after initial recognition under comprehensive income were or will be transferred to profit or loss	13	(9)	9	4	9
Total other comprehensive income for the period which after initial recognition under comprehensive income was or will be transferred to profit or loss, net of tax	507	136	135	80	156
Other items of comprehensive income which will not be transferred to profit or loss					
Revaluation fund for fixed asset items	26	-	1	22	3
Re-measurement of a defined benefit plan	(7)	7	(9)	-	(5)
Tax benefit (income tax) for other items of comprehensive income which will not be transferred to profit or loss	(5)	(3)	3	(6)	1
Other comprehensive income (loss) for the period which will not be transferred to profit or loss, net of tax	14	4	(5)	16	(1)
Total other comprehensive income for the period	521	140	130	96	155
Total comprehensive income (loss) for the period	760	309	(235)	346	340

Regulation 11 - List of investments in subsidiaries and related companies

Information about investments in subsidiaries and related companies whose value in the separate financial statement is more than NIS 1 million

Company name		Class of share	Number of shares (thousands)	Par value (thousand)	Value in the separate FS (NIS million)	Percentage holding (%)
Harel Insurance Company Ltd.	Shares	Ord.	103,866	103,866	4,673	100
	Capital notes		-	-	352	-
Yehuda Insurance Company Ltd		Ord.	4,500	450	14	100
Veritas Insurance Agencies Ltd.		Ord.	1.2	1.2	2	100
A. B. C. Automotive Ltd.	Shares	Ord.	0.5	0.5	15	50
	Loan	-	-	-	2	-
	Capital note	-	-	-	7	-
Advance Planning - Pension Insurance Agency (2013) Ltd.		Ord.	100	100	2	100
Tzva Hakeva (regular army) Savings Fund - Provident Fund Management Company Ltd.		Ord.	44	44	15	100
Eldan Tourism Development Ltd.		Ord.	825	825	16	25
Yedidim Holdings and Management (1984) Ltd.		Ord.	18	0.02	2	100
Leatid Pension Funds Management Company Ltd.		Ord.	8	8	12	79
Harel Pension and Provident Ltd.		Ord.	11,715	11,715	585	100
Mortgage Holdings Israel Ltd		Ord.	10	10	312	100
EMI - Ezer Mortgage Insurance Company Ltd.		Ord.	13	13	194	100
Kingsway 22		Ord.	10	1	29	50
Ibex House Ltd.		Ord.	500	50	15	50
HAREL SURREY STREET COMPANY (Nostro)1 LMT		Ord.	0.1	0.01	25	100
HAREL SURREY STREET COMPANY (Nostro)2 LMT		Ord.	0.1	0.01	10	100
Harel Leipzig BV		Ord.	18	324	164	100
Harel 3990 ESSEX LP		Partnership - no shares	-	-	12	28
Harel IDS Minneapolis		Partnership - no shares	-	-	98	36
Harel 200 West Monroe LP		Partnership - no shares	-	-	23	17
Harel 230 West Monroe LP		Partnership - no shares	-	-	15	17
Harel 50 Beale Street SF, LP		Partnership - no shares	-	-	273	100
Harel Westwood NJ, LP		Partnership - no shares	-	-	44	100
Songbird 1 ApS.		Ord.	8	8	20	7
Songbird 2 ApS.		Ord.	8	8	20	7
Joysun 1 BV		Ord.	0.1	0.1	4	7
Harel 1515 Market, LP		Partnership - no shares	-	-	16	21
HGHQK 2 Sarl		Ord.	6	6	59	41
Harel Deasil LP		Partnership - no shares	-	-	25	21
Harel Mercury I LP		Partnership - no shares	-	-	36	21
Harel 7700 Parmer LP		Partnership - no	-	-	22	10

Company name		Class of share	Number of shares (thousands)	Par value (thousand)	Value in the separate FS (NIS million)	Percentage holding (%)
		shares				
AXA logistics		Ord.	276	276	8	10
ACC SABAN		Partnership - no shares	-	-	18	9
Leonardo Haymarket		Ord.	1	1	5	9
LPKC		Partnership - no shares	-	-	20	9
One Cal		Partnership - no shares	-	-	23	9
Harel Turtle Creek LP		Partnership - no shares	-	-	19	8
Harel Fuse 9 LP		Partnership - no shares	-	-	34	100
TCB co-invest Sarl		Ord.	100	1	11	8
Europa UK Debt LP		Partnership - no shares	-	-	15	9
Vitania		Ord.	2,271	23	33	5
Azo-Rit Bilu Center		Ord.	1	0.001	49	8
Everest		Partnership - no shares	-	-	38	5
HAREL 55 2ND LP RH		Partnership - no shares	-	-	29	17
Market Center RH		Partnership - no shares	-	-	12	7
River Ouest Paris		Partnership - no shares	-	-	18	3
Europa UK Debt II		Partnership - no shares	-	-	3	8
ICIC Israel Credit Insurance Company Ltd.		Ord.	5,187	5,187	124	50
Interasco Societe Anonyme General Insurance Company S.A.G.I.		***	***	***	50	94
Turk Nippon Sigorta A.S.		***	***	***	65	100
Hamishmar Insurance Agency Ltd.		Ord.	26	26	5	100
Dikla Agency Ltd.		Ord.	30,000	30,000	39	100
Harel Finance Holdings Ltd.						
	Shares	Ord.	226	1	122	100
	Capital notes		-	-	397	-
Harel Traded Indexes Ltd. (previously: Harel Underwriting and Share Issues Ltd.)		Ord.	1	1	4	100
Harel Sal Currencies Ltd.		Ord.	2	1	2	100
Harel Mutual Funds Ltd. (previously: Harel-Pia Mutual Funds Ltd.).		Ord.	808	1	418	100
Harel Finance Investment Management Ltd.		Ord.	23	1	18	100
Harel Finance Operating Services Ltd.		Ord.	1	1	1	100
Harel Finance Institutional Trade Ltd.		Ord.	3	1	13	100
Alfa Tech Investment Management Ltd.		Ord.	2	0.01	1	100
Harel Finance Alternative R.E. Ltd.		Ord.	1	0.01	13	100
Harel Exchange Traded Deposit Ltd.		Ord.	0.1	1	2	100
Harel UK LTD		***	***	***	1	100

Company name	Class of share	Number of shares (thousands)	Par value (thousand)	Value in the separate FS (NIS million)	Percentage holding (%)
Madanes Insurance Agency Ltd.	Ord.	345	345	19	25
S. Madanes Insurance Agency (1989) Ltd.	Ord.	-	-	4	25
Medical Consultants International (M.C.I.) Ltd.	Ord.	567	567	7	25
Standard Insurance Ltd.	Ord.	2,881	0.3	15	100
Zion Holdings Ltd.	Ord.	709	709	37	100
Zion Real Estate Ltd.	Ord.	43	0.04	29	100
Bar Tavai Property Company Ltd.	Ord.	60	0.06	29	100
Yedidim Pension Arrangements Insurance Agency Ltd.	Ord.	0.1	0.1	10	100
Beit Yisrael LeNeemanut Ltd.	Ord.	0.2	0.2	2	100
Israel Infrastructure Management 3 Ltd.	Ord.	40	4	1	39
Hamazpen - Shutaphim Laderech Ltd.	Ord.	1	1	26	70

Regulation 12 - Changes in investments in subsidiaries and related companies

See Note 8 to the Financial Statements.

Regulation 13 - Revenues of subsidiaries and related companies and the Company's income from them (NIS million)

Information about profit (loss), before and after tax, dividends, management fees and interest and linkage received by the Company, or which it is entitled to from subsidiaries and related companies whose value in the separate financial statement at December, 31, 2019, is more than NIS 1 million:

Company name	Profit (loss) for year (A) before tax	Other comprehensive income (loss) (A) before tax	Comprehensive income (loss) (A) after tax	Dividend (B)	Management fees	Interest and linkage
Harel Insurance Company Ltd.	16	813	607	125	69	-
Yehuda Insurance Company Ltd	48	-	37	-	-	-
Veritas Insurance Agencies Ltd.	(0.08)	-	(0.1)	-	-	-
A. B. C. Automotive Ltd.	9	-	7	-	-	-
Advance Planning - Pension Insurance Agency (2013) Ltd.	(1)	-	(1)	-	-	-
Tzva Hakeva (regular army) Savings Fund - Provident Fund Management Company Ltd.	1	0.4	1	-	1	-
Eldan Tourism Development Ltd.	9	-	9	6	-	-
Leatid Pension Funds Management Company Ltd.	3	0.4	2	-	-	-
Harel Pension and Provident Ltd.	56	7	41	-	47	-
Mortgage Holdings Israel Ltd	83	27	74	-	-	-
EMI - Ezer Mortgage Insurance Company Ltd.	73	16	58	-	0.3	-
Kingsway 22	1	-	1	0.4	-	-
Ibex House Ltd.	(6)	-	(6)	28	-	1
HAREL SURREY STREET COMPANY (Nostro)1 LMT	(0.4)	-	(0.4)	-	-	2
HAREL SURREY STREET COMPANY (Nostro)2 LMT	(0.2)	-	(0.2)	-	-	0.9
Harel Leipzig BV	12	-	12	63	-	-
Harel 3990 ESSEX LP	(7)	-	(7)	-	-	-
Harel IDS Minneapolis	(16)	-	(16)	-	-	6
Harel 200 West Monroe LP	(25)	-	(25)	-	-	-
Harel 230 West Monroe LP	(24)	-	(24)	-	-	-
Harel 50 Beale Street SF, LP	80	-	80	-	-	25
Harel Westwood NJ, LP	(2)	-	(2)	-	-	0.002
Songbird 1 ApS.	2	-	2	-	-	0.3
Songbird 2 ApS.	3	-	3	-	-	0.3
Joysun 1 BV	(3)	-	(3)	-	-	0.1
Harel 1515 Market, LP	(8)	-	(8)	-	-	0.8
HGHQK 2 Sarl	14	-	14	-	-	2
Harel Deasil LP	17	-	17	-	-	45
Harel Mercury I LP	2	-	2	-	-	0.1
Harel 7700 Parmer LP	8	-	8	-	-	0.7
AXA logistics	(11)	-	(11)	-	-	0.3
ACC SABAN	(35)	-	(35)	-	-	-
Leonardo Haymarket	(2)	-	(2)	-	-	0.2

Company name	Profit (loss) for year (A) before tax	Other comprehensive income (loss) (A) before tax	Comprehensive income (loss) (A) after tax	Dividend (B)	Management fees	Interest and linkage
LPKC	0.8	-	0.8	-	-	0.8
One Cal	(48)	-	(48)	-	-	0.01
Harel Turtle Creek LP	8	-	8	-	-	0.7
Harel Fuse 9 LP	2	-	2	-	-	-
TCB co-invest Sarl	2	-	2	-	-	-
Europa UK Debt LP	(0.1)	-	(0.1)	-	-	-
Vitania	76	-	76	1	-	-
Azo-Rit Bilu Center	118	-	118	0.7	-	-
Everest	108	-	108	0.4	-	-
Harel 55 2nd LP RH	(3)	-	(3)	-	-	-
Market Center RH	(1)	-	(1)	-	-	-
River Ouest Paris	(2)	-	(2)	-	-	-
Europa UK Debt II	0.5	-	0.5	-	-	-
ICIC Israel Credit Insurance Company Ltd.	60	-	32	-	-	-
Interasco Societe Anonyme General Insurance Company S.A.G.I.	9	(6)	2	-	-	-
Turk Nippon Sigorta A.S.	23	(7)	9	-	-	-
Hamishmar Insurance Agency Ltd.	2	-	1	-	-	-
Dikla Agency Ltd.	2	(0.8)	0.3	-	-	-
Harel Finance Holdings Ltd.	0.5	-	0.5	-	-	-
Harel Traded Indexes Ltd. (previously: Harel Underwriting and Share Issues Ltd.)	5	-	3	-	-	-
Harel Sal Currencies Ltd.	(0.3)	-	(0.3)	-	-	-
Harel Mutual Funds Ltd. (previously: Harel-Pia Mutual Funds Ltd.).	26	-	17	-	-	-
Harel Finance Investment Management Ltd.	0.4	-	0.4	-	-	-
Harel Finance Operating Services Ltd.	0.5	-	0.1	-	-	-
Harel Finance Institutional Trade Ltd.	(0.4)	-	(0.4)	-	-	-
Alfa Tech Investment Management Ltd.	(2)	-	(2)	-	-	-
Harel Finance Alternative R.E. Ltd.	(0.5)	-	(0.5)	-	-	-
Harel Exchange Traded Deposit Ltd.	0.01	-	0.01	-	-	-
Harel UK LTD	2	(2)	-	2	-	-
Madanes Insurance Agency Ltd.	4	-	1	-	2	-
S. Madanes Insurance Agency (1989) Ltd.	0.2	-	0.1	-	-	-
Medical Consultants International (M.C.I.) Ltd.	4	-	3	-	0.4	-
Standard Insurance Ltd.	3	-	2	-	-	-
Zion Holdings Ltd.	9	-	9	-	-	-
Zion Real Estate Ltd.	9	-	9	-	-	-
Bar Tavai Property Company Ltd.	11	-	9	-	-	-
Yedidim Pension Arrangements Insurance Agency Ltd.	3	-	2	-	-	-
Beit Yisrael LeNeemanut Ltd.	44	-	34	-	-	-

Company name	Profit (loss) for year (A) before tax	Other comprehensive income (loss) (A) before tax	Comprehensive income (loss) (A) after tax	Dividend (B)	Management fees	Interest and linkage
Israel Infrastructure Management 3 Ltd.	1	-	0.9	0.7	2	-
Hamazpen - Shutaphim Laderech Ltd.	(5)	-	(5)	-	-	-

(A) Reflects the subsidiary's profits (losses) in full.
(B) A dividend distributed by the subsidiary directly to the Company.

Regulation 20 - Trade on the Stock Exchange - securities listed for trade - dates and reasons for the suspension of trading

In the reporting year no securities issued by the Company were listed for trading, and there was no suspension of trading on the Stock Exchange, excluding the listing of shares arising from the exercising of employee stock options, as part of the Company's options plan.

Regulation 21(A) - Compensation paid to senior officers and principal shareholders

(1) Compensation for senior officers of the Company

Particulars of the compensation recipient				Compensation for services [1,2]							Other compensation			
Name	Title	Scope of position	Percentage holding in company equity [3]	Salary	Bonus [4]	Share-based payment	Management fees	Consulting fees	Commission	Other [5]	Interest	Rental	Other	Total
Michel Siboni (6)	Company CEO and CEO of Harel Insurance	100%		3,071						428				3,499
Tal Kedem	CEO, Harel Finance	100%		2,176	553					156				2,885
Yair Hamburger (7)	Chairman of the Company's Board of Directors and Chairman of Board of Harel Insurance	100%	18.80%	2,458						401				2,859
Nir Cohen	Deputy CEO of Harel Insurance and Head of HQ Division	100%		2,024	486					149				2,659
Alon Eliraz	Deputy CEO of Harel Insurance and Head of Health Division	100%		1,747	568					210				2,525

(2) Compensation for officers of the Company

Particulars of the compensation recipient				Compensation for services [1,2]							Other compensation			
Name	Title	Scope of position	Percentage holding in company equity	Salary	Bonus [4]	Share-based payment	Management fees	Consulting fees	Commission	Other [5]	Interest	Rental	Other	Total
Nataly Mishan-Zakai	Deputy CEO of Harel Insurance, Head of Service Division and Corporate Counsel	100%		1,826	566					129				2,521

(3) Compensation for other interested parties

Particulars of the compensation recipient				Compensation for services [1,2]							Other compensation			
Name	Title	Scope of position	Percentage holding in company equity [3]	Salary	Bonus	Share-based payment	Management fees	Consulting fees	Commission	Other [5]	Interest	Rental	Other	Total
Yoav Manor (8)	Director in the Company, in Harel Insurance and Chairman of Harel Hamishmar Computers	100%	13.84%	1,990						318				2,308
Gideon Hamburger (9)	Director and President of Harel Group	100%	13.84%	1,952						318				2,270

Notes to the tables

(1) Guaranteed bonuses and other fixed compensation components are included as part of the salary.
(2) The compensation detailed in the table is for service in all Harel Group companies. Some of the officers receive their salary from subsidiaries that are "a financial institution". The above data do not include wage tax paid by the financial institutions.
(3) The holding is almost entirely through GYN Financial Consulting & Management 2017 LP. For additional information, Regulation 21A below.
(4) In accordance with the Company's compensation plan, the annual bonus is calculated, in part, on the basis of parameters that compare the results of the Company with those of the other large insurance groups, including RoE and additional data included in the financial statements. Given that these figures can only be calculated after the large insurance groups have published their financial statements, and based on the fact that for the reporting year the Company has data indicating that the threshold conditions defined in the compensation plan for payment of the bonuses were satisfied, and that for the reporting year some of the data used for the calculation are final, the Company estimated the bonus amounts payable for the reporting year, and the data which appear in the bonus column are an estimate. Consequently, the amount of the bonus for the reporting year, according to the calculation to be prepared on the basis of the figures that will be published by the benchmark group companies, may differ from the original estimate. The difference between the estimated bonus and the bonus actually paid, after all the parameters that affect the bonus become clear, is recognized in the financial statements for the following year (including under the item "bonus" in the table in Regulation 21).
(5) The amount includes provision for severance pay.
(6) Also serves as Chairman of the Board of Harel Pension & Provident, Chairman of the Board of Tzva Hakeva, Chairman of the Board of Hamazpen and as a director in subsidiaries of the Group. For information about his employment conditions, see Section 4 below. Additionally, the amount that appears under "other" also includes NIS 180,000 which is the value of the benefit attributed to Mr. Siboni for the non-recourse loan he received in the framework of his agreement with the Company to purchase 10% of the shares of Hamazpen Shutaphim Laderech Ltd. Accordingly, this amount was deducted from "payroll expenses" in a manner that the total cost of Mr. Michel Siboni's salary did not increase as a result of the this agreement. For additional information, see Note 38(E) to the Financial Statements.
(7) Is a director in several other Harel Group companies, serves on the Nostro Investments Committee of Harel Group's financial institutions.
(8) Husband of Nurit Manor and brother-in-law of Yair Hamburger and Gideon Hamburger. The holding is that of Nurit Manor.
(9) Also serves as a director in several other Harel Group companies.

General employment conditions

1. Compensation policy for officers of the Company

The purpose of the compensation policy is to motivate and direct the senior managers in line with the Company's goals and strategic plan, emphasizing increased competition in the recruitment and retention of quality manpower in the Group's senior management positions. All this with the goal of creating long-term economic value for the Company and its shareholders. The compensation policy was devised, taking into account, *inter alia*, the size of the Company and the nature of its operations, advancement of the Company's goals, strategy, long-term work plan and risk-management policy, as well as the employment conditions and bonuses that were Company practice in previous years, salary levels and terms of service and employment which are generally accepted among Israel's insurance and finance companies and large banks, and based on organizational considerations, including the payroll costs of different groups of employees and the desired wage differences between them.

The compensation policy relates to different categories of officers, and also the manner of compensating the Company's serving directors.

The compensation policy addresses a range of employment conditions for officers who are not directors, including the following components: (a) the compensation to be determined for each officer in line with his seniority, knowledge, experience, qualifications and contribution to the Group's results, and based on the defined benchmark group; (b) it was determined that a margin will be maintained between the CEO's salary and that of the other officers who are subordinate to the CEO; (c) minimum ratios were defined between the fixed components in the employment conditions and the overall employment conditions; (d) it was determined that a fixed salary component may be paid which does not entitle the recipient to social benefits; (e) provisions were prescribed concerning performance-linked annual bonuses, including the maximum amount of such bonuses for the CEOs and for officers who are subordinate to the CEOs; (f) provisions were prescribed concerning the possibility of paying special bonuses, which are not related to the annual bonuses, for outstanding performance in special projects. These special bonuses are designed for officers who are not the CEO and are not the controlling shareholders, and they are limited in the budget to an insignificant amount; (g) provisions were prescribed concerning a capital bonus, which may only be given to CEOs; (h) provisions were prescribed concerning insurance and indemnity for officers and directors; (i) provisions were prescribed concerning termination of employment conditions, including with respect to the following components: (i) severance pay at a maximum rate of up to 200% (double that required by law), subject to meeting conditions of seniority and other conditions; (ii) an advance notice period (of termination) of no more than 6 months; (iii) an adjustment bonus of up to 6 monthly salaries; (iv) compensation for a non-competition commitment. It was determined that a non-competition agreement will be drawn up in exceptional cases only and subject to the conditions set out in the compensation policy.

Details about the annual bonuses: provisions were prescribed whereby performance-linked bonuses will only be paid in years in which the Company’s results are satisfactory. Likewise, to prevent the taking of short-term risks, the volume of the performance-linked bonuses is limited, according to a multiple of the monthly salaries. It was also determined that the bonuses will be calculated on the basis of meeting long-term goals and not only one-time, current annual targets. To this end, the compensation plan stipulates that different parameters will be computed for the current year and for the two preceding years, so that when determining the overall score for calculation of the annual bonus, the parameters in the current year will be given a weighting of 50%, the weight of the preceding year will be 30%, and the weight of the year preceding that year will be 20%.

The performance-linked annual bonus includes a discretionary component which is limited to 20% for the CEO[1] and the other officers (other than officers in positions of oversight and control).

The compensation policy includes a provision whereby the Company will generally honor existing agreements, even where they deviate from the compensation policy, unless the compensation policy contains a different specific instruction.

The compensation policy includes a ceiling for the projected annual cost of employment of Company executives.

Pursuant to the Compensation for Executives of Financial Institutions (Special Approval and Non-allowance of an Expense for Tax Purposes on account of Extraordinary Compensation) Law, 2016, (“Compensation of Company Executives Law”), the compensation policy defines a maximum projected annual cost of employment for key functionaries (the relevant provisions for the senior executives serving at the date of this report will be set out below):

Regarding the Company's CEO - the projected annual cost of the employment of the Company’s CEO will not exceed the cost of employment for which the projected annual expense, based on a full-time position, is 35 times the projected annual expense for the lowest compensation paid to a full-time Company employee in the calendar year preceding the year for which the cost of employment of the CEO of the Company). The Company will bear the tax expense arising from the “surplus cost” (i.e. the “surplus cost” will not be tax deductible for the Company) as noted in Section 4 of the Compensation of Company Executives Law.

Regarding the Chairman of the Board -in accordance with the approval of the Company’s general meeting, the projected annual cost of the employment of the Chairman of the Board does not exceed NIS 2.5 million. The Company will bear the tax expense arising from the “surplus cost” (i.e. the

[1] At the date of this report, the compensation paid to the CEO does not include a variable bonus component.

"surplus cost" will not be tax deductible for the Company) as noted in Section 4 of the Compensation of Company Executives Law.

Regarding the Group's other executives and employees, the compensation policy stipulates that the projected annual cost of their employment will not exceed NIS 2.5 million unless it is approved by the Compensation Committee and Board of Directors for extraordinary reasons. The Group will bear the tax expense arising from the surplus cost (to the extent that the projected annual cost of employment, including statutory severance pay and employer's compensation exceeds NIS 2.5 million).

On November 30, 2017, after the subject was approved by the Board of Directors and Compensation Committee, the Company's general meeting approved the revised compensation policy of the Company ("Revised Compensation Policy"). A further revision was made to the compensation policy which revised the method of calculating the linear indices which are used to determine the quantitative part of the variable compensation for the Company's senior officers. For additional information about the revisions, see an Immediate Report of the Company dated October 25, 2017 (Ref.: 2017-01-093856).

The Company's compensation policy stipulates that it will serve as a guideline (but not binding) also for the Company's key subsidiaries. For information about the compensation policy that was adopted by the Group's financial institutions, see Section 2 below.

2. **Compensation policy in the Group's Financial Institutions**

In November 2013, the Company's subsidiaries that are financial institutions ("the Financial Institutions"), adopted a compensation policy which is based on the Company's compensation policy. The compensation policy for the Group's financial institutions has been revised several times over the years in accordance with updated regulatory provisions that were published.

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 topics, among others, were revised:

(a) The list of functionaries who are subject to the compensation policy was curtailed 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 subordinate 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, the 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 this was necessary under the provisions of the circular and the policy), to the extent that the total retirement bonus is not more than three salaries.

3. Employment conditions - the Controlling Shareholders

On November 30, 2017, the general meeting of the Company approved the employment conditions of the Company's controlling shareholders (after they had been approved by the compensation committee of the Company on October 19, 2017, and by the Board of Directors of the Company on October 25, 2017).

In re-approving the agreements with the controlling shareholders, no changes were made compared with their present employment conditions. It is stipulated that the employment conditions of the controlling shareholders are significantly lower than the employment conditions that were approved for the controlling shareholders at a general meeting of the Company on November 17, 2014, due to a waiver notice submitted to the Company by the controlling shareholders, as specified below.

According to the law on the date of this report, the agreements with the controlling shareholders must be re-approved three years after the date on which those agreements came into force (November 30, 2020), since they are controlling shareholders in the Company

Notably, prior to holding the aforementioned general meeting which approved the revised employment conditions of the controlling shareholders, on September 22, 2016, the Company received waiver notices from the controlling shareholders, Mr. Yair Hamburger, Mr. Gideon Hamburger and Mr. Yoav Manor stating that in view of the Compensation for Executives Law, they are waiving their right to the annual bonuses under their employment conditions, as well their entitlement to a full grossing-up of the cost of car maintenance, commencing October 12, 2016 ("the Effective Date"). Consequently, as of the Effective Date, the projected annual cost of employment for Mr. Yair Hamburger will not exceed NIS 2.5 million per annum, and the projected annual cost of employment each for Mssrs. Gideon Hamburger and Yoav Manor will not be more than 80% of the projected annual cost of employment of Mr. Yair Hamburger. Based on the foregoing, the bonus for the controlling shareholders for 2016 already reflects the information in the waiver notices.

Under the revised employment conditions of the controlling shareholders, as specified in this section above, the controlling shareholders are not entitled to receive any bonus for 2019.

A. Employment conditions - Mr. Yair Hamburger:

Mr. Yair Hamburger has been at the head of Harel Insurance and Finance Group since its establishment, and serves as Chairman of the Board of the Company and Chairman of the Board of Harel Insurance. Mr. Yair Hamburger also serves on the boards of directors of the following Group companies: Turk Nippon, Interasco, Harel Finance, Harel-Pia, Chairman of Harel Financing & Issuing, member of the non-yield-dependent (Nostro) investments committee of the Financial Institutions, and director in other Group companies.

Mr. Yair Hamburger serves the Company and its subsidiaries full time and he holds no other business positions other than those in Harel Group.

Yair Hamburger's monthly salary is NIS 160,000 (in this section: “the Salary”). The Salary is CPI-linked and revised in accordance with the increase in the CPI once a year, for the January salary every year. The Company makes provision for social benefits according to generally accepted standards. Yair Hamburger is entitled to 22 days annual vacation. Unutilized vacation days, including in respect of the period of Mr. Yair Hamburger's employment from the commencement date of his employment for the Company will be accumulated and may be redeemed when his employment terminates. Mr. Gideon Hamburger is entitled to 30 days paid sick leave a year, and these days may also be accumulated, although he will not be entitled to redeem them when his employment for the Company terminates. Mr. Hamburger is entitled to 13 days convalescence a year. Likewise, Mr. Hamburger is entitled to contributions to an education fund in respect of his salary (7.5% of his salary at the employer's expense, and 2.5% at the employee's expense).

Yair Hamburger is entitled to a Company car at a cost of up to NIS 650,000, linked to the CPI of December 2011 (NIS 678,265 at December 31, 2019). Should Mr. Hamburger choose to buy a more expensive car, he will pay the difference in cost. As noted in the foreword to this Section 3 above, in accordance with the waiver notices submitted by the Company’s controlling shareholders on September 22, 2016, commencing October 12, 2016, Mr. Yair Hamburger is not entitled to full grossing up of the maintenance cost of his car.

Yair Hamburger is not entitled to participate in the Company’s stock options plan. Additionally, it is stipulated that Yair Hamburger is not entitled to any additional remuneration for serving as a director in Group companies.

Yair Hamburger received a letter of indemnity, as part of the resolutions passed by the Company and approved by the general meeting in July 2006. Mr. Hamburger is included in the directors and officers insurance (D&O) drawn up by the Company, under the same conditions as the other directors and officers of the Company.

As noted in the foreword to this Section 3 above, in accordance with the waiver notices submitted by the Company’s controlling shareholders on September 22, 2016, commencing October 12, 2016, Mr. Yair Hamburger is not entitled to an annual bonus.

Upon termination of the employment relationship for any reason whatsoever, Yair Hamburger will be entitled to compensation in the amount of severance to which he is entitled by law in the event of dismissal, less any amounts accrued on his behalf for severance pay in the provident fund/managers’ insurance policy, and ownership of the provident fund/managers insurance fund into which the contributions were paid will be transferred to Mr. Hamburger (“Severance Pay”).

Upon terminating his employment in the Company, Mr. Yair Hamburger is entitled to double severance pay, i.e. an additional 100% compensation (over and above the statutory compensation).

Pursuant to the provisions of the revised compensation policy for the Group’s financial institutions, part of the additional compensation (over and above the 100%) (“retirement bonus”) that is accrued for the period of employment after December 31, 2016, will be paid in installments, as follows: 1/3 of the deferred amount will be paid 12 months from the end of the year in which Mr. Yair Hamburger retires; 1/3 of the deferred amount will be paid 24 months from the end of the year in which Mr. Yair Hamburger retires; 1/3 of the deferred amount will be paid 42 months from the end of the year in which Mr. Yair Hamburger retires. Deferred amounts will be paid on the dates noted above, subject to meeting all the following conditions: no errors are found in the calculation of the amount of the bonus and it did not emerge that the bonus was given based on a risk level that, in retrospect, was found did not materially reflect the actual exposure of the financial institution or the members’ monies; based on the last financial statements published before the date of payment, Harel Insurance is in compliance with the capital requirements that apply to it; Harel Insurance presented comprehensive income in the last financial statements (quarterly or annual) published prior to the date of payment. If either of the last two conditions noted above are not met, the payment will be postponed to such time as the conditions are met.

Mr. Yair Hamburger undertook not to compete with the Company and its business, including through employment by or the rendering of services to a corporation in competition with the Company, for a period of 36 months from the termination of his employment in the Company.

It is stipulated that the advance notice period is 30 days only. Mr. Yair Hamburger will not be entitled to an adjustment period or adjustment fee.

B. Employment conditions - Mr. Gideon Hamburger:

Mr. Gideon Hamburger has held senior positions in the Harel Group since its establishment and currently holds the following key positions: member of the Company's Board of Directors and president of Harel, member of the Board of Interasco, Harel Finance and Harel Financing & Issuing. Additionally, Mr. Gideon Hamburger handles reinsurance matters both for Harel Insurance and the Group's other insurance companies.

Mr. Gideon Hamburger serves the Company and its subsidiaries full time and he holds no other business positions other than those in Harel Group.

Gideon Hamburger's monthly salary is NIS 127,000 (in this section: "the Salary"). The Salary is CPI-linked and is revised in accordance with the increase in the CPI once a year, for the January salary every year. The Company makes provision for social benefits according to generally accepted standards. Gideon Hamburger is entitled to 22 days annual vacation. Unutilized vacation days, including in respect of the period of Mr. Gideon Hamburger's employment from the date his employment for the Company commenced, will be accumulated and may be redeemed when his employment terminates. Mr. Gideon Hamburger is entitled to 30 days paid sick leave a year, and these days may also be accumulated, although he will not be entitled to redeem them when his employment for the Company terminates. Mr. Hamburger is entitled to 13 days convalescence a year. Likewise, Mr. Hamburger is entitled to contributions to an education fund in respect of his salary (7.5% of his salary at the employer's expense, and 2.5% at the employee's expense).

Gideon Hamburger is entitled to a Company car at a cost of up to NIS 650,000, linked to the CPI of December 2011 (NIS 675,265 at December 31, 2019). Should Gideon Hamburger choose to buy a more expensive car, he will pay the difference in cost. As noted in the foreword to this Section 3 above, in accordance with the waiver notices submitted by the Company's controlling shareholders on September 22, 2016, commencing October 12, 2016, Mr. Gideon Hamburger is not entitled to full grossing up of the maintenance cost of his car.

Gideon Hamburger is not entitled to participate in the Company's stock options plan. Additionally, it is stipulated that Mr. Gideon Hamburger is not entitled to any additional remuneration for serving as a director in Group companies.

Gideon Hamburger received a letter of indemnity, as part of the Company's decisions as approved by the general meeting in July 2006. Mr. Hamburger is included in the directors and officers insurance (D&O) drawn up by the Company, under the same conditions as the other directors and officers of the Company.

As noted in the foreword to this Section 3 above, in accordance with the waiver notices submitted by the Company's controlling shareholders on September 22, 2016, commencing October 12, 2016, Mr. Gideon Hamburger is not entitled to an annual bonus.

Upon termination of the employment relationship for any reason whatsoever, Gideon Hamburger will be entitled to double the severance pay he is entitled to by law, in the event of dismissal (namely, an additional 100% severance pay over and above the statutory severance pay rate), net of any amounts accrued on his behalf for severance pay in the provident fund/managers' insurance policy, and ownership of the provident fund/managers insurance fund into which the contributions were paid will be transferred to Mr. Hamburger ("Severance Pay").

Pursuant to the provisions of the revised compensation policy for the Group’s financial institutions, part of the additional compensation (over and above the 100%) (“retirement bonus”) that is accrued for the period of employment after December 31, 2016, will be paid in installments, as follows: 1/3 of the deferred amount will be paid 12 months after the end of the year of Gideon Hamburger's retirement; 1/3 will be paid 24 months after the end of the year of his retirement, and 1/3 will be paid 42 months from the end of the year of his retirement Deferred amounts will be paid on the dates noted above, subject to meeting all the following conditions: no errors are found in the calculation of the amount of the bonus and it did not emerge that the bonus was given based on a risk level that in retrospect was found did not materially reflect the actual exposure of the financial institution or the members’ monies; based on the last financial statements published before the date of payment, Harel Insurance is in compliance with the capital requirements applicable to it; Harel Insurance presented comprehensive income in the last financial statements (quarterly or annual) published prior to the date of payment. If either of the last two conditions noted above are not met, the payment will be postponed to such time as the conditions are met.

Mr. Gideon Hamburger undertook not to compete with the Company and its business, including through employment by or the rendering of services to a corporation in competition with the Company, for a period of 36 months from the termination of his employment in the Company.

It is stipulated that the advance notice period is only 30 days. Mr. Gideon Hamburger will not be entitled to an adjustment period or an adjustment fee.

C. Employment conditions - Mr. Yoav Manor:

Mr. Yoav Manor has held senior positions in Harel Group since its establishment. He is currently a Company director, Acting Chairman of the Board of Directors of Harel Hamishmar Computers., which provides computer and automation services to various companies in Harel Group, and is a director in the following Group companies: Harel Investments, Harel Insurance, Harel Finance, Harel Financing & Issuing, and other subsidiaries of the Company.

Mr. Manor serves the Company and its subsidiaries full time and he holds no other business positions other than those in Harel Group.

Yoav Manor’s monthly salary is NIS 127,000 (in this section: “the Salary”). The Salary is CPI-linked and revised in accordance with the increase in the CPI once a year, for the January salary every year.

The Company makes provision for social benefits according to generally accepted standards. Yoav Manor is entitled to 22 days annual vacation. Unutilized vacation days, including in respect of the period of Mr. Yoav Manor's employment from the commencement date of his employment for the Company, will be accumulated and may be redeemed when his employment terminates. Yoav Manor is entitled to 30 days paid sick leave a year, and these days may also be accumulated, although he will not be entitled to redeem them when his employment for the Company terminates. Mr. Manor is entitled to 13 days convalescence a year. Likewise, Mr. Manor is entitled to contributions to an education fund in respect of his salary (7.5% of his salary at the employer's expense, and 2.5% at the employee's expense).

Yoav Manor is entitled to a Company car at a cost of up to NIS 650,000, linked to the CPI of December 2011 (NIS 675,265 at December 31, 2019). Should Yoav Manor choose to buy a more expensive car, he will pay the difference in cost. As noted in the foreword to this Section 3 above, in accordance with the waiver notices submitted by the Company’s controlling shareholders on September 22, 2016, commencing October 12, 2016, Mr. Yoav Manor is not entitled to full grossing up of the maintenance cost of his car.

Yoav Manor is not entitled to participate in the Company’s stock options plan. Additionally, it is stipulated that he is not entitled to any additional remuneration for serving as a director in Group companies.

Yoav Manor received a letter of indemnity as part of the Company's decisions as approved by the general meeting in July 2006. Mr. Manor is included in the directors and officers insurance (D&O) drawn up by the Company, under the same conditions as the other directors and officers of the Company.

As noted in the foreword to this Section 3 above, in accordance with the waiver notices submitted by the Company's controlling shareholders on September 22, 2016, commencing October 12, 2016, Mr. Yoav Manor is not entitled to an annual bonus.

Upon termination of the employment relationship for any reason whatsoever, Yoav Manor will be entitled to double the severance pay due by law if he is dismissed (i.e. severance pay of 100% beyond the statutory severance pay), less the amounts accrued on his behalf in respect of severance pay in provident funds / managers insurance, and ownership of the provident funds / managers insurance into which payments were made on his behalf will be transferred to him ("Severance Pay").

Pursuant to the provisions of the revised compensation policy for the Group's financial institutions, part of the additional compensation (over and above the 100%) ("retirement bonus") that is accrued for the period of employment after December 31, 2016, will be paid in installments, as follows: 1/3 of the deferred amount will be paid 12 months after the end of the year of Yoav Manor's retirement; 1/3 will be paid 24 months after the end of the year of his retirement, and 1/3 will be paid 42 months after the end of the year of his retirement Deferred amounts will be paid on the dates noted above, subject to meeting all the following conditions: no errors are found in the calculation of the amount of the bonus and it did not emerge that the bonus was given based on a risk level that in retrospect was found did not materially reflect the actual exposure of the financial institution or the members' monies; based on the last financial statements published before the date of payment, Harel Insurance is in compliance with the capital requirements applicable to it; Harel Insurance presented comprehensive income in the last financial statements (quarterly or annual) published prior to the date of payment. If either of the last two conditions noted above are not met, the payment will be postponed to such time as the conditions are met.

Yoav Manor undertook not to compete with the Company and its business, including through employment by or the rendering of services to a corporation in competition with the Company, for a period of 36 months from the termination of his employment in the Company.

It is stipulated that the advance notice period is only 30 days. Yoav Manor will not be entitled to an adjustment period or an adjustment fee.

4. Employment conditions of the CEO of the Company and CEO of Harel Insurance - Mr. Michel Siboni

Mr. Siboni has been CEO of Harel Insurance since 2009 and he also served as Co-CEO of the Company (in addition to his position as CEO of Harel Insurance) from 2011 until the end of 2015, when it was decided that he would concentrate on his principal role as CEO of Harel Insurance with the purpose of directing a strategic change within the Group. Consequently, he stepped down as CEO of the Company and a CEO for the Company was appointed to replace him. In January 2017, Mr. Siboni agreed, once again, to undertake the position of Company CEO, and this for no additional remuneration for this position.[2]

Following revision of the compensation policy for the Group's financial institutions, the employment agreement of the CEO of Harel Insurance, dated August 25, 2013, was updated so as to correspond with the revised compensation policy of the financial institutions and the provisions of the Compensation of Company Executives Law. The revised employment agreement applies as of October 12, 2016 ("the Revision Date"). As a rule, the revised employment conditions are consistent with the Company's compensation policy, while retaining components that exist in the previous employment conditions.

Details of Mr. Michel Siboni's current employment conditions:

Period of employment

The provisions of the employment agreement apply for an unlimited period. Notwithstanding the foregoing, both parties may terminate the agreement at any time, by giving 180 days advance notice.

[2] Accordingly, Mr. Siboni's compensation will not change if, for any reason, he steps down as Company CEO and continues to serves as CEO of Harel Insurance.

<u>Current salary</u>
Mr. Siboni’s monthly salary commencing January 2018 is NIS 248,000.

<u>Fringe benefits</u>

Mr. Michel Siboni is entitled to a refund of reasonable expenses incurred while fulfilling his duties, including costs of a telephone / mobile phone, membership fees of professional organizations, subscription to newspapers and professional literature, professional liability insurance, periodic medical examinations, group health / dental insurance for Harel Group employees, group term (life) assurance policy for senior Harel Group executives, group work disability policy for Harel Group employees, attending in-house training and incentive trips for agents (with spouse), wellbeing activities as accepted in Harel Group (e.g. pre-festival gifts, vacation, meals, team-building activities, etc.), purchase of Harel Group insurance products under conditions offered to the Group's employees, purchase of Harel Finance financial products under conditions offered to Group employees.

Mr. Michel Siboni is entitled, at any time, to receive a company car from Harel Insurance, as generally accepted for the Company’s CEO. Should he decide to accept a company car for his own use, the tax value will be recognized as part of his ongoing salary and it will constitute part of the base for provisions under the provisions of the employment agreement.

The Company will make provision for social benefits according to generally accepted standards for pension, severance pay and work disability. Likewise, Michel Siboni is entitled to contributions to an education fund in respect of his salary (7.5% of his salary at the employer's expense, and 2.5% at the employee's expense).

Michel Siboni is entitled to 10 days convalescence a year according to the tariff published by the Coordinating Bureau of Economic Organizations (no change from the present employment agreement).

Michel Siboni is entitled to 35 days paid vacation a year. Michel Siboni is entitled to 30 days paid sick leave a year, and he may accumulate these days up to a total of 180 days, although he will not be entitled to redeem them when his employment for the Company terminates.

Michel Siboni was granted an indemnity note, as part of the Company's decisions as approved by the general meeting in July 2006 and by a general meeting in March 2012.

For additional information about the Company entering into agreement with Mr. Michel Siboni, in which the Company sold to Michel Siboni shares in Hamazpen Shutaphim Laderech Ltd., See Note 38(E) to the Financial Statements.

<u>Termination of employment</u>
Mr. Siboni is entitled to a salary for an 8-month adjustment period.

Michel Siboni will be entitled to severance pay of 200% (double the statutory severance pay) for the period commencing August 1, 2009 until the date of the revision of the employment agreement (October 2016). For the period from the start of his employment in the Company and up to July 31, 2009 (the date of his appointment as CEO of Harel Insurance), Mr. Siboni will be entitled to 150% severance pay (in the present employment agreement the amount is 100% for this period).

Mr. Siboni undertook not to compete with the Company when his employment ends, for a period of 7 years from the termination of his employment in the Company, in return for a non-competition bonus of NIS 5,000,000. Under the non-competition commitment, Michel Siboni undertook that during the non-competition period he will not serve as the CEO of an insurance company in Israel, either as a salaried employee or as a service provider, and he also undertook not to utilize the knowledge he gained and will gain in the Company in the health insurance segment, and accordingly he undertook not to serve as a consultant to insurance companies in the health insurance sector.

Based on the Company's compensation policy, Mr. Siboni will be entitled, together with members of his family, to continue to be included in the group insurance policy of Harel employees even after his employment ends, for payment of the premiums, according to the standard amounts for all Group employees.

Past rights accumulated by the CEO of Harel Insurance and for which provision was made in the past in the financial statements of Harel Insurance, in respect of the increased severance pay to which the CEO is entitled up to the revision date as well as the adjustment fees, were deposited in trust in a savings policy on behalf of the CEO of Harel Insurance, and they will be released when his entitlement to receive this money is satisfied, upon termination of his employment by Harel Insurance. Upon making this deposit, Harel Insurance was exempted from all its obligations towards the CEO of Harel Insurance in connection with these amounts, when the date of termination of his employment is reached.

5. Other senior officers:

5.1 Alon Eliraz

Mr. Alon Eliraz is Deputy CEO of Harel Insurance and Head of the Health Insurance Division in Harel Insurance. The annual bonus for Mr. Eliraz was determined in accordance with the parameters set out in the compensation policy and based on meeting various targets, including long-term targets set out in the compensation policy. The compensation figures for Mr. Eliraz include an estimate regarding the annual bonus he will receive. This estimate might change after the comparative data for the other companies are published, which form the basis for calculating the quantitative parameters included in the formula for computing Mr. Eliraz's annual bonus.

5.2 Nir Cohen

Mr. Nir Cohen is Deputy CEO of Harel Insurance and Head of the Headquarters (HQ) Division in Harel Insurance. Mr. Cohen also serves as Chairman of the Board of LeAtid Pension Fund Management Company Ltd. Mr. Cohen's annual bonus was determined in accordance with the parameters set out in the compensation policy and based on meeting various targets, including long-term targets set out in the compensation policy. The compensation figures for Mr. Cohen include an estimate regarding the annual bonus he will receive. This estimate might change after the comparative data for the other companies are published, which form the basis for calculating the quantitative parameters included in the formula for computing Mr. Cohen's annual bonus.

5.3 Nataly Mishan-Zakai

Ms. Nataly Mishan-Zakai is the Group's Corporate Counsel and Head of the Service Division in Harel Insurance. The annual bonus for Ms. Mishan-Zakai was determined in accordance with the parameters set out in the compensation policy and based on meeting various targets, including long-term targets set out in the compensation policy. The compensation figures for Ms. Mishan-Zakai include an estimate regarding the annual bonus she will receive. This estimate might change after the comparative data for the other companies are published, which form the basis for calculating the quantitative parameters included in the formula for computing Ms. Mishan-Zakai's annual bonus.

6. Salary of directors who do not also serve as Company officers

The total salary paid to directors who serve the Company during the Reporting Period, for their service non the Company's Board of Directors and on the various Board of Directors committees, amounted to NIS 2,272 thousand. This amount does not include payments to principal shareholders (Mssrs. Yair Hamburger, Gideon Hamburger, and Yoav Manor), who also serve as officers of the Company and its subsidiaries.

When the general meeting approved the Company's compensation policy on November 30, 2017, it was stipulated that the policy applies to directors serving in the Company and/or its subsidiaries, so that they are entitled to compensation for their service on the board of directors and on committees appointed by the board of directors, as defined in the Companies (Rules for the Compensation and Expenses of External Directors) Regulations, 2000, and they are not entitled to any bonus or additional compensation. In addition to the provisions prescribed in the Companies (Rules for the Compensation and Expenses of External Directors) Regulations, 2000, compensation paid to external directors serving the Company and its subsidiaries, is also subject to the provisions prescribed in Regulation 2 of the Companies (Matters that do not Constitute an Interest) Regulations, 2006. Where a director is appointed to another position that is not membership of the board of directors and/or the committees appointed by the board of directors, the compensation will be determined in accordance with the nature of the position and it will be submitted for the approval of the general meeting.

Regulation 21A – Control of the Corporation

The Company's controlling shareholders, Mssrs. Yair Hamburger, Gideon Hamburger and Nurit Manor ("the Controlling Shareholders"), hold 46.49% of the Company's voting rights and issued share capital. The Controlling Shareholders hold the Company through G.Y.N. Financial Consulting & Investment Management 2017 LP, which they fully own and control, and which they hold, as limited partners, through private, companies, wholly owned by each of the Controlling Shareholders ("GYN Partnership") and they also hold the general partner in the GYN Partnership.

Regulation 22 - Transactions with a controlling shareholder

The following details, as far as the Company is aware, transactions with the Company's Controlling Shareholders or which the Controlling Shareholders have a personal interest in approving, in which the Company and/or the Group's companies entered into agreement during the reporting year or on a date after the end of the reporting year and up to the date of publishing this report, or that were approved before the Reporting Period, and are in force during the Reporting Period.

1. Agreement with an architect

   In January 2011, the Company entered into an agreement, which was amended in January 2016, in December 2017, and in December 2018, to obtain architectural services from Mr. Miki Kornhauser, who is the brother-in-law of Mr. Yair Hamburger, the controlling shareholder and Chairman of the Board of Directors of the Company ("the Agreement" and/or "the Engagement"). Under the Agreement, Mr. Kornhauser provides on-going architectural services to the Company and its subsidiaries in various projects undertaken by the Company.

   The Company's Audit Committee and Board of Directors approved an amendment to the Agreement whereby the agreement period will be extended to December 31, 2020, and the monthly consideration for the architecture services will remain at NIS 28,000. For additional information about the Agreement, see an Immediate Report of the Company dated December 25, 2019. (Ref.: 2019-01-113613).

2. Entering into an employment agreement with a grandson of the controlling shareholder

   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 is employed as an analyst in Harel Finance. Mr. Tamir's employment in Harel Finance entitles 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.

3. Transactions listed in Section 270(4) of the Companies Law

   For information about the terms of employment of the controlling shareholders, see Regulation 21 above.

3.1 Directors and Officers liability insurance (D&O)

The Directors & Officers liability insurance policy (D&O) 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 a controlling shareholder of the Company may be deemed to have a personal interest in granting them the letters of indemnity).

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

The main reasons given by the Compensation Committee and Board of Directors were: (a) the premium is defined according to the cost of the reinsurance of Harel Insurance, to which the insurance risk is transferred, so that by definition it reflects market conditions; (b) purchase of this policy is for the Company's good, given that it limits the Company's exposure on account of the letters of indemnity given to the directors and officers, and it allows the officers to fulfill their duties properly and for the benefit of the Company, taking into account the risks entailed and the responsibility that they bear by law; (c) the policy provides reasonable cover under the circumstances, when considering the size of the Company, scope and areas of its operations and its business plans; (d) this insurance cover was made in the normal course of the Company's business and it is accepted practice in public companies in Israel and in companies involved in insurance and financial services in particular; (e) purchase of the policy is consistent with the Company's compensation policy; (f) the agreement is under market conditions and it is unlikely to significantly affect the Company's profits, assets or liabilities.

3.2 Indemnity

On July 12, 2006, a general meeting of the Company's shareholders approved several amendments to the Company's articles, including amendments pertaining to letters of indemnity for senior officers of the Company. Likewise, further to the approval of the Audit Committee and Board of Directors, the general meeting also approved giving an advance undertaking to indemnify the Company's officers and directors. The undertaking for indemnity is only after the rights under the insurance policy have been exhausted. The amount of indemnity is limited to 20% of the shareholders' equity in the last financial statements published before payment of the indemnity.

In January 2011, the Administrative Enforcement Law was published which, inter alia, allows the Israel Securities Authority, to enforce the provisions of the Securities Law through various proceedings, including to impose various sanctions on the senior officers and directors of a company. Among other things, the Administrative Enforcement Law stipulates that despite the prohibition on insuring and indemnifying a senior officer in respect of financial penalties or fines that are imposed within the framework of administrative enforcement, a person can be insured or indemnified in respect of the following two categories of payment: (i) payment of compensation to the victims of a breach of the Securities Law imposed as part of an administrative enforcement procedure; (ii) expenses incurred by a person in connection with an administrative enforcement procedure that is conducted against him, including reasonable litigation expenses, and including lawyers' fees. The indemnity may also be given by way of giving an advance undertaking. The law stipulates that to enable the Company to insure or indemnify the aforementioned senior officers, the Company's articles must be amended to include the possibility of giving such insurance and indemnity.

As mentioned above, pursuant to a resolution of the Company's general meeting from July 12, 2006 (after being approved by the Audit Committee and Board of Directors), from time to time the Company gave its senior officers letters of indemnity in which it gave an advance undertaking to provide indemnity in respect of the matters specified therein, and subject to conditions stipulated therein, where the amount of the indemnity is limited to 20% of the Company's equity according to the last financial statement published prior to the actual date of payment of the indemnity, and this to the senior officers severally and together, for an individual case and in aggregate.

On January 29, 2012 and January 30, 2012, the Company's Audit Committee followed by the Board of Directors, respectively, approved amended letters of indemnity for its senior officers and directors, including directors who are the controlling shareholders of the Company. On March 5, 2012, the general meeting approved the granting of the amended letters of indemnity to the Company's senior officeholders and directors, including to controlling shareholders. There is no change to the Company's limit of liability in the amended letters of indemnity, but they include an option for indemnity based on the indemnity permitted under the Administrative Enforcement Powers Law. The letters of indemnity will be given to senior officers currently serving the Company and those who may serve the Company from time to time (including senior officers who are deemed controlling shareholders or their relatives, as well as senior officers where a controlling shareholder of the Company may be deemed to have a personal interest in granting them the letters of indemnity).

It is stipulated that the decision to approve the amended letters of indemnity does not nullify the previous letters of indemnity, but adds to them. Subsequent to the aforementioned decisions, letters of indemnity were issued for the Company's directors and senior officeholders, the text of which was approved as noted above.

4. Procedures for approval of transactions with controlling shareholders

The Companies Law prescribes procedures for approving extraordinary transactions with a company’s controlling shareholders and for approving transactions in which an officer of the company (including a director) has a personal interest. Accordingly, the Company and its subsidiaries approved work procedures that make it easier to identify transactions with such controlling shareholders, and prescribe the process for approving them, as follows:

4.1. Transactions defined as negligible

During the normal course of business, the Company and its investees perform transactions with the controlling shareholders as part of the services rendered by the Company to the controlling shareholders and their investees (for example: insurance, long-term savings products, and various financial services). On March 22, 2020 and March 31, 2020, respectively, the Company's Audit Committee and Board of Directors, respectively, determined that a transaction with a controlling shareholder shall be deemed negligible if it meets all the following conditions:

(a) It is not an extraordinary transaction (according to the meaning of this term in the Companies Law) and as noted in Section 4.2 below).

(b) Regarding insurance transactions, long-term savings and financial services: the same rules apply to these transactions as to the benefits given to all Group employees, as approved by the Board of Directors.

(c) The sum insured in the Company’s self-retention in each policy is no more than NIS 10 million, and the sum insured in each policy is no more than NIS 50 million. This limitation does not apply to savings policies.

(d) Other agreements, for which the cumulative annual cost to the Group is no more than NIS 100,000.

It is stipulated that any transaction for services provided by a controlling shareholder or his relative will not be classified as a negligible transaction.
It is further stipulated that separate transactions, that are interdependent, so that in practice they are part of the same agreement, shall be construed as a single transaction. Transactions that fall within the parameters of negligible transactions do not require special approval.

4.2. Non-extraordinary transactions

Pursuant to the provisions of Section 117 of the Companies Law, the audit committee of a public company is the organ authorized to make decisions concerning the categorization of transactions under Section 270 of the Companies Law, as extraordinary transactions or non-extraordinary transactions.

To the extent that the Audit Committee determined that this is not an extraordinary transaction, the Audit Committee will be the competent entity for approving the entering into such a transaction.

Pursuant to the provisions of Section 117(1A) of the Companies Law, the Audit Committee may decide whether to classify transactions as extraordinary or non-extraordinary transactions, based on criteria to be determined once a year, in advance.

Accordingly, on March 22, 2020, the Audit Committee of Harel Insurance and the Company determined that the following transactions with the Company's controlling shareholder or with companies that it controls or transactions with senior officers of the Company or with companies in which officers of the Company serve as directors or officers ("the principal shareholders / interested parties") including the relative of each of them, shall not be deemed an "extraordinary transaction" according to the meaning of this term in the Companies Law, and this – subject to a combination of the conditions listed below:

4.2.1. The transaction is one of the following: (1) commitments with the principal shareholders for the issue of insurance policies, in any of the policy categories offered by the Company, through the Company's subsidiaries (including group policies); (2) engagements with principal shareholders for the purchase of long-term savings products, including pension funds and provident funds; and including pension advice services carried out by agencies owned by the Group; (3) the opening of accounts for the principal shareholders in a portfolio management company that is part of the Group's companies; (4) investment in investment funds managed by the Group's companies; (5) entering into an agent’s agreement; (6) entering into a supplier’s agreement (it is stipulated that regarding a service provider who is a controlling shareholder in the Company or its relative, the approval of the Company’s audit committee and board of directors must be given, notwithstanding that mentioned in this clause); (7) the providing of loans to senior executives; (8) the leasing of real estate assets owned by the Group. These transactions are performed during the normal course of the Company's on-going business.

4.2.2. The scope of each of the aforementioned transactions is insignificant to the Company, and the scope of the aforementioned transactions (excluding the group transactions) in aggregate is also not significant for the Company. It is stipulated that when calculating the scope of such transactions, all the consideration, premiums, commissions and management fees to be paid to the Company in connection with these transactions in the relevant year will be taken into account. In view of the volume of the Company's business, these aforementioned transactions do not significantly affect the Company's profits, assets or liabilities. It is clarified that a "significant amount for the Company" will be considered 5% of the Company's annual profit (after taxes), namely NIS 26 million or more.

Furthermore, when referring to the agreements mentioned in Section 4.2.1(6) above (supplier’s agreement) - the reference is to an agreement whose cost to the Company does not exceed NIS 1 million if it is a one-time agreement or, for an ongoing agreement, whose cost to the Company does not exceed NIS 5 million. The aforementioned limits of NIS 1 million and NIS 5 million do not apply when the reference is to an engagement with a law firm, firm of assessors or firm of investigators.

4.2.3. The transaction is to be performed under market conditions. In this instance, market conditions will be defined as follows:

4.2.3.1. Concerning the agreements noted in Sections 4.2.1 (1), (2) and (3) above, (issue of insurance policies, sale of long-term savings products, including pension and provident funds; opening principal shareholder accounts with a portfolio management company and pension advisor) - a transaction under market conditions shall be deemed a transaction the conditions of which are: (1) they are under the same rules of benefit as those given to all Group employees who wish to purchase the same product ("Group employee conditions"), or they are not more advantageous for the principal shareholder than the aforementioned conditions. It is stipulated that Group employee conditions are the same for all employees of the Group, and that the Group has agreements with business customers who receive benefits that are superior to those of the Group's employees. The Group therefore regards the Group employee conditions as market conditions. The conditions from which all Group employees benefit are prescribed in a resolution passed by the Audit Committee and approved by the Company's Board of Directors, or (2) in the Company's official price list. It is stipulated that the head of the relevant business division has the power to approve a 10% deviation from the price list defined for the employees, as accepted in negotiations, and to approve an overall deviation of 25% from the price list if there is a counter offer from another insurance company/ pension representative, provided that the price given is not less than the counter offer; or (3) on agreements as noted in Section 4.2.1(1) above, in relation to business insurance or insurance for luxury vehicles, a transaction at market conditions is a transaction that one of the following: the head of the non-life insurance division, deputy head of the non-life insurance division, regional director or head of department in the non-life insurance division or the chief underwriter confirms in writing is at market conditions, namely - at least one of the following conditions is satisfied: (1) he has at least two examples of similar transactions with unrelated parties, under the same conditions; or (2) there is a competing offer from another entity, under conditions that are not better for the insurer compared with the company's offer; or (3) the transaction is covered by facultative reinsurance, under reasonable conditions; or (4) concerning commitments as noted in Section 4.2.1(1) above with respect to a group policy, a transaction under market conditions will be deemed a transaction that the division manager confirms in writing that it is under market conditions, namely - at least two of the following examples of similar transactions with unrelated parties, under the same conditions

4.2.3.2. With respect to agreements as noted in Section 4.2.1(4) above (investment in investment funds managed by the Group's companies) - these transactions, when performed vis-a-vis the management company and when performed vis-a-vis the subsidiary as coordinated transactions during the course of trade on the stock exchange, are performed at the same price for the principal shareholder and for any other investor. These transactions will therefore be deemed transactions under market conditions.

4.2.3.3. With respect to agreements as noted in Section 4.2.1(5) above (engagement in an agent's agreement) - these engagements were made under conditions similar to the agreements with agents who are not an interested party, and the relevant division head confirmed that these were market conditions.

4.2.3.4. With respect to agreements as noted in Section 4.2.1(6) above (supplier's agreement) - such agreements are made under conditions that are similar to the conditions in which the Company enters into agreement with suppliers for other similar services, who are not interested parties in the Company, there is at least one offer or expert opinion from a third party, for providing the aforementioned service, under conditions that are not better for the Company. With respect to agreements with law firms, firm of assessors or firm of investigators, it will not be necessary to receive a competing offer or expert opinion, and in this case written confirmation from the head of the relevant division that the conditions are market conditions will be sufficient.

4.2.3.5. With respect to agreements as noted above in Section 4.2.1(7) (providing loans to senior officers) - such loans will be provided under the same conditions as loans are provided to Company employees.

4.2.3.6. With respect to agreements as noted above in Section 4.2.1(8) (leasing of real estate assets) - such loans will be provided under the same conditions as real estate assets of the Group are leased to unrelated third parties, as approved by the head of the assets division in the investment division.

Transactions that take place as described above, and in accordance with the Company's procedures concerning related party agreements, will not require individual approval by the Company's competent organs, and this for a limited period until the end of the year from the date of this approval. Any other transactions that are not extraordinary and not negligible must be approved individually, as noted in Section 4.3 below.

Notably, as mentioned in the procedure on agreements with interested parties in the Company: (1) the payment of bonuses in accordance with the compensation plan approved by the Company's Board of Directors and Board of Directors of Harel Insurance, as well as ongoing salary updates at rates which according to the Company's compensation policy do not require special approval, will not be deemed an extraordinary transaction and will not require special approval in addition to the approvals required under the Company's compensation policy; (2) the payment of a claim to an interested party by virtue of an existing policy in the Company which does not deviate from the policy conditions will not be deemed an agreement with an interested party and will not require special approval. Payment of a claim ex gratia in accordance with accepted claims settlement practice does not require individual approval, as long as the approval is for an amount of up to NIS 5,000. Any payment of a claim to an interested party that is not accordance with the policy conditions and exceeds NIS 5,000 must be submitted for the approval of the Audit Committee prior to payment.

4.3. <u>Transaction that is neither negligible nor extraordinary</u>

Section 117(2A) of the Companies Law prescribes, *inter alia*, that the Audit Committee must prescribe the manner of approving transactions that are not negligible, including transactions of this kind that may require its approval. On this, a "non-negligible transaction" is an extraordinary transaction between a public company and a controlling shareholder therein or with another person in which the controlling shareholder has a personal interest regarding which the Audit Committee has resolved that it is a non-extraordinary transaction and has categorized it as a non-negligible transaction.

On March 22, 2020, the Company's Audit Committee determined that transactions with controlling shareholders that are not extraordinary and are not negligible must be approved exclusively by the Company's Audit Committee. On the manner of approval and a competitive process that must be held - see Section 4.4 below.

It is stipulated that the foregoing is not intended to derogate from that mentioned in Section 4.2 above, concerning transactions approved in advance by the Audit Committee and Board of Directors, and that do not require additional approval, beyond the annual master approvals.

4.4. <u>Holding a competitive process (tender) for transactions with a controlling shareholder</u>

Section 117(1B) of the Companies Law stipulates that the audit committee must define the types of transaction with a controlling shareholder or in which the controlling shareholder has a personal interest, even if they are not extraordinary transactions, for which a competitive process (tender) must be held, under the supervision of the committee or the entity prescribed for this purpose, and the criteria that apply to the competitive process, or it must stipulate that "other procedures" were applied as defined by the audit committee before entering into a transaction, depending on the type of transaction. In this instance, the audit committee may define the criteria once a year in advance.

The amendment to the law does not include a definition of the substance of the competitive process, and it leaves this to the discretion of the audit committee. Even if the audit committee decides to conduct other processes, it must give these other processes content that corresponds with the purpose of the new obligation, which is to define a mechanism that ensures that the transaction entered into serves the best interests of the company, including that it examines the other options available to the company alongside the option proposed by the controlling shareholder.

The approval processes defined by the Audit Committee and Board of Directors:

It was determined that transactions between the Company and the controlling shareholders or with any other person in which the controlling shareholder has a personal interest, excluding transactions that are defined as negligible transactions (as noted in Section 4.1 above), and excluding transactions that were approved in advance as transactions that are not extraordinary and do not require additional approval (as noted in Section 4.2 above), will be approved as set out below:

If the total cost of the agreement to the Company, including the cost in respect of an option or extension period, is not more than NIS 10 million, the following provisions apply:

- When the transaction involves goods or services for which several supplies can provide the service to the same standard, availability and other parameters, as a rule the competitive process will take place through the relevant department in Harel contacting at least two additional suppliers for written price quotes. It is noted that the contact will be made in parallel (wherever possible) and in a manner that facilitates a proper, effective process to determine the price quote for the relevant agreement.
- If, due to the character or quality of the goods and services or due to considerations of quality, it is problematic to contact suppliers for written offers, one of the following options will be chosen:
    - An opinion will be obtained from two, expert independent entities in the relevant field with respect to the market conditions (who did see the price quote of the controlling shareholder or his relative beforehand).
    - Suppliers in the field will be contacted, giving weight in advance to quality parameters to be defined before the process begins by the Company's CFO.

Subsequent to this process, the Audit Committee will be required to approve the transaction. The Audit Committee discussion will take place after the competitive process has been conducted by the entity in the Company or the subsidiary that initiated the agreement.

Whenever the agreement involves more than NIS 10 million, the following provisions will apply:

- The Audit Committee will hold a preliminary discussion to determine the competitive process or the other process to be chosen in advance by the Audit Committee, for the purpose of reviewing the agreement.
- The competitive process or the other process defined by the Audit Committee will be carried out and it will be administered by the person charged with this responsibility in a resolution passed by the Audit Committee.
- The results of the competitive process will be submitted to the Audit Committee, which will discuss the agreement based on the results of the process that was carried out.
- After receiving the Audit Committee's approval, the agreement will be submitted for the approval of the Board of Directors.

Regulation 24 - Shares held by interested parties and senior officers in the Company

A. Company shares held by interested parties (principal shareholders)

See details in a report published by the Company on the Magna website on January 2, 2020, ref.: 2020-01-001101.

B. Agreements between interested parties of the Company

There are no agreements between the interested parties of the Company (except for partnership agreements that arrange the holdings of the controlling shareholders (indirectly) in the GYN Partnership). The controlling shareholders of the Company are Yair Hamburger, Gideon Hamburger and Nurit Manor. For additional information, see Regulation 21A above.

C. Shares and other securities held by an interested party of the Company, in subsidiaries and related companies

See details in a report which the Company published on the Magna website on January 5, 2020, ref.: 2020-01-001836.

D. Holdings in the Company by senior officers

See details in a report which the Company published on the Magna website on January 2, 2020, ref. 2020-01-001101.

E. **Changes in the controlling shareholders' holdings in the Company’s shares**

On November 27, 2019, in a transaction outside the TASE, the Company’s controlling shareholders sold 3% of the Company’s shares which had been held through the GYN Partnership. For information about the sale of the shares, see a report published by the Company on the Magna website on November 27, 2019, ref.: 2019-01-103344.

For information about the controlling shareholders’ holdings in the Company, see Regulation 21A above.

Regulation 24A - Registered capital, issued capital and convertible securities

The Company's registered share capital is 500,000,000 ordinary NIS 0.1 shares.

At the publication date of the report, the Company’s issued share capital is 222,836,923 ordinary shares each of NIS 0.1 par value, of which 8,458,150 are dormant shares that do not confer any rights. The Company’s issued share capital net of the dormant shares is 214,378,773 ordinary shares of NIS 0.1.

Regulation 24B – Register of shareholders of the Corporation

Name of registered shareholder	I.D. / company no.	Address	Class of share	Par value	Number of shares	Whether held as trustee
The Tel Aviv Stock Exchange Nominee Company Ltd.	515736817	2 Ahuzat Bayit, Tel Aviv	Ordinary	NIS 0.1	138,779,683	Yes
Gideon Hamburger	7048663	64 Pinkas St., Tel Aviv	Ordinary	NIS 0.1	680	No
Yair Hamburger	7048671	29 Derech Haganim, Kfar Shmaryahu	Ordinary	NIS 0.1	690	No
Nurit Manor	51171312	62 Pinkas St., Tel Aviv	Ordinary	NIS 0.1	680	No
G.Y.N. Financial Consulting and Investment Management 2017 LP	550272587	3 Abba Hillel Silver St., Ramat Gan	Ordinary	NIS 0.1	84,054,570	No
Yehudah Barlev	64837123	3A Tolkovsky St., Tel Aviv	Ordinary	NIS 0.1	410	No
Jacob Schlussel	54072079	52 Bilu St., Raanana, POB 453	Ordinary	NIS 0.1	10	No
Shaul Pasternak	1069144079	82 Herzl St., Lod	Ordinary	NIS 0.1	50	No
Michael Neumann	58463365	Yozma Insurance Agency, POB 2114, Jerusalem 91020	Ordinary	NIS 0.1	50	No
Arie Lavie	65385276	14 Nachshon St., Ramat Hasharon	Ordinary	NIS 0.1	50	No
Israel Pnini	10644995	53 HaEshel St., Herzliya	Ordinary	NIS 0.1	20	No
Amoren Gabrieli	059111195	8/8 Israel Galil St., Tel Aviv	Ordinary	NIS 0.1	30	No
Total					222,836,923	

Regulation 26 - The Company's directors

In this Regulation:

1) The Group companies - the Company and its investees.
2) "Professional qualifications" and "financial and accounting expertise", as defined in the Companies Regulations (Conditions and Examinations regarding a Director with Accounting and Financial Expertise and a Director with Professional Qualifications), 2005 (“the Qualifications Regulations).

Name:	**Yair Hamburger**
I.D. no.:	7048671
Date of birth:	June 27, 1946
Address for serving court documents:	29 Derech Haganim, Kfar Shmaryahu
Citizenship:	Israeli
Membership of Board of Directors committees:	Yes. Committee for Non-yield-dependent investments (Nostro).
External Director:	No.
Is he considered as having accounting and financial expertise:	No.
Is he an employee of the Company, a subsidiary, related company or interested party:	Yes. Chairman of the Company’s Board of Directors, Chairman of the Board of Harel Insurance, Chairman of the Board of Harel Financing & Issuing, director in Harel Finance, director in Harel-Mutual Funds, director in Interasco, director in Turk Nippon, director other companies in Harel Group.
Date of commencement of term of office:	April 20, 1982
Qualifications:	BA in Economics and Political Science, The Hebrew University of Jerusalem.
Occupation over the last five years:	Director in Dikla Insurance Company Ltd. (until December 31, 2015), member of the Board of Governors of the Netanya Academic College (until 2017), Chairman of World Maccabi (until 2019) and served in Harel Group companies as detailed above.
Corporations in which he serves as a director (other than the Group's companies):	Kadid Ltd., Kaydan Ltd., Chairman of the Public Council of Alin Beit Noam, director of the IPO Foundation, Board of Governors of Tel Aviv University, member of the managing committee of Educating for Excellence (E4E), chairman of the Israel Friends of the National Library, deputy chair of the German-Israeli Future Forum Foundation, member of the Board of Governors of the Israel Diabetes Association, Chairman of the Israel Insurance Association, Chairman of the Association of Life Insurance Companies.
Related to other principal shareholders in the Company:	Brother of Gideon Hamburger and Nurit Manor, brother-in-law of Yoav Manor.

Name:	**Gideon Hamburger**
I.D. no.:	7048663
Date of birth:	June 9, 1944
Address for serving court documents:	64 Pinkas St., Tel Aviv
Citizenship:	Israeli
Membership of Board of Directors committees:	No.
External Director:	No.
Is he considered as having accounting and financial expertise:	No.
Is he an employee of the Company, a subsidiary, related company or interested party:	Yes. Director of the Company, President of Harel Insurance and Finance Group, director in Harel Finance, director in Harel Financing & Issuing, director in Interasco, director in other Harel Group companies.
Date of commencement of term of office:	April 20, 1982
Qualifications:	Academic. FCII – graduate and Fellow of the London Chartered Insurance Institute.
Occupation over the last five years:	Served in Harel Group companies as noted above.
Corporations in which he serves as a director (other than the Group's companies):	Director in HG SBT Ltd., director in H. G. Hamburger Investments Ltd., director in Weizmann Institute, member of the Board of Governors of Bar Ilan University, President of Israel Switzerland & Liechtenstein Chamber of Commerce, Honorary President and member of management of Variety Israel.
Related to other principal shareholders in the Company:	Brother of Yair Hamburger and Nurit Manor, brother-in-law of Yoav Manor.

Name:	**Yoav Manor**
I.D. no.:	00551168
Date of birth:	January 4, 1950
Address for serving court documents:	62 Pinkas St., Tel Aviv.
Citizenship:	Israeli
Membership of Board of Directors committees:	No.
External Director:	No.
Is he considered as having accounting and financial expertise:	No.
Is he an employee of the Company, a subsidiary, related company or interested party:	Yes. Director of the Company, Chairman of the Board of Directors of Harel Hamishmar Computers, director in Harel Insurance, director in Harel Finance, director in Harel Financing & Issuing, director in other Harel Group companies.

Date of commencement of term of office:	April 20, 1982
Qualifications:	B.Sc. in Electronic & Computer Engineering, Tel Aviv University.
Occupation over the last five years:	Served in Harel Group companies as noted above.
Corporations in which he serves as a director (other than the Group's companies):	Manorim Ltd.
Related to other principal shareholders in the Company:	Husband of Nurit Manor and brother-in-law of Yair Hamburger and Gideon Hamburger.

Name:	**Doron Cohen**
I.D. no.:	069418945
Date of birth:	August 9, 1964
Address for serving court documents:	2 Egoz St., Reut 71908.
Citizenship:	Israeli
Membership of Board of Directors committees:	Yes. Audit Committee.
External Director:	No.
Is he considered as having accounting and financial expertise:	Yes.
Is he an employee of the Company, a subsidiary, related company or interested party:	No.
Date of commencement of term of office:	July 12, 2006
Qualifications:	BA in Economics and Business Management, MBA (majored in financing), The Hebrew University of Jerusalem.
Occupation over the last five years:	Director in the Company, director in Harel Finance, deputy chairman of Yield-Dependent (Members) Investment Committee of Harel Group, director in Harel Finance Alternative (commencing October 23, 2018), director in Harel Insurance (until October 7, 2018), Chairman of the Board of EMI (until October 7, 2018), Chairman of the Credit Committee of Harel Group (until February 29, 2016). Financial Consulting & Management Ltd.
Corporations in which he serves as a director (other than the Group's companies):	Champion Motors Ltd., Emcol Ltd., Trigger D.C. Holdings Ltd., and Trigger D.C. Ltd.
Related to other principal shareholders in the Company:	No.

The Board of Directors has determined that Doron Cohen has financial and accounting expertise in accordance with the Qualifications Regulations, in light of his professional qualifications and experience.

Name:	**Joseph Ciechanover**
I.D. no.:	5991468
Date of birth:	October 1, 1933
Address for serving court documents:	12 Amirim St., Savyon
Citizenship:	Israeli
Membership of Board of Directors committees:	No.
External Director:	No.
Is he considered as having accounting and financial expertise:	No.
Is he an employee of the Company, a subsidiary, related company or interested party:	No.
Date of commencement of term of office:	January 21, 1995
Qualifications:	MJur in Law, The Hebrew University of Jerusalem, LL.M Berkeley University, California, Graduate in Business Administration, The Hebrew University of Jerusalem (final paper not submitted). Ph.D in Philosophy, Boston University.
Occupation over the last five years:	Company director, director in Harel Finance Alternative (commencing March 5, 2019), director in Harel Finance (commencing March 5, 2019), director in Azrieli Group Ltd. (until 2019).
Corporations in which he serves as a director (other than the Group's companies):	Chairman and President of Atidim Fund Management Ltd., Chairman and President of I.Y.Z. Investments Ltd., director of the Israel Museum (Public Benefit Corporation), member of the Eli Wiesel Foundation for Humanity - Israel, Jacob Isler Foundation Chairman, Head of the Board of Governors at the Dayan Center, Tel Aviv University, Director of Mifal Hapais (Public Benefit Corporation), director in Israel Science Foundation, chairman of J.C. Atara Ventures Ltd., member of the Association for Clinical Genetics, director in Israeli Aerospace Industries Ltd..
Related to other principal shareholders in the Company:	No.

Name:	**Prof. Israel Gilad**
I.D. no.:	050629005
Date of birth:	November 17, 1951
Address for serving court documents:	9 Meron Street, Mevasseret Zion.
Citizenship:	Israeli
Membership of Board of Directors	Yes. Chairman of the Audit Committee and Chairman of the

committees:	Compensation Committee.
External Director:	Yes.
Is he considered as having accounting and financial expertise:	Yes.
Is he an employee of the Company, a subsidiary, related company or interested party:	No.
Date of commencement of term of office:	January 18, 2012
Qualifications:	LL.B (first of his class), The Hebrew University of Jerusalem. BA (Cum Laude) in Economics, The Hebrew University of Jerusalem. Ph.D. in Laws, The Hebrew University of Jerusalem. Course in "Management Accounting" as part of MBA studies, the Open University.
Occupation over the last five years:	External director of the Company, external director in Harel Insurance, chairman of Harel Group’s Risk Management Committee. Full Professor in Academic Center for Law and Science, and member of the Council for Higher Education.
Corporations in which he serves as a director (other than the Group's companies):	No.
Related to other principal shareholders in the Company:	No.

The Board of Directors has determined that Prof. Israel Gilad has financial and accounting expertise in accordance with the Qualifications Regulations, in light of his professional qualifications and experience.

Name:	**Hava Friedman-Shapira**
I.D. no.:	026742155
Date of birth:	September 22, 1954
Address for serving court documents:	3, Uriel Ofek Street, Herzliya.
Citizenship:	Israeli
Membership of Board of Directors committees:	Yes. Audit Committee and Compensation Committee
External Director:	Yes.
Is she considered as having accounting and financial expertise:	Yes.
Is she an employee of the Company, a subsidiary, related company or interested party:	No.
Date of commencement of term of office:	November 17, 2014
Qualifications:	Graduate (B.Sc.) of the College of Insurance, Communications

	and Management, Adelphi University – New York, MBA from New York Institute of Technology, and MA in Diplomacy and Conflict Resolution from the IDC, Herzliya.
Occupation over the last five years:	External Director in the Company and External Director in EMI.
Corporations in which she serves as a director (other than the Group's companies):	Member of the Board of Governors of the Ort Braude Academic College of Engineering, Karmiel and director in Eva Holdings Ltd..
Related to other principal shareholders in the Company:	No.

The Board of Directors has determined that Hava Friedman-Shapira has financial and accounting expertise in accordance with the Qualifications Regulations, in light of her professional qualifications and experience.

Name:	**Ben Hamburger**
I.D. no.:	032254625
Date of birth:	March 14, 1975
Address for serving court documents:	14 Cavendish Place, W1G 9DJ London, UK.
Citizenship:	England
Membership of Board of Directors committees:	No.
External Director:	No.
Is he considered as having accounting and financial expertise:	Yes.
Is he an employee of the Company, a subsidiary, related company or interested party:	No.
Date of commencement of term of office:	January 17, 2017
Qualifications:	BA in Economics and Accounting, Tel Aviv University. MBA specializing in financing, Columbia Business School, NY.
Occupation over the last five years:	Director in the Company, CEO of HLO Advisory Limited – a family real-estate firm in England.
Corporations in which he serves as a director (other than the Group's companies):	Director in other family real-estate firms in England.
Related to other principal shareholders in the Company:	Ben Hamburger is the son of Mr. Gideon Hamburger and nephew of Yair Hamburger and Nurit Manor. Yair Hamburger, Gideon Hamburger and Nurit Manor are the Company’s controlling shareholders.

The Board of Directors has determined that Ben Hamburger has financial and accounting expertise in accordance with the Qualifications Regulations, in light of his professional qualifications and experience.

Name:	**Prof. Udi Nissan**
I.D. no.:	012141594
Date of birth:	September 28, 1967
Address for serving court documents:	23 Moshe Kol, Jerusalem.
Citizenship:	Israeli
Membership of Board of Directors committees:	Yes. Audit Committee, Compensation Committee, Chairman of the Committee for Non-yield-Dependent Investments (Nostro).
External Director:	Yes.
Is he considered as having accounting and financial expertise:	Yes.
Is he an employee of the Company, a subsidiary, related company or interested party:	No.
Date of commencement of term of office:	April 1, 2017
Qualifications:	BA and MA in Economics and Business Management (MBA), Hebrew University of Jerusalem, Ph.D. in Public Economics from The Hebrew University of Jerusalem.
Occupation over the last five years:	External Director in the Company, External Director in Harel Insurance, member of the Risk Management Committee of Harel Insurance, member of the Credit Sub-committee of Harel Group, lecturing professor at Federmann School of Public Policy and Government, Hebrew University of Jerusalem, Chairman and director in several companies in Delek Group (until 2016), Voluntary Chairman of the Board of Directors at Midreshet Sde Boker (until 2016).
Corporations in which he serves as a director (other than the Group's companies):	Director in Rekah Pharmaceutical Industry Ltd., director in Elbit Systems Ltd., member of the management committee and voluntary chairman of the Finance Committee at Bezalel Academy of Arts and Design, voluntary director in Jerusalem Biblical Zoo and director in Talniss Ltd..
Related to other principal shareholders in the Company:	No.

The Board of Directors has determined that Udi Nissan has financial and accounting expertise in accordance with the Qualifications Regulations, in light of his professional qualifications and experience.

Name:	**Miri Lent-Sharir**
I.D. no.:	54075239
Date of birth:	August 28, 1956
Address for serving court documents:	6 Ephraim Katzir, Hod HaSharon.
Citizenship:	Israeli
Membership of Board of Directors committees:	Yes. Audit Committee and Compensation Committee
External Director:	Yes.
Is she considered as having accounting and financial expertise:	Yes.
Is she an employee of the Company, a subsidiary, related company or interested party:	No.
Date of commencement of term of office:	January 1, 2018
Qualifications:	BA (Cum Laude) in Economics, Tel Aviv University, and MBA, specializing in Financing and Accounting, Tel Aviv University.
Occupation over the last five years:	External Director in the Company, External Director in Harel Insurance, External Director in LeAtid, Director in Rosebud Real Estate Ltd. (until 2016), director in Ahuzat Bayit Raanana Assisted Living Ltd. (until 2016), director in Shomera Insurance Company (until 2015), director in Union Bank of Israel Ltd. (until 2015), and director in Taya Investments Ltd. (until 2015).
Corporations in which she serves as a director (other than the Group's companies):	Director in Mega Or Holdings Ltd. (from October 2016), director in Inter-Gamma Investment Company Ltd. (from October 2011), director in M.A. Sharir Management Ltd., and director in Miri Lent-Sharir Ltd.
Related to other principal shareholders in the Company:	No.

The Board of Directors has determined that Miri Lent-Sharir has financial and accounting expertise in accordance with the Qualifications Regulations, in light of her professional qualifications and experience.

Name:	**Eli Defes**
I.D. no.:	052016631
Date of birth:	July 31, 1953
Address for serving court documents:	24 HaZayit, Mazkeret Batya.
Citizenship:	Israeli
Membership of Board of Directors committees:	Yes. Audit Committee, Committee for Non-yield-Dependent Investments (Nostro).
External Director:	No.
Is he considered as having accounting and financial expertise:	Yes.
Is he an employee of the Company, a subsidiary, related company or interested party:	No.
Date of commencement of term of office:	May 2, 2018
Qualifications:	BA in Political Science, Sociology and Anthropology, Bar Ilan University in Ramat Gan and MA in Political Science / National Security from Haifa University and the IDF Israel National Defense College.
Occupation over the last five years:	Director in the Company, director in Harel Insurance, member of the Risk Management Committee of Harel Insurance, CEO of Clalit Health Services (until 2017), Chairman of the Board in subsidiaries of Clalit Health Services (until 2017).
Corporations in which he serves as a director (other than the Group's companies):	Chairman of the Board of Directors' of El Al Israel Airlines Ltd., Chairman of the Board of M.R.V. Medical Center (1996) Ltd.
Related to other principal shareholders in the Company:	No.

The Board of Directors has determined that Eli Defes has financial and accounting expertise in accordance with the Qualifications Regulations, in light of his professional qualifications and experience.

Regulation 26A - Senior officers of the Company (other than directors)

Name:	**Michel Siboni**
I.D. no.:	027065697
Date of birth:	April 9, 1959
Date of commencement of term of office:	2009 (served in other positions in Harel Group from 1993).
Position in the Company, a subsidiary, or principal shareholder therein:	CEO of the Company, CEO of Harel Insurance, Chairman of the Board of Harel Pension & Provident, Chairman of the Board of Tzva Hakeva, director in other Harel Group companies, director in Hamazpen Shutaphim Laderech Ltd.
Is he related to any other senior officer in the Company:	No.
Qualifications:	B.Sc. in Natural Sciences – Physics and Atmosphere, The Hebrew University of Jerusalem, and Diploma in Business Management for Engineers, College of Management.
Occupation over the last five years:	Served in companies in Harel Group as noted above.

Name:	**Nataly Mishan-Zakai**
I.D. no.:	31781180
Date of birth:	September 8, 1974
Date of commencement of term of office:	August 20, 2014
Position in the Company, a subsidiary, or principal shareholder therein:	The Group's Legal Advisor (Corporate Counsel), Director of the Service Division and Deputy CEO Harel Insurance , member of the Committee for Non-yield-dependent investments (Nostro).
Is she related to any other senior officer in the Company:	No.
Qualifications:	LL.B. (Cum Laude) from Tel Aviv University. LL.M. (Cum Laude) in Commercial Law from Tel Aviv University, Tel Aviv-Berkley program.
Occupation over the last five years:	Serves in Harel Group as detailed above.

Name:	**Sami Babecov**
I.D. no.:	58378985
Date of birth:	September 10, 1963
Date of commencement of term of office:	2007
Position in the Company, a subsidiary, or principal shareholder therein:	Head of investments in Harel Group, Deputy CEO and head of the Investment Division in Harel Insurance, director in companies in Harel Group.
Is he related to any other senior officer in the Company:	No.
Qualifications:	MBA, Bar Ilan University. BA in Economics, Tel Aviv University.
Occupation over the last five years:	CEO of Harel Finance (until November 30, 2011), CEO of Harel-Pia (until November 30, 2011), Chairman of the Board of Harel Investments Management (until November 30, 2016), Chairman of the Board of Harel Sal (until November 30, 2016), Chairman of the Board of Harel Sal Currencies (until November 30, 2016), Chairman of the Board of Harel Financial Products (until November 30, 2016), and serves Harel Group companies as specified above.

Name:	**Tal Kedem**
I.D. no.:	027105212
Date of birth:	January 6, 1974
Date of commencement of term of office:	March 1, 2017
Position in the Company, a subsidiary, or principal shareholder therein:	CEO of Harel Finance Holdings Ltd., director in companies in the financial services arm of Harel Group.
Is he related to any other senior officer in the Company:	No.
Qualifications:	BA in Business Administration, The College of Management. LL.M. Bar Ilan University.
Occupation over the last five years:	Senior Deputy CEO and head of Customer Division at Psagot Investment House (until 2016), CEO of Omega Insurance Agency (until 2016).

Name:	**Arik Peretz**
I.D. no.:	031761257
Date of birth:	July 22, 1974
Date of commencement of term of office:	April 15, 2017
Position in the Company, a subsidiary, or principal shareholder therein:	CFO of the Company, Head of the VP Finance & Resources Division in Harel Insurance and Deputy CEO of Harel Insruance, Chairman of the Board of EMI. and a director in other companies in Harel Group.
Is he related to any other senior officer in the Company:	No.
Qualifications:	BA in Accounting and Economics, Hebrew University of Jerusalem MBA, The Hebrew University of Jerusalem LL.B., The Hebrew University of Jerusalem LL.M., The Hebrew University of Jerusalem
Occupation over the last five years:	VP Finance and HQ at Meitav Dash Ltd. (until 2017), director in companies associated with Meitav Dash Ltd., e.g. Meitav Dash Assets Ltd., Meitav Dash Borkerage, Meitav Dash Benefit, Meitav Dash Global Markets, Global Ltd., Tachlit Indices Ltd.

Name:	**Osnat Manor Zisman**
I.D. no.:	23096233
Date of birth:	November 19, 1967
Date of commencement of term of office:	February 1, 2014
Position in the Company, a subsidiary, or principal shareholder therein:	Internal auditor of the Company and companies in Harel Group.
Is she related to any other senior officer in the Company:	No.
Qualifications:	BA in Economics and Business Administration, Tel Aviv University, qualified CPA.
Occupation over the last five years:	Serves in Harel Group companies as detailed above.

Regulation 26B - Company's Authorized Signatories

The company does not have independent authorized signatories.

Regulation 27 - The Company's CPA

Somekh Chaikin

Millennium Tower, 17 Haarba'ah St., Tel Aviv 64739

Regulation 28 - Changes in the Articles and Memorandum of Incorporation

In the reporting year, no changes were made in the Memorandum or Articles of Incorporation of the Company.

Regulation 29 - Recommendations of the Board of Directors and an Extraordinary General Meeting

A. **Resolutions of the Board of Directors which are not subject to the approval of the General Meeting**

On the distribution of dividends – see Note 15 to the Financial Statements.

B. **Resolutions of the General Meeting that were passed not in accordance with the recommendations of the Board of Directors**

None.

C. **Resolutions passed by Extraordinary General Meetings**

On October 31, 2019, the general meeting of the Company approved an agreement between the Company and Mr. Michel Siboni, who is the Company's CEO. Under this agreement, Mr. Siboni purchased from the Company 10% of Hamazpen Shutaphim Laderech Ltd. ("the Sold Shares"), a new company in which the Company held 80% of its shares, and in this context the Company provided him with a non-recourse loan in order to provide part of the shareholders' loan that he will have to provide to the new company following the purchase of the Sold Shares. For additional information about the agreement, see an Immediate Report of the Company dated October 31, 2019, Ref.: 2019-01-093132 and also Note 38(E) to the Financial Statements.

Regulation 29 A - Corporate decisions

The Company has committed itself to insurance contracts, whereby the senior officers and directors of the Company and its subsidiaries have Directors and Officers liability insurance (D&O). The Sum Insured is up to USD 220 million per event or in aggregate for the policy period. At the date of approval of the report, the insurance policy is in force until October 1, 2020.

Ramat Gan, March 31, 2019.

Harel Insurance Investments & Financial services Ltd.

By:

Yair Hamburger, Chairman of the Board of Directors ____________________

Michel Siboni, CEO ____________________

CORPORATE GOVERNANCE QUESTIONNAIRE[1]

BOARD OF DIRECTORS INDEPENDENCE

			YES	NO
1.		Throughout the Reporting Year, two or more external directors served the Company. *You may reply "Yes" to this question if the period in which two external directors did not hold office in the Company did not exceed 90 days, as noted in Section 363A.(b)(10) of the Companies Law; nevertheless, for both replies (yes/ no), the period (in days) in which two or more external directors did not hold office in the Company in the Reporting Year must be specified (including a term of office approved retroactively, while differentiating between the various external directors);* Director A: **Israel Gilad** Director B: **Hava Friedman Shapira** Director C: **Udi Nissan** Director D: **Miri Lent Sharir** Number of external directors who held positions in the Company at the date of publication of this questionnaire: **4**.	✓	
2.		Percentage[2] of independent directors[3] serving the Company at the date of publication of this questionnaire: **4/11.** Number of independent directors defined in the Articles[4] of the corporation[5]: **the Articles stipulate that the percentage of independent directors is as defined in the Companies Law, under Section 1(2) of the First Schedule to the Companies Law – in public companies with a controlling shareholder – at least one third of**	———	———

[1] Published as part of a bills to improve company reports on March 16, 2014.
[2] In this questionnaire, "percentage" – a particular number out of the total. For example 3/8.
[3] Including External Directors as they are defined in the Companies Law.
[4] Regarding this questionnaire – "Articles" including in accordance with specific statutory provisions that apply to the corporation (e.g. for banks – the provisions of the Supervisor of Banks).
[5] Bond issuing companies are not required to answer this section.

		the members of the Board of Directors shall be independent directors. ☐ Not applicable (no provision specified in the Articles).		
3.		During the Reporting Year, a survey was conducted of the external directors (and the independent directors) which found them to be in compliance with the provisions of Section 240(b) & (f) of the Companies Law regarding the absence of a "relationship" between the external (and independent) directors holding office in the Company and that they are in compliance with the relevant conditions for holding office as an external (or independent) director.	✓	
4.		None of the directors who served the Company in the Reporting Year are subordinate[6] to the general manager [CEO], directly or indirectly (other than a director who represents the employees, if the Company has employee representation). If your reply is "No" (i.e. the director is subordinate to the CEO) – please specify the number of directors who did <u>not</u> comply with this restriction: __________ .	✓	
5.		None of the directors who stated that they have a personal interest in approving a transaction on the agenda of the meeting, attended the meeting or cast a vote (excluding a discussion and/or vote under circumstances that were satisfied under Section 278(b) of the Companies Law): If your reply is "No"- Was this to present a specific topic as noted at the end of Section 278(a) of the Companies Law : ☐ yes ☐ no Please specify the rate of attendance by directors at meetings and/or who cast votes, except for those circumstances noted in subsection A: _______	✓	

[6] Regarding this question - serving as a director of an investee (subsidiary) company which is controlled by the Company, will not be considered "subordinate". In contrast, a director who is an officer (other than a director) and / or employee in an investee company controlled by the Company would be considered "subordinate" for the purpose of this question.

6.		The controlling shareholder (including his relative and/or representative) who is not a director or any other senior officer in the Company did not attend Board of Directors meetings held during the Reporting Year. If your reply is "No" (i.e. the controlling shareholder and/or his relative and/or representative who is not a Board member and/or senior officer in the Company attended the Board meetings) – please provide the following information about the presence of any other person at the Board meetings: Identity _______________ . Position in the Company (if any) _______________ . Details of the relationship to the controlling shareholder (if the attendee was not the actual controlling shareholder): ________________ . Was this due to the presentation of a particular topic: ☐ yes ☐ no His rate of attendance[7] at Board meetings held during the Reporting Year for the purpose of presenting a particular topic: _______. Other attendance: ___________. ☐ *Not applicable (the Company has no controlling shareholder).*	✓	

[7] Differentiating between a controlling shareholder, his relative and / or his representative.

DIRECTORS' QUALIFICATIONS AND COMPETENCE

				YES	NO
7.		The Company's Articles of Association contain no provision restricting the possibility of immediately terminating the office of all Company directors who are not external directors (in this context – a resolution passed by an ordinary majority **is not** deemed a restriction).[8] If your reply is "No" (i.e. there is such a restriction), please specify -		✓	
		A.	The term of office for a director specified in the Articles of Association: _________.		
		B.	The majority defined in the Articles of Association for terminating the service of directors: _______ .		
		C.	The quorum for a general meeting defined in the Articles of Association for terminating the service of directors: ___________ .		
		D.	The majority required to change these provisions in the Articles of Association: _________ .		
8.		The Company has a training program for new directors, for its business activities and the laws applicable to the Company and its directors, as well as a plan for follow-up training for serving directors, which is tailored, *inter alia*, to the director's position in the Company. If your reply is "Yes" – please specify whether the program was run during the Reporting Year: ✓ YES ☐ NO		✓	
9.		A.	The Company has defined the minimum number of Board directors who must have accounting and financial expertise. If your reply is "Yes" please specify the minimum number defined: **2**	✓	

[8] A bond issuing company is not required to answer this section.

		B.	Number of directors who served the Company in the Reporting Year: With accounting and financial expertise:[9] **7** With professional qualifications:[10] **11** *If changes were made in the number of directors, as aforementioned, in the Reporting Year, please provide the lowest number (except for the 60-day period from the date of the change) of each class of directors who held office during the Reporting Year.*		
10.		A.	Throughout the Reporting Year, both men and women served on the Board of Directors. If your reply is "No" – please specify the time period (in days) in which this was not the case: __________. *You may reply "Yes" to this question if the Company's Board of Directors did not include men and women for a period that did not exceed 60 days, however all replies (Yes / No) must specify the period (in days) in which the Board did not consist of both men and women:* ___________	✓	
		B.	At the date of publication of this questionnaire, the number of directors of each gender serving on the Board of Directors is: Men: **9**, Women: **2**.	_____	_____

[9] After an assessment by the Board of Directors, based on the provisions of the Companies (Conditions and Examinations for Directors with Accounting and Financial Expertise and Directors with Professional Qualifications) Regulations, 2005.

[10] See Footnote 9.

BOARD OF DIRECTORS MEETINGS (AND CONVENING OF A GENERAL MEETING)

				YES	NO
11.		A.	Number of Board meetings held in each quarter of the Reporting Year: Q1 (2019): **4** Q2: **2** Q3: **4** (including directors training) Q4: **3**	_____	_____
		B.	Next to each of the names of the Board members who served the Company in the Reporting Year, please specify their rate[11] of attendance at Board meetings (in this subsection – including meetings of Board of Directors' committees on which they are members, and as noted below) which took place in the Reporting Year (and with reference to their term of office): *(Please insert additional lines according to the number of directors).* **A table listing the requirements of this section is attached to the questionnaire as Appendix A.**	_____	_____

Director's name	Rate of attendance at **Board meetings**	Rate of attendance at **Audit Committee**[12] meetings	Rate of attendance at meetings of the **Committee for the Review of the Financial Statements**[13]	Rate of attendance at meetings of the **Compensation Committee**[14]	Rate of participation at meetings of **other Board committees of which s/he is a member** (specifying the name of the committee)

[11] See Footnote 2.
[12] For a director who is a member of this committee.
[13] For a director who is a member of this committee.
[14] For a director who is a member of this committee.

12.		In the Reporting Year, the Board of Directors held at least one meeting concerning management of the Company's business by the CEO and his subordinate officers, at which they were not present, and they were given an opportunity to express their opinion.							✓	

SEGREGATION OF DUTIES OF THE CEO [GENERAL MANAGER] AND CHAIRMAN OF THE BOARD					
				YES	**NO**
13.			Throughout the Reporting Year the Company was served by a Chairman of the Board. You may reply "Yes" to this question if the period in which the Company had no Chairman of the Board did not exceed 60 days, as noted in Section 363(a)(2) of the Companies Law, however all replies (Yes / No) must specify the period (in days) in which there was no serving Chairman of the Board: _________.	✓	
14.			Throughout the Reporting Year the Company had a CEO. You may reply "Yes" to this question if the period in which the Company had no CEO did not exceed 90 days, as noted in Section 363(a)(6) of the Companies Law, however all replies (Yes / No) must specify the period (in days) in which there was no serving CEO: _________ .	✓	
15.			In a company in which the Chairman of the Board is also the company's CEO and/or exercises his powers, this dual service was approved in accordance with the provisions of Section 121(c) of the Companies Law.[15] ✓ *Not applicable (insofar as there is no dual service of this kind in the Company).*	Not applicable	Not applicable
16.			The CEO <u>is not</u> a relative of the Chairman of the Board. If your reply is "No" (i.e. – the CEO <u>is</u> related to the Chairman of the Board) -	✓	
		A.	Please specify the family relationship between the parties: _________________.	———	———
		B.	The office was approved under Section 121(c) of the Companies Law:[16]	———	———

[15] In bond issuing companies – approval under Section 121(d) of the Companies Law.
[16] In bond issuing companies – approval under Section 121(d) of the Companies Law.

			☐ YES ☐ NO		
17.		The Company's controlling shareholder or his relative <u>does not</u> hold the position of CEO or senior officer, other than a director. ☐ Not applicable (the Company has no controlling shareholder).		✓	

THE AUDIT COMMITTEE

				YES	NO
18		The following <u>did not serve</u> on the Audit Committee in the Reporting Year -		_____	_____
		A.	Controlling shareholder or his relative. ☐ Not applicable (the Company has no controlling shareholder).	✓	
		B.	Chairman of the Board.	✓	
		C.	Director employed by the Company or by the Company's controlling shareholder or by another company controlled by him.	✓	
		D.	A director who regularly provides services to the Company or the controlling shareholder or a company controlled by him.	✓	
		E.	A director whose principal source of income is from the controlling shareholder. ☐ Not applicable (the Company has no controlling shareholder).	✓	
19.		Meetings of the Audit Committee were not attended by any person who is not eligible to be a member of the Audit Committee, including a controlling shareholder or his relative, during the Reporting Year, other than in accordance with the provisions of Section 115(e) of the Companies Law.		✓	
20.		The quorum for discussing and passing resolutions at all meetings of the Audit Committee held during the Reporting Year was a majority of the committee's members, where a majority of those present were independent directors and at least one of them was an external director. If your reply is "No" – please specify the percentage of meetings at which this requirement was not		✓	

		satisfied: _________ .		
21.	The Audit Committee held at least one meeting in the Reporting Year concerning flaws in the Company's business administration which was attended by the Internal Auditor and external auditors and from which senior officers of the Company who are not Committee Members were absent.		✓	
22.	At all meetings of the Audit Committee that were attended by persons who are not eligible to be a committee member, this was done with the approval of the committee chairman and/or as requested by the committee (with respect to the Corporate Counsel and Company Secretary who are not a controlling shareholder or his relative).		✓	
23.	In the Reporting Year, arrangements were in force determined by the Audit Committee with respect to the manner of handling complaints by Company employees in connection with flaws in its business administration and the defense to be provided to employees who filed such complaints.		✓	
24.	The Audit Committee (and/or the Committee for the Review of the Financial Statements) was satisfied that the scope of the external auditors' work and their fee in relation to the financial statements in the Reporting Year were reasonable for conducting a proper audit and review.		✓	

DUTIES OF THE COMMITTEE FOR THE REVIEW OF THE FINANCIAL STATEMENTS ("THE COMMITTEE") PRIOR TO THE APPROVAL OF THE FINANCIAL STATEMENTS				
			YES	**NO**
25.	A.	Please specify the time period (in days) determined by the Board as reasonable for submitting the Committee's recommendations in preparation for the Board meeting to approve the financial statements: **2**.	____	____
	B.	The actual number of days which passed between submittal of the recommendations to the Board of Directors and the date of the Board meeting at which the financial statements were approved: Q1 (2019): 7 Q2: 14 Q3: 6 Annual report: 9	____	____
	C.	The number of days which passed between submittal of the draft financial statements to the directors and the date of the Board meeting at which the financial statements were approved: Q1 (2019): 7 Q2: 7 Q3: 5 Annual report: 11		
26.	The Company's external auditor attended all meetings of the Committee and Board of Directors that discussed the Company's financial statements relating to the periods included in the Reporting Year. If your reply is "No", please specify his rate of attendance: _______		✓	
27.	Throughout the Reporting Year, until the publication of the annual report, the Committee was in compliance with all the following conditions:		____	____
	A.	The number of Committee members was not less than three (on the date of the Committee meeting and approval of the statements).	✓	

	B.	The Committee met all the conditions prescribed in Section 115(b) & (c) of the Companies Law (with respect to serving Audit Committee members).	✓	
	C.	The Audit Committee chairman is an external director.	✓	
	D.	All the Audit Committee members are directors, and the majority are independent directors.	✓	
	E.	All the Committee's members are capable of reading and understanding financial statements and at least one of the independent directors has accounting and financial expertise.	✓	
	F.	The Committee members provided declarations prior to their appointment.	✓	
	G.	The quorum for discussing and passing resolutions by the Committee is a majority of its members, provided that the majority of those present were independent directors, including at least one external director.	✓	
	If you reply "No" to one or more of the sub-sections in this question, please specify in relation to which report (Periodic / quarterly) the aforementioned condition was not met and the condition that was not met: _________________ .		______	______

COMPENSATION COMMITTEE

				YES	NO
28.		In the Reporting Year, the Committee included at least three members and the external directors formed a majority of the members (on the date of the Committee meeting). ☐ Not applicable (no meetings were held).		✓	
29.		The conditions of the service and employment of all members of the Compensation Committee in the Reporting Year are in accordance with the Companies (Rules Concerning Compensation and Expenses for External Directors) Regulations, 2000.		✓	
30.		In the Reporting Year, the following did not serve on the Compensation Committee -		_____	_____
		A.	The controlling shareholder or his relative. ☐ Not applicable (the Company has no controlling shareholder).	✓	
		B.	Chairman of the Board of Directors	✓	
		C.	A director employed by the Company or by the Company's controlling shareholder or by another company controlled by him.	✓	
		D.	A director who regularly provides services to the Company or to the Company's controlling shareholder, or to a company under his control.	✓	
		E.	A director whose principal source of income is from the controlling shareholder. ☐ Not applicable (the Company has no controlling shareholder).	✓	
31.		In the Reporting Year, the controlling shareholder or his relative did not attend meetings of the Compensation Committee, unless the Committee chair determined that one of them was required to attend to present a specific topic.		✓	

32.		The Compensation Committee and Board of Directors did not exercise their powers under Sections 267a(c), 272(c)(3) and 272(c1((1)(c) to approve a transaction or compensation policy, despite the objection of the general meeting. I your reply is "No", please specify – The type of transaction approved: __________________ The number of times in the Reporting Year that such powers were exercised: ___________	✓	

INTERNAL AUDITOR

		YES	NO
33.	The Chairman of the Board of Directors or CEO of the Company is the entity within the organization responsible for the Internal Auditor.	✓	
34.	The Chairman of the Board of Directors or the Audit Committee approved the work plan in the Reporting Year. Additionally, please specify the audit subjects in which the Internal Auditor was involved in the Reporting Year: **Harel Group's audit topics are derived from the multi-year work plan of Harel Investments and the subsidiaries. The multi-year work plan is based on risk surveys conducted periodically and on the results of audits, organizational changes and events, regulatory updates, etc. in Harel Group. The subjects include the Group's different operating segments which include life assurance, non-life insurance, investments, financial services, information systems, and more.**	✓	
35.	Scope of employment of the Company's Internal Auditor in the Reporting Year (in hours):[17] **As a percentage of a full-time position.**	______	______
	A meeting was held in the Reporting Year (in the Audit Committee or Board of Directors) to discuss the Internal Auditor's findings.	✓	
36.	The Internal Auditor is not an interested party in the Company, his relative, external auditor or any entity acting on their behalf, nor does he have any material business relationships with the Company, its controlling shareholder, his relative or companies under their control.	✓	

[17] Including work hours invested in investee companies and in audits outside Israel, as applicable.

TRANSACTIONS WITH INTERESTED PARTIES

		YES	NO
37.	The controlling shareholder or his relative (including a company under its control) are not employed by the Company and does provide it with management services. If your reply is "No" (i.e. the controlling shareholder or his relative <u>is</u> employed by the Company or provides it with management services) please specify – - the number of relatives (including the controlling shareholder) employed by the Company (including companies under their control and/or controlled through a management company): **4** - whether the said employment agreements and/or management services were approved by the organs prescribed by law: ✓ Yes ☐ No ☐ Not applicable (the Company has no controlling shareholder).		✓
38.	To the best of the Company's knowledge, the controlling shareholder has no other business in the Company's area of activity (in one or more sectors). If your reply is "No" – please specify whether any arrangement is in place to delineate activity between the Company and its controlling shareholder: ☐ Yes ☐ No ☐ Not applicable (the Company has no controlling shareholder).	✓	

Appendix A

Director's name	Board of Directors *	Audit Committee	Committee for the Review of the Financial Statements **	Compensation Committee	Investment Committee
Yair Hamburger	13/13	Not a serving member	Not a serving member	Not a serving member	24/29
Gideon Hamburger	12/13	Not a serving member	Not a serving member	Not a serving member	Not a serving member
Yoav Manor	11/13	Not a serving member	Not a serving member	Not a serving member	Not a serving member
Ben Hamburger	9/13	Not a serving member	Not a serving member	Not a serving member	Not a serving member
Israel Gilad	13/13	6/6	4/4	3/3	Not a serving member
Udi Nissan	13/13	6/6	4/4	3/3	26/29
Yosef Ciechanover	13/13	Not a serving member	Not a serving member	Not a serving member	Not a serving member
Doron Cohen	13/13	6/6	4/4	Not a serving member	Not a serving member
Hava Friedman Shapira	13/13	6/6	3/4	3/3	Not a serving member
Eli Defes	12/13	5/6	3/4	Not a serving member	25/29
Miri Lent Sharir	13/13	6/6	4/4	3/3	Not a serving member

* Including directors training sessions

** From January 1, 2020, the Audit Committee also functions as the Committee for the Review of the Financial Statements.

Yair Hamburger, Chairman of the Board: _________________

Israel Gilad, Chairman of the Audit Committee: ___________________

Harel Insurance Investments and Financial Services Ltd.

Chapter 6

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

---

Annual report concerning the effectiveness of the internal control over financial reporting and disclosure according to Regulation 9B (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, the members of management are:

1. 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.
2. Mr. Arik Peretz - the Company's VP Finance, Deputy CEO and Head of the Finance and Resources Division of Harel Insurance Company Ltd.
3. Ms. Nataly Mishan-Zakai - General Counsel to the Company and the Group's companies, deputy CEO of Harel Insurance Company Ltd.
4. 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.
5. Ms. Osnat Manor Zisman - Internal Auditor of the Company and companies in the Group.
6. 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 under their oversight, or by the person who actually performs these duties, under the oversight of the Company's board of directors. The purpose of the controls and procedures is to provide a reasonable measure of assurance certainty regarding the reliability of financial reporting and preparation of the financial statements pursuant to the provisions of the law, and to ensure that 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.

Management, under the oversight of the board of directors, has checked and evaluated the internal control over the Company's financial reporting and disclosure and its effectiveness; the assessment of the effectiveness of the internal control over financial reporting and disclosure carried out by management, under the supervision of the board of directors, included the implementation of the guiding principles for assessing the effectiveness of internal control over financial reporting and disclosure by management, published by the Israel Securities Authority on 23 November 2010, with reference to the following control components:

For the Company: cash, financial liabilities and other financial investments (based on that carried out within the framework of Harel Insurance Company Ltd.).

For the consolidated statement: Entity Level Controls (ELC), preparation of financial statements, ITGC (IT General Controls designed to support the management and control of information technology and computer related activity).

For the subsidiary - Harel Finance Holdings: ELC, preparation of financial statements, and ITGC.

For Harel Mutual Funds: ELC, preparation of financial statements, ITGC, intangible assets, fund management and compliance with regulations and the directives of the ISA, and dealing with aspects of the controls vis-à-vis a service bureau.

For Harel Exchange Traded Deposit, which is a reporting company: ELC, preparation of financial statements, ITGC and the exercising / conversion of liability notes.

For Harel Financing and Issuing, which is a reporting company: ELC, preparation of financial statements, ITGC and liability notes.

Harel Insurance Company Ltd. and Company subsidiaries are financial institutions to which the instructions of the Commissioner of the Capital Market, Insurance and Savings in the Ministry of Finance apply with respect to the assessment of the internal control over financial reporting.

With respect to the aforementioned subsidiaries, under the supervision of the Board of Directors, management performed a review and assessment of the internal control over financial reporting and its effectiveness, based on:

- Financial Institutions Circular 2010-9-7 from November 2010 - "Internal control over financial reporting – certifications, reports, 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".

Based on this assessment, the Company's board of directors and management concluded that the internal control over financial reporting, with respect to the internal control in the financial institutions at December 31, 2019, is effective.

Based on the assessment of effectiveness conducted by management, under the oversight of the Board of Directors, as stated above, the Company's Board of Directors and management concluded that the internal control over the financial reporting and disclosure at December 31, 2019, is effective.

Certification

I, Michel Siboni, hereby certify that:

(1) I have reviewed the Periodic Report of Harel Insurance Investments and Financial Services Ltd. ("the Company") for 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 statements that 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 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 Company's auditors, to the Board of Directors and the Audit Committee and Financial Reports Committee:

   (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 in accordance with the statutory provisions; 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) Determined these 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 our attention by others in the Company and the subsidiaries, particularly during the preparation of the Reports; and -

   (b) I defined controls and procedures, or ensured that controls and procedures under my supervision are in place, designed to ensure with reasonable certainty that the financial reports are reliable and that they are prepared in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;

   (c) I assessed the effectiveness of the internal control over financial reporting and disclosure, and in this report I have presented the conclusions of the Board of Directors and management regarding the effectiveness of the internal control at the reporting date.

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

March 31, 2020

Michel Siboni
CEO

Certification

I, Arik Peretz, hereby certify that:

(1) I have reviewed the financial statements and other financial information included in the reports of Harel Insurance Investments and Financial Services Ltd. ("the Company") for 2019 ("the Reports").

(2) Based on my knowledge, the financial statements and other financial information included in the Reports contains no misstatement of a material fact nor do they omit any statement of a material fact necessary to ensure that the statements that 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 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 Company's auditors, to the Board of Directors and the Audit Committee and Financial Reports Committee:

(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 financial statements and to any other information contained in the Reports, that might reasonably compromise the Company's ability to record, process, summarize or report financial information in a manner that might cast doubt on the reliability of the financial reporting and preparation of the financial reports in accordance with the statutory provisions; 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) Determined these 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, to the extent that it is relevant to the financial statements and other financial information included in the Reports, is brought to my attention by others in the Company and the subsidiaries, particularly during the preparation of the Reports; and -

(b) Defined controls and procedures, or ensured that controls and procedures under our supervision are in place, designed to ensure with reasonable certainty that the financial reporting is reliable and that the Reports are prepared in accordance with the statutory provisions, including in accordance with generally accepted accounting principles;

(c) Assessed the effectiveness of the internal control over the financial reporting and disclosure, to the extent that it relates to the financial statements and other financial information included in the Reports at the reporting date; my conclusions regarding these assessments were submitted to the Board of Directors and management and form part of this report.

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

March 31, 2020

Arik Peretz
CFO

Harel Insurance Investments and Financial Services Ltd.

Chapter 7

Annexes

1. Harel Insurance Company Ltd. - Certification regarding the disclosure in the financial statements and Report concerning internal control over financial reporting.
2. Harel Insurance Company Ltd. - Actuarial Statement Regarding the General Insurance Sectors.
3. Harel Insurance Company Ltd. - Actuarial Statement Regarding the Health Insurance Sector.
4. Harel Insurance Company Ltd. - Actuarial Statement Regarding Life Assurance Sector.

ANNEX 1

Harel Insurance Company Ltd. -
Certification regarding the disclosure in the financial statements and
Report concerning internal control over financial reporting

Certification

I the Undersigned, Michel Siboni, certify that:

1. I have reviewed the annual report of Harel Insurance Company Ltd. (“the Insurance Company”) for 2019 (“the Report”).
2. Based on my knowledge, the Report contains no misstatement of a material fact nor does it omit any material fact necessary to ensure that the statements that 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 Report.
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, changes in equity and cash flows of the Insurance Company at the dates and for the periods covered in the Report.
4. I and others in the Insurance Company who submit this Certification are responsible for determining and maintaining the controls and procedures with respect to the disclosure and internal control over financial reporting[1] of the Insurance Company, and we also -

   A. Determined these controls and procedures, or ensured that such controls and procedures are determined and in place under our oversight, for the purpose of ensuring that material information relating to the Insurance Company, including its subsidiaries, is brought to our attention by others in the Insurance Company and in those subsidiaries, particularly during the preparation of the Report;

   B. We determined internal control over financial reporting, or we supervised the determination of internal control over financial reporting the purpose of which is to provide 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 IFRS and the directives of the Commissioner of the Capital Market;

   C. We evaluated the effectiveness of the controls and procedures with respect to the Insurance Company's disclosure, and presented our conclusions regarding the effectiveness of the disclosure controls and procedures, as at the end of the period covered in the Report based on our evaluation; and –

   D. We disclosed in the Report any change in the Insurance Company's internal control over the financial reporting that took place in the fourth quarter that materially affected, or may reasonably be expected to materially affect, the Insurance Company's internal control over financial reporting, and

5. I and others in the Insurance Company who submit this Certification disclosed to the external auditors, to the Board of Directors and to the Audit Committee of the Insurance Company's Board of Directors, based on our most recent evaluation of the internal control over financial reporting:

   A. Any significant deficiencies and material weaknesses in the determination or operation of the internal control over financial reporting, that may reasonably be expected to affect the Insurance Company's ability to record, process, summarize and report financial information; and –

   B. Any fraud, whether material or immaterial, that involves Management or other employees who hold a significant role in the Insurance Company's internal control over financial reporting.

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

March 31, 2020

Michel Siboni
CEO

[1] According to their definition in the financial institutions circular concerning the internal control over financial reporting – certification, reports and disclosures.

Certification

I the Undersigned, Arik Peretz, hereby certify that:

1. I have reviewed the annual report of Harel Insurance Company Ltd. ("the Insurance Company") for 2019 ("the Report").
2. Based on my knowledge, the Report contains no misstatement of a material fact nor does it omit any material fact necessary to ensure that the statements that 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 Report.
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, changes in equity and cash flows of the Insurance Company at the dates and for the periods covered in the Report.
4. I and others in the Insurance Company who submit this Certification are responsible for determining and maintaining the controls and procedures with respect to the disclosure and internal control over financial reporting[1] of the Insurance Company, and we also -

   A. Determined these controls and procedures, or ensured that such controls and procedures are determined and in place under our oversight, for the purpose of ensuring that material information relating to the Insurance Company, including its subsidiaries, is brought to our attention by others in the Insurance Company and in those subsidiaries, particularly during the preparation of the Report;

   B. We determined internal control over financial reporting, or we supervised the determination of internal control over financial reporting the purpose of which is to provide 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 IFRS and the directives of the Commissioner of the Capital Market;

   C. We evaluated the effectiveness of the controls and procedures with respect to the Insurance Company's disclosure, and presented our conclusions regarding the effectiveness of the disclosure controls and procedures, as at the end of the period covered in the Report based on our evaluation; and –

   D. We disclosed in the Report any change in the Insurance Company's internal control over the financial reporting that took place in the fourth quarter that materially affected, or may reasonably be expected to materially affect, the Insurance Company's internal control over financial reporting, and

5. I and others in the Insurance Company who submit this Certification disclosed to the external auditors, to the Board of Directors and to the Audit Committee of the Insurance Company's Board of Directors, based on our most recent evaluation of the internal control over financial reporting:

   A. Any significant deficiencies and material weaknesses in the determination or operation of the internal control over financial reporting, that may reasonably be expected to affect the Insurance Company's ability to record, process, summarize and report financial information; and –

   B. Any fraud, whether material or immaterial, that involves Management or other employees who hold a significant role in the Insurance Company's internal control over financial reporting.

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

March 31, 2020

Arik Peretz
VP Finance & Resources

[1] According to their definition in the financial institutions circular concerning the internal control over financial reporting – certification, reports and disclosures.

Report by the Board of Directors and Management concerning the internal control over financial reporting

Management, under the oversight of the Board of Directors of Harel Insurance Company Ltd. ("the Insurance Company") is responsible for defining and maintaining due internal control over financial reporting. The Insurance Company's internal control system was designed to provide the Board of Directors and Management with a reasonable measure of certainty with respect to the proper preparation and presentation of the financial reports published in accordance with IFRS and the directives of the Commissioner of the Capital Market, Insurance and Savings. Irrespective of the quality of their planning, all the internal control systems have inherent limitations. Consequently, even if it is determined that these systems are effective, they are only able to provide a reasonable measure of certainty with respect to the preparation and presentation of a financial report.

Management, under the oversight of the Board of Directors, maintains a comprehensive control system designed to ensure that transactions are performed as per Management's authorization, that assets are protected, and accounting records are reliable. Furthermore, Management, under the oversight of the Board of Directors, takes steps to ensure that the channels of information and communications are effective and that performance, including implementation of internal control procedures, is monitored.

Management of the Insurance Company, under the oversight of the Board of Directors, assessed the effectiveness of the Insurance Company's internal control over financial reporting at December 31, 2019, based on the criteria prescribed in the COSO (Committee of Sponsoring Organizations of the Treadway Commission) internal control model. Based on this assessment, Management believes that at December 31, 2019, the Insurance Company's internal control over financial control is effective.

Chairman of the Board of Directors:	Yair Hamburger	Signature: ___________________
CEO:	Michel Siboni	Signature: ___________________
VP Finance & Resources	Arik Peretz	Signature: ___________________

Date of approval of the Report: March 31, 2020

ANNEX 2

Harel Insurance Company Ltd. -
Actuarial Statement Regarding the General Insurance Sectors

Actuarial Statement regarding the General Insurance Sectors

Section 1 – The actuary

I was requested by Harel Insurance Company Ltd. ("the Company") to assess the provisions listed in Section 2 below in the general insurance sectors for the Company's financial statements as at 31st December 2019, as specified below.

I am a salaried employee of the Company. I am not a party at interest in the Company, in any subsidiary of the company or in any affiliated company and I do not have any business connections with the company, with any party at interest in it or with a relative of any party at interest in it, with any subsidiary of the company or with any affiliated company. Likewise, I am not an employee or permanent adviser of a subsidiary of the company or of an affiliated company or any other party who provides various services to the company.

I took up this position on 1st August 2003.

Section 2 – Scope of the actuary's opinion

A. In computing the insurer's provisions I relied on data provided by the insurer. My requests for information and data were met adequately for the purpose of evaluating the provisions for the financial statements.

   I reviewed the feasibility and adequacy of the data, and I also compared the said data with those for the year addressed by the statement as well as for previous years.

B. Where necessary, my assessment was based on data obtained from other reliable sources. I reviewed the extent to which the data were appropriate and relevant.

C. The actuarial assumptions that I used in my work, as well as the methods used to assess the provisions in the sectors listed below were set by me, to the best of my professional judgment, and subject to the provisions, instructions and rules specified in Section 3, Para.1 below.

D. In computing the retention, I asked the Company's entities responsible for reinsurance for information regarding its reinsurance arrangements, the ability to collect claims and problems with the reinsurers' payment policies. Based on the information I received, I reviewed the repercussions and impact of the reinsurance arrangements on the provisions.

E. My opinion also took the following issues into account:

   1. The provision in respect of the retention insurance arrangement (the Pool) was based on the calculation made by the Pool.

2. The provision for co-insurance, where the Company is not the leading insurer, was computed by me, excluding in the mortgage bank sector where the provision was based on a calculation prepared by the lead insurers in the co-insurance.

3. The lack of correlation between the different sectors was not taken into account for the purpose of reducing the overall provision for outstanding claims for all the sectors included in my evaluation.

F. Following is an assessment of the sum of the provisions at 31 December 2019:

		Gross Provision (NIS million)	Net Provision (NIS million)
	Outstanding Claims		
F.1.a	Non-Aggregated Sectors		
	Comprehensive household incl. mortgage banks	89	13
	Motor property	205	197
	Compulsory motor	2,581	2,464
	Employers' liability	668	627
	Third party liability	1,125	393
	Professional Indemnity (including Medical Malpractice and Directors and Officers)	3,398	2,125
	Products liability	111	41
	Total for Non-Aggregated Sectors	8,178	5,859
F.1.b	Total for Aggregated and Non-Aggregated Sectors	8,348	5,882
F.2	Unallocated Loss Adjustment Expenses - All Sectors	146	146
	Unearned Premium Reserve less Deferred Acquisition Costs	522	426
F.3	Premium Deficiency		
	Compulsory motor	Not Required	***
	Motor property	Not Required	None
	Comprehensive household	Not Required	None
	Total Insurance Liabilities in Non-Life Sector estimated by actuarial analysis	7,972	5,602

* The aggregated sectors include: loss of property, comprehensive business, engineering, agriculture, cargo and goods in transit, and marine and aviation.

** In the compulsory motor and liabilities sectors the reserve for outstanding claims and claims expenses includes all the exposure for all annual underwriting periods, and therefore includes allowance for the unexpired period of cover.

*** In the compulsory motor sector, an amount of NIS 6.8 million is included in net outstanding claims in respect of the premium deficiency.

Section 3 – The Opinion

Positive opinion

I hereby state and confirm that in the following sectors: comprehensive household (including mortgage banks), motor property, compulsory motor, employers' liability, third-party liability, professional indemnity (including medical malpractice and directors and officers), products liability, loss of property, comprehensive business, engineering, agriculture, cargo and goods in transit, marine and aviation and incoming business:

1. I assessed the Company's provisions specified in Chapter 2 in accordance with the provisions, instructions and rules listed below, and as valid on the date of the financial statement:
   A. Provisions of the Supervision of Financial Services (Insuarnce) Law, 5741-1981;
   B. Provisions and instructions issued by the Supervisor of Capital Markets;
   C. The viewpoint of the Supervisor regarding the calculation of provisions in General Insurance
   D. Accepted actuarial practice.
2. After reviewing the information mentioned in Section 2, I concluded that the data are reasonable and adequate, and that they can be relied on for the purpose of my assessment.
3. The assumptions and methods used to assess the provisions were determined by me, to the best of my professional discretion and in line with the provisions, instructions and rules specified above.
4. As far as I am aware, the provision for outstanding claims specified in Section 2 in respect of the non-aggregated sectors comprehensive household (including mortgage banks), motor property, compulsory motor, employers' liability, third-party liability, professional indemnity (including medical malpractice and directors and officers) and products liability constitutes an appropriate reserve for covering the insurer's liabilities in respect of the unpaid claims as listed above, for each sector separately, as valid on the date of the financial statements.
5. As far as I am aware, the provision for outstanding claims specified in Section 2 constitutes an appropriate reserve for covering the insurer's liabilities in respect of the unpaid claims as listed above, in total for the aggregated and non-aggregated sectors as grouped, as valid on the date of the financial statements.
6. As far as I am aware, the provision for unpaid unallocated loss adjustment expenses specified in Section 2 constitutes an appropriate reserve for covering the insurer's liabilities in respect of the unpaid unallocated loss adjustment expenses, as valid on the date of the financial statements.
7. As far as I am aware, the provision for premium deficiency specified in Section 2 constitutes an appropriate reserve for covering the insurer's liabilities in respect of the difference between the net

unexpired risk and the net unearned premium (where such a deficiency exists) in the sectors listed, as valid on the date of the financial statements.

Section 4 – Comments, clarifications

Statistical limitations

The actuarial calculation contains an element of statistical uncertainty. Consequently, even if the distribution of the claims remains unchanged, the ultimate cost of the claims may be different from the actuarial assessment and this even though fluctuations and changes in the actual calculation are reflected in the actuarial assessment.

Exposure to future changes and developments

Furthermore, there may be other changes in the future regarding risks, policyholder behavior, social and environmental factors, court rulings and precedents and economic changes that cannot be predicted in advance and are not under the control of the Insurer. All of these may affect the actuarial assessment and the ultimate cost of the claims.

Medical Malpractice

This sector is characterized by an extended duration of claims settlement. This greatly increases the uncertainty and possible deviation in the actuarial assessment. The provision for Unallocated Loss Adjustment Expenses allow also for the fact that claims handling is carried out by external claims settlement companies.

Sectors excluded from the Actuarial Assessment

An actuarial assessment is a statistical process whereby the fitting of a statistical model is dependent on the availability of sufficient historic data broken down into homogeneous groups. In the following sectors it was not possible to provide an actuarial assessment for the following reasons:

In the Contractors sector the variety of covers and the type and size of claims, all in relation to the size of the sector, do not allow the breakdown into sufficiently large homogeneous groups.

In the Natural Disasters, Terror, Surety and Other Incoming Business sectors the portfolio is too small and there is not sufficient historic data on which to base an actuarial model.

Recommendations of the Vinograd Committee

The effect of implementing the Vinograd committee recommendations regarding the interest rate used for discounting National Insurance benefits has been taken into consideration in the Actuarial estimates.
At the request of the Supreme Court, in April 2018, an inter-ministerial committee was chaired by Mr. Erez Kaminitz, Deputy Attorney General (Civil Law) to examine the issue of capitalization in tort and all

its consequences (hereinafter "the Kaminitz Committee"). In June 2019, the final conclusions of the Kaminitz committee were published among other things, determining a uniform discount rate of 3% (the return given in low-risk investment channels) and a rigid mechanism for updating the discount rate to be established, if necessary, by the Accountant General. To that end, the Kaminitz Commission decided to set a "bandwidth" of +/- 1% with a uniform discount rate of 3% in the middle. Exceeding the band will trigger a near-automatic discount rate adjustment. For the purpose of examining whether a deviation from the "mobility band" occurred, the Accountant General will examine once every two years what is the return on investment in AA corporate bonds for a 25-year period, and if the yield exceeds +/- 1% for the last six months prior to the exam, the update as mentioned will be activated.

On June 24, 2019, a hearing was held in the Supreme Court in which the court suggested that (1) the discount rate under the NII regulations be 3% (2) regulations will be issued by the Finance Minister according to which the NII will receive from the insurers a fixed amount, which takes into account 3% discounted interest rate (3) Until the NIIs capitalization regulations are amended, Insurance Companies in the Association are willing to accept the court's offer, according to which the NII's pension will be deducted from the compensation they pay for the damages at the rate of interest used to capitalize the compensation, ie - 3 %, and this in respect of claims that have not yet been adjudicated and as long as the discount rate according to the NII regulations is 2%.

On August 8, 2019, the Supreme Court's decision regarding the capitalization rate of damages for bodily injury in tort was granted, whereby the said discount rate would continue to stand at 3% until a different decision was made by the legislature, unless changes were required in accordance with the mechanism proposed for this in the Kaminitz Committee report above. As a result of the decision, a decrease in insurance liabilities of NIS 260 million in the retention before tax, of which c. NIS 158 million in the retention was for Compulsory Motor Bodily Injury and of which c. NIS 102 million in retention was for Other Liability lines.

On August 18, 2019, an application was filed by the plaintiff to extend the time for filing a petition for further hearing on the issue.

<u>Change in method of calculation between the National Insurance Institute (NII) and Insurance companies</u>

On the 18th January 2018 a summary of the Economic Efficiency Law (Change in Legislation to achieve the Budget targets for 2019) 5778-2018 was published setting out a change to the method of calculation between the NII and the Insurance Companies regarding Road Accidents, such that the existing right of subrogation to the NII will be cancelled and a procedure will be established such that a fixed amount will be transferred by the insurance companies each year to the NII. The Minister of Finance will fix by regulation instructions regarding the amount to be transferred to the NII.

Regarding accidents which occurred between 1/1/2014-31/12/2018 and for which no claim has been presented by the NII up to 1/1/2019, the Minister of Finance will establish a lump sum payment to be made by Insurance Companies to the NII in respect of these claim, the spreading of such payment and the amount to be paid by each insurance company. At this stage it is not know the amount of any payment to be made by the company to the NII, however the outstanding claims provision (in the Compulsory Motor branch) does make some provision based on past experience.

Viewpoint of the Commissioner – Best Practice

The Commissioner's viewpoint regarding the best practice for calculating provisions in General Insurance determines, amongst other things, that "an appropriate reserve for covering the insurer's liabilities" as required in section 3 above, is such that it is "fairly likely" that the insurance liability in the retention as calculated is sufficient to cover the insurer's liabilities. Regarding outstanding claims in Liability and Motor Bodily Injury branches, the method to be used for testing "fairly likely" is such that is intended to represent, at least, the 75% percentile. The appropriate rate of discount is in line with the risk-free curve adjusted for the illiquidity of the liabilities. Similarly, consideration should be given to the way in which the assets backing the liabilities are valued in the financial statements.

The Commissioner stated however that where limitations of the statistical analysis arise in calculating the sources of risk and required margin, the actuary should exercise judgment together with possible use of accepted actuarial methods. The Commissioner acknowledged that as at the time of the publication of the viewpoint, statistical limitations did exist when analyzing the systemic risk.

Due to the absence of suitable statistical models, the assessment of the systemic risk requires a high degree of judgment regarding the potential impact of matters that might, or might not, occur in the future. I have made my judgments professionally and using my best efforts. It should be understood that there is a high degree of subjectivity in my assessment and that a different actuary, operating in the same circumstances, might make different judgments and might therefore estimate total provisions at a 75% confidence level that are different from those that I have estimated, perhaps materially different.

The Best Practice viewpoint, after allowing for the decrease in the risk-free interest rate curve during the report period, and after considering the difference between the fair value and book value of non-tradable assets, resulted in an increase in insurance liabilities in the Liabilities and Compulsory Motor lines of approximately NIS 183 million before tax.

March 31, 2020 ______________________________

Date Jeffrey Cohen F.I.A., F.Il.A.A

ANNEX 3

Harel Insurance Company Ltd. -
Actuarial Statement Regarding the Health Insurance Sector

Harel Insurance Company Ltd.

Health Insurance Sector - Actuary's Statement

Chapter 1 - Identity of Appointed Actuary

I was asked by Harel Insurance Company Ltd. ("the Insurer") to assess the provisions specified in Chapter 2 below in the health insurance sector for the Insurer's financial statements as at December 31, 2019, as detailed below.

I am a salaried employee of the Insurer. I am not a stakeholder in the Insurer or any related company.

I was appointed to this position on April 7, 2013.

Chapter 2 - Scope of Actuarial Opinion

1. Actuarial Opinion

For the purpose of calculating the insurer's provisions, I relied on the data that I received from the insurer. My requests for information and data were met adequately for the purpose of assessing the provisions for the financial statements. I reviewed the reasonability and adequacy of the data, including comparing the said data with the data for the year to which the statement refers and to the data for previous years.

Where necessary, my assessment also relied upon data received from other reliable sources. I reviewed the consistency and adequacy of the data and its relevance.

The actuarial assumptions that were used, as well as the methods for evaluating the provisions noted above were determined by me, to the best of my professional judgment, subject to the instructions, directives and standards specified in Chapter 3, Paragraph 1, hereunder.

In order to calculate the retention, I requested and received from the entities responsible for the insurer's reinsurance, information concerning the insurer's reinsurance arrangements, the ability to collect claims, and problems with the reinsurers' payment policy. Based on this information, I reviewed the impact of the reinsurance arrangements on the reserves held.

My opinion also took into consideration the following:

The reserve calculated for incoming business from Interasco was not calculated by me and is not material. The reserve calculated for incoming business from Clal Insurance Company was based on the calculation of Clal's actuary. In this instance, "incoming business" is in accordance with its definition in the Control of Insurance Business (modes of calculating provision for future claims in non-life insurance) Regulations, 5745-1984.

2. Reserve Estimate included in this Actuarial Opinion

The following is a summary of the Reserves held (in thousands NIS) Gross and Net of Reinsurance.

`

Reserves Gross of Reinsurance

Statement	Reserve Type	Individual**	Group**	Total
Life	Contract Reserves*	28,118	-	28,118
	Indirect Expenses Reserve	-	-	-
	Pending Claims, including IBNR	63,085	-	63,085
Total Life		91,203	-	91,203
Health	Contract Reserves*	835,632	105,986	941,618
	Indirect Expenses Reserve	10,769	6,915	17,684
	Pending Claims, including IBNR	423,674	380,653	804,327
Total Health		1,270,075	493,554	1,763,629
Total Life & Health		**1,361,278**	**493,554**	**1,854,832**

Reserves Net of Reinsurance

Statement	Reserve Type	Individual**	Group**	Total
Life	Contract Reserves*	28,118	0	28,118
	Indirect Expenses Reserve	0	0	0
	Pending Claims, including IBNR	49,050	0	49,050
Total Life		77,168	0	77,168
Health	Contract Reserves*	832,735	105,986	938,721
	Indirect Expenses Reserve	10,769	6,915	17,684
	Pending Claims, including IBNR	405,732	350,401	756,133
Total Health		1,249,236	463,302	1,712,538
Total Life & Health		**1,326,404**	**463,302**	**1,789,706**

* Includes future profitability that was attributed to the liabilities, resultant from the acquisition of the Eliahu portfolio in 2013.

** The numbers do not include UPR of 139 million NIS gross and 111 million NIS net .

2. Influence of changes on the reserves

1) With regard to policies that became effective after the end of the period of the last annual financial report – the adjustment sum of the reserves emanating from the differences between the assumed basic premium and the assumed gross reserve basis is immaterial for business reported in the Health sector.

With regard to policies that became effective after the end of the period of the last annual financial report – the adjustment sum of the reserves emanating from the differences between the assumed basic premium and the assumed gross reserve basis is immaterial for non-LTC reserves reported on the Life financial statement.

2) With regard to policies which became valid before the end of the period of the last annual financial report – the adjustment sum of the reserves emanating from the differences between the assumptions, systems or anticipated premium level to be collected and from other amendments for business which is reported in the Health sector: an decrease of approximately 112 million NIS, as described below in chapter 4.

With regard to policies which became valid before the end of the period of the last annual financial report – the adjustment sum of the reserves emanating from the differences between the assumptions, systems or anticipated premium level to be collected and from other amendments for non-LTC reserves reported on the Life financial statement is immaterial.

Chapter 3 - The Opinion

I hereby declare and confirm that in the following health insurance sub-sectors: medical expenses, foreign workers, critical illness, dental, overseas travel, and personal accident:

1. I assessed the insurer's provisions as specified in Chapter 2, in accordance with the instructions, directives and regulations noted hereunder, and all as valid on the date of the financial statements:

   A. Provisions of the Control of Insurance Business Law, 5741-1981, and its subsequent regulations;

   B. Instructions of the Commissioner of Insurance;

   C. Accepted actuarial standards.

2. After reviewing the data described in Chapter 2, I concluded that the data is reasonable and adequate, and that it can be relied upon for the purpose of my assessment.

3. The assumptions and methods for evaluating the provisions were determined by me to the best of my professional judgment and experience and in accordance with the instructions, directives and standards noted above.

4. As far as I am aware and in my opinion, the provisions specified in Chapter 2, form an adequate reserve for covering the insurer's commitments in respect of its liability arising from health insurance contracts associated with the health sub-sectors noted above, valid as of the date of the financial statement.

For your peace of mind | HAREL Insurance & Finance

Chapter 4 - Comments, Clarifications

Statistical limitation

Actuarial calculations incorporate an inherent statistical uncertainty. Therefore, even if there is no change in the distribution of claims, the final cost of the claims may differ from the actuarial assessment and this notwithstanding the fact that the actuarial assessment incorporates an expectation of variance of the actual liabilities.

Exposure to future changes and developments

There is some uncertainty in health insurance with regard to predicting the cost of claims that are affected by several parameters that are impossible to forecast, for example: changes in morbidity and/or incidence rates, cancellations, changes in the basket of health services and medical inflation, Finance Ministry policy, reinsurers' policy, as well as social and environmental factors.

Material changes

a. The company updated its mortality assumption in the medical expenses line of business, following the 2019-1-10 insurance circular, which deals with "Amendment of the Consolidated Provisions on Measurement of Liabilities - Updating the Life Insurance Demographic Assumptions and Updating the Mortgage Improvements Model for Insurance Companies and Pension Funds." As a result, the gross reserves balance increased by about NIS 28 million.
b. The company updated the morbidity assumption in the medical expenses line of business, pursuant to a morbidity study in 2019. As a result, there was a 140 million NIS decrease in the reserves.

March 31, 2020 ______________________________

Date Jonathan Brody F.IL.A.A.

ANNEX 4

Harel Insurance Company Ltd. -
Actuarial Statement Regarding Life Assurance Sector

Harel Insurance Company Ltd.

Actuarial Division

Actuary's Declaration – Life Insurance

Chapter A – Identity of the Actuary

I was requested by Harel Insurance Company Ltd. (hereinafter the Insurer) to assess the provisions in Life Insurance specified in Chapter B hereunder for the Financial Statements (hereinafter – the Provisions) as at December 31, 2019, as detailed hereunder.

I am a salaried employee of the Insurer. I am not a stakeholder in the Insurer, its subsidiary or in a related company and I have no business relationship with the Insurer, with an interested party or a family member of an interested party or its subsidiary or related company to it. Also, I am not a regular employee or consultant of a subsidiary of the Insurer or related company of the Insurer or other entity that provides various services to the Insurer.

I was appointed to this position by the Insurer on June 22nd, 2017.

Chapter B – Extent of the actuarial opinion

1. Extent of the actuarial opinion.
   a. For the purpose of calculating the Insurer's Provisions, I relied on the data that I received from the Insurer. My requests for information and data were met adequately for the purpose of assessing the provisions for the financial statements. I reviewed the reasonability and adequacy of the data, including comparing the said data with the data for the year to which the statement refers and the data for previous years.
   b. Where necessary, my assessment also relied on data received from other reliable sources. I reviewed the consistency and adequacy of the data and their relevance.
   c. The actuarial assumptions that I used in my work, as well as the methods for evaluating the provisions detailed below were determined by me, to the best of my professional judgment, and this subject to the instructions, directives and standards specified in paragraph 1 of Chapter C hereunder.
   d. In order to calculate the retention, I asked the competent entities responsible for the Insurer's reinsurance for information concerning the Insurer's reinsurance arrangements, the ability to collect claims, and problems with the reinsurers' payment policy. Based on the information that I received, I reviewed the impact and repercussions of the reinsurance arrangements on the provisions.
   e. My opinion also took into consideration the following:

      The Insurer has no "incoming business". For this purpose, "incoming business" as defined in the Insurance Business (Calculation methodology of provisions for future claims in general insurance) Law - 1984.
      For co-insurance where the Insurer is not the leading insurer, calculation of the reserve was based on the calculation prepared by the actuaries for the leading insurers.

2. Data attached to the scope of the actuarial opinion

a. Forms 12A and 12B, attached, detail the amounts of the Provisions in thousands of NIS, at both gross and retention level, as follows:

1) Provision for outstanding claims (claims that occurred but have not yet been paid in full, whether or not they have been approved, excluding claims paid in the form of annuity, for example: Long Term Care, Permanent Health Insurance and Family Income Benefit) without the direct and indirect expenses resulting from them (including provision for claims for which the insurer has not yet received a report).

2) Provision (reserve) arising from the conditions of the insurance contract in life insurance separately, including:

a) Reserve for a plan with accrual;
b) Provision required where part of the premium collected in the contract's early years is designated to provide future cover at a later date, for example: provision in respect of a fixed premium, insurability and continuity;

3) Part of the reserve in respect of claims in payment, including claims paid in the form of an annuity, such as: Long Term Care (LTC), Permanent Health Insurance (PHI) and Family Income Benefit (FIB).

4) Supplement arising from the Liability Adequacy Testing (LAT) of the reserves – after testing I concluded that there was need for a supplement of approximately 720 million NIS in the life line of business and 425 million NIS in the LTC line of business.

5) Additional provisions in accordance with the Commissioner's instructions, for example: supplementing the reserve for Annuity policies in accordance with Commissioner's Circular 2013-1-2, from March 6th, 2013.

b. The impact of the changes specified below on the provisions, at both gross and retention level:

1) For policies that took effect after the end of the last annual reporting period – the adjusted amount of the provisions, resulting from the differences between the assumptions underlying the premium and the assumptions underlying the provision – no such adjustment was necessary.

2) For policies that took effect before the last annual financial statements – the adjustment reserves which is due to changes in the assumptions, methods or premium expected to be collected: increase of approximately 578 million NIS in gross reserves.

Chapter C – The opinion

I hereby declare and confirm that in the Life Insurance sector:

1. I have assessed the Insurer's Provisions as specified in Chapter B, in accordance with the instructions, directives and standards noted hereunder, and all as valid on the date of the financial statements:

a. Provisions of the Supervision of Financial Services (Insurance) Law, 5741-1981, and its subsequent regulations;

b. Instructions and directives of the Commissioner of Insurance;

c. Accepted actuarial standards.

2. After reviewing the data noted in Chapter B, I concluded that the data are reasonable and adequate, and that they can be relied upon for the purpose of my assessment.
3. I determined the assumptions and methods for evaluating the Provisions to the best of my professional discretion and in accordance with the instructions, directives and standards noted above.
4. In my opinion, the provisions specified in Chapter B, form an adequate reserve for covering the insurer's undertakings in respect of its liability arising from life insurance contracts valid on the date of the Financial Statements.

Chapter D – Comments and clarifications

1. Comments and clarifications

a) The future profits of the life portfolio acquired from the Eliahu Insurance Company limited was deducted from the provisions calculated by me. There were no other adjustments in the insurance provisions calculated by me.

b) Details regarding the various reserves, interest rates etc. are included in the Notes to the Financial Statements.

c) Due to the fact that the breakdown of the data that appears in Forms 12A and 12B is based on a separation of policy components (covers sold in the policy), this breakdown does not necessarily correspond with the data in the Company's Financial Statements and Notes to the Financial Statements, where the breakdown of the data is based on data at policy level.

d) In the same matter, the forms reflect the total liabilities, excluding daughter companies, in respect of insurance contracts and investment contracts and prior to reducing the liabilities in respect of insurance for the Insurer employees, a reduction required in accordance with paragraph 4 (b), IFRS 4.

e) Statistical limitations
There is a statistical uncertainty in the process of actuarial calculation. Consequently, even if there is no change in the breakdown of claims, the final cost of the claims may differ from the actuarial assessment, and this notwithstanding the fact that the actuarial assessment took into account fluctuations in and the variance of the actual calculation.

f) Exposure to future changes and developments There may be changes and developments in the future regarding aspects of the insurance market in Israel resulting from regulatory changes, court rulings, technological developments and social or environmental changes that cannot be predicted and may affect the actuarial assessment of the provisions.
There is some uncertainty in projecting the cost of claims that are affected by several parameters that are impossible to forecast, for example: changes in morbidity and/or incidence rates, cancellations, changes in the basket of health services and medical inflation, Finance Ministry policy, reinsurers' policy and social and environmental factors.

2. Material changes

During the report period the following changes were implemented:

a. The company updated the lapse assumption in the Life line of business, pursuant to a study in 2019. As a result, there was a 27 million NIS increase in the reserves.
b. The company updated the mortality assumption in the life line of business, in accordance with Commissioner's Circular 2019-1-10. As a result, there was a 91 million NIS increase in the gross reserves.
c. The company updated the mortality assumption in the long term care line of business, in accordance with Commissioner's Circular 2019-1-10. As a result, there was a 98 million NIS decrease in the gross reserves.
d. The company updated its interest rate assumption in the long term care line of business, following the fall in the interest rate in 2019. As a result, gross reserves increased by NIS 558 million.

March 31st , 2020	Jonathan Brody, F.IL.A.A.	___________
Date	Appointed Actuary's Name	Signature

Attached: Form 12A: Outstanding claims, reserve and reserve for extraordinary risks – gross
Form 12B: Outstanding claims, reserve and reserve for extraordinary risks – in retention

For your peace of mind | HAREL Insurance & Finance

Form 12A - Outstanding claims, reserve, and reserve for extraordinary risks - gross

Company Name: Harel Insurance Company Ltd *31/12/19*

in NIS 000

			Total	Savings and Death Risk (Traditional Insurance)		Pure Savings or Savings Component (Adif, Unit Linked)		Risk - Pure Death or Death Component		PHI	LTC		Other Covers (1)
				Guaranteed Yield	Profit Participating	Guaranteed Yield	Profit Participating	Individual	Group		Individual	Group	
				1a	1b	2a	2b	3a	3b	4	5a	5b	6
1	Outstanding Claims		408,248	17,983	6,257	6,641	92,789	121,328	81,816	0	0	0	81,434
2	Reserve (Total Rows 2a1 to 6)		83,311,362	2,209,264	1,078,065	8,737,403	59,371,119	249,050	83,403	1,793,319	4,438,686	5,235,838	115,216
2a1	Policies including Savings Component (Including Riders) by Issue Date of Policy.	Policies issued until 1990	6,227,428	1,473,468	8,535	4,556,050	178,104	2,228	0	7,471	0	0	1,571
2a2		Policies issued between 1991 to 2003	21,879,930	0	997,973	0	20,798,514	4,602	0	72,536	0	0	6,305
2a3		Policies issued after 2004	35,281,086	0	67	30,218	35,112,853	11,273	0	122,804	0	0	3,871
2a4		Total (2a1 to 2a3)	63,388,444	1,473,468	1,006,576	4,586,268	56,089,471	18,103	0	202,812	0	0	11,747
2b	Policies without Savings Component		5,789,899	0	0	0	0	230,094	83,403	133,161	3,278,565	1,961,208	103,469
3	Part of Reserves in respect of Claims in Payment		11,901,127	624,044	57,495	2,869,191	2,882,312	853	0	1,457,347	735,256	3,274,630	0
4	Profit Participating		0	0	0	0	0	0	0	0	0	0	0
5	Addition resulting from Liability Adequacy Testing		1,145,032	0	0	720,166	0	0	0	0	424,865	0	0
6	Other		1,086,860	111,752	13,995	561,778	399,336	0	0	0	0	0	0
7	Reserve for Extraordinary Risks		0	0	0	0	0	0	0	0	0	0	0

(1) Other Covers, including Disability, Double Indemnity, etc.

8a	Effect of Adjustment of Reserves in respect of New Business		0	0	0	0	0	0	0	0	0	0	0
8b1	Effect of Adjustment of Reserves in respect of Existing Business	Changes in Assumptions	578,494	18,192	1,234	43,146	55,731	0	0	0	453,366	6,825	0
8b2		שינויים בשיטות	0	0	0	0	0	0	0	0	0	0	0
8b3		הבדלים בגובה הפרמיה	0	0	0	0	0	0	0	0	0	0	0
8b4		שינויים אחרים	0	0	0	0	0	0	0	0	0	0	0

For your peace of mind | HAREL Insurance & Finance

Form 12B - Outstanding claims, reserve, and reserve for extraordinary risks - in Retention

Company Name: Harel Insurance Company Ltd ***31/12/19***

in NIS 000

			Total	Savings and Death Risk (Traditional Insurance)		Pure Savings or Savings Component (Adif, Unit Linked)		Risk - Pure Death or Death Component		PHI	LTC		Other Covers (1)
				Guaranteed Yield	Profit Participating	Guaranteed Yield	Profit Participating	Individual	Group		Individual	Group	
				1a	1b	2a	2b	3a	3b	4	5a	5b	6
1	Outstanding Claims		383,932	17,198	6,257	6,641	92,215	115,964	81,816	0	0	0	63,841
2	Reserve (Total Rows 2a1 to 6)		82,255,950	2,209,059	1,078,047	8,737,225	59,370,529	245,365	83,403	1,619,765	3,756,836	5,050,420	105,302
2a1	Policies including Savings Component (Including Riders) by Issue Date of Policy.	Policies issued until 1990	6,227,428	1,473,468	8,535	4,556,050	178,104	2,228	0	7,471	0	0	1,571
2a2		Policies issued between 1991 to 2003	21,879,930	0	997,973	0	20,798,514	4,602	0	72,536	0	0	6,305
2a3		Policies issued after 2004	35,281,086	0	67	30,218	35,112,853	11,273	0	122,804	0	0	3,871
2a4		Total (2a1 to 2a3)	63,388,444	1,473,468	1,006,576	4,586,268	56,089,471	18,103	0	202,812	0	0	11,747
2b	Policies without Savings Component		5,377,061	0	0	0	0	230,094	83,403	133,161	2,869,391	1,957,545	103,469
3	Part of Reserves in respect of Claims in Payment		11,258,553	623,839	57,477	2,869,013	2,881,721	(2,831)	0	1,283,792	462,580	3,092,875	(9,914)
4	Profit Participating		0	0	0	0	0	0	0	0	0	0	0
5	Addition resulting from Liability Adequacy Testing		1,145,032	0	0	720,166	0	0	0	0	424,865	0	0
6	Other		1,086,860	111,752	13,995	561,778	399,336	0	0	0	0	0	0
7	Reserve for Extraordinary Risks		0	0	0	0	0	0	0	0	0	0	0

(1) Other Covers, including Disability, Double Indemnity, etc.

8a	Effect of Adjustment of Reserves in respect of New Business		0	0	0	0	0	0	0	0	0	0	0
8b1	Effect of Adjustment of Reserves in respect of Existing Business	שינויים בהנחות	548,758	18,192	1,234	43,146	55,731	0	0	0	423,646	6,809	0
8b2		שינויים בשיטות	0	0	0	0	0	0	0	0	0	0	0
8b3		הבדלים בגובה הפרמיה	0	0	0	0	0	0	0	0	0	0	0
8b4		שינויים אחרים	0	0	0	0	0	0	0	0	0	0	0