Clal Insurance Enterprises Holdings Ltd.

As of September 30, 2017

This report is an unofficial translation from the Hebrew language and is intended for convenience purposes only.

**The binding version of the report is in the Hebrew language
only.**

Board of Directors' Report

Table of Contents

The Board of Directors' Report on the state of the corporation's affairs for the period ended September 30, 2017 (hereinafter: the "**Board of Directors' Report"**) reviews the principal changes which occurred in the operations of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Company**") during the first nine months of 2017 (hereinafter: the "**Reporting Period**" and/or the "**Interim Reports**" and/or the "**Financial Statements**").

The Board of Directors' Report was prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970, and is based on the assumption that the reader is also in possession of the Company's complete periodic report for the year ended December 31, 2016 (hereinafter: the "**Periodic Report**" and/or the "**Annual Financial Statements**"). The Board of Directors' Report with respect to insurance business operations was prepared in accordance with the Control of Insurance Business Regulations (Particulars of Report), 1998, and in accordance with the circular issued by the Commissioner of Capital Markets, Insurance and Savings (hereinafter: the **"Commissioner"**).

1. Description of the Company

1.1. Organizational structure

Presented below are details regarding the main shareholders in the Company, whose shares are listed for trade on the stock exchange, and regarding their approximate rates of holding:

	As of September 30, 2017		Proximate to the publication date of the report	
Shareholder	Holding of voting rights In Clal Holdings	Holding of voting rights In Clal Holdings At full dilution 1)	Holding of voting rights In Clal Holdings	Holding of voting rights In Clal Holdings At full dilution 1)
	%			
IDB Development Corporation Ltd. 2)	44.90	43.94	44.81	44.15
Bank Hapoalim	9.50	9.29	9.48	9.34

1) The holding rate at full dilution was prepared based on the theoretical assumption of the exercise of all warrants from the 2007 plan (as of the reporting date - 25,000 warrants) for an identical number of Clal Holdings shares, and according to a maximum theoretical assumption of the exercise of all warrants allocated on behalf of employees in accordance with the 2013 plan, including warrants which were allocated to the Company's CEO (as of the publication date of the report: 992,668 warrants), and all warrants allocated on behalf of employees according to the 2015 plan (as of the publication date of the report - 313,333 warrants) when the price of the Clal Holdings shares on the stock exchange reaches a price at which, according to the terms of the warrants plan, an automatic exercise is implemented, and subject to adjustments, as specified in the 2013 plan, the 2015 plan, and the agreements regarding allocation to offerees. For additional details, see Note 39(a) to the annual financial statements.

2) It is noted that, on March 22, 2017, IDB Development Corporation Ltd. ("**IDB Development**") pledged approximately 4.99% (approximately 4.86% at full dilution, which constitute, as of the present date, approximately 4.98% and approximately 4.91% at full dilution) of the shares of Clal Holdings in favor of the holders of the bonds (Series K) that were issued by IDB Development.

   Additionally, On August 21, 2013, in accordance with the Commissioner's demand, 51% of Clal Holdings' issued share capital and voting rights, which are held by IDB Development (hereinafter: the "**Means of Control**"), were transferred to the trust account in the name of Mr. Moshe Terry (hereinafter: "**Mr. Terry**"), and Mr. Terry was also given an irrevocable power of attorney with respect to the aforementioned shares, for the purpose of exercising the authorities conferred by virtue of those shares, in accordance with the provisions of the deed of trust which was signed between IDB Development and Mr. Terry. On February 20, 2017, the trustee transferred to IDB Development 556,482 shares, which constitute approximately 1% (which were pledged, as stated above).

   On May 3, 2017 and August 31, 2017, after approval for the foregoing was received from the Court, IDB Development sold shares which constitute approximately 10%, which were held by the trustee, in over the counter swap transactions, to a third party. As of the reporting date, the trustee holds 39.8% of the means of control only.

For additional details regarding IDB Development's holdings in the Company, and IDB Development's obligation to sell shares of Clal Holdings, see Note 1 to the financial statements.

2. Description of the Business Environment

2.1. Material developments and changes in the macroeconomic environment during the reporting year

The group's operations and results are significantly affected by the capital markets, and by the economic, political and security situation in Israel and around the world, which affect its income from investments, sales in various branches, the scope of insurance claims and the various costs associated with its operations. Developments with respect to employment and salary mainly have an effect on operations in the long-term savings segment. Presented below are details regarding the major developments in the macro-economic environment which impact the group's operations.

The total impact of the market developments specified below on the group's results during the reporting period was reflected both in increases, both in the value of financial assets held against capital and insurance liabilities, primarily due to the increase in the stock and bond markets, and the increase in the value of insurance liabilities, due to the decrease in the interest rates which were used to calculate the insurance liabilities. For additional details, see Note 8(a) to the financial statements.

2.1.1. Economic developments in Israel

2.1.1.1 Developments in the Israeli economy and employment

Growth rates and work force participation rates, as well as the employment rate and salary levels, have an effect on the scope of premiums, mainly in the long-term savings segment, and may also have an effect on the scope of claims.

Growth

In the third quarter of 2017, GDP grew by 4.1% (in annual terms), following an increase of 2.5% in the second quarter, and an increase of 0.9% in the first quarter. The increase of GDP in the third quarter reflects increases in private consumption expenses (7.8%) and in investments in fixed assets (8.1%), as well as an increase in imports of goods and services excluding security imports and ships, and excluding startup companies (10.5%), in exports of goods and services excluding diamonds and startup companies (0.4%), and a decrease in public consumption expenses (1.6%).

It is noted that the estimates are after deducting seasonality, and are based on partial data, and are expected to be updated in the future.

Employment data

According to the data of the workforce survey by the Central Bureau of Statistics, the unemployment rate in the market among those aged 15 or older in the third quarter of 2017 amounted to 4.1%, similarly to 4.4% in the second quarter. The workforce participation rate amounted to 63.9% in the third quarter of 2017, as compared with 64.1% in the second quarter.

2.1.1.2 Data regarding inflation, exchange rates, interest rates and rates of return in Israel

Inflation

Presented below are data regarding changes in the consumer price index during the reporting period and in all of 2016:

	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31
In percent	**2017**	**2016**	**2017**	**2016**	**2016**
Index in lieu	0.3	-	0.3	-	(0.2)
Known index	0.2	-	(0.5)	0.4	(0.3)

The consumer price index (known index) decreased by 0.2% in the first quarter of 2017, increased by 0.9% in the second quarter, and decreased by 0.5% in the third quarter. Inflation in the last 12 months amounted to a negative rate of minus 0.1%.

2. Description of the Business Environment (Cont.)

2.1 Material developments and changes in the macroeconomic environment during the reporting year (Cont.)

2.1.1. Economic developments in Israel (Cont.)

2.1.1.2 Data regarding inflation, exchange rates, interest rates and yield rates in Israel (Cont.)

After the balance sheet date, the index for October was published, which presented an increase of 0.3%.

The inflation rate may affect the Company's business results, primarily due to its impact on income from investments with respect to CPI-linked assets in the nostro portfolio, the adjustment of CPI-linked insurance liabilities and financial liabilities, the change in the Company's financing expenses, and the total variable management fees which will be charged in profit-sharing policies which were issued until 2004, due to the impact of the real returns which will be recorded in these policies.

Exchange rates

During the reporting period, the NIS weakened vs. the EUR and GBP, and gained vs. the USD. In the third quarter, the NIS weakened vs. those currencies.

Presented below is information regarding the developments in the exchange rate of the NIS relative to various currencies:

	Representative EUR exchange rate	Representative USD exchange rate	Representative GBP exchange rate
	%	%	%
For the period of nine months ended			
September 30, 2017	**2.8**	**(8.2)**	**0.2**
September 30, 2016	(1.0)	(3.7)	(15.8)
For the period of three months ended			
September 30, 2017	**4.3**	**0.9**	**4.3**
September 30, 2016	(1.9)	(2.3)	(5.8)
For the year ended December 31, 2016	(4.8)	(1.5)	(18.3)

	Representative EUR exchange rate	Representative USD exchange rate	Representative GBP exchange rate
As of September 30, 2017	**4.157**	**3.529**	**4.736**
As of September 30, 2016	4.203	3.758	4.872
As of December 31, 2016	4.044	3.845	4.725

Developments in the interest rate and in yields

The Bank of Israel left the interest rate unchanged, at 0.1%.

Bond yields in the NIS curve decreased in all ranges during the third quarter, where 10 year bond yields decreased to 1.8%, from 2.1% at the end of the second quarter, and from 2.2% since the beginning of the year.

Yields in the long term CPI-linked curves (average of 7 years or longer) decreased, on average, by 0.3%.

Long term inflation forecasts in the bond market remained unchanged (around 1.28% for 10 years) in the third quarter, while on the other hand, short term inflation forecasts decreased.

For details regarding the linked risk-free interest rate in Israel (according to CPI-linked government bonds) for different periods, see section 3.1 below.

2. Description of the Business Environment (Cont.)

2.1 Material developments and changes in the macroeconomic environment during the reporting year (Cont.)

2.1.1. Economic developments in Israel (Cont.)

2.1.1.2 Data regarding inflation, exchange rates, interest rates and yield rates in Israel (Cont.)

A decrease in the interest rate curve and changes in the curve's steepness could result, under certain conditions, in an increase to the Company's insurance liabilities following an adjustment of the discount rate which is used to calculate certain reserves, and following the liability adequacy test in life insurance and nursing insurance. On the other hand, a decrease of this kind may result in capital gains on the assets side. On the other hand, an increase in the interest rate curve and changes in its steepness may lead to the opposite. The combined impact is dependent upon the structure of the assets and liabilities, and on the characteristics of the change in the curve.

The low interest rate in the market may impose difficulties on achieving guaranteed rates of return in guaranteed-return products in life and health insurance, on achieving the discount interest rate in the compulsory, liabilities and personal accidents branches in non-life insurance, and on achieving returns which will be used to price other insurance products, and may also result in a renewed evaluation of the actuarial estimates regarding the group's insurance liabilities. For additional details, see Note 8(j) to the financial statements. See also Note 40(c)(2) to the annual financial statements regarding sensitivity tests to changes in the interest rate, and Note 40(e)(e1)(d)(1) to the annual financial statements regarding the impact of the low interest rate environment.

2.1.1.3 Developments in the Israeli capital market

Returns in the capital market have an impact on the group's profitability, both directly and in light of the fact that income from management fees in insurance funds, pension funds and provident funds is dependent, inter alia, on, real returns achieved in the fund and/or on the balance of accrued assets.

Since the beginning of the year, the Tel Aviv 125 Index increased by approximately 0.8%, while the Tel Aviv 90 Index increased by approximately 15.9%, and the Tel Aviv 35 Index decreased by 3.4%. This trend was similar in the third quarter, where the Tel Aviv 125 Index increased slightly in the third quarter of 2017, with its composition again presenting variability between the first line stock index (Tel Aviv 35), which decreased by 0.9%, and the Tel Aviv 90 Index, which increased by 2.7%.

The following are data regarding changes in major stock and bond indices in Israel:

	Stock indices				
	For the period of nine months ended September 30		**For the period of three months ended September 30**		**For the year ended December 31**
In percent	**2017**	**2016**	**2017**	**2016**	**2016**
Tel Aviv 35 *)	(3.4)	((5.8	((0.9	3.0	(3.8)
Tel Aviv 90 *)	15.9	10.8	2.7	9.4	17.3
Tel Aviv 125 *)	0.8	(4.1)	0.3	4.2	(2.5)
Tel Aviv Growth *)	8.4	(2.3)	18.4	18.5	17.7
General stocks	((5.6	(9.0)	((6.1	2.3	(11.1)

*) Within the framework of the index reform which was performed by the stock exchange, names and compositions of indices were updated in the first quarter of 2017.

2. Description of the Business Environment (Cont.)

2.1 Material developments and changes in the macroeconomic environment during the reporting year (Cont.)

2.1.1. Economic developments in Israel (Cont.)

2.1.1.3 Developments in the Israeli capital market (Cont.)

Bond indices

In percent	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31
	2017	**2016**	**2017**	**2016**	**2016**
General	3.3	2.6	1.5	(0.1)	2.1
Telbond CPI-linked	3.9	2.1	1.2	((0.1	2.4
Telbond NIS-linked	5.9	1.9	2.4	0.3	2.4
Government CPI-linked	1.9	2.5	1.7	(0.9)	0.7
Government NIS-linked	2.8	2.1	1.5	((0.1	1.2

Presented below are the scopes of bond raisings by companies listed on the Tel Aviv Stock Exchange, relative to last year:

NIS in billions	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31
	2017	**2016**	**2017**	**2016**	**2016**
	56.4	56.8	19.9	25.4	64.1

2.1.2. Global economic developments

USA - Since the beginning of the year, the Federal Reserve raised the interest rate twice, by 0.25% each time, in light of positive data in the labor market, the moderate increase in the inflation rate, and the distancing from the risk of deflation in the American economy, primarily at the start of the year. As of September 2017, the unemployment rate was at its lowest rate in the last 17 years, in parallel with the increased workforce participation rate.

The growth of the American economy in the first three quarters of 2017 amounted to 2%, 2.3% and 2.2%, respectively (in annual terms), while the inflation rate amounted to 2.2% in the last 12 months. The GDP Now index of the Federal Reserve in Atlanta, which constitutes an indicator of economic activity, predicts renewed acceleration of the rate of economic growth in the fourth quarter to approximately 3.3%.

Europe - The momentum of improvement in the European economy continues, and growth encompasses all countries and industries. However, Mario Draghi, Chairman of the European Central Bank, repeated his assertion that the rise of inflation and the stabilization of growth depend on the continuation of a highly expansive monetary policy.
The trend of improvement in the labor market continues, with the unemployment rate falling to 9%.

Japan - Haruhiko Kuroda, Governor of the Central Bank, clarified that the bank will continue its highly expansive monetary policy, due to the fact that, despite the improvement in growth, the inflation rate remains very low vs. the target. The foregoing is also demonstrated by the Tankan survey, which indicated that the Japanese companies estimate that inflation will be, in the coming years, at a significantly lower rate than the Central Bank's target. Preparations for the coming year amount to approximately 0.7%.

2. Description of the Business Environment (Cont.)

2.1 Material developments and changes in the macroeconomic environment during the reporting year (Cont.)

2.1.2. Global economic developments (Cont.)

China - The Chinese economy grew during the first three quarters of 2017 by approximately 6.9% in annual terms.
The growth rate in government investments declined recently; however, in parallel, the investment rate in the private sector accelerated, with a large part being directed towards the real estate sector, in spite of the government's attempts to cool down the real estate market.

The Beige Book, which evaluates economic developments through a survey which is conducted among 3,000 Chinese companies, indicated deceleration of growth in the third quarter.

2.1.2.1. Global growth

Presented below are forecasts regarding global growth rates according to the International Monetary Fund [1)]:

In percent	Outlook for 2017	Estimate for 2016
Global	3.6	3.2
United States	2.2	1.6
Euro Bloc	2.1	1.8
Asia (excluding Japan)	6.5	6.4
Japan	1.5	1.0
China	6.8	6.7

1) As of October 2017.

2.1.2.2. Global stock markets

	In local currency					In NIS				
	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31
In percent	2017	2016	2017	2016	2016	2017	2016	2017	2016	2016
Dow Jones	13.4	5.1	4.9	2.1	13.4	4.1	1.2	5.9	(0.2)	11.8
NASDAQ	20.7	6.1	5.8	9.7	7.5	10.8	2.2	6.8	7.2	5.9
Nikkei Tokyo	6.5	((13.6	1.6	5.6	0.4	1.5	(0.8)	1.9	5.0	1.8
CAC - Paris	9.6	(4.1)	4.1	5.0	4.9	12.7	((5.1	8.5	3.0	(0.2)
FTSE - London	3.2	10.5	0.8	6.1	14.4	3.4	((6.9	5.1	((0.1	(6.5)
DAX - Frankfurt	11.7	(2.2)	4.1	8.6	6.9	14.9	(3.2)	8.6	6.5	1.8
MSCI WORLD	14.2	3.8	4.4	4.4	5.3	4.8	0.0	5.4	2.0	3.8

The world's leading stock indices continued on a positive trend. In the third quarter of 2017, the NASDAQ 100 Index stood out positively, breaking its all-time record.

Capital market returns and returns on other assets (including real estate, investment funds and non-marketable debt assets) have an effect on the group's profitability, both directly and in light of the fact that income from management fees in investment-linked policies, pension funds and provident funds are dependent, inter alia, on real returns achieved in the fund and/or on the balance of accrued assets.

2. Description of the Business Environment (Cont.)

2.2. Developments in the Israeli insurance market

2.2.1. Total scope of premiums in the Israeli insurance market

Presented below are data regarding gross premiums earned, in accordance with publications issued by the Commissioner of Insurance.

	For the period of six months ended June 30						For the year ended December 31		
	2017			2016			2016		
NIS in millions	Company	Market	Company % of the market	Company	Market	Company % of the market	Company	Market	Company % of the market
Life insurance	**2,860**	**14,618**	**19.6%**	2,408	12,461	19.3%	4,999	26,248	19.0%
Non-life insurance*)	**1,119**	**9,943**	**11.3%**	1,176	9,772	12.0%	2,315	19,160	12.1%
Health insurance **)	**912**	**5,462**	**16.7%**	856	4,995	17.1%	1,799	10,394	17.3%
Total gross premiums earned in the insurance market in Israel *)**	**4,890**	**30,022**	**16.3%**	4,439	27,227	16.3%	9,111	55,801	16.3%

	For the period of three months ended June 30					
	2017			2016		
NIS in millions	Company	Market	Company % of the market	Company	Market	Company % of the market
Life insurance	**1,417**	**7,249**	**19.5%**	1,191	6,343	18.8%
Non-life insurance*)	**564**	**5,226**	**10.8%**	583	5,080	11.5%
Health insurance **)	**465**	**2,774**	**16.8%**	437	2,538	17.2%
Total gross premiums earned in the insurance market in Israel *)**	**2,445**	**15,249**	**16.0%**	2,211	13,961	15.8%

*) As specified in section 3.1.2. below, the decrease in premiums with respect to non-life insurance was mainly due to the non-renewal of losing business operations, including students personal accident insurance, collective business operations in compulsory motor and property branches, and against the focus on individual business operations, as part of the Company's strategy

**) The decrease in the Company's share of premiums out of the total health insurance market was primarily due to the optimization of collective business operations and a focus on individual business operations, as part of the Company's strategy.

***) After adjustments and offsets.

2. Description of the Business Environment (Cont.)

2.2. Developments in the Israeli insurance market (Cont.)

2.2.1. Total scope of premiums in the Israeli insurance market (Cont.)

2.2.1.1. Total contributions in pension funds and provident funds on the Israeli market

Presented below are data regarding contributions, in accordance with publications issued by the Insurance Commissioner:

	For the period of nine months ended September 30						For the year ended December 31		
	2017			2016			2016		
NIS in millions	Company	Market	Company % of the market	Company	Market	Company % of the market	Company	Market	Company % of the market
New pension funds	**4,237**	**25,950**	**16.3%**	3,956	23,236	17.0%	5,395	32,373	16.7%
Benefits and personal severance pay funds	**338**	**8,049**	**4.2%**	380	6,822	5.6%	507	9,759	5.2%
Study funds	**792**	**16,382**	**4.8%**	760	14,859	5.1%	1,100	21,214	5.2%
Severance pay funds	**1**	**73**	**1.4%**	-	68	-	-	91	-
Provident fund for investment **)	**58**	**1,579**	**3.7%**	-	-	-	-	464	-
Provident fund for investment - savings for each child ***)	-	**2,375**	-	-	-	-	-	-	-
Total provident funds *	**1,189**	**28,458**	**4.2%**	1,140	21,749	5.2%	1,607	31,528	5.1%
Total contributions	**5,426**	**54,408**	**10.0%**	5,096	44,985	11.3%	7,002	63,901	11.0%

	For the period of three months ended September 30					
	2017			2016		
NIS in millions	Company	Market	Company % of the market	Company	Market	Company % of the market
New pension funds	**1,474**	**9,232**	**16.0%**	1,389	8,296	16.7%
Benefits and personal severance pay funds	**90**	**2,630**	**3.4%**	167	2,609	6.4%
Study funds	**264**	**5,649**	**4.7%**	265	5,057	5.2%
Severance pay funds	-	**26**	-	-	27	-
Provident fund for investment **)	**24**	**567**	**4.3%**	-	-	-
Provident fund for investment - savings for each child ***)	-	**442**	-	-	-	-
Total provident funds *	**378**	**9,314**	**4.0%**	432	7,693	5.6%
Total contributions	**1,852**	**18,546**	**10.0%**	1,821	15,989	11.4%

*) Excluding provident funds for other purposes.

**) The Company has marketed the provident funds for investment since January 2017.

***) The Company chose not to market provident funds for investment as part of the government plan “savings for each child”.

2. Description of the Business Environment (Cont.)

2.2. Developments in the Israeli insurance market (Cont.)

2.2.2. Assets in long term savings

Presented below are data regarding the assets of profit sharing life insurance, individual provident funds, severance pay funds, study funds and central severance pay funds on the long-term savings market, in accordance with publications issued by the Ministry of Finance:

	As of September 30, 2017			As of September 30, 2016			As of December 31, 2016		
NIS in millions	Company	Market	Company % of the market	Company	Market	Company % of the market	Company	Market	Company % of the market
Life insurance market									
Profit sharing life insurance - policies until December 31, 2003	**37,973**	**164,466**	**23.1%**	35,660	154,568	23.1%	36,347	157,775	23.0%
Profit sharing life insurance - policies beginning from January 1, 2004	**20,331**	**122,617**	**16.6%**	18,202	101,411	17.9%	18,578	105,297	17.6%
Total profit sharing life insurance assets	**58,304**	**287,083**	**20.3%**	53,862	255,979	21.0%	54,925	263,072	20.9%
New pension assets	**49,604**	**288,796**	**17.2%**	42,706	243,720	17.5%	44,618	254,633	17.5%
Benefits and personal severance pay funds	**22,938**	**211,900**	**10.8%**	23,665	197,519	12.0%	23,634	200,671	11.8%
Study funds	**7,264**	**198,731**	**3.7%**	7,083	178,395	4.0%	7,227	183,576	3.9%
Central severance pay funds	**2,933**	**16,275**	**18.0%**	3,409	17,297	19.7%	3,264	16,761	19.5%
Provident fund for investment **)	**58**	**2,068**	**2.8%**	-	-	-	-	483	-
Provident fund for investment - savings for each child ***)	-	**2,416**	-	-	-	-	-	-	-
Total provident fund assets *)	**33,193**	**431,391**	**7.7%**	34,157	393,212	8.7%	34,124	401,491	8.5%
Total profit sharing life insurance, new pension, provident* and life insurance assets	**141,101**	**1,007,270**	**14.0%**	130,725	892,911	14.6%	133,667	919,196	14.5%

*) Excluding provident funds for other purposes. For details regarding the impairment of goodwill with respect to the provident fund management activity, see Note 8(J).

**) The Company has marketed the provident funds for investment since January 2017.

***) The Company chose not to market provident funds for investment as part of the government plan “savings for each child”.

3. Board of Directors' Remarks Regarding the Corporation's Business Position

3.1 Financial information by operating segments

The group is engaged in the following operating segments: Long-term savings, non-life insurance and health insurance. The group also has additional areas of operation which are not included in the operating segments. For details regarding the group's operating segments, see Note 4 to the financial statements.

Description of the development of comprehensive income:

The reporting period

Gross premiums earned in the reporting period amounted to a total of approximately NIS 7,306 million, as compared with a total of approximately NIS 6,791 million in the corresponding period last year. In life insurance, an increase of approximately NIS 502 million was recorded, primarily due to the increase in new sales of individual products, and the increase of deposits, in accordance with the extension order regarding the increase of the pension provision rates, as specified in section 6.2.1.3 to the report regarding the description of the corporation's business affairs for 2016. Additionally, in health insurance, an increase of approximately NIS 63 million was recorded, primarily due to the increase in individual product sales, while on the other hand, in non-life insurance, a decrease was recorded in the amount of approximately NIS 50 million, primarily due to the non-renewal of a students personal accident insurance transaction.

Comprehensive income after tax attributable to the Company's shareholders in the reporting period amounted to a total of approximately NIS 182 million, as compared with comprehensive loss of approximately NIS 356 million in the corresponding period last year. The transition to income during the reporting period was primarily due to the special effects specified below.

After neutralization of the aforementioned special effects, comprehensive income during the reporting period amounted to a total of approximately NIS 467 million, as compared with comprehensive income of approximately NIS 228 million in the corresponding period last year. The increase in income, after neutralization of the effects, was primarily due to the increase in investment income and the collection of variable management fees, as compared with the corresponding period last year.

During the reporting period, gross real returns in profit sharing policies amounted to a rate of 5.65%, as compared with a rate of return of 0.89% in the corresponding period last year. Due to the foregoing, during the reporting period, variable management fees were collected in life insurance in the amount of approximately NIS 240 million, as compared with collection of approximately NIS 20 million in the corresponding quarter last year.

The total financial margin in life insurance amounted to a total of approximately NIS 703 million, as compared with a total of approximately NIS 423 million in the corresponding period last year.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1. Financial information by operating segments (Cont.)

Description of the development of comprehensive income: (Cont.)

The reporting period (Cont.)

Additionally, the following special effects were included during the reporting period:

NIS in millions	Item	For the period of nine months ended September 30 2017	For the period of nine months ended September 30 2016	For the period of three months ended September 30 2017	For the period of three months ended September 30 2016	For the year ended December 31 2016
		Unaudited				Audited
Comprehensive income (loss), as published in the report		**182**	(356)	**(23)**	186	122
After neutralization of special provisions						
Impact of the low interest rate environment						
Life insurance - total impact of the low interest rate environment before tax	A	**(250)**	(504)	**(335)**	101	(194)
Non-life insurance						
Initial application of best practices	A	-	(2)	-	-	-
Impact of recommendations of the Winograd committee	B	**(96)**	(126)	**(67)**	(4)	(141)
Long-term care insurance in the health segment	A	-	(180)	-	52	-
Total income (loss) before tax with respect to the low interest rate environment		**(346)**	(812)	**(402)**	149	(335)
Additional special provisions in long term savings	C	**(61)**	(103)	**(41)**	-	(101)
Amortization of goodwill - provident funds	D	**(81)**	-	-	-	(25)
Update to the discount rate used to calculate liabilities for paid pensions	E	**88**	-	-	-	-
Update of provisions with respect to claims which were filed against the Company in the provident segment		**(15)**	-	-	-	-
Voluntary retirement program	F	**(23)**	-	**(23)**	-	-
Cost of exchange of deferred liability notes		-	(17)	-	-	(24)
Total profit (loss) before tax with respect to special provisions		**(438)**	(932)	**(466)**	149	(485)
Total profit (loss) after tax with respect to special provisions		**(285)**	(597)	**(303)**	96	(311)
Impact of the update to tax rates		-	13	-	13	37
Comprehensive income after tax, after neutralization of the impact of special provisions		**467**	228	**280**	77	396

A. Impact of the interest rate environment

During the reporting period, the actuary of Clal Insurance updated the interest rates on free assets which are used to discount the liabilities to supplement annuity and paid pension reserves (2.3%-2.79% as of September 30, as compared with 2.6%-3.28% as of June 30, and as compared with 2.4%-3.28% as of December 31, 2016), updated the K factor for profit-sharing policies (0.92% as compared with 0.96% as of June 30, 2017 and December 31, 2016), and updated the results of the liability adequacy test (LAT). In light of the update to the discount rate and K factor, and in light of the update to the results of the liability adequacy test (LAT), reserves with respect to life insurance contracts increased by approximately NIS 250 million (a total of approximately NIS 162 million after tax), as compared with the increase of reserves in life insurance, long-term care insurance in the health segment and in non-life insurance, in the amount of approximately NIS 686 million (a total of approximately NIS 440 million after tax) in the corresponding period last year.

It is noted that Clal Insurance's balance of the provision for the liability adequacy test (LAT) as of September 30, 2017 amounted to NIS 313 million.

For details regarding the risk-free interest rate curve subsequent to the reporting date, see the section below regarding developments subsequent to the reporting period.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1. Financial information by operating segments (Cont.)

Description of the development of comprehensive income: (Cont.)

The reporting period (Cont.)

B. Recommendations of the Winograd committee

As specified in Note 40(e)(e2)(4)(g) to the annual financial statements, within the framework of the amendment to the interest rate which is used to discount annual annuities, in accordance with the Winograd committee's recommendations, the Company estimated the total possible effect due to the recommendations of the Winograd committee, which entered into effect on October 1, 2017, including amounts which Clal Insurance may be required to pay in other disability and death claims, while taking into account the uncertainty with respect to its actual impact and the manner of its occurrence, if any, and accordingly, increased the insurance liabilities as of September 30, 2017 in the compulsory motor and liabilities branches by approximately NIS 96 million, on retention and before tax (a total of approximately NIS 62 million after tax), as compared with an increase of the insurance liabilities with respect to the recommendations of the Winograd committee in the amount of approximately NIS 126 million on retention before tax in the corresponding period last year (a total of approximately NIS 81 million after tax). The increase during the reporting period was primarily due to the decrease in the returns from investment instruments which were used to calculate the estimate. For additional details, see Note 40(e)(e2)(4)(g) to the annual financial statements. It is noted that the total provision with respect to the Winograd committee's recommendations, from the date of their publication until the reporting date, amounts to approximately NIS 237 million.

C. Additional special provisions in long term savings

During the reporting period, the group updated the insurance liabilities with respect to the optimization of members' rights in the amount of approximately NIS 61 million (approximately NIS 40 million after tax) in life insurance, as compared with the update in the amount of approximately NIS 63 million before tax in life insurance (approximately NIS 40 million after tax) in the corresponding period last year, and in the amount of approximately NIS 7 million before tax (approximately NIS 5 million after tax) in pension and provident funds in the corresponding period last year.

- Additionally, the Company performed, in the corresponding period last year, a provision with respect to the cancellation of arrears in premium charges with respect to life insurance policies in the amount of approximately NIS 33 million before tax (approximately NIS 22 million after tax).

D. Impairment of goodwill - provident segment

As stated in Note 8(j) to the financial statements, the rate of management fees in the provident fund segment has been subject to an ongoing decline, as a result of the competitive conditions in the segment, in a manner which makes it difficult to cover the managing company's expenses. Additionally, during the reporting period, the Company recorded negative net transfers. Accordingly, during the second quarter, the Company evaluated the need to record a provision for impairment of the goodwill attributed to the provident fund management operation, through a valuation prepared by an external valuer. In accordance with the valuation, the book value of the provident fund operation as of June 30, 2016 was higher than the value in use by approximately NIS 81 million (approximately NIS 53 million after tax), and therefore, the Company recognized impairment loss of goodwill, with no effect in the corresponding period last year.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1. Financial information by operating segments (Cont.)

Description of the development of comprehensive income: (Cont.)

The reporting period (Cont.)

E. Discount rate used to calculate liabilities for paid pensions

The allocation of designated bonds bearing guaranteed interest, which are issued by the State of Israel, with respect to the liabilities of Clal Insurance to policyholders with guaranteed-return life insurance policies (the "policyholders"), is performed based on the Company's reports, which are prepared based on the calculation of the aforementioned liabilities. During the reporting period, Clal Insurance found that a correction was required in order to associate its liabilities to pension receiving policyholders, to various HETZ bond funds bearing guaranteed returns, and accordingly, contacted the Capital Market Authority to perform an effective allocation of HETZ bonds of the relevant series, in accordance with the aforementioned amendment. The allocation of bonds in accordance with the aforementioned re-attribution, which, according to the Company's estimate, is expected to take place, is expected to confer upon Clal Insurance, in the future, the right to receive a higher interest rate with respect to the liabilities to pension receiving policyholders. As a result, in accordance with the provisions of Note 40(e)(e1)(b)(1)(c) to the annual financial statements, during the reporting period, Clal Insurance updated the discount rate which is used to discount liabilities with respect to paid pensions, in consideration of the estimated rate of return on the mix of assets which is expected in the future (which is subject to the actual allocation of HETZ bonds). As a result, during the reporting period, the insurance reserves decreased and pre-tax profit increased in the amount of approximately NIS 88 million (of which, approximately NIS 22 million with respect to the decrease of the reserve for the liability adequacy test (LAT)), and accordingly, post-tax profit increased in the amount of approximately NIS 57 million.

F. Voluntary retirement program

Within the framework of the collective agreement which was signed between the Company and the employee committee, the Company offered a voluntary retirement program to employees. In accordance with the acceptance of the retirement program, the Company recorded, during the reporting period, a non-recurring expense in the amount of approximately NIS 23 million (a total of approximately NIS 15 million after tax). For additional details, see Note 8(f)(5) to the financial statements.

Three month period ended on the reporting date

Gross premiums earned in the three month period ended on the reporting date amounted to a total of approximately NIS 2,417 million, as compared with a total of approximately NIS 2,352 million in the corresponding period last year. In life insurance, an increase of approximately NIS 50 million was recorded, primarily due to the increase in new sales of individual and managers' insurance products, and the increase in deposits, as stated above. Additionally, an increase of approximately NIS 8 million was recorded in health insurance, primarily due to the increase in individual product sales, and an increase in the amount of approximately NIS 6 million was recorded in non-life insurance.

Comprehensive loss after tax attributable to the Company's shareholders in the three month period ended on the reporting date amounted to a total of approximately NIS 23 million, as compared with comprehensive income of approximately NIS 186 million in the corresponding period last year. The transition to loss in the three month period ended on the reporting date was primarily due to the special effects specified below.

After neutralization of the aforementioned effects, comprehensive income during the reporting period amounted to a total of approximately NIS 280 million, as compared with comprehensive income of approximately NIS 77 million in the corresponding period last year. The increase in income, after neutralization of the effects, was primarily due to the increase in investment income as compared with the corresponding period last year.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1. Financial information by operating segments (Cont.)

Description of the development of comprehensive income: (Cont.)

Three month period ended on the reporting date (Cont.)

In the three month period ended on the reporting date, gross real returns in profit sharing policies amounted to a positive rate of 2.82%, as compared with a rate of return of 1.32% in the corresponding period last year. Due to the foregoing, during the reporting period, variable management fees were collected in life insurance in the amount of approximately NIS 127 million, as compared with collection in the amount of approximately NIS 20 million in the corresponding quarter last year.

The total financial margin in life insurance[1] amounted to a total of approximately NIS 332 million, as compared with a total of approximately NIS 126 million in the corresponding period last year.

As stated above, during the three month period ended on the reporting date. the following special effects were included:

A. Impact of the interest rate environment

During the three month period ended on the reporting date, in light of the update to the discount rate used to calculate the paid pension liability and the annuity reserve payment liability, the increase in pension reserves due to the reduced future revenue forecast (K factor) for profit sharing annuity policies, and due to the update to the additional reserve in light of the liability adequacy test (LAT), the reserves with respect to life insurance contracts increased in the amount of approximately NIS 335 million (a total of approximately NIS 218 million after tax), as compared with the release of reserves in life insurance and long-term care insurance in the health segment , in the amount of approximately NIS 153 million (a total of approximately NIS 98 million after tax) in the corresponding period last year.

It is noted that Clal Insurance has a balance of the provision with respect to the liability adequacy test (LAT) as of September 30, 2017 in the amount of NIS 313 million.

For details regarding the risk-free interest rate curve subsequent to the reporting date, see the section below regarding developments subsequent to the reporting period.

B. Recommendations of the Winograd committee

The Company estimated the total possible effect due to the recommendations of the Winograd committee, including amounts which Clal Insurance may be required to pay in other disability and death claims, while taking into account the uncertainty with respect to its actual impact and the manner of its occurrence, if any, and accordingly, increased the insurance liabilities as of September 30, 2017 in the compulsory motor and liabilities branches by approximately NIS 67 million, on retention and before tax (a total of approximately NIS 44 million after tax), as compared with an increase of the insurance liabilities with respect to the recommendations of the Winograd committee in the amount of approximately NIS 4 million on retention before tax in the corresponding period last year (a total of approximately NIS 3 million after tax).The increase during the reporting period was primarily due to the decrease in returns from investment instruments which were used to calculate the estimate, as stated above. For additional details, see Note 40(e)(e2)(4)(g) to the annual financial statements.

[1] The financial margin includes gains (losses) from investments charged to other comprehensive income, and does not include the Company's additional income charged as a percentage of the premium, and is calculated before deduction of investment management expenses. The financial margin in guaranteed-return policies is based on income from actual investments for the reporting year, less a multiple of the guaranteed rate of return per year, times the average reserve for the year in the various insurance funds. Financial margin in investment-linked contracts is the total of fixed and variable management fees based on a reduction in the charging to savings in the Company's systems.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1. Financial information by operating segments (Cont.)

Description of the development of comprehensive income: (Cont.)

Three month period ended on the reporting date (Cont.)

C. Additional special provisions in long term savings

In the three month period ended on the reporting date, the group updated the insurance liabilities with respect to the optimization of members' rights in the amount of approximately NIS 41 million (approximately NIS 27 million after tax), with no effect in the corresponding period last year.

D. Voluntary retirement program

Within the framework of the collective agreement which was signed between the Company and the employee committee, the Company offered a voluntary retirement program to employees. In accordance with the acceptance of the retirement program, the Company recorded, in the three month period ended on the reporting date, a non-recurring expense in the amount of approximately NIS 23 million (a total of approximately NIS 15 million after tax). For additional details, see Note 8(f)(5) to the financial statements.

Presented below are the main parameters for the reporting period:

	As of September 30, 2017	As of June 30, 2017	As of March 31, 2017	As of December 31, 2016	As of September 30, 2016
Spot risk-free interest rate					
5 years	**0.0**	0.1	0.1	0.0	0.0
10 years	**0.5**	0.8	0.8	0.6	0.5
20 years	**1.2**	1.5	1.4	1.3	1.0
25 years	**1.4**	1.7	1.6	1.5	1.2
Discount rates used in the calculation of the reserve for postponed and paid annuities	**2.30%-2.79%**	2.60%-3.28%	2.60%-3.28%	2.40%-3.28%	2.20%-3.28%
K factor values [2]- Profit-sharing	**0.92%**	0.96%	0.96%	0.96%	0.88%
K factor values [3] Guaranteed-return	**0.00%**	0.00%	0.00%	0.00%	0.00%

[2] For details regarding the use of the K factor in the calculation of the insurance liabilities, see Note 37(e)(e1)(a)(4) to the annual financial statements.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1. Financial information by operating segments (Cont.)

Description of the development of comprehensive income: (Cont.)

Economic solvency regime and assessment of the economic solvency ratio as of December 31, 2016

In June 2017, a circular was published on the subject of "Provisions regarding the implementation of a Solvency II-based economic solvency regime for insurance companies" (hereinafter: the "**Solvency Circular**"), in which provisions were set forth regarding the calculation of equity, and regarding the economic solvency capital requirement. The solvency circular includes several changes to the provisions regarding calculation which were set forth in previous provisions regarding the performance of IQIS. As specified in section 3.1 of the Board of Directors' Report for 2016, the Company performed an estimate regarding the implementation of the main changes in the solvency circular on the solvency ratio as reflected by the results of IQIS5, and updated that the solvency ratio as of December 31, 2015, according to a full calculation, was in the range of 107%-111%.

The solvency circular specified an adoption date of June 30, 2017 and a distribution period during which the solvency capital requirement will increase gradually, from a rate of 60% of the solvency capital requirement according to the circular, up to full compliance with the calculation based on the data for December 31, 2024. This distribution period is in addition to the transitional provisions which were determined regarding the capital requirement with respect to the stock risk sub-component, according to which the capital requirement will increase gradually, with respect to this sub-component, over a period of seven years.

In July 2017, a circular was published on the subject of "reporting to the Commissioner regarding results of the calculation of the economic solvency ratio" (hereinafter: the "**Reporting Circular**"), which determined that insurance companies are required to calculate the economic solvency ratio as of December 31, 2016 in accordance with the provisions of the solvency circular, and to submit their results to the Commissioner proximate to the publication date of the financial statements for the second quarter of 2017. The Company calculated the economic solvency ratio in accordance with the provisions of the reporting circular, and the calculation results were submitted to the Commissioner in August 2017.

	As of December 31 2016
NIS in thousands	Unaudited and unreviewed
Equity for the purpose of the solvency capital requirement (SCR)	8,865,919
Solvency capital requirement (SCR)	7,968,943
Surplus (deficit)	896,977
Solvency ratio, according to full calculation	111%
Fulfillment of milestones in consideration of the distribution provisions:	
Equity for the purpose of the solvency capital requirement, in consideration of the distribution provisions	7,887,315
Solvency capital requirement in consideration of the distribution provisions	4,417,944
Surplus (deficit) in consideration of the distribution provisions	3,469,370

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1. Financial information by operating segments (Cont.)

Description of the development of comprehensive income: (Cont.)

Minimum capital requirement (MCR)

	As of December 31 2016
NIS in thousands	Unaudited and unreviewed
Equity for the purpose of MCR	6,009,396
MCR	1,655,266

According to the calculation which was performed by the Company as of December 31, 2016, the Company has a capital surplus, both in consideration of the transitional provisions during the distribution period, and without the transitional provisions. For additional details, see section 3.3.3 below.

The data presented above have not been audited or reviewed by the auditors as part of the review of the financial reports.

It is noted that the calculation of the economic solvency ratio is based on data and models which may differ from those used by the Company in the financial reports, and which are based, inter alia, on forecasts and assumptions which rely, for the most part, on past experience. In particular, the calculation of the economic solvency ratio is significantly based on the embeDEd value calculation model (whose results as of December 31, 2016 were included in the embeDEd value report which was published on May 29, 2017, reference number 2017-01-073390).

The embeDEd value report is based, inter alia, on internal studies conducted by the Company, and is subject to the reservations and limitations specified therein. The calculation of the capital requirement is performed in accordance with the provisions of the solvency circular, by simulating the effect of various scenarios on the calculated economic equity, and these calculations involve a significant degree of complexity. Accordingly, control thereof is also complex. The Company has prepared, in infrastructural terms, for the calculations, and is continuing with the preparations towards establishing the required calculation processes, including increasing the effectiveness of the control thereof. It is noted that, in accordance with the reporting circular, by December 31, 2017, the preparation of the auditors' special report will be completed, which will address processes and controls which are intended to ensure the quality and completeness of the data which were used in the calculation, the scope and quality of documentation, and the gaps regarding compliance with a full audit.

It is emphasized that the results of the models which are used to calculate the solvency ratio are highly sensitive to the forecasts and assumptions which are included therein, and to the manner in which the instructions are implemented. Additionally, actual results may differ from the forecasts and assumptions which were used to calculate the economic solvency ratio.

It is further noted that the Company was informed by the Capital Market, Insurance and Savings Authority (hereinafter: the "Authority") that it will work to appoint an "implementation staff" to discuss certain issues pertaining to the solvency circular, and the need for its adjustment. At this stage, the Company is unable to estimate whether, following the activities of the implementation team, the Authority will work to implement changes to the solvency circular, nor the impact that such changes will have on the Company's solvency ratio, if and when they are accepted.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1. Financial information by operating segments (Cont.)

Further to that stated in Note 16(e)(4) to the annual financial statements, in October 2017, a letter was sent by the Commissioner to the managers of the insurance companies, stating that an insurance company is entitled to distribute dividends if, after the performance of the distribution, the insurer has a ratio of recognized equity to required equity (hereinafter: "**Solvency Ratio**") as follows:

A. At a rate of at least 115% pursuant to the current Capital Regulations, or any provisions which may come in their place, until the date of receipt of the Commissioner's approval for the performance of an audit by an auditor, regarding the implementation of the provisions of the solvency circular;
B. Minimum rate of 100% according to the solvency circular, calculated without the provisions during the distribution period, and without the share scenario adjustment period, and subject to the solvency ratio target which was determined by the Company's Board of Directors.

Additionally, the insurance company is required to submit to the Commissioner, within twenty business days after the distribution date, the Company's annual profit forecast for the two years subsequent to the date of the dividend distribution; An updated debt service plan of the Company, which has been approved by the Company's Board of Directors, and an updated debt service plan of the holding company which holds the Company, which has been approved by the Board of Directors of the holding company; A capital management plan which was approved by the Company's Board of Directors; Minutes of the discussion in the Company's Board of Directors, in which the dividend distribution was approved, including attachment of the background material for the discussion.

The Board of Directors of Clal Insurance has not yet determined the solvency ratio target based on the solvency circular, as stated above, which affects the dividend distribution policy under this regime.

Developments subsequent to the reporting period

During the period from the reporting date until the publication date of the report, an additional decline occurred in the risk-free interest rate curve. Further to that stated in Note 40(e)(e1) and (e2) to the annual financial statements, a decrease in the interest rates is expected result in an increase in insurance liabilities in non-life insurance, in the compulsory, liabilities and personal accidents branches, in the liability to supplement annuity reserves, in paid pension liabilities in life insurance, and also as part of the liability adequacy test (LAT).

At this stage, it is not possible to estimate the implications of the decline in the risk-free interest rate curve during this period on the results for 2017, inter alia, due to the uncertainty regarding the effect that the aforementioned developments will have on the estimated insurance liabilities of Clal Insurance, regarding the impact of the decreased interest rate curve on the fair value of debt assets, and regarding the continuing developments in financial markets until the end of 2017, and the above does not constitute any estimate regarding the Company's expected financial results for 2017.

For details regarding sensitivity tests to market risks, see Note 40(c)(2) to the annual financial statements.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1. Financial information by operating segments (Cont.)

Presented below are details regarding the main components included in comprehensive income:

NIS in millions	For the period of nine months ended September 30 2017	2016	Rate of change in percent	For the period of three months ended September 30 2017	2016	Rate of change in percent	For the year ended December 31 2016
	Unaudited			Unaudited			Audited
Long term savings							
Gross earned life insurance premiums	**4,188**	3,686	14	**1,328**	1,278	4	4,999
Income from life insurance management fees	**541**	303	79	**229**	116	97	485
Impact of the decrease of interest rate on reserves in life insurance	**(250)**	(504)	(50)	**(335)**	101	#	(194)
Update to the discount rate used to calculate liabilities for paid pensions	**88**	-	#	**-**	-	#	-
Special provisions in life insurance	**(61)**	(103)	(81)	**(41)**	-	#	(94)
Financial margin including management fees	**703**	423	66	**332**	126	144	686
Income (loss) before tax in life insurance	**154**	(580)	#	**(180)**	139	#	(132)
Total comprehensive income (loss) before tax in life insurance	**147**	(589)	#	**(145)**	115	#	(113)
Income from pension management fees	**208**	205	1	**70**	71	(1)	277
Income before tax in pension funds	**4**	31	(87)	**1**	14	(93)	43
Total comprehensive income before tax in pension operations	**6**	31	(81)	**1**	13	(92)	43
Income from provident fund management fees	**138**	147	(6)	**49**	49	-	194
Income before tax in provident funds	**(74)**	30	#	**9**	12	(25)	8
Total comprehensive income before tax in provident fund operations	**(74)**	30	#	**9**	12	(25)	8
Total income (loss) before tax in the long term savings division	**84**	(519)	#	**(170)**	164	#	(80)
Total comprehensive income (loss) before tax in the long term savings division	**80**	(528)	#	**(134)**	140	#	(61)
Non-life insurance segments							
Gross premiums earned	**1,705**	1,755	(3)	**585**	579	1	2,315
Premiums earned on retention	**1,151**	1,253	(8)	**388**	416	(7)	1,653
Impact of the decrease of interest rate on reserves in non-life insurance	**-**	(2)	#	**-**	-	#	-
Provision with respect to the Winograd committee	**(96)**	(126)	(24)	**(67)**	(4)	1,575	(141)
Income (loss) before tax in the non-life insurance division	**(21)**	34	#	**(22)**	31	#	16
Comprehensive income (loss) before tax in the non-life insurance division	**10**	19	(47)	**6**	(3)	#	(13)
Health insurance							
Gross premiums earned	**1,415**	1,352	5	**504**	496	2	1,799
Premiums earned on retention	**1,226**	1,198	2	**433**	437	(1)	1,586
Impact of the decrease of interest rate on reserves in health insurance	**-**	(180)	#	**-**	52	#	-
Income (loss) before tax in the health insurance division	**71**	(50)	#	**29**	135	(79)	203
Comprehensive income (loss) before tax in the health insurance division	**104**	(39)	#	**64**	130	(51)	216
Total income (loss) before tax from insurance segments	**134**	(535)	#	**(163)**	330	#	139
Total comprehensive income (loss) before tax from insurance segments	**194**	(548)	#	**(64)**	267	#	142
Financing expenses	**94**	115	(18)	**25**	36	(31)	151
Total comprehensive income before tax and items not included in the insurance branches	**164**	81	102	**49**	44	11	114
Total income (loss) before tax	**129**	(568)	#	**(225)**	350	#	88
Total comprehensive income (loss) before tax	**264**	(582)	#	**(40)**	276	#	105
Taxes (tax benefit) on comprehensive income	**77**	(227)	#	**(19)**	88	#	(20)
Total comprehensive income (loss) for the period, net of tax	**187**	(354)	#	(21)	188	#	125
Total comprehensive income (loss) for the year attributable to company shareholders	**182**	(356)	#	**(23)**	186	#	122
Comprehensive income for the year attributable to non-controlling interests	**4**	3	33	**1**	1	-	3
Return on equity in annual terms (in percent) *)	**5.2**	(10.4)	#	**(1.9)**	18.6	#	2.7

***)** Return on equity is calculated by dividing the profit for the period attributable to the Company's shareholders, by the equity as of the beginning of the period attributable to the Company's shareholders.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

3.1.1. <u>Long term savings</u>

3.1.1.1. <u>Life insurance operations</u>

<u>The reporting period</u>

Gross premiums earned during the reporting period amounted to a total of approximately NIS 4,188 million, as compared with a total of approximately NIS 3,686 million last year. The increase was primarily due to the increase in new sales of individual products and managers, and the increase in deposits, in accordance with the extension order for increase in the rates of pension deposits, as specified in section 6.2.1.3 of the report regarding the description of the corporation's business for 2016.

Comprehensive income amounted to a total of approximately NIS 147 million, as compared with comprehensive loss of approximately NIS 589 million in the corresponding period last year.

During the reporting period, the actuary of Clal Insurance updated the interest rates on free assets which are used to discount the reserves to supplement annuity reserves and paid pension reserves (2.3%-2.79% as of September 30, as compared with 2.4%-3.28% as of December 31, 2016), updated the K factor for profit-sharing policies (0.92% as compared with 0.96% as of December 31, 2016), and updated the results of the liability adequacy test (LAT). In light of the update to the discount rate and the K factor, and in light of the update to the results of the liability adequacy test (LAT), the reserves with respect to life insurance contracts increased in the amount of approximately NIS 250 million, as compared with an increase of the reserves in life insurance, in long-term care insurance and in the health and non-life insurance segment, in the amount of approximately NIS 504 million in the corresponding period last year. For additional details, see Note 8(a) to the financial statements.

Additionally, during the reporting period, the group updated the insurance liabilities with respect to the optimization of members' rights in the amount of approximately NIS 61 million (approximately NIS 40 million after tax), as compared with an update to approximately NIS 63 million before tax (approximately NIS 40 million after tax) in the corresponding period last year.

On the other hand, as stated above during the reporting period, Clal Insurance implemented during the reporting period a correction to the attribution of its investments, with respect to its liabilities to pension receiving policyholders, to various HETZ bonds bearing guaranteed returns. As a result, the insurance reserves decreased in the amount of approximately NIS 88 million, and accordingly, post-tax profit increased in the amount of approximately NIS 57 million.

After neutralization of the aforementioned effects, comprehensive income before tax amounted to a total of approximately NIS 370 million, as compared with comprehensive loss of approximately NIS 22 million in the corresponding period last year.

The transition to income during the reporting period, as compared with the corresponding period, after neutralization of the aforementioned provisions, was due to the increase in investment income, as compared with investment income in the corresponding period last year. During the reporting period, gross real returns in profit sharing policies amounted to a rate of 5.65%, as compared with a negative return rate of 0.89% in the corresponding period last year. Due to the foregoing, during the reporting period, variable management fees were collected in life insurance in the amount of approximately NIS 240 million, as compared with collection in the amount of approximately NIS 20 million in the corresponding quarter last year.

The total financial margin in life insurance amounted to a total of approximately NIS 703 million, as compared with a total of approximately NIS 423 million in the corresponding period last year.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

3.1.1. Long-term savings (Cont.)

3.1.1.1. Life insurance operations (Cont.)

The reporting period (Cont.)

During the reporting period, redemption rates of life insurance policies from the average reserve for the period, in annual terms, amounted to approximately 2.9%, as compared with at a rate of approximately 2.7% in the corresponding period last year.

Three month period ended on the reporting date

Gross premiums earned amounted to a total of approximately NIS 1,328 million, as compared with a total of approximately NIS 1,278 million in the corresponding period last year. The increase was primarily due to the increase in new sales of individual and managers' insurance products and the increase in deposits in accordance with the aforementioned extension order.

Comprehensive loss amounted to a total of approximately NIS 145 million, as compared with comprehensive income of approximately NIS 115 million in the corresponding period last year.

In the three month period ended on the reporting date, the actuary of Clal Insurance updated the interest rates on free assets which are used to discount the reserves to supplement annuity reserves and paid pension reserves (2.3%-2.79% as of September 30, as compared with 2.6%-3.28% as of June 30), updated the K factor for profit-sharing policies (0.92% as compared with 0.96% as of June 30, 2017), and updated the results of the liability adequacy test (LAT). In light of the update to the discount rate and the K factor, and in light of the update to the results of the liability adequacy test (LAT), the reserves with respect to life insurance contracts increased in the amount of approximately NIS 335 million, as compared with the release of reserves in the amount of approximately NIS 101 million in the corresponding period last year.

Additionally, in the three month period ended on the reporting date, the group updated the insurance liabilities with respect to members' rights in the amount of approximately NIS 41 million (approximately NIS 27 million after tax), with no impact in the corresponding period last year.

After neutralization of the aforementioned effects, comprehensive income before tax amounted to a total of approximately NIS 231 million, as compared with comprehensive income of approximately NIS 14 million in the corresponding period last year.

The increase in income during the three month period ended on the reporting date, as compared with the corresponding period last year, after neutralization of the aforementioned provisions, was due to the increase in investment income, as compared with investment income in the corresponding period last year. During the reporting period, gross real returns in profit sharing policies amounted to a rate of 2.82%, as compared with a rate of return of 1.32% in the corresponding period last year. Due to the foregoing, during the reporting period, variable management fees were collected in life insurance in the amount of approximately NIS 127 million, as compared with collection of approximately NIS 20 million in the corresponding quarter last year.

The total financial margin in life insurance amounted to a total of approximately NIS 332 million, as compared with a total of approximately NIS 126 million in the corresponding period last year.

The redemption rate of life insurance policies from the average reserve for the period, in annual terms, amounted to approximately 3.2%, as compared with at a rate of approximately 2.8% in the corresponding period last year.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

3.1.1. Long-term savings (Cont.)

3.1.1.2 Composition of management fees and financial margin:

	For the period of nine months ended September 30					For the period of three months ended September 30					For the year ended December 31	
NIS in millions	2017	% of total	2016	% of total	% Change	2017	% of total	2016	% of total	% Change	2016	% of total
Variable management fees	240	**44**	20	7	1,090	127	**54**	20	17	525	106	22
Fixed management fees	301	**56**	283	93	7	103	**46**	95	83	10	379	78
Total management fees	**541**	**100**	303	100	79	**229**	**100**	115	100	100	485	100
Total financial margin and management fees	**703**		423			**332**		126			686	

3.1.1.3 Composition of gross premiums earned in the long-term savings segment (life insurance)

	For the period of nine months ended September 30					For the period of three months ended September 30					For the year ended December 31	
NIS in millions	2017	% of total	2016	% of total	% Change	2017	% of total	2016	% of total	% Change	2016	% of total
Current premiums	3,944	**94**	3,565	97	11	**1,235**	**93**	1,237	97	-	4,817	96
Non-recurring premiums	244	**6**	121	3	102	**92**	**7**	43	3	117	182	4
Total gross premiums earned	**4,188**	**100**	**3,686**	100	14	**1,328**	**100**	1,279	100	4	4,999	100

3.1.1.4 Composition of premiums applied directly to reserves with respect to pure savings (investment contracts)

	For the period of nine months ended September 30					For the period of three months ended September 30					For the year ended December 31	
NIS in millions	2017	% of total	2016	% of total	% Change	2017	% of total	2016	% of total	% Change	2016	% of total
Current premiums	65	30	86	23	(25)	20	36	28	23	(28)	111	24
Non-recurring premiums	149	**70**	292	77	(48)	35	**64**	95	77	(62)	358	76
Total gross premiums earned	**214**	**100**	378	100	(43)	**55**	**100**	122	100	(54)	469	100

3.1.1.5 Composition of gross earned premiums in the long term savings segment (life insurance including investment contracts)

	For the period of nine months ended September 30					For the period of three months ended September 30					For the year ended December 31	
NIS in millions	2017	% of total	2016	% of total	% Change	2017	% of total	2016	% of total	% Change	2016	% of total
Current premiums	4,009	91	3,652	90	10	1,255	91	1,264	90	(1)	4,928	90
Non-recurring premiums	393	**9**	412	10	(4)	127	**9**	137	10	(6)	540	10
Total gross premiums earned	**4,402**	**100**	**4,064**	100	8	**1,383**	**100**	1,401	100	(1)	5,468	100

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

3.1.1. Long-term savings (Cont.)

3.1.1.6. Additional data regarding life insurance operations

Details regarding the rates of return in profit-sharing policies

Policies issued during the years 1992 to 2003 (Fund J)

In percent	For the period of nine months ended September 30 2017	For the period of nine months ended September 30 2016	For the period of three months ended September 30 2017	For the period of three months ended September 30 2016	For the year ended December 31 2016
Real return before payment of management fees	**5.65**	0.89	**2.82**	1.32	2.95
Real return after payment of management fees	**4.43**	0.38	**2.29**	1.1	2.01
Nominal return before payment of management fees	**5.86**	0.89	**2.31**	1.73	2.64
Nominal return after payment of management fees	**4.64**	0.38	**1.78**	1.51	1.70

Policies issued beginning in 2004 (New J Fund)

In percent	For the period of nine months ended September 30 2017	For the period of nine months ended September 30 2016	For the period of three months ended September 30 2017	For the period of three months ended September 30 2016	For the year ended December 31 2016
Real return before payment of management fees *)	**5.32**	0.74	**2.77**	1.12	2.46
Real return after payment of management fees *)	**4.44**	(0.1)	**2.47**	0.84	1.32
Nominal return before payment of management fees	**5.53**	0.74	**2.26**	1.53	2.15
Nominal return after payment of management fees	**4.65**	(0.1)	**1.96**	1.25	1.01

*) For details regarding the change in the consumer price index, see section 2.1.1.2 above.

Details regarding income from investments applied to policyholders in profit-sharing policies and management fees *)

NIS in millions	For the period of nine months ended September 30 2017	For the period of nine months ended September 30 2016	For the period of three months ended September 30 2017	For the period of three months ended September 30 2016	For the year ended December 31 2016
Nominal investment income applied to policyholders after management fees	**2,162**	215	**911**	555	680
Management fees	**541**	302	**229**	116	485

*) With respect to the savings component in profit sharing and personal profile policies.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 <u>Financial information by operating segments</u> (Cont.)

3.1.1. <u>Long-term savings</u> (Cont.)

3.1.1.7 <u>Provident fund operations</u>

The reporting period

Income from management fees during the reporting period amounted to a total of approximately NIS 138 million, as compared with a total of approximately NIS 147 million last year.

Comprehensive loss in the reporting period ended amounted to a total of approximately NIS 74 million, as compared with comprehensive income in the amount of approximately NIS 30 million in the corresponding period last year. The transition from income to loss was primarily due to the impairment of goodwill which was recorded during the second quarter in the amount of approximately NIS 81 million, with no effect in the corresponding period last year, and an update to the provisions with respect to claims which were filed against the Company, in the amount of approximately NIS 15 million.

After neutralization of the aforementioned provisions, comprehensive income during the reporting period before tax amounted to a total of approximately NIS 22 million, as compared with income of approximately NIS 30 million in the corresponding period last year. The decrease in income, after neutralizing provisions, was due to the ongoing decrease in income from management fees, as a result of the competitive conditions in the segment and the increase in expenses.

As of September 30, 2017, no indicators were present showing a need to perform an impairment test of the goodwill.

In November 2016, the Company received approval with respect to the provident fund for investment, and the activity commenced in January 2017. For additional details, see Note 44(h) to the annual financial statements.

Three month period ended on the reporting date

Income from management fees amounted to a total of approximately NIS 49 million, similarly to the corresponding period last year.

Comprehensive income in the three month period ended on the reporting date amounted to a total of approximately NIS 9 million, as compared with comprehensive income in the amount of approximately NIS 12 million in the corresponding period last year. The decrease in income during the three month period ended on the reporting date was due to the increase in expenses.

As of September 30, 2017, no indicators were present showing a need to perform an impairment test of the goodwill.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

3.1.1. Long-term savings (Cont.)

3.1.1.8 Pension operations

The reporting period

Income from management fees during the reporting period amounted to a total of approximately NIS 208 million, as compared with a total of approximately NIS 205 million last year.

Comprehensive income in the reporting period ended amounted to a total of approximately NIS 6 million, as compared with comprehensive income in the amount of approximately NIS 31 million in the corresponding period last year. The decrease in income during the reporting period was due to the increase in expenses, primarily in automation expenses, including depreciation, for the purpose of complying with the ongoing regulatory requirements, and the increase in expenses in light of the updates to the group's general and administrative costs allocation model, as specified in Note 44(g) to the annual financial statements.

Three month period ended on the reporting date

Income from management fees during the reporting period amounted to a total of approximately NIS 70 million, as compared with a total of approximately NIS 71 million last year.

Comprehensive income in the three month period ended on the reporting date amounted to a total of approximately NIS 1 million, as compared with income in the amount of approximately NIS 13 million in the corresponding period last year. The decrease in income during the three month period ended on the reporting date was due to the increase in expenses, primarily in automation expenses, including depreciation, for the purpose of complying with the ongoing regulatory requirements, and the increase in expenses in light of the updates to the group's general and administrative costs allocation model, as specified in Note 44(g) to the annual financial statements.

3. Board of Directors’ Remarks Regarding the Corporation’s Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

3.1.2. Non-life insurance

Presented below is the distribution of premiums and comprehensive income in non-life insurance: *)

	For the period of nine months ended September 30				For the period of three months ended September 30				For the year ended December 31	
	2017	% of total	2016	% of total	2017	% of total	2016	% of total	2016	% of total
NIS in millions	Unaudited								Audited	
Motor property insurance										
Gross premiums	**572**	**32**	491	29	**171**	**31**	146	29	635	28
Premiums on retention	**570**	**50**	489	39	**170**	**50**	145	39	632	40
Income (loss) before tax	**21**	28	11	7	**9**	**20**	17	49	18	11
Comprehensive income (loss) before tax	**23**	22	10	7	**11**	**15**	14	1,400	16	13
Loss ratio, gross	**69%**		71%		**66%**		64%		70%	
Loss ratio, on retention	**69%**		71%		**66%**		64%		70%	
Combined ratio, gross	**97%**		99%		**95%**		93%		98%	
Combined ratio, on retention	**97%**		100%		**95%**		93%		99%	
Compulsory motor insurance										
Gross premiums	**377**	**21**	346	20	**111**	**20**	108	21	438	20
Premiums on retention	**201**	**18**	334	27	**60**	**18**	104	28	423	27
Income before tax before the estimated impact of the Winograd committee’s recommendations	**10**	**13**	159	99	**31**	**70**	18	51	169	107
Comprehensive income before tax before the estimated impact of the Winograd committee’s recommendations	**24**	**23**	151	105	**44**	**60**	2	200	154	120
The pool’s effect on results of operations	**(11)**		(27)		**(12)**		(9)		(30)	
Loss ratio, gross	**97%**		50%		**58%**		95%		59%	
Loss ratio, on retention	**92%**		48%		**48%**		92%		56%	
Combined ratio, gross	**115%**		68%		**78%**		115%		78%	
Combined ratio, on retention	**109%**		67%		**67%**		112%		77%	
Provision in the compulsory motor branch, including the estimated impact of the Winograd committee	**(59)**		(76)		**(43)**		(1)		(81)	
Income before tax including the estimated impact of the Winograd committee’s recommendations	**(49)**		83		**(11)**		17		88	
Comprehensive income before tax including the estimated impact of the Winograd committee’s recommendations	**(35)**		75		**2**		1		73	
Property branches										
Gross premiums	**502**	**28**	559	33	**164**	**30**	163	32	743	33
Premiums on retention	**154**	**14**	211	17	**46**	**14**	62	17	265	17
Income before tax	**23**	**31**	(6)	12	**3**	**7**	16	46	(47)	#
Comprehensive income before tax	**26**	**25**	(8)	12	**6**	**8**	12	1,200	(50)	#
Loss ratio, gross	**63%**		33%		**71%**		33%		42%	
Loss ratio, on retention	**41%**		60%		**40%**		41%		71%	
Combined ratio, gross	**96%**		65%		**107%**		66%		74%	
Combined ratio, on retention	**93%**		107%		**99%**		90%		118%	
Credit insurance										
Gross premiums	**83**	**5**	80	5	**27**	**5**	27	5	107	5
Premiums on retention	**42**	**4**	40	3	**14**	**4**	13	4	54	3
Income before tax	**26**	**35**	22	14	**8**	**18**	7	20	24	15
Comprehensive income before tax	**28**	**26**	23	16	**10**	**14**	5	500	24	19
Loss ratio, gross	**28%**		46%		**31%**		37%		45%	
Loss ratio, on retention	**26%**		39%		**21%**		51%		46%	
Combined ratio, gross	**50%**		68%		**54%**		59%		67%	
Combined ratio, on retention	**44%**		51%		**41%**		65%		59%	

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

3.1.2. Non-life insurance (Cont.)

Presented below is the distribution of premiums and comprehensive income in non-life insurance: (Cont.) *)

	For the period of nine months ended September 30				For the period of three months ended September 30				For the year ended December 31	
	2017	% of total	2016	% of total	2017	% of total	2016	% of total	2016	% of total
NIS in millions	Unaudited								Audited	
Liability branches										
Gross premiums	262	15	241	14	71	13	66	13	310	14
Premiums on retention	169	15	165	13	50	15	48	13	213	13
Income before tax before the estimated impact of the Winograd committee's recommendations	(4)	#	(25)	#	(7)	#	(22)	#	(7)	#
Comprehensive income before tax before the estimated impact of the Winograd committee's recommendations	5	5	(30)	#	1	1	(32)	#	(16)	#
Loss ratio, gross	111%		107%		73%		93%		106%	
Loss ratio, on retention	75%		94%		73%		130%		80%	
Combined ratio, gross	144%		139%		109%		128%		138%	
Combined ratio, on retention	117%		137%		120%		176%		123%	
Provision in the liabilities branches, including the estimated impact of the Winograd committee	(37)		(50)		(24)		(3)		(61)	
Income before tax including the estimated impact of the Winograd committee's recommendations	(41)		(75)		(32)		(25)		(68)	
Comprehensive income before tax including the estimated impact of the Winograd committee's recommendations	(31)		(80)		(23)		(35)		(77)	
Total for non-life insurance segments										
Gross premiums	1,797	100	1,717	100	544	100	509	100	2,233	100
Premiums on retention	1,136	100	1,239	100	340	100	374	100	1,587	100
Income before tax before the estimated impact of the Winograd committee's recommendations	75	100	160	100	44	100	35	100	158	100
Comprehensive income before tax before the estimated impact of the Winograd committee's recommendations	106	100	145	100	73	100	1	100	128	100
Loss ratio, gross	77%		57%		65%		62%		62%	
Loss ratio, on retention	70%		65%		58%		74%		67%	
Combined ratio, gross	105%		85%		95%		91%		90%	
Combined ratio, on retention	100%		96%		91%		107%		99%	
Total for non-life insurance segments, including the impact of the Winograd committee's recommendations										
Total provision in non-life insurance segments with respect to the estimate regarding the implications of the Winograd committee recommendations	(96)		(126)		(67)		(4)		(141)	
Income before tax	(21)		35		(23)		31		17	
Comprehensive income before tax	10		19		6		(3)		(13)	
Loss ratio, gross	84%		66%		80%		62%		70%	
Loss ratio, on retention	78%		75%		75%		74%		76%	
Combined ratio, gross	112%		94%		110%		91%		98%	
Combined ratio, on retention	109%		106%		108%		107%		107%	
Total in non-life insurance segments, excluding compulsory motor and excluding the impact of Winograd										
Total provision in non-life insurance segments including the estimated implications of the Winograd committee's recommendations	(96)		(126)		(67)		(4)		(141)	
Income before tax	65		1		13		17		(11)	
Comprehensive income before tax	82		(7)		29		(1)		(26)	
Loss ratio, gross	68%		61%		71%		63%		65%	
Loss ratio, on retention	63%		70%		61%		68%		71%	
Combined ratio, gross	97%		93%		105%		99%		97%	
Combined ratio, on retention	98%		106%		98%		105%		107%	

*) Loss Ratio (LR) = Payments and changes in liabilities with respect to insurance contracts and investment contracts (gross / on retention) / Premiums earned (gross / retention)

Combined Ratio (CR) = Payments and changes in liabilities with respect to insurance contracts and investment contracts (gross / on retention) + commissions (gross / retention) + general and administrative expenses + amortization of insurance portfolios / Premiums earned (gross/retention)

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

3.1.2. Non-life insurance (Cont.)

The reporting period

Gross premiums amounted to a total of approximately NIS 1,797 million, as compared with a total of approximately NIS 1,717 million in the corresponding period last year.

After implementing a business optimization process which resulted in a reduction of premiums in recent years, during the reporting period, an increase was recorded in gross premiums in the amount of approximately NIS 80 million, primarily due to the increase in individual business operations in the compulsory motor and property branches, as part of the Company's strategy.

During the reporting period, the Company signed a new proportional reinsurance treaty for the compulsory motor branch with respect to the 2017 underwriting year, with no impact on old underwriting years. The implementation of the aforementioned agreement did not have a significant impact.

Comprehensive income before tax amounted to approximately NIS 10 million, as compared with income of approximately NIS 19 million in the corresponding period last year. During the reporting period, a provision was recorded with respect to the possible implications of the amendment to the Discounting Regulations, in light of the recommendations of the Winograd committee, in the amount of approximately NIS 96 million, as compared with a total of approximately NIS 126 million during corresponding period last year, as specified in section 3.1(b) above[3].

After neutralization of the provision in light of the recommendation of the Winograd committee, as stated above, comprehensive income before tax in the reporting period amounted to approximately NIS 106 million, as compared with income of approximately NIS 145 million in the corresponding period last year.

The decrease in income, after neutralization of the aforementioned provision, was primarily due to the results of the compulsory motor branch. The decrease in income in the compulsory motor branch was due to the predicted deterioration in the average claim, which was reflected in the actuarial model, as compared with the improvement in the actuarial model and the corresponding release of reserves last year. This deterioration was partially offset by the improvement in underwriting results in the fire and property branches and in the motor property and liabilities branch as compared with the corresponding period last year, due to the underwriting improvement in individual business operations, and the students personal accident insurance branch, for which loss was recorded in the corresponding period last year.

Additionally, during the reporting period, an increase occurred in surplus investment income over the income required to cover the increase in insurance liabilities, relative to the corresponding period last year.

After neutralizing the provision in light of the aforementioned recommendation of the Winograd committee, the loss ratio on retention during the reporting period increased to 70%, from 65% in the corresponding period last year. The combined ratio on retention increased in the reporting period to 100%, from 96%. The increase was primarily due to the deterioration in the average claim in the compulsory motor branch, as specified above, and neutralized by the provision in light of the Winograd committee's recommendations.

After neutralizing the provision in light of the aforementioned recommendation of the Winograd committee, and excluding the compulsory motor branch, as stated above, the loss ratio on retention during the reporting period decreased to 63%, from 70% in the corresponding period last year. The combined ratio on retention decreased during the reporting period to 98%, from 106%.

[3] For details regarding the balance of liabilities with respect to insurance contracts in the compulsory motor and liabilities branches, see Note 4(e) to the financial statements.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

3.1.2. Non-life insurance (Cont.)

Three month period ended on the reporting date

Gross premiums amounted to a total of approximately NIS 544 million, as compared with a total of approximately NIS 509 million in the corresponding period last year.

Comprehensive income before tax amounted to a total of approximately NIS 6 million, as compared with loss in the amount of approximately NIS 3 million in the corresponding period last year. During the three month period ended on the reporting date, an update was recorded to the provision with respect to the possible implications of the amendment to the Discounting Regulations, in light of the recommendations of the Winograd committee, in the amount of approximately NIS 67 million, as compared with a total of approximately NIS 4 million last year.

After neutralization of the aforementioned provisions, in the three month period ended on the reporting date, income was recorded in the amount of approximately NIS 73 million, as compared with income of approximately NIS 1 million in the corresponding period last year.

The increase in income, neutralized by the aforementioned provision, was due to the improvement in the results of the compulsory motor and liabilities branch, as compared with the corresponding period last year.

Additionally, during the three month period ended on the reporting date, an increase occurred in surplus investment income over the income required to cover the increase in insurance liabilities, relative to the corresponding period last year.

After neutralization of the aforementioned provisions, the loss ratio on retention decreased to a rate of 58%, from a rate of 74% (the combined ratio on retention decreased during this period to a rate of 91%, from a rate of 107%).

After neutralizing the provision in light of the aforementioned recommendation of the Winograd committee, and excluding the compulsory motor branch, as stated above, the loss ratio on retention during the reporting period decreased to 61%, from 68% in the corresponding period last year. The combined ratio on retention decreased during the reporting period to 98%, from 105%.

3.1.2.1 Motor property

The reporting period

Gross premiums amounted to a total of approximately NIS 572 million, as compared with a total of approximately NIS 491 million in the corresponding period last year. The increase in gross premiums was primarily due to the increase in individual business operations, as part of the Company's strategy.

Comprehensive income amounted to a total of approximately NIS 23 million, as compared with income of approximately NIS 10 million in the corresponding period last year. The increase in income was primarily due to the improvement in underwriting results in individual business operations, and due to business optimization and the discontinuation of losing business operations, as part of the Company's strategy in recent years.

The loss ratio on retention decreased in the reporting period to 69%, from 71% in the corresponding period last year (the combined ratio on retention decreased to a rate of 97%, from 100%).

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

3.1.2.1 Motor property (Cont.)

Three month period ended on the reporting date

Gross premiums amounted to a total of approximately NIS 171 million, as compared with a total of approximately NIS 146 million in the corresponding period last year. The increase in gross premiums in the reporting period, in the amount of approximately NIS 25 million, was primarily due to the increase in individual business operations, as part of the Company's strategy in recent years.

Comprehensive income amounted to a total of approximately NIS 11 million, as compared with comprehensive income of approximately NIS 14 million in the corresponding period last year.

The loss ratio on retention increased to a rate of 66%, from a rate of 64% (the combined ratio on retention increased during this period to a rate of 95%, from a rate of 93%).

3.1.2.2 Compulsory motor

The reporting period

Gross premiums amounted to a total of approximately NIS 377 million, as compared with a total of approximately NIS 346 million in the corresponding period last year. The increase in gross premiums was primarily due to the increase in individual business operations, as part of the Company's strategy.

Comprehensive loss amounted to a total of approximately NIS 35 million, as compared with income of approximately NIS 75 million in the corresponding period last year. During the reporting period, a provision was recorded with respect to the possible implications of the amendment to the Discounting Regulations, in light of the recommendations of the Winograd committee, in the amount of approximately NIS 76 million, as compared with a total of approximately NIS 59 million during the reporting period.

After neutralization of the aforementioned provisions, comprehensive income before tax amounted to a total of approximately NIS 24 million, as compared with income of approximately NIS 151 million in the corresponding period last year.

The decrease in income, after neutralizing the provisions, as stated above, was due to the predicted deterioration in the average claim, which was reflected in the actuarial model, as compared with the improvement in the actuarial model and the release of reserves accordingly last year.

After neutralization of the aforementioned provisions, the loss ratio on retention increased to 92%, from 48% in the corresponding period last year (the combined ratio on retention increased during the reporting period to 109% from 67%).

Three month period ended on the reporting date

Gross premiums amounted to a total of approximately NIS 111 million, as compared with a total of approximately NIS 108 million in the corresponding period last year.

Comprehensive income amounted to a total of approximately NIS 2 million, as compared with income in the amount of approximately NIS 1 million in the corresponding period last year. During the three month period ended on the reporting date, a provision was recorded with respect to the possible implications of the amendment to the Discounting Regulations, in light of the recommendations of the Winograd committee, in the amount of approximately NIS 43 million, as compared with a total of approximately NIS 1 million last year.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

3.1.2. Non-life insurance (Cont.)

3.1.2.2 Compulsory motor (Cont.)

Three month period ended on the reporting date (Cont.)

After neutralization of the aforementioned provisions, in the three month period ended on the reporting date, income was recorded in the amount of approximately NIS 44 million, as compared with income of approximately NIS 2 million in the corresponding period last year.

The increase in income, after neutralization of the aforementioned provisions, was to the improvement in underwriting results relative to last year, and the increase in investment income relative to the corresponding period last year.

The loss ratio on retention decreased to a rate of 48%, from a rate of 92% (the combined ratio on retention decreased during this period to a rate of 67%, from a rate of 112%).

3.1.2.3 Property and others branches

The reporting period

Gross premiums amounted to a total of approximately NIS 502 million, as compared with a total of approximately NIS 559 million in the corresponding period last year. The decrease in gross premiums, in the amount of approximately NIS 57 million, was primarily due to timing differences with respect to long term policies, and the decrease in premiums, due to the non-renewal of a transaction in the students personal accident insurance branch.

Comprehensive income amounted to a total of approximately NIS 26 million, as compared with comprehensive loss of approximately NIS 8 million in the corresponding period last year. The transition from loss to income during the reporting period was primarily due to the improvement in underwriting profitability in the fire and property branches, as a result of business optimization and discontinuation of losing business operations which were performed in previous years, and also due to the students personal accident insurance branch, in which loss was recorded in the corresponding period last year.

The loss ratio on retention decreased in the reporting period to 41%, from 60% in the corresponding period last year (the combined ratio on retention decreased to a rate of 93%, from 107%).

Three month period ended on the reporting date

Gross premiums amounted to a total of approximately NIS 164 million, as compared with a total of approximately NIS 163 million in the corresponding period last year.

Comprehensive income in the three month period ended on the reporting date amounted to a total of approximately NIS 6 million, as compared with comprehensive income of approximately NIS 12 million in the corresponding period last year. The decrease in income was primarily due to the negative development in claims relative to the corresponding period last year.

The loss ratio on retention decreased to 40%, from 41% (the combined ratio on retention decreased during this period to 99%, from 90%).

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

3.1.2. Non-life insurance (Cont.)

3.1.2.4 Credit insurance

The reporting period

Gross premiums in the reporting period amounted to a total of approximately NIS 83 million, as compared with a total of approximately NIS 80 million in the corresponding period last year.

Comprehensive income in the reporting period amounted to a total of approximately NIS 28 million, as compared with a total of approximately NIS 23 million in the corresponding period last year. The increase in income during the reporting period was primarily due to the decrease in the rate of claims during the reporting period, relative to the corresponding period last year.

The loss ratio on retention decreased in the reporting period to 26%, from 39% in the corresponding period last year (the combined ratio on retention decreased to a rate of 44%, from 51%).

Three month period ended on the reporting date

Gross premiums earned amounted to a total of approximately NIS 27 million, both during the reporting period and in the corresponding period last year.

Comprehensive income in the three month period ended on the reporting date amounted to a total of approximately NIS 10 million, as compared with approximately NIS 5 million in the corresponding period last year. The increase in income during the reporting period was primarily due to the aforementioned decrease in the rate of claims.

The loss ratio on retention decreased to 21%, from 51% (the combined ratio on retention decreased to 41%, from 65%).

3.1.2.5 Other liability branches

The reporting period

Gross premiums amounted to a total of approximately NIS 262 million, as compared with a total of approximately NIS 241 million in the corresponding period last year.

Comprehensive loss in the reporting period amounted to a total of approximately NIS 31 million, as compared with income of approximately NIS 80 million in the corresponding period last year. During the reporting period, a provision was recorded with respect to the possible implications of the amendment to the Discounting Regulations, in light of the recommendations of the Winograd committee, in the amount of approximately NIS 37 million, as compared with a total of approximately NIS 50 million in the corresponding period last year.

After neutralization of the provision with respect to the Winograd committee, as stated above, income was recorded in the amount of approximately NIS 5 million, as compared with loss of approximately NIS 30 million in the corresponding period last year. The increase in income during the reporting period was due to the deterioration in underwriting, which was reflected in the actuarial model last year in the third party and employers' liability insurance branches, and due to the increase in investment income.

After the neutralization of the provision with respect to the Winograd committee, as stated above, the loss ratio on retention decreased during the reporting period to a rate of approximately 75%, from a rate of approximately 94% in the corresponding period last year (the combined ratio on retention decreased during the reporting period to a rate of 117%, from a rate of 137%).

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

3.1.2.5 Other liability branches (Cont.)

Three month period ended on the reporting date

Gross premiums in the reporting period amounted to a total of approximately NIS 71 million, as compared with a total of approximately NIS 66 million in the corresponding period last year.

Comprehensive loss in the three month period ended on the reporting date amounted to a total of approximately NIS 23 million, as compared with loss of approximately NIS 35 million in the corresponding period last year. During the three month period ended on the reporting date, a provision was recorded with respect to the possible implications of the amendment to the Discounting Regulations, in light of the recommendations of the Winograd committee, in the amount of approximately NIS 24 million, as compared with a total of approximately NIS 3 million last year.

After neutralization of the aforementioned provisions, during the three month period ended on the reporting date, income was recorded in the amount of approximately NIS 1 million, as compared with loss in the amount of approximately NIS 32 million in the corresponding period last year. The transition to income was due to the increase in income during the reporting period, due to the negative development in claims, which was reflected in the actuarial model last year in the employers' liability insurance branch, and to the increase in investment income.

The loss ratio on retention decreased to a rate of 73%, from a rate of 130% (the combined ratio on retention decreased during this period to a rate of 120%, from a rate of 176%).

3.1.3 Health insurance

The reporting period

Gross premiums in the reporting period amounted to a total of approximately NIS 1,415 million, as compared with a total of approximately NIS 1,352 million in the corresponding period last year. The increase in premiums was primarily due to the increase in the Company's individual business operations.

Comprehensive income before tax in the reporting period amounted to a total of approximately NIS 104 million, as compared with loss in the amount of approximately NIS 39 million in the corresponding period last year.

The transition to income during the reporting period was mostly due to the liability adequacy test (LAT) which resulted, in the corresponding period last year, in an increase in the reserve in the amount of approximately NIS 180 million (with respect to non-investment-linked contracts in the amount of approximately NIS 81 million, and with respect to investment-linked long-term care policies in the amount of approximately NIS 99 million), with no impact during the reporting period.

After neutralization of the effect, as stated above, comprehensive income before tax amounted to a total of approximately NIS 104 million during the reporting period, as compared with comprehensive income of approximately NIS 141 million in the corresponding period last year.

The decrease in income, after neutralization of the effect during the reporting period, as compared with the corresponding period last year was primarily due to the negative development in claims in the long-term care branch in the first quarter, and the increase in the reserve due to the update to estimates, primarily with respect to the changes in the cancellation and morbidity rates, relative to the corresponding period last year.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 <u>Financial information by operating segments</u> (Cont.)

3.1.3. Health insurance (Cont.)

<u>Three month period ended on the reporting date</u>

Gross premiums earned in the three month period ended on the reporting date amounted to a total of approximately NIS 504 million, as compared with a total of approximately NIS 496 million in the corresponding period last year. The increase in premiums was primarily due to the increase in the Company's individual business operations.

Comprehensive income before tax in the reporting period amounted to a total of approximately NIS 64 million, as compared with income in the amount of approximately NIS 130 million in the corresponding period last year.

The decrease in income during the reporting period was due to the liability adequacy test (LAT) which resulted, in the corresponding period last year, in a release of the reserve in the amount of approximately NIS 52 million (with respect to non-investment-linked long-term care policies in the amount of approximately NIS 43 million and with respect to investment-linked long-term care policies in the amount of approximately NIS 9 million), with no impact during the reporting period.

After neutralization of the aforementioned effect, comprehensive income before tax amounted to a total of approximately NIS 64 million during the three month period ended on the reporting date, as compared with comprehensive income of approximately NIS 78 million in the corresponding period last year.

Details regarding investment gains which were applied to policyholders in health insurance policies of the profit sharing nursing type:

	Profit sharing long-term care policies of the individual and collective types				
	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31
NIS in millions	**2017**	**2016**	**2017**	**2016**	**2016**
Investment gains which were applied to policyholders	181	16	81	51	63

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

3.1.4. Other and items not included in the insurance branches

NIS in millions	For the period of nine months ended September 30 2017	2016	Rate of change in percent	For the period of three months ended September 30 2017	2016	Rate of change in percent	For the year ended December 31 2016
	Unaudited			Unaudited			Audited
Income from investments, net, and financing income	137	103	33	(8)	57	#	136
General and administrative expenses	58	43	35	29	14	107	60
Other expenses (income), net	4	(1)	#	3	(3)	#	5
Income (loss) before tax from continuing operations from adjustments and offset operations	(1)	5	#	(1)	3	#	5
Income before tax from continuing operations in other segments (excluding Clal Finance)	15	16	(6)	5	7	(29)	24
Other income (loss) before tax and items which are not included in the insurance branches	89	82	9	(36)	56	#	100
Other comprehensive income before tax and items not included in the insurance branches	164	81	102	49	44	11	114

<u>During the reporting period</u>

Comprehensive income from items not included in the insurance branches amounted to a total of approximately NIS 164 million in the reporting period, as compared with comprehensive income of approximately NIS 81 million in the corresponding period last year. The increase in income was primarily due to investment income, including in other comprehensive income, in the amount of approximately NIS 212 million in the reporting period, as compared with investment income in the amount of approximately NIS 102 million in the corresponding period last year. On the other hand, during the reporting period, expenses were recorded, inter alia, with respect to the new collective agreement, as compared with the corresponding period last year. For additional details, see Note 8(f) to the financial statements.

<u>During the three month period ended on the reporting date</u>

Comprehensive income from items not included in the insurance branches in the three month period ended on the reporting date amounted to a total of approximately NIS 49 million, as compared with comprehensive income of approximately NIS 44 million in the corresponding period last year. During the reporting period, investment income, including in other comprehensive income, was recorded in the amount of approximately NIS 77 million in the three month period ended on the reporting date, as compared with investment income in the amount of approximately NIS 45 million in the corresponding period last year. On the other hand, during the reporting period, an increase in expenses was recorded, inter alia, with respect to the new collective agreement, as stated above.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

3.1.5. General and administrative expenses

During the reporting period

Other general and administrative expenses during the reporting period amounted to a total of approximately NIS 629 million, as compared with a total of approximately NIS 570 million last year. The increase during the reporting period was due to the increase in automation expenses, inter alia, due to the improvements and expansions which the Company is continuously implementing to the automation system in the long term savings segment, as specified in Note 44(c) to the annual financial statements, to the increase in expenses, inter alia, with respect to the aforementioned new collective agreement, and to the increase in payroll expenses relative to the corresponding period last year.

During the three month period ended on the reporting date

Other general and administrative expenses in the three month period ended on the reporting date amounted to a total of approximately NIS 223 million, as compared with a total of approximately NIS 189 million last year. The increase during the reporting period was due to the increase in automation expenses, inter alia, due to the improvements and expansions which were implemented after the launch of the new pension automation system, as specified in Note 44(c) to the annual financial statements, to the increase in expenses, inter alia, with respect to the aforementioned new collective agreement, and to the increase in payroll expenses relative to the corresponding period last year.

3.1.6. Financing expenses

The group's financing expenses are affected primarily by the change in the known consumer price index, see section 2.1.1.2 above, by the cost of exchange of deferred liability notes, as specified below, and by raisings and repayments of debt in Clal Holdings and in Clal Insurance.

Financing expenses in operations which are not allocated to segments

During the reporting period

Financing expenses in the reporting period amounted to a total of approximately NIS 94 million, as compared with approximately NIS 115 million in the corresponding period last year. The decrease in financing expenses was primarily due to the cost of replacement of deferred liability notes in the amount of approximately NIS 17 million in the corresponding period last year, with no effect in the current period.

During the three month period ended on the reporting date

Financing expenses for the three month period ended on the reporting date amounted to a total of approximately NIS 25 million, as compared with a total of approximately NIS 36 million in the corresponding period last year. The decrease in financing expenses was due to the decrease of 0.5% in the consumer price index, as compared with an increase of 0.4% in the corresponding period last year.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.2 Additional financial data

NIS in millions	Primary movements in equity: For the period of nine months ended September 30 2017	2016	For the period of three months ended September 30 2017	2016	For the year ended December 31 2016
Income (loss) for the period [1)]	**101**	(349)	**(143)**	236	100
Other comprehensive income (loss) for the period [2)]	**85**	(4)	**122**	(50)	26
Comprehensive income (loss)	**186**	(353)	**(22)**	187	125
Comprehensive income (loss) to Company shareholders	**182**	(356)	**(23)**	186	122
Comprehensive income attributable to non-controlling interests	**4**	3	**1**	1	3
Comprehensive income (loss)	**186**	(353)	**(22)**	187	125

1. The decrease in loss and the transition to income during the reporting period, relative to the corresponding period last year, was primarily due to the increase in the risk-free interest rate curve during the reporting period, as compared with the low interest rate environment in the corresponding period last year, and the lower provisions during the reporting period in the compulsory motor and liabilities branches, as compared with the corresponding period last year, following the recommendations of the Winograd committee.

2. Other comprehensive income is primarily affected by income (loss) from the increase (decrease) in the fair value of financial assets (marketable debt assets and non-marketable capital assets) which are not included in the investment portfolios, against profit-sharing (nostro) policies, from foreign currency translation differences with respect to foreign operations, and from actuarial income (loss) with respect to employee benefits.

3.3 Principal data from the consolidated statements of financial position

3.3.1. Assets

NIS in millions	As of September 30 2017	2016	Rate of change %	As of December 31 2016	Rate of change since December %
Total assets	**103,499**	96,492	7	98,291	5
Main assets:					
Total assets with respect to investment-linked contracts in consolidated insurance companies	**62,428**	57,140	9	58,396	7
Other financial investments [1)]	**31,250**	30,346	3	30,340	3
Assets managed for others (non-nostro) in the group (NIS in millions):					
For investment-linked insurance contracts and investment contracts	**62,428**	57,140	9	58,396	7
For provident fund members [1)]	**33,193**	34,157	(3)	34,133	(3)
For pension fund members *)	**59,440**	52,057	14	53,948	10
Total assets managed for others	**155,061**	143,354	8	146,477	6
*) Out of this amount, total assets managed by Atudot Havatika	**9,838**	9,351	5	9,330	5

1. The consolidated financial statements do not include the assets managed in provident funds (except for a provident fund regarding which Clal Insurance accepted upon itself an undertaking to deliver minimum guaranteed annual returns) and pension funds. For additional details, see Note 3(a)(2) to the annual financial statements.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.3 Principal data from the consolidated statements of financial position (Cont.)

3.3.2. Liabilities

During the reporting period, the group continued implementing its strategy of reducing the group's debt balances which are not for capital purposes in the insurance companies, and performed, during the reporting period, an initiated early repayment of the balance of a loan from an interested party bank, which was due for repayment in installments by the end of 2019. In light of the above, as of the balance sheet date, the group has no debit balances which are not for capital purposes in insurance companies.

NIS in millions	As of September 30 2017	As of September 30 2016	Rate of change %	As of December 31 2016	Rate of change since December %
Total liabilities	**98,598**	92,257	7	93,578	5
From liabilities:					
Liabilities in respect of non-investment-linked insurance contracts and investment contracts	**30,324**	30,110	1	29,769	2
Liabilities with respect to investment-linked insurance contracts and investment contracts	**61,437**	56,469	9	57,276	7
Total liabilities with respect to insurance contracts and investment contracts	**91,761**	86,579	6	87,045	5
Financial liabilities:					
Deferred liability notes	**3,240**	3,108	4	3,315	(2)
Liabilities to banking corporations and others					
Company	-	70	#	70	#
Clal Credit and Finance	-	6	#	3	#
Liabilities with respect to derivative financial instruments and short sales	**378**	112	238	247	53
Total liabilities to banking corporations and others	**378**	188	101	320	18
Total financial liabilities	**3,618**	3,296	10	3,635	-

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.3 Principal data from the consolidated statements of financial position (Cont.)

3.3.3. Capital and capital requirements

For additional details regarding the capital requirements which apply to the group's member companies, and regarding restrictions on dividends, see Note 6 to the financial statements:

Capital requirements pursuant to the Capital Regulations

NIS in millions	As of September 30 2017	As of December 31 2016	Rate of change %
Company			
Total capital attributable to Company shareholders	**4,858**	4,674	4
Total capital required of the Company [1)]	**2,854**	2,845	
Surplus	**2,004**	1,829	10
Rate of surplus over required capital	**70.2%**	64.3%	9
Clal Insurance			
Total capital and required capital surplus	**4,839**	4,793	1
Total Tier 1 capital	**4,688**	4,513	4
Total Tier 2 and Tier 3 capital [2)]	**3,125**	3,009	4
Total recognized capital	**7,813**	7,522	4
Surplus	**2,974**	2,729	9
Rate of surplus over capital and required capital surplus	**61.5%**	56.9%	8
Rate of Tier 2 and Tier 3 capital out of total recognized capital	**40.0%**	40.0%	-

1. For details regarding the capital requirements in accordance with the permit for control of an insurer, and the Commissioner's announcement dated May 8, 2014, regarding the cancellation of the permit, see Note 6(b)(2) to the financial statements.

2. The bonds are recognized as Tier 2 hybrid capital in Clal Insurance, subject to restrictions on the maximum rate of Tier 2 capital and Tier 3 capital, as specified in Note 16(e) to the annual statements, and accordingly, a total of approximately NIS 43 million was not recognized as capital as of September 30, 2017. The amount will be recognized against future repayments and against the recording of income, if any, which will be aDEd to Tier 1 capital.

Capital requirements according to the solvency regime

For details regarding the solvency ratio of Clal Insurance as of December 31, 2016, in accordance with the solvency circular, see section 3.1 above and Note 6 to the financial statements.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.4. Cash flows

Primary data from the cash flow report

NIS in millions	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31
	2017	**2016**	**2017**	**2016**	**2016**
Net cash from (used in) operating activities *)	**685**	(745)	**(1,016)**	(1,548)	(501)
Net cash flows used in investing activities	**(114)**	(185)	**(73)**	(20)	(278)
Net cash flows used in financing activities	**(259)**	(254)	**(71)**	(48)	(63)
Impact of exchange rate fluctuations on cash balances	**(69)**	(18)	**(10)**	(11)	(21)
Total increase (decrease) in cash balances	**242**	(1,201)	**(1,170)**	(1,627)	(863)

*) The change in cash was primarily due to the change in the mix of investments.

3.5. Financing sources

The Company considers it highly important to maintain and hold sufficient cash balances, in a manner that will allow it to repay its financial liabilities, guarantees and letters of indemnity which it provided for the liabilities of wholly owned investee companies (see Note 27(c) to the annual financial statements), and also to support, insofar as required, the capital needs of Clal Insurance and the liquidity needs with respect to the operations of other investee companies in the group. Additional financing sources include, inter alia, dividend distributions from investee companies and the option to dispose investments in investee companies, debt raisings from the banking system and/or from the public, and capital raisings.

3.5.1. Liquid resources and credit facilities *)

The following are data regarding the principal liquid resources of the Company:

NIS in millions	Balance as of September 30, 2017	Proximate to the publication date of the report
Liquid resources of the Company (solo)	43	43

*) As of the reporting period, the Company has no credit facilities.

3.5.2. Financing characteristics

A. The Company, due to its status as a holding company, evaluates, within the context of financing and liquidity, the value of its assets against its liabilities, as well as the existence of liquid resources available to it, and also evaluates the reasonable accessibility of those resources, as required to continue its operations and to repay its debts.

B. The Company's operations (debt repayments, investments, general and administrative expenses and dividend distributions) are generally financed by dividends received from investee companies, by loans from banking corporations, and by considerations received from the sale of assets.

C. For details regarding financial covenants with respect to loans from banking corporations taken by the Company and/or by subsidiaries guaranteed by the Company, see Notes 27(b) and 27(c) to the annual financial statements. During the reporting period, the Company performed an initiated early repayment of its loans, such that, as of the reporting date, the Company has no loans from banking corporations.

D. For details regarding the main financial movements in the Company (solo), see the interim cash flow data attributed to the Company itself (solo), which are included in the interim report.

E. For details regarding the Company's distributable earnings, which are adjusted to the Company's capital requirements, and regarding capital and capital requirements in the consolidated institutional entities and other companies in the group, see section 3.3.3 above and Note 6(b)(2) to the financial statements.

F. During the reporting period, the Company performed an initiated repayment of the entire balance of its liabilities to banks.

4. Developments subsequent to the publication of the periodic report

4.1 Additional events during and after the reporting period

4.1.1 Distributable profits - for details regarding distributable profits as of the reporting date, in accordance with the Companies Law, regarding the capital requirements stipulated in the permit for control of institutional entities which is held by the Company, and regarding the Commissioner's letter from August 2016 regarding a dividend distribution, see Note 6(b)(2) to the financial statements.

4.1.2 Changes in actuarial estimates - for details, see Note 8(a) to the financial statements.

4.1.3 Change in the corporate tax rate - for details, see Note 8(b) to the financial statements.

4.1.4 Replacement of the operator with respect to provident funds which are managed by the Company - for details, see Note 8(c) to the financial statements.

4.1.5 Shelf prospectus of the Company and Clalbit Finance - for details, see Note 8(d) to the financial statements.

4.1.6 Structural changes - for additional details, see Note 8(e) to the financial statements.

4.1.7 New collective agreement in Clal Group - for details, see Note 8(f) to the financial statements.

4.1.8 Representative employee committee in HaClal HaRishon - for details, see Note 8(g) to the financial statements.

4.1.9 CEO employment agreement - for details, see Note 8(h) to the financial statements.

4.1.10 General and administrative costs - for details, see Note 8(i) to the financial statements.

4.1.11 Provident fund management activity - for details, see Note 8(j) to the financial statements.

4.1.12 the Company's rating - for details, see Note 8(k) to the financial statements.

4.1.13 Automation system in the life insurance segment - for details, see Note 8(l) to the financial statements.

4.1.14 Developments subsequent to the reporting date - for details regarding developments subsequent to the reporting date, including the decrease of the discount rate, see Note 8(m) to the financial statements.

4.2 Legal proceedings

For details regarding developments in the status of class actions and pending claims against the group's member companies (which are not in the ordinary course of business), see Note 7 to the financial statements.

4.3. Restrictions and supervision of the corporation's business

This chapter includes a review of highly significant laws, regulations, circulars, and position papers, or drafts of highly significant laws, regulations, circulars, and position papers, which were published by the Knesset, the Government, or the Commissioner of Insurance, as applicable, subsequent to the approval date of the annual financial statements.

4.3.1. General

4.3.1.1 The Insurance Contract Law

Further to the amendment to the Insurance Contract Law, 1981, which was approved in November 2016, in which the special interest rate was increased which a competent court must rule if an insurance company has not paid the insurance benefits which were not under dispute, in good faith, up to 20 times the interest rate prescribed in the Adjudication of Interest and Linkage Law, as compared with 3 times the aforementioned interest rate, prior to the amendment ("**Special Interest**"); Additionally, the types of insurance policies regarding which the Court must order special interest were expanded, in such cases, also for illness and hospitalization insurance (including long-term care insurance) and compulsory motor insurance -

In April 2017, an additional amendment to the Insurance Contract Law was approved, whereby the special interest with respect to long-term care insurance will be at a rate of no less than 10 times, unless the court has determined a lower rate, for reasons which will be specified.
The aforementioned amendments to the Insurance Contract Law may result in an increase in claim settlement costs.

4. Developments Subsequent to the Publication of the Periodic Report (Cont.)

4.3 Restrictions and supervision of the corporation's business (Cont.)

4.3.1 General (Cont.)

4.3.1.1 The Insurance Contract Law (Cont.)

The information presented on all matters associated with the possible implications of the aforementioned amendments to the Insurance Contract Law constitutes forward looking information, which is based on the Company's estimates and assumptions, and actual results may differ significantly from the forecast, inter alia, in light of the uncertainty regarding the manner of implementation of the amendment by the courts.

4.3.1.2 Investment by institutional entities in credit companies

In April 2017, a draft amendment was published to the circular regarding rules for investment which apply to institutional entities, which includes provisions with respect to providing the possibility for an institutional entity to invest in a credit company which is under the control of the controlling shareholder of an institutional entity (the "**Credit Company**"), in accordance with the conditions which were determined in the draft, including restrictions according to which the funds which members and policyholders may provide for financing to the credit company at a rate of up to 49%, the institutional entity, or the controlling shareholder thereof, will provide financing to the credit company at a rate of no less than 20% of the total financing to the credit company, and a requirement that the credit company provide securities in favor of the institutional investor, to secure the repayment of the loans, as specified in the draft amendment.

Further to the foregoing, in April 2017, the Ministry of Finance published a call for bids and a draft document of principles for public comments, with respect to the provision of government assistance to increase competition in the retail credit market. According to the document, the controlling shareholder of an institutional entity may create a credit company, which will be able to provide loans to small businesses and to households, in accordance with the conditions which were specified in the draft.

The Company is evaluating the implications of the proposed arrangements, both from the business perspective and from the operational perspective, and at this preliminary stage, it is unable to estimate their implications and feasibility.

4.3.1.3 Provisions regarding the implementation of a Solvency II-based solvency regime

For details regarding the final instructions for the implementation of the Solvency II-based economic solvency regime for insurance companies, see Note 6 to the financial statements and section 3.1 above.

Further to the draft which was published in July 2017, in September 2017, a second draft was published of the circular on the subject of "Structure of required disclosure in periodic reports and on websites of insurance companies regarding the Solvency II-based economic solvency regime - second draft". The draft sets forth the structure, method and dates of the disclosure regarding the results of the economic solvency ratio calculation. The draft also established, inter alia, provisions according to which, beginning with the calculation on the data for December 2017, the calculation results will be audited or reviewed, as applicable, and the timetable for the calculation was shortened such that, beginning with the calculation on the data for December 2018, disclosure will be given regarding the results in the periodic report as of that date.

4. Developments Subsequent to the Publication of the Periodic Report (Cont.)

4.3 Restrictions and supervision of the corporation's business (Cont.)

4.3.1 General (Cont.)

4.3.1.3 Provisions regarding the implementation of a Solvency II-based solvency regime (Cont.)

In parallel, in October 2017, a draft amendment was published to the provisions of the consolidated circular regarding reporting to the Commissioner - EV (embeDEd value) file report, which primarily included a provision regarding the cancellation of the obligation which applies to insurers, to publish an embeDEd value report with respect to long term policies in life insurance, and the requirement to report to the Commissioner the embeDEd value of new pension funds, which will be calculated on the data as of December 31 of each year.

4.3.1.4 Equity requirements and dividend distributions

For details regarding the Draft Control of Financial Services Regulations (Insurance) (Minimum Equity Required to Receive Insurer License), 2017, and a draft circular entitled "required equity for solvency purposes", see section 3.3.3 of the Board of Directors' Report regarding the state of the corporation's affairs.

For details about a letter regarding dividend distributions by an insurance company, see Note 6 to the financial statements.

4.3.2 Long term savings

4.3.2.1 Amendment to the circular regarding management fees

In September 2017, an amendment was published to the circular regarding management fees in pension savings instruments (the "**Amendment To The Management Fees Circular**"), which regulated the method for provision of discounts on management fees in pension savings products.

Within the framework of the amendment to the circular regarding management fees, the ability of an institutional entity to raise the cost of management fees for members was reduced, inter alia, by extending the minimum period for the provision of a discount on management fees, from two years to five years (the "Minimum Period"); and the exceptions which allow an institutional entity to raise the management fees for members during the minimum period were reduced.

Additionally, the reporting obligations of institutional entities regarding the rate of management fees were expanded.

In general, the provisions of the amendment will apply to discounts on management fees which will be given starting April 2018.

The entry into effect of the amendment to the circular regarding management fees may affect the provision of discounts on management fees in the provident funds and pension funds, and as a result, the rate of management fees which are collected, and the addition and retention of customers.

The information presented on all matters associated with the possible implications of the amendment to the circular regarding management fees constitutes forward looking information, which is based on the Company's estimates and assumptions, and actual results may differ significantly from the forecast, inter alia, in light of the uncertainty regarding its impact on the Company's decisions, which are dependent, inter alia, on the conduct of competing entities, distributing entities and customers.

4. Developments Subsequent to the Publication of the Periodic Report (Cont.)

4.3 Restrictions and supervision of the corporation's business (Cont.)

4.3.2. Long term savings (Cont.)

4.3.2.2 Draft circular containing provisions regarding mortgage term insurance plans

In April 2017, a draft circular was published on the subject of provisions regarding mortgage term insurance plans (hereinafter: the "**Draft Circular Regarding Mortgage Term Insurance**"), which is intended to determine conditions which will be included in designated mortgage term life insurance policies (hereinafter: "**Mortgage Term Life Insurance Policy**"). The provisions of the draft circular regarding mortgage term insurance were intended to ensure, inter alia, the routine updating of the insurance amount in a mortgage term life insurance policy, in a manner whereby it will be adjusted to the balance of the mortgage loan for which the policy was purchased as a security, throughout the loan period, and through the interface for computerized reporting which will be created between the insurance companies and each of the mortgage banks.

The draft circular regarding mortgage term insurance determines that an update to the insurance amount, as a result of an increase to the loan amount, or an extension of the loan period, will be subject to the consent of the insurance company, and that the insurance company is obligated to inform the policyholder regarding the aforementioned difference. The draft sets forth conditions for the appointment of a bank as an irrevocable beneficiary in a non-designated mortgage term life insurance policy.

The draft circular regarding mortgage term insurance, insofar as in writing be become a binding circular, will enter into effect with respect to policies which will be marketed beginning on July 1, 2017, and is expected to have extensive automational and operational implications with respect to the sale and management of mortgage term life insurance policies.

For details regarding a notice regarding the withdrawal of a class action which was filed against the Company on the subject of the adjustment of the insurance amounts in mortgage term life insurance policies, to the balance of the mortgage loan, see Note 7(a)(a3)(4) to the financial statements.

The information presented on all matters associated with the possible implications of the draft circular regarding mortgage term insurance constitutes forward looking information, which is based on the Company's estimates and assumptions, and actual results may differ significantly from the forecast, inter alia, due to the final wording of the draft, the complexity of operational preparations and the arrangements which will be reached vis-à-vis the banks and vis-à-vis the distributing entities.

4.3.2.3 Guidelines regarding loss of working capacity

In September 2016, a circular was published on the subject of "guidelines regarding loss of working capacity insurance plan" (hereinafter: the "**Guidelines Circular**"), which determined a standard and modular structure for loss of working capacity insurance plans. According to the guidelines circular, the plan structure includes basic loss of working capacity coverage (hereinafter: the "**Basic Coverage**"), to which riders can be aDEd which allow expansion of the basic coverage, as chosen by the policyholder. The guidelines circular specifies conditions which may and may not be included in the basic coverage, as well as terms which can be aDEd to the annexes.

4. Developments Subsequent to the Publication of the Periodic Report (Cont.)

4.3 Restrictions and supervision of the corporation's business (Cont.)

4.3.2. Long term savings (Cont.)

4.3.2.3 Guidelines regarding loss of working capacity (Cont.)

The guidelines circular included expansion of the insurance coverage and reduction of the exceptions which can be included under the basic coverage, relative to the current situation, and also establishes additional provisions which can be included under the basic coverage which pertain, inter alia, to the definition of the insurance event, the basic scope of coverage, insurance benefits, and offsetting of funds obtained from payment sources other than insurance benefits. The circular will apply to all loss of working capacity insurance plans, both individual and collective, which will be marketed by the insurance companies, and also to the renewal of collective loss of working capacity insurance policies. In accordance with the amendment from May 2017, the guidelines circular entered into effect beginning in August 2017.

In September 2017, an additional amendment was published to the guidelines circular, in which an extension was permitted to the insurance period in collective loss of working capacity insurance policies which were marketed before the circular's application date, until December 1, 2017, and the marketing of individual loss of working capacity policies was permitted to policyholders entitled to continuity (who were previously insured under a collective policy).

During the period from August 2017 to November 2017, the Company did not market loss of working capacity insurance plans, in accordance with the guidelines circular. In November 2017, the Company began marketing loss of working capacity insurance plans, as stated above. During the period when the marketing of loss of working capacity policies, under the previous framework, was prohibited, the marketing of life insurance plans (savings and risk of death) decreased significantly, due to the fact that the loss of working capacity product constitutes a supplementary product thereto.

According to the Company's estimate, at this stage, it is not yet possible to estimate the implications of the changes to the loss of working capacity product, in connection with the extensive scope of coverage, relative to the previous product and the substitute pension product, its pricing, and in accordance with the impact of the aforementioned changes on the number of members joining the product, and its profitability; The aforementioned implications depend, inter alia, on the reinsurance treaties which will be signed, if any, in connection with the product; and the long term effect of the combination of these factors, including the conduct of competitors, reinsurers, distributing entities and the long term choices of customers and employers.

4. Developments Subsequent to the Publication of the Periodic Report (Cont.)

4.3 Restrictions and supervision of the corporation's business (Cont.)

4.3.2. Long term savings (Cont.)

4.3.2.4 Crediting of returns in new comprehensive pension funds

In March 2017, the Control of Financial Services Regulations (Provident Funds) (Crediting of Returns in New Comprehensive Pension Fund), 2016, were published (hereinafter: the "**Designated Bond Return Regulations**"). The aforementioned regulations include provisions regarding the method used to credit returns to members and retirees in a new comprehensive pension fund (the "**Designated Bonds Returns**"). As opposed to the status quo, according to which the crediting of designated bond returns is done in a uniform manner for fund members, the regulations determine that a managing company will credit designated bond returns to members of a new comprehensive pension fund which it manages, in the manner specified below:

(A) Annuity recipients - the crediting of designated bond returns to annuity recipients will be done according to the ratio between 60% of the total assets of the annuity recipient and the total fund assets which were invested in designated bonds.

(B) Members aged 50 or older - the crediting of designated bond returns will be done according to the ratio of between 30% of the total accrued balances in the fund to members of this group, and the total fund assets which were invested in designated bonds.

(C) Other members - the crediting of designated bond returns will be done according to the balance of returns in the fund which are due to the investment in designated bonds, after the crediting of returns to the two aforementioned groups.

The Designated Bond Return Regulations established a transitional provision according to which, until the end of 2023, the crediting of designated bond returns, both to members aged 50 or older, and to other members, will be as specified in section (c) above, in other words, after first crediting the designated bond returns, as stated above, to the group of annuity recipients. It was further determined that the Commissioner will be entitled to increase the rate of crediting designated bond returns to annuity recipients in the fund, if he has found that the rate of crediting designated bond returns to members aged 50 or older, and to other members, exceeds half a percent relative to another fund, and that the aforementioned difference may disrupt the actuarial balance in the fund. The Special Bond Returns Regulations will enter into effect in July 2017.

It is noted that the Designated Bond Return Regulations do not change the rate of bonds which a managing company of a new comprehensive pension fund is entitled to acquire, which will remain as 30% of the total fund assets. [4]

The change in the crediting of designated bond returns, as stated above, created, on the calculation date of the actuarial balance for the first time since its application (at the end of the third quarter of 2017), positive returns for pension fund members, which will be attributed to the members' accounts after the publication of the pension funds' financial statements for this quarter.

[4] Likewise, no changes will be made to the rate of designated bonds relative to members in the new pension funds which, prior to January 1, 2004, were already eligible for a pension, and which amounts to 70% of total assets.

4. Developments Subsequent to the Publication of the Periodic Report (Cont.)

4.3 Restrictions and supervision of the corporation's business (Cont.)

4.3.2. Long term savings (Cont.)

4.3.2.4 Crediting of returns in new comprehensive pension funds (Cont.)

In November 2017, a transitional provision was published regarding the calculation of returns for members whose funds were transferred from inactive accounts, due to their joining of a different pension fund (on this matter, see the provisions regarding the consolidation of inactive pension funds, in section 4.3.2.10 below), during the period from October 1, 2017 until the date of update to the rights with respect to the balance, in a manner which will ensure that those members will be entitled to returns which is a result of the aforementioned actuarial balance (which includes balances in addition to the balance with respect to the change in the crediting of designated bond returns).

Further to the above, in June 2017, a circular was published regarding rules for increasing the rate of crediting returns to annuity recipients in new pension funds, which primarily include the determination of rules regarding the method by which the Commissioner evaluate and update the rate of crediting returns in designated bonds for annuity recipients in the funds, in circumstances where the rate of crediting guaranteed bond returns to members aged 50 and higher, and to other members, exceeds one half of a percent, relative to other funds.

In May 2016, a motion from the Israel Insurance Association to join as a petitioner to the Supreme Court was accepted, which was filed by the Forum of Pension Savers in Israel, and by the Association of Investment Houses (jointly: the "**Petitioners**"), against the Minister of Finance and others (hereinafter: the "**Motion to Join**"). According to the appellants, the issuance of designated bonds for the new pension funds only constitutes unlawful discrimination against the provident fund members, as compared with the savers in the new pension funds. In the new member application, it was claimed that there is no justification for the significant preference of savers in new pension funds, also with respect to the holders of managers insurance. The proceedings are currently pending.

The allocation of designated bonds in accordance with age groups, in accordance with the Designated Bond Return Regulations, may create variability in the allocation method of designated bonds between members who belong to the same age group in the various pension funds, may maintain the preference for the pension products over other pension products, particularly in the older ages, and may also create selective preference for joining or transferring to certain pension funds, in accordance with the mix of ages of fund members. This trend may increase, particularly towards retirement age, and in light of the combined impact of these provisions together with the provisions regarding assumed returns in pension conversion factors for new pension funds, as specified in section 4.3.2.5 below.

The Company's estimate in connection with the Crediting of Returns in New Comprehensive Pension Funds Regulations constitutes forward looking information, which is based on the information which is available to the Company as of the reporting date. Actual results may differ from the estimated results, and depend, inter alia, on the decision of the Supreme Court, on the reciprocal effects between the Designated Bond Return Regulations and other regulatory provisions, including regarding the consolidation of inactive accounts in pension funds, the establishment of default funds and the draft mobility regulations (insofar as it will be approved), regarding the possibility of transferring old age annuity recipients, and the conduct of competing entities, distributing entities and the choices of members and policyholders.

4. Developments Subsequent to the Publication of the Periodic Report (Cont.)

4.3 Restrictions and supervision of the corporation's business (Cont.)

4.3.2. Long term savings (Cont.)

4.3.2.5 Assumed returns in annuity conversion factors in the new pension funds and in life insurance policies and amendment to the circular regarding provisions for the management of new funds

Further to the Commissioner's letter from August 2013, to the managers of the institutional entities, regarding assumed returns in conversion factors for annuities in new pension funds, and in life insurance policies, which was intended, with respect to the pension funds, to deal with cross-subsidization and with the erosion of savings of all members, which is caused upon the member's retirement, and which is due to the fact that the assumed returns on the fee investments, which is reflected in the calculation of the pension conversion factors, is currently based on a real interest rate of 4%, while the actual interest rate used to calculate the actuarial balance of the fund is lower, in May 2017, amendments were published to the circular regarding provisions for the management of new funds, to the circular regarding provisions for the management of new general funds, and to the circular regarding provisions with respect to financial reporting for new pension funds. Within the framework of the aforementioned amendments, inter alia, a change was implemented to the mechanism for calculation and update of the annuities which are paid from a new pension fund, such that the annuities will be updated, inter alia, in accordance with the deviations between the actual return on the free investments and a rate of 3.36%, in a manner which will effectively reduce the deficit which was created proximate to the date of the member's retirement, as a result of the currently existing differences between the assumed returns which the fund is expected achieve on the funds which are held against liabilities for retirees, and the interest rates which are effectively used to calculate the value of the liabilities for retirees in the actuarial balance sheet.

According to the Company's estimate, the aforementioned amendments may result in an increase in the addition of new members towards retirement. As a result, the aforementioned amendments may result in increased competition in the market and in a reduction of management fees, also with respect to members who are close to the retirement stage, which will be reflected in transfers between the pension funds, and may also result in increased transfers of funds to pension funds from other pension products, including to the pension fund managed by Clal Pension and Provident Funds. Additionally, the implementation of the proposed mechanism to update the annuities may also have operational and automation-related implications.

The information presented on all matters associated with the possible implications of the Commissioner's letter and the aforementioned circulars constitutes forward looking information, which is based on estimates and assumptions of Clal Pension and Provident Funds, and the actual results may differ significantly from the forecast, in light of, inter alia, the actual returns achieved by Clal Pension and Provident Funds and by the competing entities, the conduct of competing entities and the preferences and choices of members.

4. Developments Subsequent to the Publication of the Periodic Report (Cont.)

4.3 Restrictions and supervision of the corporation's business (Cont.)

4.3.2. Long term savings (Cont.)

4.3.2.6 Prohibition on money laundering

In May 2017, the Prohibition on Money Laundering Order (Obligation to Identify, Report and Maintain Records of Insurers, Insurance Agents and Managing Companies in Order to Prevent Money Laundering and the Financing of Terrorism), 2017, was published (hereinafter: the "**Prohibition on Money Laundering Order**"). The order consolidates and combines, under a single framework regarding institutional entities, The Prohibition on Money Laundering Order (Obligation to Identify, Report and Maintain Records of Insurers and Insurance Agents), 2001 and The Prohibition on Money Laundering Order (Obligation to Identify, Report and Maintain Records of Provident Funds and Managing Companies of Provident Funds), 2001. The main changes in the order, relative to the current orders, include the expansion of the application of the order to a new general fund, provident fund for investment and provident fund for savings, and with respect to an annuity paying provident fund in certain cases, and regarding the reduction of the limit of accruals, deposits and withdrawals which require the performance of actions in accordance with the order. Additionally, an obligation was established to perform a "know your customer" process upon engagement in a life insurance contract or upon the opening of a provident fund.

In November 2017, a draft circular was published regarding the management of money laundering and terrorism financing risks in institutional entities, which primarily included the establishment of provisions with respect to the performance orderly processes to identify and assess money laundering and terrorism financing risks, and the adoption of measures to manage and mitigate them, in accordance with their relative intensity, including provisions with respect to the adoption of a policy regarding the management of money laundering and terrorism financing risks, which will be approved by the Board of Directors; The formulation of a risk assessment document, to include the identification and assessment of money laundering and terrorism financing risks in the institutional entity; The implementation of means to mitigate the risk of money laundering and terrorism financing; And the roles of the individual responsible for fulfilling obligations regarding the prohibition of money laundering and the prevention of terrorism in the institutional entity.

According to the Company's estimate, the Prohibition on Money Laundering Order may have certain implications on the sale process of insurance products, both within the framework of the direct sale channels, and through agents, inter alia, in light of the requirements of the order and their impact on the sale processes, both in light of the need to implement a process of learning about the customer prior to the sale process, and in light of the interpretation which will be given for the aforementioned obligations, with respect to the insurance companies, the insurance agents and the reciprocal relationship between them.

The information presented on all matters associated with the Prohibition on Money Laundering Order constitutes forward looking information, which is based on assumptions and estimates made by the group as of the publication date of the report. Actual implementation may differ significantly from the forecast, and is dependent, inter alia, on the operational preparations towards the implementation of the provisions of the order, and the interpretation which will be given for the provisions which apply thereunder in the future by the authorized entities, and on the conduct of customers, insurance agents and competing companies.

4. Developments Subsequent to the Publication of the Periodic Report (Cont.)

4.3 <u>Restrictions and supervision of the corporation's business</u> (Cont.)

4.3.2. <u>Long term savings</u> (Cont.)

4.3.2.7 <u>Default pension fund</u>

In July 2016, following the Supreme Court's decision regarding the petition which was filed by the Israel Insurance Association against the Commissioner, asserting that, inter alia, that the Commissioner does not have the authority to create a new arrangement involving the creation of a national default fund by way of the publication of a circular, an amendment was published to the circular regarding "provisions regarding the selection of provident funds", which was intended to determine provisions regarding the selection of provident funds for employees who have not chosen a provident fund, despite having been given the opportunity to do so, and regarding the required conditions for such provident funds (hereinafter: the "**Default Fund Circular**"). In the circular, it was determined that managing companies of provident funds may not allow the depositing of an employer's payments with respect to an employee who has not filled out a joining form, and will not allow the addition of such employees to a provident fund, unless one of the following two conditions has been fulfilled:

(1)The provident fund is one of two pension funds, each of which will constitute a chosen default fund as chosen by the Commissioner (hereinafter: "**Chosen Default Fund**"), according to the terms and criteria which will be determined by her, including in connection with the maximum management fees which will be collected therein, and this rate will be effective for at least 10 years after the date of the member's addition to the fund. The selection of the default pension funds will be performed through a competitive process which will be conducted once every three years (however, in accordance with the aforementioned decision of the Supreme Court, the first period for the determination of the chosen default fund will be two years), in which preference will be given to pension funds whose market share is less than 5%.

(2) A provident fund is a default annuity paying provident fund or a study fund which will be chosen through a competitive process conducted by the employer (hereinafter: "**Employer's Default Fund**"), in which each managing company will be given an equal opportunity to participate in the process, whose criteria include the service level, returns and management fees. The default fund will be chosen for a period which will not exceed 5 years. Additionally, a managing company which is, or whose related party is, a provider of monetary clearing services for the employer and/or services involving the monitoring of monetary deposits and/or marketers to the employer's employees of supplementary insurance coverages, will be entitled to serve as the manager of a default fund only if it has offered the lowest rate of management fees (hereinafter: "**Related Party Restrictions**"). A managing company which provides, or whose related party provides, benefits to the employer will not be entitled to serve as the manager of the default fund. In the default fund circular, it was determined that the default agreement which is in effect as of the publication date of the circular will remain in effect until the end of the agreement period, or until March 31, 2019, whichever is earlier (hereinafter: the "**Transitional Provisions**"). The Company is holding discussions with the Authority in connection with a letter which was received in May 2017 regarding default agreements with employers, in which, inter alia, it was instructed that a managing company must transfer to the Authority default agreements, or documents and references which confirm their existence, as a condition for their continued inclusion within the framework of the transitional provision, and as part of the above, the Company is working to discontinue the acceptance of new members from whom management fees are collected at the maximum rate, when it does not have the default agreements (hereinafter: the "**Authority's Instruction**").

4. Developments Subsequent to the Publication of the Periodic Report (Cont.)

4.3 Restrictions and supervision of the corporation's business (Cont.)

4.3.2. Long term savings (Cont.)

4.3.2.7 Default pension fund (Cont.)

In August 2016, the results of the select default funds selection process were published, in which two competing pension funds were selected to serve as select default funds, and additionally, the management fees which will be collected in those funds were published. The management fees which will be collected by the default funds are at a rate of 1.31% of the deposits and 0.01% of the accrual in one fund, and at a rate of 1.49% of the deposits and 0.001% of the accrual in the other fund.
In February 2017, a draft amendment to the circular regarding default funds was published, in which it was determined that the transitional provisions will only apply with respect to the default agreement which was in effect until the publication date of the circular, only if the rate of management fees which were determined therein is not the maximum rate of management fees prescribed in law (hereinafter: the "**Draft Amendment to the Circular Regarding Default Funds**").

The creation of the default funds, and the competitive advantages which are available to a select default fund, are expected to have a significant sector-wide impact on the pension fund market. The provisions of the default fund circular, including in connection with the determination of management fees as a central criterion, may result in a decrease in the average management fees collected in the annuity-paying provident funds and in the study funds on the market, in a change in the business model of business model, in harm to their profitability, and accordingly, may result in changes in the market shares of the current competitors, and will also affect Clal Pension and Provident Funds. The provisions of the circular may also affect the activities of insurance agents and their involvement in the relevant market, in a manner which could impose difficulties on the pension principles of pension advice to members and the provision of service to them, and may have a corresponding effect on the managing companies. The related party restriction which is set forth in the circular, according to which a managing company which provides, or whose related party provides, monetary clearing services to the employer and/or provider of services involving the monitoring of fund deposits to the employer and/or marketer of supplementary insurance coverages to the employer's employees, may serve as a manager of a default fund only if it has offered the lowest management fee rate, may affect the competitive conditions of Clal Pension and Provident Funds within the framework of the business tenders. The selection of funds whose market share is less than 5% as default funds is expected to result in changes to the market shares of the pension funds.

The provisions of the draft amendment to the default fund circular, insofar as they will become binding, and the Authority's position and instruction regarding the application of the transitional provision, as stated above, are expected to result in the cancellation of the transition period with respect to many default arrangements of current employers in Clal Pension and Provident Funds, and accordingly, to significantly promote and accelerate the aforementioned implications, on all matters associated with some of the employers who have engaged in default arrangements, and may affect business activities.

The information presented on all matters associated with the possible implications of the provisions of the default fund circular and the process of establishing chosen default funds constitutes forward looking information which is based on the group's estimates and assumptions, as of the publication date of the report, and in light of the fact that the arrangements are in the early stages, actual implementation may differ significantly from the forecast. The implications of the aforementioned provisions of the law are significantly dependent upon the following factors: the manner of implementation and the long term effect of the aforementioned arrangements, and the steps which will be taken by member companies in the group, including with respect to dealing with the various provisions; The conduct of competing institutional entities and the preferences of members and policyholders with respect to their products; The conduct of employers and operating entities on their behalf; And the implications of other reforms in the segment, and their impact together with the provisions regarding increased competition.

4. Developments Subsequent to the Publication of the Periodic Report (Cont.)

4.3 <u>Restrictions and supervision of the corporation’s business</u> (Cont.)

4.3.2. <u>Long term savings</u> (Cont.)

4.3.2.8 <u>Restrictions on the management of central provident funds</u>

In June 2017, the Tax Authority published an income tax circular on the subject of “accrued balances in central severance pay funds”, which replaced a circular from December 2016 on the same matter, on the subject of provisions regarding the calculation of “surplus in the central fund”, the use thereof, and the transfer thereof to the employer, for the purpose of financing regular deposits to the severance pay component in personal provident funds of all of the employer’s employees.

The circular also determines provisions regarding the taxation of employers with central funds which do not have employees, and provisions regarding the regulation of ownership in central severance pay funds, in cases where there is a difference between the owner of the central fund and the employer of the employees for whom the amounts are deposited.

In October 2017, the Commissioner published an amendment to the circular regarding the transfer of funds between provident funds, as well as a circular regarding the transfer of funds from a central provident fund for severance pay, which determine supplementary provisions that are intended to allow the transfer of such funds, from central severance pay funds to the severance pay component in personal provident funds of the employees of the employer with the central fund.

Since 2012, it is no longer possible to deposit monies in central provident funds, and according to the Company’s estimate, the provisions of the circular regarding balances in central funds are expected to result in significant withdrawals from central severance pay funds. For details regarding the scope of managed assets in central provident funds which are managed by the group, see section 3.3.1 above.

The Company’s estimate in connection with the implications of the circular regarding balances in central funds constitutes forward looking information based on information available to the group on the date of the report. Actual results may differ from the estimated results, due, inter alia, the uncertainty regarding the conduct of employers in the economy.

4.3.2.9 <u>Acquisition and sale of securities</u>

In July 2017, the Knesset Finance Committee passed an amendment to the Control of Financial Services Regulations (Provident Funds) (Purchase and Sale of Securities), which includes several amendments with respect to the principles and the methods used to conduct the competitive process which is required for implementation once every three years, between the brokers used by the institutional entities to purchase and sell securities on behalf of members’ funds. Additionally, it was determined in the amendment that it is necessary to conduct competitive process, once every five years, among at least four participants, for the receipt of securities holding services (except through a global custodian), and additionally, a prohibition was established against the determination of a custodian commission for a single action involving clearing securities as a rate of the scope of the action.
According to the group’s estimate, the aforementioned amendment is not expected to have a significant impact.

The Company’s estimate in connection with the implications of the amendment constitutes forward looking information, which is based on the information that is available to the Company as of the reporting date. Actual results may differ from the estimated results, due, inter alia, the uncertainty regarding the conduct of entities who serve as brokers and/or providers of securities holdings services.

4. Developments Subsequent to the Publication of the Periodic Report (Cont.)

4.3 Restrictions and supervision of the corporation's business (Cont.)

4.3.2. Long term savings (Cont.)

4.3.2.10 Consolidation of inactive accounts in pension funds

Further to that stated in section 6.2.1.4(d) of the chapter "Description of the Corporation's Business" in the Company's financial statements as of December 31, 2016, in connection with provisions with respect to the consolidation of existing accounts in new pension funds, including a transitional provision regarding the method of implementation regarding the consolidation of inactive accounts, and the transfer thereof to active accounts of the members to which they belong, in several steps, which are scheduled to occur until the end of 2017 - in September 2017, a circular was published on the subject of "consolidation of existing accounts in new pension funds - temporary order - additional implementation", which determined provisions regarding the additional implementation of the consolidation of inactive accounts, similarly to the provisions regarding implementation which were determined in the circular, in an additional step which is expected to be performed until the end of March 2018, with respect to those who were active members of pension funds in the months October-November 2017.

The provisions regarding the consolidation of inactive accounts in pension funds led to a decrease in the Company's income from management fees. Furthermore, the combination of the provisions with respect to the consolidation of accounts, together with the provisions regarding the creation of a default fund, may in the long term result in a significant increase in the scope of assets of the default fund, at the expense of the other entities in the economy, and may affect the market shares and the rate of management fees which are collected.

The Company's estimates in connection with the possible future implications of the provisions regarding the consolidation of accounts constitute forward looking information, which is based on the Company's estimates and assumptions, and actual results may differ significantly from the forecast, due, inter alia, to the uncertainty regarding the conduct of the Group's institutional entities, and the conduct of competing institutional entities, following the various reforms in the pension savings segment; the preferences of members and policyholders and their conduct with respect to their products; and the implications of other reforms (primarily the creation of default funds) in the segment, and their combined impact on the provisions regarding the consolidation of accounts in pension funds.

4.3.2.11 Method for depositing payments to provident funds

Further to that stated in section 6.2.1.4(c) of the chapter "Description of the Corporation's Business", in the Company's financial statements as of December 31, 2016, in connection with the Control of Financial Services Regulations (Provident Funds) (Payments to Provident Funds), 2014 (hereinafter: the "**Payment Regulations**"), which were intended to regulate the operational interface between employers and institutional entities, on all matters associated with deposits in provident funds (hereinafter: the "**Interface For The Collection And Intake Of Funds**"), and further to the 2016 Amendment to the Control of Financial Services Law, which determined the Commissioner's authority to issue instructions regarding the method for depositing of payments and approvals which a managing company is required to furnish to members of provident funds under its management, in November 2017, a circular was published regarding the method for depositing of payments to provident funds, to which were transferred the provisions which are currently set forth in the Payment Regulations, in accordance with the Commissioner's authority, as stated above, excluding Regulation 11 of the Regulations (which involves the determination of an interest rate due to a delay in the depositing of funds by an employer), which remained under the authority of the Minister of Finance.

4. Developments Subsequent to the Publication of the Periodic Report (Cont.)

4.3 Restrictions and supervision of the corporation's business (Cont.)

4.3.2. Long term savings (Cont.)

4.3.2.11 Method for depositing payments to provident funds (Cont.)

The foregoing circular included the amendments to the provisions of the Payment Regulations, which amendments include, inter alia, amendments regarding the reporting requirements which apply to employers; cancellation of the possibility to receive funds through checks; a reporting requirement for employers through the creation of a "personal employer account" on the Company's website, and definition of the details required for inclusion therein; an obligation to transmit reports and notices to policyholders and employers in the cases and by the dates specified in the circular; and a provision regarding the deferral of the application of the provisions regarding the interface for the collection and intake of funds, with respect to employers of up to 20 employees, for February 2019.

Institutional entities in the Group are engaged, on an ongoing basis, in studying, identifying and handling issues which are due to the implementation of the Payment Regulations, and which affect, inter alia, the method for attribution of funds to policyholders and members, the various products and the components thereof, as of the date they were credited, and the treatment of delays in the attribution of funds, which intensified during the period after the entry into effect of the Payment Regulations, and which are gradually being addressed by the Company.

The provisions of the circular are expected to lead to an increase in the Company's costs, both in the short term, for the purpose of implementing its provisions, and over the long term, with respect to the services which the institutional entities will be required to give directly to employers and policyholders. The provisions of the circular regarding the method for depositing of payments to provident funds may also result in an improvement of the information which is available in the institutional entities regarding deposits of funds thereto, and accordingly, may in the long term increase the efficiency of the process of attributing funds to policyholders and members.

The information presented on all matters associated with the possible implications of the circular regarding the method for depositing of payments to provident funds constitutes forward looking information, which is based on the Company's estimates and assumptions, and actual results may differ significantly from the forecast, inter alia, due to the complexity of operational preparations, the arrangements which will be reached vis-à-vis the employers, and their impact on the institutional entities and distributing entities.

4.3.2.12 Service provided by agents and advisors to customers

In November 2017, a draft circular was published on the subject of "service provided by agents and advisors to customers" (hereinafter: the "**Draft Agent Service Circular**"). The draft agent service circular includes a proposal to determine that a license holder will establish a service charter pertaining to its customers' rights in connection with the receipt of service from it, including response times to customer inquiries, which must be within a reasonable period of time after the time of the customer inquiry, the establishment of an obligation to conduct a service meeting at least once per year, in connection with a pension product. Additionally, it is proposed to determine that a pension insurance agent who charges from a customer a salary, or reimbursement of expenses, will publish on his website, and on any advertising on his behalf, a price list regarding the costs of the services which are offered by him, and will sign a written agreement between him and the customer containing details regarding the amounts which will be charged to the customer, calculation methods and collection methods.

The Company is studying the implications of the draft agent service circular, including in connection with the services which the institutional entities will be required to directly provide to employers and to policyholders, in order to allow the license holders to fulfill their obligation.

4. Developments Subsequent to the Publication of the Periodic Report (Cont.)

4.3 Restrictions and supervision of the corporation's business (Cont.)

4.3.3 Health insurance

4.3.3.1 Settlement of long-term care claims

In April 2017, a draft was published of an "amendment to the provisions of the consolidated circular - section 6, part 3, chapter 5 (hereinafter: the "**Draft Circular**" or the "**Draft Circular Regarding The Settlement Of Long-Term Care Claims**"). The draft circular includes provisions regarding claim settlement in long-term care insurance, which are intended to ensure a claim settlement process which is as fast and fair as possible, and which requires the least possible hassle on the part of the policyholder.

Within the framework of the draft circular, it is proposed to determine, inter alia, provisions with respect to the order of operations and the timetables which will apply to the insurer during the claim settlement process, imposition of the obligation on the insurer to appoint a personal representative on its behalf, who will serve as the contact person vs. the policyholder, and the determination of restrictions regarding cases in which investigations may be performed, and with respect to the method used to perform them.

Additionally, the draft circular specified cases in which the insurer may refer the policyholder to the performance of functional evaluations, and it was further determined that if the insurance company has a functional evaluation which was performed by the National Insurance Institute, or by another insurance company, it will be considered, unless the conditions specified in the draft have been met, as constituting sufficient information for the purpose of describing the performance of the actions specified therein. The provider of the functional evaluation will be chosen by the insurer randomly and cyclically from among the list of providers with whom the insurer has engaged. The insurer will be required to create a database of providers which will perform the functional evaluations, in accordance with the rules specified in the draft. Additionally, rules were determined which, upon fulfillment, require the provision of an opportunity for an evaluating provider to be included in the list of providers, and rules for the removal of an evaluating provider from the list. Appeals by insurance companies against the results of the functional evaluation will be performed through a determining provider, and only based on information which contradicts the results of the functional evaluation which was performed, and which it did not have previously.

In accordance with the draft, the application date is nine months after the publication date of the final version of the circular, excluding certain provisions, regarding which a later application date will be determined.

The provisions and restrictions proposed in the draft circular regarding the settlement of long-term care claims, if they become a final and binding document, are expected to have an impact on the claim settlement process in its entirety, both from the operational perspective, and on all matters associated with claim settlement and the tools which will be available to the insurer to ascertain its liability, and as a result, may affect claim settlement costs. At this preliminary stage, the Company is unable to estimate the entire impact of the aforementioned provisions.

The information presented on all matters associated with the possible implications of the draft circular regarding the settlement of long-term care claims, as described above, constitutes forward looking information, which is based on the Company's estimates and assumptions, and actual results may differ significantly from the forecast, due to the preliminary stage of the draft which was published, and due to the uncertainty regarding the final wording of the draft circular, insofar as it will be published, and regarding the method of actual implementation, and its implications on the settlement process with respect to long-term care claims.

4. Developments Subsequent to the Publication of the Periodic Report (Cont.)

4.3 Restrictions and supervision of the corporation's business (Cont.)

4.3.3. Health insurance (Cont.)

4.3.3.2 Collective long-term care insurance

In May 2017, the Commissioner published detailed provisions with respect to collective long-term care insurance, within the framework of an amendment to the provisions of the consolidated circular - section 6, part 3, chapters 1 to 6 (hereinafter: the "**Provisions Regarding Collective Long-Term Care Insurance**"). In accordance with the provisions regarding collective long-term care insurance, most of the insurance characteristics will be as follows: the insurance period will be no less than 5 years, and no more than 8 years; the type of premium which can be collected from a policyholder in collective long-term care insurance is the fixed premium or increased premium (variable up to 4% per year, and fixed at age 65); a policyholder in collective long-term care insurance will accrue settlement values from age 40 onwards, which will be determined according to the age when the policyholder first joined the insurance, where at the time of renewal at another insurer, the reserves will be transferred between insurers; Upon renewal of a collective long-term care insurance policy, the policyholder will be given continuity of insurance, without a re-evaluation of the prior medical condition, and without an additional qualification period; Upon realization of the continuity right of a policyholder aged 40 or higher, for a long-term care policy in a private framework, the premium in the continuing policy will be no higher than the premium which that policyholder is required to pay with respect to the collective long-term care insurance, before the transition to the continuing policy, and throughout the entire insurance period. With respect to policyholders under 40 years of age - the insurer is entitled to collect, with respect to the continuing policy, a premium which will be no higher than the conventional premium for new members of similar individual policies at the insurer. The aforementioned provisions apply to collective long-term care insurance policies which will be renewed and/or marketed beginning on September 1, 2017.

The implementation of the provisions regarding collective long-term care insurance, resulted in the unification of significant characteristics between the individual long-term care product and the collective long-term care product, inter alia, in light of the obligation to accrue settlement values for policyholders from age 40 onwards, and to guarantee to them, upon transition from a collective policy to an individual policy which will be marketed by the insurer at the time, the amount of premiums which they were required to pay with respect to the collective insurance on the date of its conclusion, throughout the entire insurance period, and in accordance with the conditions which were determined in the draft of the aforementioned provisions, and the foregoing may affect the actual willingness to cover policyholders in collective long-term care insurance and/or the terms of the engagement.

In October 2017, the Commissioner sent a letter addressed to the holders of collective long-term care insurance policies and to the managers of insurance companies, stating that, beginning in 2018, collective long-term care insurance policies will be sold in accordance with the provisions regarding collective long-term care insurance which entered into effect in September 2017, as stated above, and the letter also included reference to the parties' conduct in connection with the extension of the current collective insurance policies, in accordance with the aforementioned provisions.

The information presented on all matters associated with the possible implications of the provisions regarding collective long-term care insurance constitutes forward looking information, which is based on the Company's estimates and assumptions, and actual results may differ from the estimated results, inter alia, in light of the impact of the Company's decisions, which are dependent, inter alia, on the conduct of competing entities, and on the arrangements which will be reached between the holders of the collective policies.

4. Developments Subsequent to the Publication of the Periodic Report (Cont.)

4.3 Restrictions and supervision of the corporation's business (Cont.)

4.3.3. Health insurance (Cont.)

4.3.3.3 Collective long-term care insurance for health fund members

In May 2017, the provisions of the Control of Financial Services Regulations (Insurance) (Collective Long-Term Care Insurance for Health Fund Members) (Amendment), 2017, were published, which improved, inter alia, the insurance coverage which is given within the framework of the standard long-term care policy for health fund members (hereinafter: the "**Amendment To The Regulations**" and the "**Standard Policy**"). The amendment to the regulations allows, inter alia, soldiers, including those in career service whose membership in the standard policy was discontinued beginning on July 1, 2016, due to the discontinuation of their membership in a health fund, to re-join the standard policy. The amendment to the regulations also expands the insurance coverage with respect to the definition of the insurance event, in case of a limitation in the policyholder's mobility.

The regulations will enter into effect beginning on July 1, 2017 with respect to collective long-term care policies for health fund members who join or renew beginning on that date, and with respect to such policies which began before that date, if it was determined therein that those provisions will apply to them upon their entry into effect. The amendment to the regulations has implications regarding the scope of insurance coverage under the policy, and its cost.

It is noted that the collective insurance policies for members of the Maccabi and Leumit health funds concluded in June 2017. For additional details regarding the extension of the Maccabi agreement, see section 8.1.2 of the chapter regarding a description of the corporation's business affairs, in the Company's annual reports for 2016. The agreement between the parties was extended after approval was received from the Commissioner, and after adjustments were implemented following the publication of the aforementioned amendment to the Regulations.

In April 2017, a draft amendment was published on the subject of "amendment to the provisions of the consolidated circular - section 6, part 3 - long-term care insurance" (hereinafter: the "**Draft Amendment**").

In the draft amendment, it was proposed to explicitly confer upon the Commissioner of Capital Markets the authority to extend the agreement period between an insurance company and a health fund, after which the health fund will be required to conduct a tender, beyond a period of 8 years, as set forth in the circular regarding collective long-term care insurance for health fund members, from July 2016.
Additionally, the draft amendment includes a proposal to postpone the entry into effect of the provision which is set forth in the circular regarding collective long-term care insurance for health fund members, regarding the obligation of an insurance company to bear risk in a collective long-term care insurance plan for health fund members, as of January 1, 2019.

The proposed application date of the draft amendment is July 1, 2017 (excluding the provision regarding the obligation of an insurance company to bear risk in a collective long-term care insurance plan for health fund members, which will be postponed, as stated above, to January 1, 2019).

4.3.3.4 International travel insurance

Further to that stated in section 8.1.2(1)c)b. of the chapter "Description of the Corporation's Business" in the Company's financial statements as of December 31, 2016, in connection with an amendment to the provisions of the consolidated circular regarding international travel insurance, and the provisions regarding the phrasing and marketing of international travel insurance plans - in July 2017, it was determined that the aforementioned amendment to the provisions of the circular will apply to international travel insurance plans which will be sold or renewed beginning in September 2017, and from that date onwards, the Company began marketing international travel policies which comply with the provisions of the consolidated circular.

4. Developments Subsequent to the Publication of the Periodic Report (Cont.)

4.3 <u>Restrictions and supervision of the corporation's business</u> (Cont.)

4.3.3. <u>Health insurance</u> (Cont.)

4.3.3.5 <u>Draft circular regarding disclosure and reporting</u>

In August 2017, a draft was published of an "Amendment to the provisions of the consolidated circular - section 6, parts 2, 3 and 4 - disclosure and reporting to health insurance policyholders" (hereinafter: the "**Draft Circular Regarding Disclosure And Reporting**"), in which it was proposed to determine the manner by which information reports will be sent to potential insurants and policyholders, with an emphasis on making the information available to policyholders, including by digital means.

The draft circular regarding disclosure and reporting determines, inter alia, provisions with respect to the policyholder's option to choose the way in which they will receive the due disclosure document, the insurance details document and the annual report, and to change their choice (hereinafter: the "**Report Documents**"); imposes on institutional entities the obligation to obtain verification of the receipt of the report documents from the policyholder, insofar as notice has been given that they did not reach the policyholder; imposes the obligation to send a text message before sending the report documents and in case of conclusion of the discount period and increase of the monthly insurance premiums, in an amount exceeding fifty shekels per month.
In accordance with the draft, the proposed application date is January 1, 2018, with respect to the annual report for 2018.
In general, the proposed scope applies to health insurance policies, excluding collective or non-collective personal accident insurance which has been prepared for a group of policyholders, due to their participation in a certain activity, and which was prepared for a period which does not exceed one year.

The proposed provisions of the draft circular regarding disclosure and reporting, if they become a final and binding document, are expected to have operational and business implications. At this preliminary stage, the Company is unable to estimate the entire impact of the aforementioned provisions.

The information presented on all matters associated with the possible implications of the draft circular, as described above, constitutes forward looking information, which is based on the Company's estimates and assumptions, and actual results may differ significantly from the forecast, due to the preliminary stage of the draft which was published, and due to the uncertainty regarding the final wording of the draft circular, insofar as it will be published, regarding the method of actual implementation, and regarding the choices of policyholders.

4. Developments Subsequent to the Publication of the Periodic Report (Cont.)

4.3 Restrictions and supervision of the corporation's business (Cont.)

4.3.4 Non-life insurance

4.3.4.1 Division of the burden of compensation among insurers

In June 2017, the Ministry of Finance published a draft order regarding compensation to road accident victims (division of the burden of compensation among insurers), 2017 (hereinafter: the "**Draft Amendment to the Division Order**"), in which it is proposed to determine a transitional provision, for the period from July 2, 2017 to December 31, 2019, in which section 3 of the Road Accident Victims Compensation Law, 1975 will be amended such that, if an accident has occurred which involved one or more motorcycles, and one or more non-motorcycle vehicles, the insurers of the other vehicle will pay to the motorcycle's insurers 95% (instead of 75%, as currently set forth) of the compensation for physical injury which the motorcycle's insurers are required to pay due to the accident.
At this stage, it is not possible to predict the impact of the Draft Amendment to the Division Order, insofar as it will be published as a binding document, and the matter depends, inter alia, on the compulsory insurance tariffs which will be determined, including the residual insurance tariffs (including the tariffs of the "Pool"), the number of motorcycles which will be insured through compulsory insurance on the market, and the conduct of competitors.

The information presented with respect to the Draft Amendment to the Division Order constitutes forward looking information, which is based on assumptions and estimates made by the group, as of the publication date of the report. Actual implementation may differ significantly from the forecast. At this stage, before the entry into effect of the Draft Amendment to the Division Order, it is not possible to estimate and predict the full implications, which depend, inter alia, on the final version of the Draft Amendment to the Division Order.

4.3.4.2 Draft circular regarding garages and loss adjusters

In August 2017, the Commissioner published a draft insurance circular on the subject of "Amendment to the provisions of the consolidated circular - provisions in the motor property branch" (hereinafter: the "**Draft Circular Regarding Garages and Loss Adjusters**"), which regulates the loss adjustment method in the motor property branch, with respect to the engagement with loss adjusters and with garages.

With respect to the arrangement garages (garages which have engaged directly with the insurer in agreements to repair policyholders' vehicles), the draft includes, inter alia, provisions with respect to the cancellation of the current lists of arrangement garages, and expansion of the lists of arrangement garages for all garages which will be interested, and which will undertake to comply with the principles of the aforementioned which will be signed between them and the insurance company, and which will be overseen by the Commissioner (hereinafter: "**Agreed-Upon Garages**"); limiting the differentiation in the deductible between policyholders who have their vehicles repaired at agreed-upon garages and policyholders who have their vehicles repaired at a non-agreed-upon garages; limiting the work hour cost for agreed-upon garages, such that the work hour cost will such that the average price of a work hour actually collected by the garage during the 30 days which preceded the repair of the vehicle. In accordance with the provisions of the draft, agreed-upon garages will provide the insurance company a discount at the minimum rate of 10%, up to 20% of the repair invoice, or alternatively, will undertake that the price of the replacement parts which they will provide will not exceed the price of the replacement which was purchased by the insurance company, and which may be provided by them, in accordance with the understanding between the insurance company and the garage. It was further determined that the repair of the vehicle by the agreed-upon garage will begin only after receiving approval from the insurance company and the vehicle owner.

4. Developments Subsequent to the Publication of the Periodic Report (Cont.)

4.3 <u>Restrictions and supervision of the corporation's business</u> (Cont.)

4.3.4 <u>Non-life insurance</u> (Cont.)

4.3.4.2 <u>Draft circular regarding garages and loss adjusters</u> (Cont.)

With respect to loss adjusters, it was determined, inter alia, that in case of selection of a loss adjuster from the database of loss adjusters offered by the insurance company (a loss adjuster whose decision is binding towards the insurance company, subject to a limited appeal process which was determined), the insurance company will be obligated to make use of the database of loss adjusters, which will be open to all loss adjusters who meet the criteria specified in the draft. The loss adjuster will be chosen from the database by the policyholder, out of a list of three loss adjusters which will be selected at random (the "Database Loss Adjuster Mechanism"). It was further determined that, if the claimant decides to contact a loss adjuster by means other than through the loss adjuster database mechanism, the insurance company will be entitled to place conditions upon such choice, by evaluating the vehicle before repairing it.

At this preliminary stage, Clal Insurance is studying the draft circular regarding garages and loss adjusters, and cannot predict its overall impact, insofar as it will be published as a binding document, due, inter alia, to the preliminary nature of the draft, and the entire set of arrangements proposed therein, which may have an impact, in opposing directions, on the independence of judgment of the entities involved in the loss adjustment process in the motor property branch, and as a result, on loss adjustment costs.

5. Exposure to and Management of Market Risks

Effect of market risks on business results

According to the Securities Regulations (Immediate And Periodic Reports), 1970, reports regarding the exposure to and management of market risks refer to the exposures of the Company and its consolidated companies, excluding insurers in Israel.

No material changes took place in the Company's exposure to market risks or in the methods for the management of those risks during the reporting period, as compared with the annual financial statements.

Linkage bases report - as of September 30, 2017

	Israeli currency		Foreign currency				Non-monetary	Insurance company	
NIS in thousands	**Unlinked**	**CPI-linked**	**USD**	**EUR**	**GBP**	**Other**	**items**	**in Israel**	**Total**
Intangible assets	-	-	-	-	-	-	45,137	1,353,914	1,399,051
Deferred tax assets	-	-	-	-	-	-	7,340	1,910	9,250
Deferred acquisition costs	-	-	-	-	-	-	-	1,951,958	1,951,958
Property, plant and equipment	-	-	-	-	-	-	14,693	220,759	235,452
Investments in associates	-	-	-	-	-	-	-	240,671	240,671
Investment property for investment-linked contracts	-	-	-	-	-	-	-	2,799,748	2,799,748
Other investment property	-	-	-	-	-	-	-	1,180,561	1,180,561
Reinsurance assets	-	-	-	-	-	-	-	2,717,307	2,717,307
Current tax assets	-	2,758	-	-	-	-	-	187,678	190,436
Other accounts receivable	6,988	210	1,457	-	-	-	2,192	1,223,977	1,234,824
Outstanding premiums	1,936	-	-	-	-	-	-	1,033,694	1,035,630
Financial investments for investment-linked contracts	-	-	-	-	-	-	-	54,668,075	54,668,075
Other financial investments									
Marketable debt assets	10,594	15,937	-	-	-	-	-	5,730,304	5,756,835
Non-marketable debt assets	662	5,952	-	-	-	-	-	21,653,901	21,660,515
Stocks	-	-	-	-	-	-	56	1,159,214	1,159,270
Other	-	-	-	-	-	-	-	2,673,352	2,673,352
Cash and cash equivalents for investment-linked contracts	-	-	-	-	-	-	-	3,536,934	3,536,934
Other cash and cash equivalents	122,884	-	198	273	4	-	-	925,966	1,049,325
Total assets	143,064	24,857	1,655	273	4	-	69,418	103,259,923	103,499,194

5. Exposure to and Management of Market Risks (Cont.)

Effect of market risks on business results (Cont.)

Linkage bases report - as of September 30, 2017 (Cont.)

NIS in thousands	Israeli currency		Foreign currency				Non-monetary items	Insurance company in Israel	Total
	Unlinked	CPI-linked	USD	EUR	GBP	Other			
Liabilities									
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	-	-	-	-	-	-	-	30,324,489	30,324,489
Liabilities with respect to investment-linked insurance contracts and investment contracts	-	-	-	-	-	-	-	61,436,726	61,436,726
Deferred tax liabilities	-	-	-	-	-	-	-	459,628	459,628
Liabilities with respect to employee benefits, net	20,779	-	-	-	-	-	-	62,339	83,118
Deferred liability notes	-	-	-	-	-	-	-	-	-
Other accounts payable	60,101	-	-	-	-	-	-	2,612,188	2,672,289
Current tax liabilities	-	954	-	-	-	-	-	2,315	3,269
Financial liabilities	-	-	-	-	-	-	-	3,618,444	3,618,444
Total liabilities	80,880	954	-	-	-	-	-	98,516,129	98,597,963
Total exposure	62,184	23,903	1,655	273	4	-	69,418	4,743,794	4,901,231

6. Disclosure Regarding the Corporation's Financial Reporting

6.1. Report concerning critical accounting estimates

For details regarding the use of estimates and judgment in the preparation of the financial statements, see Note 2(b) to the financial statements.

6.2. Contingent liabilities

The auditors' report to the Company's shareholders includes reference to that stated in Note 43 to the financial statements, regarding the exposure to contingent liabilities.

6.3. Internal control over financial reporting and disclosure

6.3.1. The Securities Regulations

In December 2009, The Securities Regulations (Periodic and Immediate Reports) (Amendment no. 3), 2009, were published, which deal with the system of internal controls over financial reporting and disclosure in a corporation, which are intended to improve the quality of financial reporting and disclosure in reporting corporations.

In an amendment dated July 7, 2011, it was stipulated that a corporation which consolidates, or proportionately consolidates, a banking corporation or institutional entity, may choose to apply, with respect to the internal control over that banking corporation or institutional entity only, the framework for the evaluation of the effectiveness of internal control as set forth in the other legal provisions which apply to them in this regard, insofar as a framework of this kind exists for the quarterly report.

Accordingly, in addition to the executive certifications and the report regarding the effectiveness of internal control, which are provided as part of this quarterly report, executive disclosures and certifications are attached, which refer to the internal control in the consolidated institutional entities, which are subject to the Commissioner's directives.

6.3.2 The Commissioner's directives regarding internal control over financial reporting and disclosure

The Commissioner published, in recent years, several circulars (hereinafter: the "**Commissioner's Circulars**") which are intended to implement the provisions of Section 302 and Section 404 of the SOX Act in insurance companies, in managing companies of pension funds and provident funds, in pension funds, and in provident funds (hereinafter: the "**Institutional Entities**").

Accordingly, Clal Insurance and the consolidated institutional entities included the information subject to the provisions of the law, in reports filed by the dates set forth in the aforementioned provisions.

6.3.3. Section 302 and section 404 of the SOX Act - Management's responsibility for internal control over financial reporting and disclosure

In accordance with the circulars published by the Commissioner, which are based on section 302 and section 404 of the SOX Act, and as described in the previous Board of Directors' reports of Clal Insurance, Clal Insurance acted and routinely acts to implement the process required in accordance with the foregoing provisions, including an evaluation of the work processes and internal controls which are implemented, in accordance with the stages and dates set forth in the circulars. In accordance with foregoing, Clal Insurance adopted the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), which constitutes a defined and recognized framework for the evaluation of internal control.

6. Disclosure Regarding the Corporation's Financial Reporting (Cont.)

6.3 Internal control over financial reporting and disclosure (Cont.)

6.3.3. Section 302 and section 404 of the SOX Act - Management's responsibility for internal control over financial reporting and disclosure (Cont.)

The management of Clal Insurance (the institutional entity), in collaboration with the CEO, Executive VP, Investments, Finance, and Credit Division Manager and Senior VP Chief Accountant of Clal Insurance have evaluated, as of the end of the period covered in this report, the effectiveness of the controls and procedures applicable to the disclosure of Clal Insurance. Based on this evaluation, the CEO, Executive VP, Investments, Finance, and Credit Division Manager and Senior VP Chief Accountant of Clal Insurance have concluded that, as of the end of the aforementioned period, the controls and procedures involving the disclosures made by Clal Insurance are effective for the purpose of recording, processing, summarizing and reporting the information which Clal Insurance is required to disclose in the quarterly report, in accordance with the provisions of the law, and the reporting provisions issued by the Commissioner, and by the date specified in those provisions.

During the quarter ended September 30, 2017, no change took place in the institutional entity's internal control over financial reporting which could have materially influenced, or which could have been reasonably expected to materially influence, the institutional entity's internal control over financial reporting.

In the last year, the process of evaluating the main work processes has continued, and the process of developing, upgrading and / or replacing several information systems has also continued, with the intention, inter alia, of improving and increasing the efficiency of the various processes and / or internal controls and / or customer service.

Executive certifications regarding the effectiveness of internal control over financial reporting and disclosure, with reference to the relevant processes, in accordance with the Commissioner's circulars, are attached to the report.

The Board of Directors would like to express its appreciation to the employees, managers and agents of the group's member companies for their contribution to the group's achievements.

Danny Naveh, Chairman of the Board	**Izzy Cohen, CEO**

Tel Aviv, November 26, 2017

Quarterly report regarding the effectiveness of internal control over financial reporting and disclosure in accordance with Regulation 38c(a)

Management, under the supervision of the Board of Directors of Clal Holdings Insurance Enterprises (hereinafter: the "Corporation") is responsible for the establishment of adequate internal control over financial reporting and disclosure in the corporation.

For this purpose, the members of management include:

1. Izzy Cohen, CEO;
2. Anath Levin, Executive VP of Clal Insurance, Investments, Finance, and Credit Division Manager;
3. Moshe Ernst, Executive VP of Clal Insurance, Headquarters Division Manager;
4. Hadar Brin Weiss, Executive VP of Clal Insurance, Legal Counsel;
5. Eran Shahaf, Executive VP of Clal Insurance, Internal Auditor;
6. Avi Rosenbaum, Executive VP of Clal Insurance, Pension, Provident and Financial Products Division Manager
7. Yaron Shamay, Executive VP of Clal Insurance, Life Insurance Division Manager;
8. Elite Caspi, Executive VP of Clal Insurance, Non-Life Insurance Division Manager;
9. Daniel Cohen, Executive VP of Clal Insurance, Health Insurance Division Manager;
10. Dror Sessler, Executive VP of Clal Insurance, Claims Unit Manager;
11. Yaakov (Chiko) Zecharya, Executive VP of Clal Insurance, Business Unit Manager;
12. Yoram Naveh, Executive VP of Clal Insurance, Resources Division Manager and CEO of Clal Finance Ltd.;
13. Hila Conforti, Executive VP of Clal Insurance, Chief Risk Officer;
14. Ofer Brandt, Executive VP of Clal Insurance, Chief Actuary;
15. Benny Gurevitz, CEO of Clalbit Systems Ltd.;
16. Galli Schved, Senior VP of Clal Insurance, Head of the Marketing, Strategy and Spokesmanship Division;
17. Shlomi Taman, Senior VP of Clal Insurance, Central Region Manager and Business Unit Deputy Manager;
18. Shimon Kalman, Executive VP of Clal Insurance, Personal Assistant to the CEO Regarding Special Affairs.

Internal control over financial reporting and disclosure includes controls and policies which are currently established in the corporation, which were planned by the CEO and the most senior corporate officer in the finance department, or under their supervision, or by the individuals who effectively perform the aforementioned positions, under the supervision of the corporation's Board of Directors, which were intended to provide a reasonable measure of assurance regarding the reliability of financial reporting and the preparation of the reports in accordance with the provisions of the law, and to ensure that the information which the corporation is required to disclose in the reports which it publishes in accordance with the provisions of the law was collected, processed, summarized and reported in accordance with the deadline and framework prescribed in law.

Internal control includes, inter alia, controls and policies which are intended to ensure that the information which the corporation is required to disclose, as stated above, is accumulated and transferred to the management of the corporation, including to the CEO and to the most senior corporate officer in the finance department, or to the person who effectively performs the aforementioned positions, in order to allow the reaching of decisions on the appropriate date, with respect to the disclosure requirement.

Due to its inherent restrictions, internal control over financial reporting and disclosure is not intended to provide absolute assurance that the presentation is incorrect, or that the omission of information in the reports will be prevented or discovered.

Clal Insurance Ltd., a subsidiary of the corporation, is an institutional entity, which is subject to the directives of the Commissioner of the Capital Markets, Insurance and Savings Division in the Ministry of Finance, with respect to the evaluation regarding the effectiveness of internal control over financial reporting.
With respect to internal control in the aforementioned subsidiary, the corporation implements the following provisions: institutional entities circular 2009-9-10, regarding "responsibility of management for internal control over financial reporting", institutional entities circular 2010-9-6, regarding "responsibility of management for internal control over financial reporting - amendment", and institutional entities circular 2010-9-7, regarding "internal control over financial reporting - certifications, reports and disclosures".

In the quarterly report regarding the effectiveness of internal control over financial reporting and disclosure which was attached to the report for the period ended June 30, 2017 (hereinafter: the "Last Quarterly Report Regarding Internal Control"), internal control was found to be effective.

Until the reporting date, no event or matter was brought to the attention of the Board of Directors and management which could have changed the assessment regarding the effectiveness of internal control, as found in the last quarterly report regarding internal control;

As of the reporting date, based on that stated in the last quarterly report regarding internal control, and based on the information which was brought to the attention of management and Board of Directors, as stated above: internal control is effective.

Executive Certification
Certification of the CEO

I, Izzy Cohen, hereby certify the following:

1. I have evaluated the quarterly report of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Corporation**") for the third quarter of 2017 (hereinafter: the "**Reports**").

2. To the best of my knowledge, the reports do not include any incorrect representation of any material fact, and do not lack any representation of any material fact which is required in order for the representations which are included therein to not be misleading with respect to the period of the reports.

3. To the best of my knowledge, the financial statements and the other financial information included in the reports adequately reflect, in all material respects, the corporation's financial position, results of operations and cash flows as of the dates and for the periods to which the reports refer.

4. I have disclosed to the corporation's auditor, to the Board of Directors and to the balance sheet committee of the Company's Board of Directors, based on my most current assessment regarding internal control over financial reporting and disclosure:

   A. All material deficiencies and material weaknesses in the establishment or implementation of internal control over financial reporting and disclosure, which may reasonably have an adverse affect on the corporation's ability to collect, process, summarize or report financial information in a manner which could cast doubt on the reliability of the preparation of financial reporting and the preparation of the financial reports in accordance with the provisions of the law; And:

   B. Any fraud, whether material or immaterial, in which the CEO or any of his direct subordinates are involved, or in which are involved employees who have significant positions in the Company's financial reporting control over financial reporting;

5. I, alone or together with others in the corporation:

   A. I have established controls and policies, or have verified the establishment and implementation, under my supervision, of controls and policies which are intended to ensure that material information pertaining to the corporation, including its consolidated companies, as defined in the Securities Regulations (Annual Financial Statements), 2010, is brought to my attention by others in the corporation and in the consolidated companies, particularly during the preparation period of the reports; And:

   B. I have established controls and policies, or have verified the establishment and implementation, under my supervision, of controls and policies which are intended to reasonably ensure the reliability of financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles.

   C. I have not been made aware of any event or matter which occurred during the period between the date of the periodic report and the date of this report, which could change the conclusion reached by the Board of Directors and management with respect to the effectiveness of internal control over financial reporting and disclosure in the corporation.

The foregoing does not derogate from my responsibility or from the responsibility of any other person in accordance with any applicable law.

November 26, 2017

____

Izzy Cohen
CEO

Executive Certification
Certification of the Most Senior Position Holder in the Finance Department

I, Anath Levin, hereby certify the following:

1. I have evaluated the financial statements and the other financial information which is included in the interim reports of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Corporation**") for the third quarter of 2017 (hereinafter: the "**Reports**").

2. To the best of my knowledge, the interim financial statements and the other interim financial information which is included in the reports do not include any incorrect representation of any material fact, and do not lack any representation of any material fact which is required in order for the representations which are included therein to not be misleading with respect to the period of the reports;

3. To the best of my knowledge, the interim financial statements and the other financial information which is included in the interim reports adequately reflect, in all material respects, the Company's financial position, results of operations and cash flows as of the dates and for the periods to which the reports refer;

4. I have disclosed to the corporation's auditor, to the Board of Directors and to the balance sheet committee of the Company's Board of Directors, based on my most current assessment regarding internal control over financial reporting and disclosure:

   A. All material deficiencies and material weaknesses in the establishment or implementation of internal control over financial reporting and disclosure insofar as it pertains to the interim financial statements and to the other financial information which is included in the interim reports, which may reasonably have an adverse affect on the corporation's ability to collect, process, summarize or report financial information in a manner which could cast doubt on the reliability of the preparation of the financial reports and the preparation of the financial reports in accordance with the provisions of the law; And:

   B. Any fraud, whether material or immaterial, in which the CEO or any of his direct subordinates are involved, or in which are involved employees who have significant positions in the Company's financial reporting control over financial reporting.

5. I, alone or together with others in the corporation:

   A. I have established controls and policies, or have verified the establishment and implementation, under our supervision, of controls and policies which are intended to ensure that material information pertaining to the corporation, including its consolidated companies, as defined in the Securities Regulations (Annual Financial Statements), 2010, is brought to my attention by others in the corporation and in the consolidated companies, particularly during the preparation period of the reports; And:

   B. I have established controls and policies, or have verified the establishment and implementation, under our supervision, of controls and policies which are intended to reasonably ensure the reliability of financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles.

   C. I have not been made aware of any event or matter which occurred during the period between the date of the periodic report and the date of this report, which pertains to the interim financial statements and to any other financial information which is included in the interim period, which could change, in my assessment, the conclusion of the Board of Directors and management with respect to the effectiveness of internal control over financial reporting and disclosure in the corporation.

The foregoing does not derogate from my responsibility or from the responsibility of any other person in accordance with any applicable law.

November 26, 2017

____
Anath Levin
Executive VP
Investments, Finance, and Credit Division Manager

Executive Certification
Certification of Chief Accountant

I, Tal Cohen, hereby certify the following:

1. I have evaluated the financial statements and the other financial information which is included in the interim reports of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Corporation**") for the third quarter of 2017 (hereinafter: the "**Reports**").

2. To the best of my knowledge, the interim financial statements and the other interim financial information which is included in the reports do not include any incorrect representation of any material fact, and do not lack any representation of any material fact which is required in order for the representations which are included therein to not be misleading with respect to the period of the reports;

3. To the best of my knowledge, the interim financial statements and the other financial information which is included in the interim reports adequately reflect, in all material respects, the Company's financial position, results of operations and cash flows as of the dates and for the periods to which the reports refer;

4. I have disclosed to the corporation's auditor, to the Board of Directors and to the balance sheet committee of the Company's Board of Directors, based on my most current assessment regarding internal control over financial reporting and disclosure:

   A. All material deficiencies and material weaknesses in the establishment or implementation of internal control over financial reporting and disclosure insofar as it pertains to the interim financial statements and to the other financial information which is included in the interim reports, which may reasonably have an adverse affect on the corporation's ability to collect, process, summarize or report financial information in a manner which could cast doubt on the reliability of the preparation of the financial reports and the preparation of the financial reports in accordance with the provisions of the law; And:

   B. Any fraud, whether material or immaterial, in which the CEO or any of his direct subordinates are involved, or in which are involved employees who have significant positions in the Company's financial reporting control over financial reporting.

5. I, alone or together with others in the corporation:

   A. I have established controls and policies, or have verified the establishment and implementation, under our supervision, of controls and policies which are intended to ensure that material information pertaining to the corporation, including its consolidated companies, as defined in the Securities Regulations (Annual Financial Statements), 2010, is brought to my attention by others in the corporation and in the consolidated companies, particularly during the preparation period of the reports; And:

   B. I have established controls and policies, or have verified the establishment and implementation, under our supervision, of controls and policies which are intended to reasonably ensure the reliability of financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles.

   C. I have not been made aware of any event or matter which occurred during the period between the date of the periodic report and the date of this report, which pertains to the interim financial statements and to any other financial information which is included in the interim period, which could change, in my assessment, the conclusion of the Board of Directors and management with respect to the effectiveness of internal control over financial reporting and disclosure in the corporation.

The foregoing does not derogate from my responsibility or from the responsibility of any other person in accordance with any applicable law.

November 26, 2017

____

Tal Cohen
Chief Accountant
Senior VP

Certifications regarding controls and policies with respect to disclosure in the financial statements of Clal Insurance Company Ltd.

Clal Insurance Company Ltd.
Certification

I, Izzy Cohen, hereby certify the following:

1. I have reviewed the quarterly report of Clal Insurance Company Ltd. (hereinafter: the "**Company**") for the quarter ended September 30, 2017 (hereinafter: the "**Report**").

2. Based on my knowledge, the report does not include any incorrect representation of any material fact, and does not lack any representation of any material fact which is required in order for the representations which are included therein, in light of the circumstances in which those representations were included, to not be misleading with respect to the period which is covered in the report.

3. Based on my knowledge, the quarterly financial statements and the other financial information which is included in the report adequately reflect, in all material respects, the Company's financial position, results of operations, changes in equity and cash flows as of the dates and with respect to the periods covered in the report.

4. I, and others in the Company who are making this certification, are responsible for the establishment and implementation of controls and policies with respect to the disclosure and control over financial reporting in the Company; and:

   A. We have established the aforementioned controls and policies, or have caused the establishment of the aforementioned controls and policies under our supervision, which are intended to ensure that material information pertaining to the Company, including its consolidated companies, is brought to our attention by others in the Company and in those companies, and particularly during the preparation period of the report;

   B. We have established internal control over financial reporting, or have overseen the establishment of internal control over financial reporting, which is intended to provide a reasonable measure of assurance regarding the reliability of the financial reporting, and that the financial statements have been prepared in accordance with IFRS and the directives of the Commissioner of Capital Markets;

   C. We have evaluated the effectiveness of controls and policies with respect to the Company's disclosure, and we have presented our conclusions regarding the effectiveness of the controls and policies with respect to the disclosure, as of the end of the period covered in the report, based on our evaluation; And:

   D. We have disclosed in the report any change in the Company's internal control over financial reporting which occurred during this quarter, and materially influenced, or which could have been reasonably expected to materially influence, the Company's internal control over financial reporting; And:

5. I, and others in the Company who are making this certification, have disclosed to the auditor, to the Board of Directors and to the balance sheet committee of the Company's Board of Directors, based on our most current assessment regarding internal control over financial reporting:

   A. All material deficiencies and material weaknesses in the determination or implementation of internal control over financial reporting, which can reasonably be expected to harm the Company's ability to record, process, summarize and report financial information; And:

   B. Any fraud, whether material or immaterial, in which management is involved, or in which are involved employees who have significant positions in the Company's financial reporting control over financial reporting.

The foregoing does not derogate from my responsibility or from the responsibility of any other person in accordance with any applicable law.

November 26, 2017

____

Izzy Cohen
CEO

Clal Insurance Company Ltd.
Certification

I, Anath Levin, hereby certify the following:

1. I have reviewed the quarterly report of Clal Insurance Company Ltd. (hereinafter: the "**Company**") for the quarter ended September 30, 2017 (hereinafter: the "**Report**").

2. Based on my knowledge, the report does not include any incorrect representation of any material fact, and does not lack any representation of any material fact which is required in order for the representations which are included therein, in light of the circumstances in which those representations were included, to not be misleading with respect to the period which is covered in the report.

3. Based on my knowledge, the quarterly financial statements and the other financial information which is included in the report adequately reflect, in all material respects, the Company's financial position, results of operations, changes in equity and cash flows as of the dates and with respect to the periods covered in the report.

4. I, and others in the Company who are making this certification, are responsible for the establishment and implementation of controls and policies with respect to the disclosure and control over financial reporting in the Company; and:

   A. We have established the aforementioned controls and policies, or have caused the establishment of the aforementioned controls and policies under our supervision, which are intended to ensure that material information pertaining to the Company, including its consolidated companies, is brought to our attention by others in the Company and in those companies, and particularly during the preparation period of the report;

   B. We have established internal control over financial reporting, or have overseen the establishment of internal control over financial reporting, which is intended to provide a reasonable measure of assurance regarding the reliability of the financial reporting, and that the financial statements have been prepared in accordance with IFRS and the directives of the Commissioner of Capital Markets;

   C. We have evaluated the effectiveness of controls and policies with respect to the Company's disclosure, and we have presented our conclusions regarding the effectiveness of the controls and policies with respect to the disclosure, as of the end of the period covered in the report, based on our evaluation; And:

   D. We have disclosed in the report any change in the Company's internal control over financial reporting which occurred during this quarter, and materially influenced, or which could have been reasonably expected to materially influence, the Company's internal control over financial reporting; And:

5. I, and others in the Company who are making this certification, have disclosed to the auditor, to the Board of Directors and to the balance sheet committee of the Company's Board of Directors, based on our most current assessment regarding internal control over financial reporting:

   A. All material deficiencies and material weaknesses in the determination or implementation of internal control over financial reporting, which can reasonably be expected to harm the Company's ability to record, process, summarize and report financial information; And:

   B. Any fraud, whether material or immaterial, in which management is involved, or in which are involved employees who have significant positions in the Company's financial reporting control over financial reporting.

The foregoing does not derogate from my responsibility or from the responsibility of any other person in accordance with any applicable law.

November 26, 2017

Anath Levin
Executive VP
Investments, Finance, and Credit Division Manager

Clal Insurance Company Ltd.
Certification

I, Tal Cohen, hereby certify the following:

1. I have reviewed the quarterly report of Clal Insurance Company Ltd. (hereinafter: the "**Company**") for the quarter ended September 30, 2017 (hereinafter: the "**Report**").

2. Based on my knowledge, the report does not include any incorrect representation of any material fact, and does not lack any representation of any material fact which is required in order for the representations which are included therein, in light of the circumstances in which those representations were included, to not be misleading with respect to the period which is covered in the report.

3. Based on my knowledge, the quarterly financial statements and the other financial information which is included in the report adequately reflect, in all material respects, the Company's financial position, results of operations, changes in equity and cash flows as of the dates and with respect to the periods covered in the report.

4. I, and others in the Company who are making this certification, are responsible for the establishment and implementation of controls and policies with respect to the disclosure and control over financial reporting in the Company; and:

   A. We have established the aforementioned controls and policies, or have caused the establishment of the aforementioned controls and policies under our supervision, which are intended to ensure that material information pertaining to the Company, including its consolidated companies, is brought to our attention by others in the Company and in those companies, and particularly during the preparation period of the report;

   B. We have established internal control over financial reporting, or have overseen the establishment of internal control over financial reporting, which is intended to provide a reasonable measure of assurance regarding the reliability of the financial reporting, and that the financial statements have been prepared in accordance with IFRS and the directives of the Commissioner of Capital Markets;

   C. We have evaluated the effectiveness of controls and policies with respect to the Company's disclosure, and we have presented our conclusions regarding the effectiveness of the controls and policies with respect to the disclosure, as of the end of the period covered in the report, based on our evaluation; And:

   D. We have disclosed in the report any change in the Company's internal control over financial reporting which occurred during this quarter, and materially influenced, or which could have been reasonably expected to materially influence, the Company's internal control over financial reporting; And:

5. I, and others in the Company who are making this certification, have disclosed to the auditor, to the Board of Directors and to the balance sheet committee of the Company's Board of Directors, based on our most current assessment regarding internal control over financial reporting:

   A. All material deficiencies and material weaknesses in the determination or implementation of internal control over financial reporting, which can reasonably be expected to harm the Company's ability to record, process, summarize and report financial information; And:

   B. Any fraud, whether material or immaterial, in which management is involved, or in which are involved employees who have significant positions in the Company's financial reporting control over financial reporting.

The foregoing does not derogate from my responsibility or from the responsibility of any other person in accordance with any applicable law.

November 26, 2017

____

Tal Cohen
Chief Accountant
Senior VP