Clal Insurance Enterprises Holdings Ltd.

As of March 31, 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.

Clal Insurance Enterprises Holdings Ltd.

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The board of directors' report regarding the state of the corporation's affairs for the period ended March 31, 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**") in the first quarter 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 March 31, 2017		Proximate to the publication date of the report	
	Holding of voting rights in the company	Holding of voting rights in the company, at full dilution 1)	Holding of voting rights in the company	Holding of voting rights in the company, at full dilution 1)
Shareholder	%			
IDB Development Corporation Ltd. 2)	54.90	53.58	49.90	48.70
Bank Hapoalim	9.50	9.27	9.50	9.27

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 company 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: 2,161,999 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 company's stock 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 42(a) to the annual financial statements.

2) It is noted that, on March 22, 2017, IDB Development Corporation Ltd. pledged approximately 4.99% (approximately 4.86% at full dilution) of the company's shares in favor of the bondholders (Series K) which were issued by IDB Development.

   Additionally, On August 21, 2013, in accordance with the Commissioner's demand, 51% of the issued share capital and voting rights in the company, which are held by IDB Development Ltd. (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 Corporation Ltd. 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, after approval for the foregoing was received from the Court, IDB Development sold 2,771,309 Company shares, which constitute approximately 5%, which were held by the trustee, in an over the counter swap transaction, to a third party. As of the reporting date, the trustee holds 45% of the means of control only.

For additional details regarding IDB Development Corporation's holdings in the company, and IDB Development Corporation's obligation to sell the company's shares, 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.

In the first quarter of 2017, the Tel Aviv 125 Index decreased by 2%, with significant variability within the index, as characterized by the decrease of the Tel Aviv 35 Index, against the sharp increase of the Tel Aviv 90 Index.

Corporate bonds indices featured positive trends in the first quarter of 2017.

The government bonds indices featured a mixed trend in the first quarter of 2017, where the NIS government bond index increased by approximately 0.6%, while the CPI-linked government bond index decreased by 0.6%.

The total impact of market developments 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 stock markets, and the declines in the value of insurance liabilities, due to the increase in the interest rates which were used to calculate the insurance liabilities. For additional details, see Note 8(a) to the financial statements.

Despite the intervention of the Bank of Israel in the first quarter of 2017, through the acquisition of additional United States Dollars, the NIS rose by 5.9% vs. the USD, by 4.2% vs. the USD, and by 4.4% vs. the GBP. For details regarding developments in the capital markets, see sections 2.1.1.3 and 2.1.2.3 below.

2.1.1. <u>Economic developments in Israel</u>

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

During and after the quarter, summary data for 2016 were published by the Central Bureau of Statistics, which indicate that economic activity continued to be positive, with GDP growing by 4%. The growth in the fourth and third quarters of 2016 amounted to 4.7% and 4.1%, respectively. Private consumption grew in the fourth quarter at a rate of 3%, public consumption by 3.3%; investments by 7.8%; and exports by 11%. In total, in the second half of 2016, the economy grew by 5.1% relative to the first half, while GDP of the business sector grew by 6.0%.

According to the Bank of Israel's companies survey, in the first quarter of 2017, the relatively rapid growth rate of the business sector continued. After the balance sheet date, the Central Bureau of Statistics published preliminary data regarding growth in the first quarter of 2017, according to which the GDP increased by 1.4% only, while this moderate increase reflected a decrease of 1.6% in private consumption, a decrease of 6% in investments in fixed assets, and on the other hand, an increase of 8% in exports of goods and services, and of 2.5% in public consumption.

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.

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.)

2.1.1.1 Developments in the Israeli economy and employment rate (Cont.)

Growth (Cont.)

According to publications of the Central Bureau of Statistics, exports of goods decreased in the months January - March of 2017 by 1.1%, according to an annual calculation, following an increase of 9.3% in October - December 2016. The index of retail sales increased in the months December 2016 to February 2017 at an annual rate of 1.1%, following an increase of 3.9% in the previous three months. In the first quarter of 2017, an increase of 8.3% was recorded in total credit card purchases, a similar rate to all of 2016. The industrial production index increased in the months December 2016 to February 2017 by 2.5%, following an increase of 5.6% in the previous three months.

After the balance sheet date, the Central Bureau of Statistics published data regarding the first quarter of 2017 (the data are relative to the fourth quarter of 2016, and according to an annual calculation): exports of goods decreased by 1.8%, the index of sales in marketing chains increased by 2.5%, the scope of credit card purchases increased by 8.3%, and the industrial production index increased by 1.6%.

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 amounted to 4.3%, in February 2017, similarly to the end of 2016. The workforce participation rate amounted to 64.1%, similarly to the end of 2016.

During the reporting period, an increase of 3.8% was recorded in the number of available positions in the economy: a similar rate to the previous months.

In the months November to January, the number of salaried positions in the economy increased by 0.8%, further to an increase of 2.2% (in annual terms) in the previous three months. The average salary increased by 3.3%, further to an increase of 2.8% (in annual terms).

After the balance sheet date, the Central Bureau of Statistics published workforce survey data for the first quarter, which indicate a slight decrease in the unemployment rate, to 4.2%, and a slight decrease in the participation rate, to 64.0%.

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 in the first quarter of 2017 and 2016, and in the entire year 2016:

	For the period of three months ended March 31		For the year ended December 31
In percent	**2017**	**2016**	**2016**
Index in lieu	**0.1**	(1.0)	(0.2)
Known index	**(0.2)**	(0.9)	(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.

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 rates of return in Israel (Cont.)

Development of interest rate and returns

The Bank of Israel left the interest rate unchanged in the first quarter of 2017, at 0.1%.

Bond yields in the NIS curve slightly decreased in all ranges during the first quarter, where 10 year bond yields decreased to 2.15%. In the CPI-linked yield curve, ranges of up to approximately 7 years slightly decreased, while longer ranges slightly increased.

Inflation forecasts decreased throughout the entire curve. expectations were affected by the impact of the revaluation of the NIS vs. other currencies.
The consumer price index cumulatively increased by 0.1% in the months January to March 2017, and the annual inflation rate increased to 0.9%, relative to the rate of minus 0.2% at the end of 2016.

After the balance sheet date, the Central Bureau of Statistics published the price index for April, which rose by approximately 0.2%.

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.

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(h) 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. 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

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.

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

Stock indices

	For the period of three months ended March 31		For the year ended December 31
In percent	**2017**	**2016**	**2016**
Tel Aviv 35 *)	(5.0)	(5.1)	(3.8)
Tel Aviv 90 *)	8.4	(1.1)	17.3
Tel Aviv 125 *)	(2.4)	(4.9)	(2.5)
Tel Aviv Growth *)	6.5	(1.1)	17.7
General stocks	(1.5)	(8.7)	(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.

Bond indices

	For the period of three months ended March 31		For the year ended December 31
In percent	**2017**	**2016**	**2016**
General	0.6	1.3	2.1
Telbond CPI-linked	1.1	0.9	2.4
Telbond NIS-linked	2.0	0.6	2.4
Government CPI-linked	(0.6)	1.8	0.7
Government NIS-linked	0.6	1.2	1.2

Presented below are the scope of raisings of public companies relative to last year:

	For the period of three months ended March 31		For the year ended December 31
NIS in billions	**2017**	**2016**	**2016**
Scope of raising by public companies for the period	24.2	19.9	64.1

2. Description of the Business Environment (Cont.)

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

2.1.2. Global economic developments

United States - In March 2017, the central bank raised the interest rate by 0.25%, in light of positive data in the labor market, and the increased inflationary pressures in the American economy.

The preliminary estimate regarding growth in the American economy in the first quarter of 2017 amounted to 0.7% (in annual terms), lower than expected, and lower than average quarterly growth in the last five years, which amounted to approximately 2%. Additionally, core inflation in the United States decreased from 2.3% in January to 2% in March (in annual terms), primarily due to the stabilization of commodities prices. On the other hand, employment costs per employee increased in the first quarter by 0.8% (the highest rate in the last decade).

On the other hand, an increase in optimism was apparent in the PMI index and in the main consumer trust indices, which returned to high levels.

After the balance sheet date, the employment report for April was published, which indicated several positive trends, of which the most prominent are the scope of new positions (higher than expected), the decrease in the unemployment rate, the increase in scopes of position for part time positions, and others. On the other hand, the report indicated a deceleration in the salary increase rate.

Europe - The central bank announced that it does not intend to change, in the near future, the policy of monetary incentives, and that sufficient evidence has not yet been received to indicate a consistent increase in inflation.

The Prime Minister of Great Britain, Theresa May, triggered Article 50 in the end of March, which will initiate the talks towards Great Britain’s exit from the European Union.

In April 2017, the Prime Minister of Great Britain announced general elections, to be held in two months’ time only, with the aim of gaining strength in advance of the negotiations regarding the exit from the European Union.

Japan - The Bank of Japan continued its expansive monetary policy, which includes “pegging” the government yield curve, in a manner whereby 10 year yields will be around 0%.

China - The growth rate in government investments in China decelerated recently; however, in parallel, the investment rate in the private sector was accelerated, with a large part being directed towards the “bubble” real estate sector. In total, the economic data indicated an acceleration of economy activity towards the end of the first quarter of 2017, where the Chinese economy grew in the first quarter by 6.9%, as compared with the corresponding quarter of 2016.

2.1.2.1. Exchange rates

During the reporting period, the NIS gained strength vs. the USD, EUR and GBP.

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

In percent	**Representative EUR exchange rate**	**Representative USD exchange rate**	**Representative GBP exchange rate**
For the period of three months ended:			
March 31, 2017	**(4.0)**	**(5.5)**	**(4.2)**
March 31, 2016	0.9	(3.5)	(6.2)
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 March 31, 2017	**3.882**	**3.632**	**4.525**
As of March 31, 2016	4.286	3.766	5.427
As of December 31, 2016	4.044	3.845	4.725

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.)

2.1.2.2. Global growth

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

In percent	Outlook for 2017	Estimate for 2016
Global	3.5	3.1
United States	2.3	1.6
Euro Bloc	1.7	1.7
Asia (excluding Japan)	6.4	6.4
Japan	1.2	1.0
China	6.6	6.7

1) As of April 2017.

2.1.2.3. Global stock markets

	In local currency			In NIS		
	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31
In percent	2017	2016	2016	2017	2016	2016
Dow Jones	4.6	1.5	13.4	(1.2)	(2.0)	11.8
NASDAQ	9.8	(2.7)	7.5	3.7	(6.1)	5.9
Nikkei Tokyo	(1.1)	(12.0)	0.4	(2.3)	(8.9)	1.8
CAC - Paris	5.4	(5.4)	4.9	1.1	(4.6)	(0.2)
FTSE - London	2.5	(1.1)	14.4	(1.8)	(7.2)	(6.5)
DAX - Frankfurt	7.2	(7.2)	6.9	3.0	(6.4)	1.8
MSCI WORLD	5.9	(0.9)	5.3	0.0	(4.3)	3.8

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 in the financial statements of the insurance groups:

For the year ended December 31

NIS in millions	2016 Company	2016 Market	2016 Company % of the market	2015 Company	2015 Market	2015 Company % of the market
Life insurance	**4,999**	**26,247**	**19.0%**	4,861	25,369	19.2%
Non-life insurance [1)]	**2,315**	**20,265**	**11.4%**	2,522	19,390	13.0%
Health insurance [2)]	**1,799**	**10,394**	**17.3%**	1,674	9,316	18.0%
Total gross premiums earned on the insurance market in Israel [3)]	**9,112**	**56,907**	**16.0%**	**9,057**	**54,075**	**16.7%**

For the period of three months ended December 31

NIS in millions	2016 Company	2016 Market	2016 Company % of the market	2015 Company	2015 Market	2015 Company % of the market
Life insurance	**1,313**	**7,052**	**18.6%**	1,233	7,455	16.5%
Non-life insurance [1)]	**560**	**5,150**	**10.9%**	614	4,843	12.7%
Health insurance [2)]	**447**	**2,671**	**16.7%**	419	2,384	17.6%
Total gross premiums earned on the insurance market in Israel [3)]	**2,320**	**14,873**	**15.6%**	**2,266**	**14,683**	**15.4%**

1) As specified in section 3.1.2 below, the decrease in premiums in non-life insurance was due to the non-renewal of a students personal accident insurance transaction.
2) The decrease in the company's market share with respect to health insurance premiums was due, inter alia, to the optimization of collective business operations and the update to the Commissioner's database in 2016, with no update to the comparative figures.
3) 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 three months ended March 31						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	**1,375**	**8,268**	**16.6%**	**1,246**	**7,272**	**17.1%**	**5,395**	**32,373**	**16.7%**
Benefits and personal severance pay funds	**154**	**2,927**	**5.3%**	105	1,904	5.5%	507	9,759	5.2%
Study funds	**245**	**4,881**	**5.0%**	239	4,759	5.0%	1,100	21,214	5.2%
Provident fund for investment **)	**15**	**530**	**2.9%**	-	-	-	-	-	-
Total provident funds *	**414**	**8,338**	**5.0%**	**344**	**6,663**	**5.2%**	**1,607**	**30,973**	**5.2%**
Total contributions	**1,789**	**16,076**	**11.1%**	**1,590**	**13,935**	**11.4%**	**7,002**	**63,346**	**11.1%**

*) Excluding central severance pay funds and funds for other purposes.
**) The Company has marketed the provident funds for investment since January 2017.

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 March 31, 2017			As of March 31, 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	**36,608**	159,800	22.9%	34,155	148,859	22.9%	36,347	157,775	23.0%
Profit sharing life insurance - policies beginning from January 1, 2004	**19,107**	110,436	17.3%	17,378	93,909	18.5%	18,578	105,297	17.6%
Total profit sharing life insurance assets	**55,715**	**270,236**	**20.6%**	**51,533**	**242,769**	**21.2%**	**54,925**	**263,072**	**20.9%**
New pension assets	**46,244**	**264,416**	**17.5%**	**39,473**	**223,169**	**17.7%**	**44,618**	**254,633**	**17.5%**
Benefits and personal severance pay funds	**23,321**	203,824	11.4%	23,822	191,903	12.4%	23,634	200,671	11.8%
Study funds	**7,206**	187,566	3.8%	6,822	169,966	4.0%	7,227	183,576	3.9%
Provident fund for investment **)	**15**	1,019	1.5%	-	-	-	-	-	-
Total central severance pay funds	**3,104**	16,287	19.1%	3,496	17,645	19.8%	3,264	16,761	19.5%
Total provident fund assets *)	**33,645**	**408,696**	**8.2%**	**34,140**	**379,514**	**9.0%**	**34,124**	**401,008**	**8.5%**
Total profit sharing life insurance, new pension, provident* and life insurance assets	**135,605**	**943,348**	**14.4%**	**125,146**	**845,452**	**14.8%**	**133,667**	**918,713**	**14.5%**

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

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 2,444 million, as compared with a total of approximately NIS 2,228 million in the corresponding period last year. In life insurance, an increase of approximately NIS 226 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 pension rates, as specified in section 3.1.1.1 below. Additionally, in health insurance, an increase of approximately NIS 28 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 38 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 140 million, as compared with comprehensive loss of approximately NIS 250 million in the corresponding period last year. The transition to income during the reporting period was primarily due to the increase in investment income, as compared with the corresponding period last year, and the impact of the rising interest rate environment, as specified below.

During the reporting period, gross real returns in profit sharing policies amounted to a rate of 1.82%, as compared with a negative return rate of 0.66% 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 77 million, as compared with non-collection in the corresponding period last year.

The total financial margin in life insurance[1] amounted to a total of approximately NIS 233 million, as compared with a total of approximately NIS 180 million in the corresponding period last year.

Additionally, the transition to income during the reporting period was due to the following special effects:

A. During the reporting period, the discount rates which are used to calculate liabilities for paid pensions were updated, and in light of the liability adequacy test (LAT), the reserve with respect to insurance contracts decreased by approximately NIS 72 million (NIS 47 million after tax) during the reporting period, as compared with an increase in the reserves (LAT) in the amount of approximately NIS 350 million (NIS 224 million after tax) in the corresponding period last year.

   It is noted that Clal Insurance has a balance for the provision with respect to the liability adequacy test (LAT) as of March 31, 2017 in the amount of NIS 248 million.

B. 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 March 31, 2017 in the compulsory motor and liabilities branches by approximately NIS 6 million, on retention and before tax (a total of approximately NIS 4 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 118 million on retention before tax in the corresponding period last year (a total of approximately NIS 77 million after tax), following the initial application of the committee's recommendations. 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.)

The reporting period (Cont.)

The insurance branches were affected during the reporting period primarily by the following factors:

NIS in millions	Item	For the period of three months ended March 31 2017 Unaudited	For the period of three months ended March 31 2016 Unaudited	For the year ended December 31 2016 Audited
Comprehensive income (loss), as published in the report		**140**	(250)	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		**72**	(251)	(194)
Non-life insurance		-	(2)	-
Long-term care insurance in the health segment		-	(97)	-
Total income (loss) before tax with respect to the low interest rate environment	**A**	**72**	(350)	(194)
Impact of recommendations of the Winograd committee in non-life insurance	**B**	**(6)**	(118)	(141)
Additional special provisions in long term savings [1)]		**-**	-	(101)
Amortization of goodwill - provident funds [(2)]		**-**	-	(25)
Cost of exchange of deferred liability notes [3)]		**-**	-	(24)
Total profit (loss) before tax with respect to special provisions		**66**	(468)	(485)
Total profit (loss) after tax with respect to special provisions		**43**	(300)	(311)
Impact of the update to tax rates		**-**	-	37
Comprehensive income after tax, after neutralization of the impact of special provisions		**97**	50	396

1) For additional details, see Note 43 to the annual financial statements.
2) For additional details, see Note 6(b) to the annual financial statements.
3) For additional details, see Note 25 to the annual financial statements.

Presented below are the main parameters for the reporting period:

	As of March 31, 2017	As of December 31, 2016	As of September 30, 2016	As of June 30, 2016	As of March 31, 2016
Spot risk-free interest rate					
5 years	0.1	0.0	0.0	(0.2)	(0.2)
10 years	0.8	0.6	0.5	0.3	0.5
20 years	1.4	1.3	1.0	0.9	1.0
25 years	1.6	1.5	1.2	1.0	1.1
Discount rates used in the calculation of the reserve for postponed and paid annuities	**2.60%-3.28%**	**2.40%-3.28%**	2.20%-3.28%	2.00%-3.28%	2.20%-3.40%
K factor values [2]- Profit-sharing	**0.96%**	**0.96%**	0.88%	0.83%	0.96%
K factor values [2] - 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 40(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.)

Economic solvency regime and assessment of the economic solvency ratio as of December 31, 2015

Further to the performance of quantitative impact studies in previous years, as part of the preparation towards the implementation of a Solvency II-based solvency regime, in April 2016, a circular was published on the subject of "Instructions for the implementation of IQIS for 2015" (hereinafter: the "**Circular**"), according to which the insurance companies were required to submit an additional quantitative impact study, based on the data for December 2015 (hereinafter: "**IQIS5**"). Clal Insurance performed an assessment of the ratio between its current capital and required capital (hereinafter: "**Solvency**"), in accordance with the provisions of the circular, as of December 31, 2015 (hereinafter: the "**Calculation Date**"). In accordance with the results of the assessment, as of the calculation date of the solvency ratio of Clal Insurance, which is reflected in the results of IQIS5, in consideration of the transitional provisions which pertain to the capital requirement with respect to the holding of shares, amounted to approximately 104%. The solvency ratio, without taking into account the aforementioned transitional provisions, amounted to approximately 97%. The results of IQIS5 were submitted to the Commissioner on August 23, 2016.

On February 7, 2017, the text of the provisions regarding the implementation of a Solvency-II based economic solvency regime (hereinafter: the "**Updated Document**"), was published. On May 22, 2017, the Finance Committee of the Knesset decided not to express reservations regarding the content of the updated document, and it thereby entered into effect. Changes were implemented to the updated document with respect to the details of the implementation and the application date of the aforementioned solvency regime, which were known until its publication, and the application date was set as June 30, 2017. The transitional provisions which were determined with reference to the capital requirement regarding the holding of shares will continue to apply, and additionally, a distribution period was determined until the full application of the solvency capital requirement in 2021, in accordance with the provisions of the updated document. It is noted that, in the aforementioned discussion of the Finance Committee, it was noted that the Commissioner intends to extend the distribution period, in a manner whereby it will be postponed to 2024. The details of the distribution outline have not yet been published. Clal Insurance performed a preliminary and approximate evaluation of the impact of the main changes to the updated document, with reference to the calculation which was performed within the framework of IQIS5 as of the calculation date, without performing the calculation in its entirety, in accordance with the provisions of the updated document. According to the estimate of Clal Insurance, the implementation of these main changes would have improved its solvency ratio as of the calculation date, by approximately 10%-14%, such that the ratio, according to a full calculation, would have been in the range of 107%-111% (instead of 97%, as noted above), and the ratio in consideration of the transitional provisions for the capital requirement with respect to the shares would have been in the range of 114%-118% (instead of 104%, as noted above), even before taking into account the distribution arrangements described above, Clal Insurance began preparing for the performance of an evaluation regarding the solvency ratio as of December 31, 2016.

In light of the Commissioner's letter regarding dividend distributions from August 2016 (hereinafter: the "**Letter**"), as stated in Note 16(e) to the annual financial statements, and given the solvency ratio of Clal Insurance, without the transitional provisions, as described above, Clal Insurance is prevented, at this stage, from distributing dividends.

It is noted that the discussions which the insurance companies held with the Capital Market, Insurance and Savings Authority (hereinafter: the "**Authority**") also addressed the issue of the regulatory restriction on dividend distributions by insurers. In these discussions, it was noted that the Authority is considering an easement with respect to these restrictions, in a manner whereby the dividend distribution will be made conditional on the fulfillment of a solvency ratio of 100%, according to the new economic solvency regime, according to a full calculation, without implementing the transitional provisions for the capital requirements with respect to shares, and without distribution, instead of the rates which were determined in the letter, upon the fulfillment of a solvency ratio of 115%, with reference to the current capital regime, so long as it remains in effect, and upon the fulfillment of the capital surplus which will be determined by the board of directors of the insurance company. The Authority has not yet published a revised letter on this subject, and at this stage, it is not yet possible to estimate if and when it will do so.

As of the present date, it is not possible to estimate the entire implications of the foregoing on the solvency ratio of Clal Insurance, and on its future ability to distribute dividends, inter alia, due to the fact that the proceedings which are required in order to implement the aforementioned regulatory changes have not yet concluded, due to the fact that these are preliminary estimates, since the calculation of the solvency ratio as of the end of 2016 has not yet been performed, and due to the fact that the board of directors of Clal Insurance has not yet discussed the capital policy in the new solvency regime, and has not yet determined the required capital surplus in this regime. For additional details, see Note 16(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.)

Publication of the embedded value report as of December 31, 2016

The embedded value report of Clal Insurance as of December 31, 2016 is attached to the quarterly reports, regarding the long term life insurance policies and the long term health insurance policies of Clal Insurance and of managing companies of pension funds, according to the rate of holding therein (hereinafter, jointly: the "**Embedded Value Report**"). The embedded value report was prepared in accordance with the rules and principles which were determined in the committee report regarding the publication of embedded value.

The embedded value of Clal Insurance as of December 31, 2016 amounted to a total of approximately NIS 13,449 million, as compared with NIS 12,497 million last year, representing an increase of approximately 7.6%. Out of the embedded value, a total of approximately NIS 3,400 million constitutes adjusted net worth, as compared with NIS 3,417 million last year, and a total of NIS 10,048 million constitutes the present value of future profits, net of tax (hereinafter: "**Value in Force**"), as compared with approximately NIS 9,080 million last year. The data are after the deduction of required cost of capital.

The increase in value in force was primarily due to the addition of value of new business which were sold in 2016.

The value of new business (new policies sold during 2016) amounted to a total of approximately NIS 716 million, as compared with approximately NIS 651 million last year, an increase of approximately 10.0%.

The embedded value report includes details regarding the changes in embedded value relative to the embedded value as of December 31, 2015.

It is emphasized that, as stated above, the embedded value of Clal Insurance does not include non-life insurance business operations, and also does not include the operations of subsidiaries under the control of Clal Insurance in additional segments, and also does not include the ability to create business operations in the future (goodwill). It is also emphasized that the embedded value refers to Clal Insurance only, and does not refer to the company's additional business operations and activities.

Additionally, embedded value does not take into account certain risks, as specified in section 2.2 of the embedded value report.

It is therefore understood that in light of the foregoing, the embedded value does not represent the market value or the total economic value of Clal Insurance, nor the market value or economic value of the company.

Developments subsequent to the reporting period

Subsequent to the reporting date, the risk-free interest rate curve decreased. Further to that stated in Note 40(e)(e1) and (e2) to the annual financial statements, a decrease in interest rates may lead to 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 in part of the liability adequacy test (LAT), as specified in section 3.1(a) above.

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 the second quarter of 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 the second quarter of 2017, and the above does not constitute any estimate regarding the company's expected financial results for the second quarter of 2017. See also Note 8(h) to the financial statements.

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 three months ended March 31 2017	2016	Rate of change in percent	For the year ended December 31 2016
	Unaudited			Audited
Long term savings				
Gross earned life insurance premiums	**1,443**	1,217	19	4,999
Income from life insurance management fees	**175**	93	88	485
Impact of the interest rate on reserves in life insurance	**72**	(251)	#	(194)
Special provisions in life insurance	**-**	-	#	(94)
Financial margin including management fees	**233**	180	29	686
Income (loss) before tax in life insurance	**202**	(219)	#	(132)
Total comprehensive income (loss) before tax in life insurance	**170**	(237)	#	(113)
Income from pension management fees	**69**	67	3	277
Income before tax in pension funds	**4**	7	(43)	43
Total comprehensive income before tax in pension operations	**5**	7	(29)	43
Income from provident fund management fees	**47**	53	(11)	194
Income before tax in provident funds	**10**	14	(29)	8
Total comprehensive income before tax in provident fund operations	**10**	14	(29)	8
Total income (loss) before tax in the long term savings division	**216**	(198)	#	(80)
Total comprehensive income (loss) before tax in the long term savings division	**184**	(216)	#	(61)
Non-life insurance segments				
Gross premiums earned	**555**	593	(6)	2,315
Premiums earned on retention	**393**	422	(7)	1,653
Impact of the interest rate on reserves in non-life insurance	**-**	(2)	#	-
Provision with respect to the Winograd committee	**(6)**	(118)	(95)	(141)
Income (loss) before tax in the non-life insurance division	**11**	(92)	#	16
Comprehensive income (loss) before tax in the non-life insurance division	**13**	(83)	#	(13)
Health insurance				
Gross premiums earned	**447**	419	7	1,799
Premiums earned on retention	**389**	371	5	1,586
Impact of the interest rate on reserves in health insurance	**-**	(97)	#	-
Income (loss) before tax in the health insurance division	**8**	(63)	#	203
Comprehensive income (loss) before tax in the health insurance division	**8**	(62)	#	216
Total income (loss) before tax from insurance segments	**235**	(353)	#	139
Total comprehensive income (loss) before tax from insurance segments	**205**	(361)	#	142
Financing expenses	**29**	24	21	151
Total other income (loss) before tax and items which are not included in the insurance branches	**41**	(10)	#	114
Total income (loss) before tax	**249**	(373)	#	88
Total comprehensive income (loss) before tax	**217**	(395)	#	105
Taxes on comprehensive income	**76**	(146)	#	(20)
Total comprehensive income (loss) for the period, net of tax	**141**	(249)	#	125
Total comprehensive income (loss) for the year attributable to company shareholders	**140**	(250)	#	122
Comprehensive income for the year attributable to non-controlling interests	**1**	1	-	3
Return on equity in annual terms (in percent) *)	**12.0**	(22.0)	#	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. Long term savings

3.1.1.1. Life insurance operations

Gross premiums earned during the reporting period amounted to a total of approximately NIS 1,443 million, as compared with a total of approximately NIS 1,217 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 6.1.2.3 of the report regarding the description of the corporation's business for 2016.

Comprehensive income amounted to a total of approximately NIS 170 million, as compared with comprehensive loss of approximately NIS 237 million in the corresponding period last year.

The transition to income during the reporting period was primarily due to the release of insurance reserves in the amount of approximately NIS 72 million, in light of the increase in the risk-free interest rate curve, the estimated rate of return in the portfolio of assets held against insurance liabilities, and the update to the interest rate used in the liability adequacy test (LAT), as compared with the strengthening of those reserves in the amount of approximately NIS 251 million in the corresponding period last year. For additional details, see Note 8(a) to the interim reports.

After neutralization of the aforementioned effect, comprehensive income before tax amounted to a total of approximately NIS 98 million, as compared with comprehensive income of approximately NIS 14 million in the corresponding period last year.

The increase in comprehensive 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 1.82%, as compared with a negative return rate of 0.66% 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 77 million, as compared with non-collection in the corresponding period last year.

The total financial margin in life insurance amounted to a total of approximately NIS 233 million, as compared with a total of approximately NIS 180 million in the corresponding period last year.

During the reporting period, redemption rates of life insurance policies from the average reserve for the period, in annual terms, amounted to approximately 2.3%, as compared with at a rate of approximately 2.2% in the corresponding period last year.

3.1.1.2 Composition of management fees and financial margin:

	For the period of three months ended March 31				For the year ended December 31	
NIS in millions	**2017**	**% of total**	**2016**	**% of total**	**2016**	**% of total**
Variable management fees	**77**	**43**	-	-	106	22
Fixed management fees	**98**	**57**	93	100	379	78
Total management fees	**175**	**100**	93	100	485	100
Total financial margin and management fees	**233**		180		686	

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

	For the period of three months ended March 31				For the year ended December 31	
NIS in millions	**2017**	**% of total**	**2016**	**% of total**	**2016**	**% of total**
Current premiums	**1,359**	**94**	1,187	98	4,817	96
Non-recurring premiums	**84**	**6**	30	2	182	4
Total gross premiums earned	**1,443**	**100**	1,217	100	4,999	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.)

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

NIS in millions	For the period of three months ended March 31				For the year ended December 31	
	2017	% of total	2016	% of total	2016	% of total
Current premiums	**23**	**23**	27	19	111	24
Non-recurring premiums	**78**	**77**	112	81	358	76
Total gross premiums earned	**101**	**100**	139	100	469	100

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

NIS in millions	For the period of three months ended March 31				For the year ended December 31	
	2017	% of total	2016	% of total	2016	% of total
Current premiums	**1,382**	**89**	1,214	90	4,928	90
Non-recurring premiums	**162**	**11**	142	10	540	10
Total gross premiums earned	**1,544**	**100**	1,356	100	5,468	100

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)		
	For the period of three months ended As of March 31		For the year ended December 31
	2017	2016	2016
Real return before payment of management fees	**1.82**	(0.66)	2.95
Real return after payment of management fees	**1.43**	(0.80)	2.01
Nominal return before payment of management fees	**1.62**	(1.56)	2.64
Nominal return after payment of management fees	**1.23**	(1.70)	1.70

	Policies issued beginning in 2004 (New Fund J)		
	For the period of three months ended As of March 31		For the year ended December 31
	2017	2016	2016
Real return before payment of management fees *)	**1.64**	(0.69)	2.46
Real return after payment of management fees *)	**1.36**	(0.97)	1.32
Nominal return before payment of management fees	**1.44**	(1.59)	2.15
Nominal return after payment of management fees	**1.16**	(1.87)	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 *)

	For the period of three months ended As of March 31		For the year ended December 31
	2017	2016	2016
Nominal investment income (loss) attributed to policyholders			
After management fees	**534**	651))	680
Management fees	**175**	93	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 Financial information by operating segments (Cont.)

3.1.1. Long-term savings (Cont.)

3.1.1.7 Provident fund operations

Income from management fees during the reporting period amounted to a total of approximately NIS 47 million, as compared with a total of approximately NIS 53 million last year.

Comprehensive income in the reporting period amounted to approximately NIS 10 million, as compared with approximately NIS 14 million in the corresponding period last year. The decrease in income was primarily due to the decrease in income from management fees, as specified above, in continuation of the trend in competitive conditions in the segment.

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.

3.1.1.8 Pension operations

Income from management fees amounted to a total of approximately NIS 69 million, as compared with a total of approximately NIS 67 million last year.

Comprehensive income in the reporting period amounted to a total of approximately NIS 5 million, as compared with comprehensive income in the amount of approximately NIS 7 million in the corresponding period last year. Income during the reporting period and in the corresponding period last year was affected by automation expenses with respect to the system for the management of pension operations (Nissan), as specified in Note 44(c) to the annual financial statements, and the competitive conditions in the branch.

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 three months ended March 31				For the year ended December 31	
	2017	% of total	2016	% of total	2016	% of total
NIS in millions	Unaudited				Audited	
Motor property insurance (see section 3.1.2.1 below)						
Gross premiums	**227**	**33**	194	29	635	28
Premiums on retention	**226**	**44**	194	40	632	40
Income (loss) before tax	**-**	**-**	(9)	#	18	11
Comprehensive income (loss) before tax	**-**	**-**	(9)	#	16	13
Loss ratio, gross	**75%**		79%		70%	
Loss ratio, on retention	**75%**		80%		70%	
Combined ratio, gross	**100%**		106%		98%	
Combined ratio, on retention	**101%**		107%		99%	
Compulsory motor insurance (see section 3.1.2.2 below)						
Gross premiums	**147**	**21**	130	19	438	20
Premiums on retention	**143**	**28**	126	26	423	27
Income before tax before the estimated impact of the Winograd committee's recommendations	**4**	**24**	26	104	169	107
Comprehensive income before tax before the estimated impact of the Winograd committee's recommendations	**4**	**20**	30	88	154	120
The pool's effect on results of operations	**(8)**		(16)		(30)	
Loss ratio, gross	**90%**		59%		59%	
Loss ratio, on retention	**86%**		59%		56%	
Combined ratio, gross	**107%**		77%		78%	
Combined ratio, on retention	**103%**		77%		77%	
Provision in the compulsory motor branch, including the estimated impact of the Winograd committee	**(4)**		(71)		(81)	
Income before tax including the estimated impact of the Winograd committee's recommendations	**-**		(45)		88	
Comprehensive income before tax including the estimated impact of the Winograd committee's recommendations	**-**		(42)		73	
Property branches (see section 3.1.2.3 below)						
Gross premiums	**198**	**28**	226	34	743	33
Premiums on retention	**65**	**13**	91	19	265	17
Income before tax	**12**	**71**	3	12	(47)	#
Comprehensive income before tax	**12**	**60**	4	12	(50)	#
Loss ratio, gross	**74%**		30%		42%	
Loss ratio, on retention	**42%**		54%		71%	
Combined ratio, gross	**105%**		60%		74%	
Combined ratio, on retention	**88%**		99%		118%	
Credit insurance (see section 3.1.2.4 below)						
Gross premiums	**28**	**4**	27	4	107	5
Premiums on retention	**14**	**3**	13	3	54	3
Income before tax	**6**	**35**	7	28	24	15
Comprehensive income before tax	**7**	**35**	8	24	24	19
Loss ratio, gross	**31%**		44%		45%	
Loss ratio, on retention	**36%**		29%		46%	
Combined ratio, gross	**55%**		65%		67%	
Combined ratio, on retention	**56%**		40%		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 three months ended March 31				For the year ended December 31	
	2017	% of total	2016	% of total	2016	% of total
NIS in millions	Unaudited				Audited	
Liabilities branches (see section 3.1.2.5 below)						
Gross premiums	**99**	**14**	92	14	310	14
Premiums on retention	**69**	**13**	65	13	213	13
Income before tax before the estimated impact of the Winograd committee's recommendations	**(4)**	#	(1)	#	(7)	#
Comprehensive income before tax before the estimated impact of the Winograd committee's recommendations	**(4)**	#	2	6	(16)	#
Loss ratio, gross	**152%**		114%		106%	
Loss ratio, on retention	**77%**		63%		80%	
Combined ratio, gross	**182%**		145%		138%	
Combined ratio, on retention	**118%**		104%		123%	
Provision in the liabilities branches, including the estimated impact of the Winograd committee	**(2)**		(46)		(61)	
Income before tax including the estimated impact of the Winograd committee's recommendations	**(7)**		(47)		(68)	
Comprehensive income before tax including the estimated impact of the Winograd committee's recommendations	**(7)**		(45)		(77)	
Total in non-life insurance segments without the impact of the Winograd committee						
Gross premiums	**698**	**100**	669	100	2,233	100
Premiums on retention	**517**	**100**	488	100	1,587	100
Income before tax before the estimated impact of the Winograd committee's recommendations	**17**	**100**	25	100	158	100
Comprehensive income before tax before the estimated impact of the Winograd committee's recommendations	**20**	**100**	35	100	128	100
Loss ratio, gross	**87%**		61%		62%	
Loss ratio, on retention	**72%**		65%		67%	
Combined ratio, gross	**113%**		87%		90%	
Combined ratio, on retention	**100%**		95%		99%	
*) The loss ratio and combined ratio data are presented without the implications of the Winograd committee						
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	**(6)**		(118)		(141)	
Income before tax	**11**		(92)		16	
Comprehensive income before tax	**13**		(83)		(13)	
Loss ratio, gross	**88%**		85%		70%	
Loss ratio, on retention	**74%**		93%		76%	
Combined ratio, gross	**114%**		112%		98%	
Combined ratio, on retention	**102%**		123%		107%	

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

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

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.)

Gross premiums earned amounted to a total of approximately NIS 698 million, as compared with a total of approximately NIS 669 million in the corresponding period last year. The company completed the optimization project which resulted in a reduction of premiums in recent years, and during the reporting period, an increase was recorded in gross premiums in the amount of approximately NIS 29 million, primarily due to the increase in individual business operations in the compulsory motor and property branches, as part of the company's strategy.

Comprehensive income before tax amounted to a total of approximately NIS 13 million, as compared with loss in the amount of approximately NIS 83 million in the corresponding period last year. During the corresponding period last year, 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 118 million, as compared with a total of approximately NIS 6 million during the reporting period, 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 20 million, as compared with income of approximately NIS 35 million in the corresponding period last year.

The decrease in income, after neutralization of the provisions in light of the recommendation of the Winograd committee, as stated above, was primarily due to the lessening of the positive development of claims in the compulsory motor branch during the reporting period, as compared with the corresponding period last year. Additionally, during the reporting period, a decrease occurred in surplus investment income over the income required to cover the increase in insurance liabilities, relative to the corresponding period last year. On the other hand, during the reporting period, an improvement occurred in underwriting results in the fire and property branches and in the motor property branch, relative to the corresponding period last year, due to the underwriting improvement in individual business operations.

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 72%, from 65% in the corresponding period last year. The combined ratio on retention increased in the reporting period to 100%, from 95%.

3.1.2.1 Motor property

Gross premiums earned amounted to a total of approximately NIS 227 million, as compared with a total of approximately NIS 194 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 0.4 million, as compared with loss in the amount of approximately NIS 9 million in the corresponding period last year. The transition from loss to income was primarily due to the underwriting improvement in individual business operations.

The loss ratio on retention decreased in the reporting period to 75%, from 80% in the corresponding period last year (the combined ratio on retention decreased to a rate of 101%, from 107%).

[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.)

3.1.2.2 Compulsory motor

Gross premiums earned amounted to a total of approximately NIS 147 million, as compared with a total of approximately NIS 130 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 0.2 million, as compared with loss in the amount of approximately NIS 42 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 71 million, as compared with a total of approximately NIS 4 million during the reporting period.

After neutralization of the aforementioned provisions, comprehensive income before tax amounted to a total of approximately NIS 4 million, as compared with income of approximately NIS 30 million in the corresponding period last year.

The decrease in income, after neutralizing the aforementioned provision, was primarily due to the moderation of the positive development in claims in the compulsory motor branch with respect to previous underwriting years, during the reporting period, as compared with the corresponding period last year, and the decrease in surplus investment income over 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 increased to 86%, from 59% in the corresponding period last year (the combined ratio on retention increased during the reporting period to 103% from 77%).

3.1.2.3 Property and others branches

Gross premiums earned amounted to a total of approximately NIS 198 million, as compared with a total of approximately NIS 226 million in the corresponding period last year. The decrease in gross premiums, in the amount of approximately NIS 28 million, was primarily due to timing differences with respect to long term policies, and the continued 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 12 million, as compared with comprehensive income of approximately NIS 4 million in the corresponding period last year. The increase in income during the reporting period was primarily due to the improvement in underwriting profitability in the fire and property branches.

The loss ratio on retention decreased in the reporting period to 42%, from 54% in the corresponding period last year (the combined ratio on retention decreased to a rate of 88%, from 99%).

3.1.2.4 Credit insurance

Gross premiums in the reporting period amounted to approximately NIS 28 million, as compared with approximately NIS 27 million in the corresponding period last year.

Comprehensive income in the reporting period amounted to a total of approximately NIS 7 million, as compared with a total of approximately NIS 8 million in the corresponding period last year.

The loss ratio on retention increased in the reporting period to 36%, from 29% in the corresponding period last year (the combined ratio on retention increased to a rate of 56%, from 40%).

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.)

3.1.2.5 Other liability branches

Gross premiums earned amounted to a total of approximately NIS 99 million, as compared with a total of approximately NIS 92 million in the corresponding period last year.

Comprehensive loss in the reporting period amounted to a total of approximately NIS 7 million, as compared with loss in the amount of approximately NIS 45 million in the corresponding period last year. During the corresponding period last year, 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 46 million, as compared with a total of approximately NIS 2 million during the reporting period.

After neutralization of the provision with respect to the Winograd committee, as stated above, loss was recorded in the amount of approximately NIS 4 million, as compared with income of approximately NIS 2 million in the corresponding period last year.

The transition to loss from income was primarily due to the negative development in claims.

After the neutralization of the provision with respect to the Winograd committee, as stated above, the loss ratio on retention increased during the reporting period to a rate of approximately 77%, from a rate of approximately 63% in the corresponding period last year (the combined ratio on retention increased during the reporting period to a rate of 118%, from a rate of 104%).

3.1.3 Health insurance

Gross premiums earned in the reporting period amounted to a total of approximately NIS 447 million, as compared with a total of approximately NIS 419 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 8 million, as compared with loss in the amount of approximately NIS 62 million in the corresponding period last year.

The transition to income during the reporting period was due to the liability adequacy test (LAT) which resulted, in the corresponding period last year, in an increase in the reserve with respect to investment-linked contracts in the amount of approximately NIS 97 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 8 million during the reporting period, as compared with comprehensive income of approximately NIS 35 million in the corresponding period last year.

The decrease in income 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.

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 three months ended As of March 31		**For the year ended December 31**
NIS in millions	**2017**	**2016**	**2016**
Investment gains (losses) which were applied to policyholders	42	(57)	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

	For the period of three months ended March 31		Rate of change in percent	For the year ended December 31
	2017	2016		2016
NIS in millions	Unaudited			Audited
Income from investments, net, and financing income	59	17	247	136
General and administrative expenses	(17)	(15)	13	(60)
Other income (expenses), net	(1)	(1)	-	(5)
Income (loss) before tax from continuing operations from adjustments and offset operations	(1)	-	#	5
Income (loss) before tax from continuing operations in other segments (excluding Clal Finance)	3	3	-	24
Other income before tax and items which are not included in the insurance branches	43	4	975	100
Other comprehensive income before tax and items not included in the insurance branches	41	(10)	#	114

During the reporting period

Comprehensive income from items not included in the insurance branches amounted to a total of approximately NIS 41 million, as compared with comprehensive loss of approximately NIS 10 million in the corresponding period last year. The decrease in loss and the transition to income was primarily due to investment income, including in other comprehensive income, in the amount of approximately NIS 57 million in the reporting period, as compared with investment income in the amount of approximately NIS 3 million in the corresponding period last year.

3.1.5. General and administrative expenses

Other general and administrative expenses during the reporting period amounted to a total of approximately NIS 205 million, as compared with a total of approximately NIS 188 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 last year, and to the investments with respect to the road map, as specified in Note 44(c) and (d) to the annual financial statements.

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

Financing expenses in the reporting period amounted to a total of approximately NIS 29 million, as compared with approximately NIS 24 million in the corresponding period last year. The increase in financing expenses during the reporting period was due to the increase of 0.2% in the consumer price index during the reporting period, as compared with a decrease of 0.9% in the corresponding period last year.

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

3.2 Additional financial data

	Primary movements in equity		
	For the period of three months ended March 31		For the year ended December 31
NIS in millions	**2017**	**2016**	**2016**
Income (loss) for the period [1)]	**164**	(232)	100
Other comprehensive income (loss) for the period [2)]	**(23)**	(16)	26
Comprehensive income (loss)	**141**	(249)	125
Comprehensive income (loss) to shareholders in the company	**140**	(250)	122
Comprehensive income attributable to non-controlling interests	**1**	1	3
Comprehensive income (loss)	**141**	(249)	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 March 31 **2017**	**2016**	Rate of change **%**	As of December 31 **2016**	Rate of change since December **%**
Total assets	**99,530**	94,786	5	98,291	1
Main assets:					
Total assets with respect to investment-linked contracts in consolidated insurance companies	**59,225**	54,789	8	58,396	1
Other financial investments [1)]	**30,493**	30,551	-	30,340	1
Assets managed for others (non-nostro) in the group (NIS in millions):					
For investment-linked insurance contracts and investment contracts	**59,117**	54,789	8	58,396	1
For provident fund members [1)]	**33,645**	34,140	(1)	34,133	(1)
For pension fund members *)	**55,626**	48,594	14	53,948	3
Total assets managed for others	**148,388**	137,523	8	146,477	1
*) Out of this amount, total assets managed by Atudot Havatika	**9,386**	9,121	3	9,330	1

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

NIS in millions	As of March 31 2017	As of March 31 2016	Rate of change %	As of December 31 2016	Rate of change since December %
Total liabilities	**94,675**	90,449	5	93,578	1
From liabilities:					
Liabilities in respect of non-investment-linked insurance contracts and investment contracts	**29,932**	29,923	-	29,769	1
Liabilities with respect to investment-linked insurance contracts and investment contracts	**58,419**	54,252	8	57,276	2
Total liabilities with respect to insurance contracts and investment contracts	**88,351**	84,175	5	87,045	2
Deferred liability notes	**3,299**	3,194	3	3,315	-
Liabilities to banking corporations:					
The company *)	**70**	70	-	70	-
Clal Credit and Finance	**-**	18	#	3	#
Total loans	**70**	88	(20)	73	(4)
Liabilities with respect to derivative financial instruments and short sales	**93**	254	(63)	247	(62)
Total liabilities to banking corporations and others	**163**	342	(52)	320	(49)

*) In accordance with the policy which was determined with respect to the reduction of debt which is not recognized as capital in Clal Insurance, and the company's financing costs, the company's board of directors resolved, on May 28, 2017, to perform an initiated early repayment of the balance of the loan from an interested party bank, which was scheduled for repayment, in installments, by the end of 2019. The repayment of the loan, insofar as it will be performed, is not expected to have a significant impact on the company's financial statements, and the company is expected to subsequently remain without any debt to banking corporations.

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

NIS in millions	As of March 31 2017	As of December 31 2016	Rate of change %
The company			
Total capital attributable to shareholders in the company	**4,815**	4,674	3
Total capital required of the company [1)]	**2,848**	2,845	
Surplus	**1,967**	1,829	8
Rate of surplus over required capital	**69.1%**	64.3%	7
Clal Insurance [2)]			
Total capital and required capital surplus	**4,790**	4,793	-
Total Tier 1 capital	**4,652**	4,513	3
Total Tier 2 and Tier 3 capital [3)]	**3,101**	3,009	3
Total recognized capital	**7,753**	7,522	3
Surplus	**2,963**	2,729	9
Rate of surplus over capital and required capital surplus	**61.8%**	56.9%	9
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)(4) to the financial statements.
2. For additional details regarding the capital requirements for the group's member companies, and regarding restrictions on dividends, see Note 6 to the financial statements.
3. 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 112 million was not recognized as capital as of March 31, 2017. The amount will be recognized against future repayments and against the recording of income, if any, which will be added to Tier 1 capital.

For details regarding the evaluation of the capital status, in accordance with guidelines for the performance of the IQIS5 study, as of December 31, 2015, see section 3.1 above and Note 6(b)(3) 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

	For the period of three months ended March 31		For the year ended December 31
NIS in millions	**2017**	**2016**	**2016**
Net cash flows from (used in) operating activities *)	**(373)**	134	(501)
Net cash flows used in investing activities	**(11)**	(73)	(278)
Net cash flows from (used in) financing activities	**(61)**	(74)	(63)
Impact of exchange rate fluctuations on cash balances	**(47)**	(14)	(21)
Total increase (decrease) in cash balances	**(493)**	(26)	(863)

*) The decrease 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 March 31, 2017	Proximate to the publication date of the report
Liquid resources of the company (solo)	103	103

*) 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. As of March 31, 2017, and proximate to the publication of the report, the company is fulfilling the financial covenants.

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)(4) to the financial statements.

F. The following are details regarding the repayment of the company’s liabilities to banks over the coming year: *)

	01.04.2017-30.09.2017			01.10.2017-31.03.2018		
NIS in millions	Principal	Interest	Total	Principal	Interest	Total
Loans from banks	-	1	1	-	1	1

*) For details regarding the resolution of the board of directors to effect an initiated early repayment of the balance of the loan, see section 3.3.2 above.

For additional details, see the immediate report published by the company regarding a summary of the company’s liabilities by maturity dates (T-126) (reference number 2017-01-054711).

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)(4) to the interim reports.

4.1.2 For details regarding changes in the insurance reserves in light of the interest rate environment, see Note 8(a)(1) to the financial statements.

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

4.1.4 For details regarding the replacement of the operator with respect to provident funds which are managed by the company, see Note 8(c) to the financial statements.

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

4.1.6 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(h) 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 La

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.

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

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

4.3.1 <u>General</u> (Cont.)

4.3.1.2 <u>Investment by institutional entities in credit companies</u>

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.

4.3.2 <u>Long term savings</u>

4.3.2.1 <u>Draft amendment to the circular regarding management fees</u>

In April 2017, a draft amendment was published to the circular regarding management fees in pension savings instruments from December 31, 2012 (the "**Draft 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 draft amendment to the circular regarding management fees, it is proposed to reduce the ability of the institutional entity to raise the cost of management fees for members, inter alia, by extending the minimum period for the provision of a discount on management fees, from two years to seven years (the "Minimum Period"); and reducing the exceptions which allow an institutional entity to raise the management fees for members during the minimum period. It is also proposed to allow an institutional entity to offer a discount on management fees, only if that discount will apply to all of the member's deposits to the provident fund, and to the member's entire accrued balance in the provident fund at that institutional entity; and that an institutional entity may not provide to a member a monetary benefit which is not implemented through a discount in management fees.

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

The entry into effect of the draft circular regarding management fees, insofar as it will be approved in its current version, may affect the provision of discounts on management fees in the provident funds, and as a result, the rate of management fees which are collected, and the retention of customers.

The information presented on all matters associated with the possible implications of the draft 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 the final wording of the circular, and 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 <u>Restrictions and supervision of the corporation's business</u> (Cont.)

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

4.3.2.2 <u>Draft circular containing provisions regarding mortgage term insurance plans</u>

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 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)(a2)(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. 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

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 added 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 added to the annexes.

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 will enter into effect beginning in August 2017.

Clal Insurance is working to launch the product in accordance with the required changes, whose effect is largely dependent upon the tariff will be approved, its correspondence to the sold coverages, and the reinsurance contracts which will be reached in connection with the product.

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.

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.)

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]

Further to the above, in April 2017, a draft 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, 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

[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.

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.

According to the company's estimate, the Prohibition on Money Laundering Order may have 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.

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.

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

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

4.3.3.2 <u>Collective long-term care insurance</u>

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.

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 are expected to conclude 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 extension of the agreement is subject to the receipt of approval from the Commissioner, and to the performance of adjustments vis-à-vis Maccabi, following the publication of the amendment to the regulations, as stated above, and the foregoing may have an impact on the extension of the agreement.

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).

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 March 31, 2017

	Israeli currency		Foreign currency				Non-monetary items	Insurance company	
NIS in thousands	**Unlinked**	**CPI-linked**	**USD**	**EUR**	**GBP**	**Other**		**in Israel**	**Total**
Intangible assets	-	-	-	-	-	-	44,918	1,447,532	1,492,450
Deferred tax assets	-	-	-	-	-	-	7,136	1,687	8,823
Deferred acquisition costs	-	-	-	-	-	-	-	1,955,170	1,955,170
Property, plant and equipment	-	-	-	-	-	-	15,222	228,670	243,892
Investments in associates	-	-	-	-	-	-	936	242,601	243,537
Investment property for investment-linked contracts	-	-	-	-	-	-	-	2,773,464	2,773,464
Other investment property	-	-	-	-	-	-	-	1,184,679	1,184,679
Reinsurance assets	-	-	-	-	-	-	-	2,387,290	2,387,290
Current tax assets	-	2,598	-	-	-	-	-	83,774	86,372
Other accounts receivable	7,371	206	308	-	-	-	1,765	486,668	496,318
Outstanding premiums	3,884	-	-	-	-	-	-	1,056,503	1,060,387
Financial investments for investment-linked contracts	-	-	-	-	-	-	-	53,252,757	53,252,757
Other financial investments									
Marketable debt assets	10,631	26,441	-	-	-	-	-	5,520,985	5,558,057
Non-marketable debt assets	957	10,422	-	-	-	-	-	21,401,626	21,413,005
Stocks	-	-	-	-	-	-	101	1,123,209	1,123,310
Other	-	-	-	-	-	-	-	2,398,980	2,398,980
Cash and cash equivalents for investment-linked contracts	-	-	-	-	-	-	-	2,431,671	2,431,671
Other cash and cash equivalents	163,796	-	203	256	4	-	-	1,255,360	1,419,619
Total assets	186,639	39,667	511	256	4	-	70,078	99,232,626	99,529,781

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

Effect of market risks on business results (Cont.)

Linkage bases report - as of March 31, 2017 (Cont.)

	Israeli currency		Foreign currency				Non-monetary	Insurance company	
NIS in thousands	**Unlinked**	**CPI-linked**	**USD**	**EUR**	**GBP**	**Other**	**Items**	**in Israel**	**Total**
Liabilities									
Liabilities in respect of non-investment-linked insurance contracts and investment contracts	-	-	-	-	-	-	-	29,931,853	29,931,853
Liabilities with respect to investment-linked insurance contracts and investment contracts	-	-	-	-	-	-	-	58,418,976	58,418,976
Deferred tax liability	-	-	-	-	-	-	-	429,760	429,760
Liabilities with respect to employee benefits, net	18,319	-	-	-	-	-	-	55,581	73,900
Deferred liability notes	-	-	-	-	-	-	-	3,299,404	3,299,404
Other accounts payable	53,486	-	-	-	-	-	-	2,302,859	2,356,345
Current tax liabilities	-	671	-	-	-	-	-	-	671
Liabilities to banking corporations and others	70,000	350	-	-	-	-	-	93,335	163,685
Total liabilities	141,805	1,021	-	-	-	-	-	94,531,768	94,674,594
Total exposure	44,834	38,646	511	256	4	-	70,078	4,700,858	4,855,187

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 Effectiveness of 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. 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

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.

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 March 31, 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, May 28, 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 Company Ltd. ("Clal Insurance"), 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 annual report regarding the effectiveness of internal control over financial reporting and disclosure, which was attached to the periodic report for the period ended December 31, 2016 (hereinafter: the "**Last Annual Report Regarding Internal Control**"), the board of directors and management evaluated the internal control in the corporation;

Based on this evaluation, the company's board of directors and management have concluded that the internal control described above, as of December 31, 2016, is 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 presented in the annual report regarding internal control.

As of the reporting date, based on the evaluation of the effectiveness of internal control in the last annual 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 first 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 effect 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.

May 28, 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 reports which is included in the interim reports of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Corporation**") for the first 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 effect 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.

May 28, 2017

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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 reports which is included in the interim reports of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Corporation**") for the first 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 effect 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.

May 28, 2017

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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 March 31, 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.

May 28, 2017

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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 March 31, 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.

May 28, 2017

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

Clal Insurance Company Ltd.
Certification

I, Tal Cohen, hereby certify the following:

2. I have reviewed the quarterly report of Clal Insurance Company Ltd. (hereinafter: the "**Company**") for the quarter ended March 31, 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.

May 28, 2017

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Tal Cohen
Chief Accountant
Senior VP

Clal Insurance Enterprises Holdings Ltd.

Condensed Interim Consolidated Financial Statements As of March 31, 2017

(Unaudited)

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Somekh Chaikin
KPMG Millennium Tower
17 Ha'Arbaa St., P.O. Box 609
Tel Aviv 6100601
03 684 8000

Kost Forer Gabbay and Kasierer
3 Aminadav St., Tel Aviv, 6706703
Tel: +972 3 623 2525
Fax: +972 3 562 2555
ey.com

Independent Auditors' Review Report to the Shareholders of Clal Insurance Enterprises Holdings Ltd.

Introduction

We have reviewed the enclosed condensed financial information of Clal Insurance Enterprises Holdings Ltd. and its subsidiaries (hereinafter: the "**Group**"), which includes the interim consolidated statement of financial position as of March 31, 2017, as well as the interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the periods of three months then ended. The board of directors and management are responsible for preparing and presenting the financial information for this interim period, in accordance with IAS 34, "Interim Financial Reporting", and in accordance with the disclosure requirements set by the Commissioner of Capital Markets, Insurance and Savings, pursuant to the Control of Financial Services Law (Insurance), 1981, and are also responsible for compiling financial information for this interim period in accordance with Chapter IV of the Securities Regulations (Periodic and Immediate Reports), 1970, to the extent that these regulations apply to a corporation which consolidates insurance companies. Our responsibility is to express a conclusion with regards to the financial information for this interim period, based on our review.

We have not reviewed the condensed interim financial information of an associate company which is accounted by the equity method, the investment in which amounted to approximately NIS 15 million as of March 31, 2017, and where the group's share in its income amounted to approximately NIS 89 thousand for the three month period then ended. The condensed interim financial information of that company was reviewed by other auditors, whose review reports were provided to us, and our conclusion, insofar as it pertains to the amounts which were included with respect to that company, is based on the review reports prepared by the other auditors.

Scope of the Review

We have conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Financial Information for Interim Periods Prepared by the Entity's Auditor." A review of financial information for interim periods consists of inquiries, mainly with the people responsible for financial and accounting matters, and of the application of analytical and other review procedures. This review is significantly limited in scope compared to an audit prepared according to generally accepted auditing standards in Israel, and therefore does not allow us to achieve certainty that we have become aware of all material issues that may have be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, and on the review reports prepared by other auditors, we have not become aware of anything which would have caused us to believe that the aforementioned financial information has not been not prepared, in all material aspects, in accordance with IAS 34, and in accordance with the disclosure requirements set forth by the Commissioner of Capital Markets, Insurance and Savings, pursuant to the Control of Financial Services (Insurance) Law, 1981.

In addition to that stated in the previous paragraph, based on our review and on the review reports prepared by other auditors, we have not become aware of any information which would cause us to believe that the aforementioned financial information is not compliant, in all material respects, with the disclosure provisions of Chapter IV of the Securities Law Regulations (Periodic and Immediate Statements), 1970, to the extent to which these regulations apply to a corporation which consolidates insurance companies.

Without qualifying our aforementioned conclusion, we would like to draw attention to that stated in Note 7 to the interim consolidated financial statements, concerning the exposure to contingent liabilities.

Tel Aviv,	Somekh Chaikin	Kost Forer Gabbay and Kasierer
May 28, 2017	Certified Public Accountants	Certified Public Accountants

Joint Auditors

Interim Consolidated Statements of Financial Position

NIS in thousands	As of March 31 2017	As of March 31 2016	As of December 31 2016
	Unaudited		Audited
Assets			
Intangible assets	**1,492,450**	1,501,209	1,505,403
Deferred tax assets	**8,823**	20,375	10,344
Deferred acquisition costs	**1,955,170**	1,872,818	1,923,364
Property, plant and equipment	**243,892**	262,441	252,567
Investments in investee companies accounted by the equity method	**243,537**	204,707	270,044
Investment property for investment-linked contracts	**2,773,464**	2,724,208	2,742,180
Other investment property	**1,184,679**	1,187,661	1,185,907
Reinsurance assets	**2,387,290**	2,260,579	2,228,039
Current tax assets	**86,372**	313,790	135,969
Other accounts receivable	**496,318**	368,562	292,204
Outstanding premiums	**1,060,387**	948,814	866,518
Financial investments for investment-linked contracts	**53,252,757**	47,388,840	52,194,494
Other financial investments:			
Marketable debt assets	**5,558,057**	6,107,080	5,575,059
Non-marketable debt assets	**21,413,005**	21,293,866	21,281,713
Stocks	**1,123,310**	1,044,285	1,139,560
Others	**2,398,980**	2,106,212	2,343,481
Total other financial investments	**30,493,352**	30,551,443	30,339,813
Cash and cash equivalents for investment-linked contracts	**2,431,671**	4,124,720	2,953,235
Other cash and cash equivalents	**1,419,619**	1,056,256	1,390,775
Total assets	**99,529,781**	94,786,423	98,290,856
Total assets for investment-linked contracts	**59,116,749**	54,788,942	58,395,620

The notes attached to the interim consolidated financial statements constitute an integral part thereof.

Interim Consolidated Statements of Financial Position

NIS in thousands	As of March 31 2017	As of March 31 2016	As of December 31 2016
	Unaudited		Audited
Capital			
Share capital	**143,230**	143,216	143,216
Premium on shares	**980,527**	976,329	977,898
Capital reserves	**460,099**	445,177	484,165
Retained earnings	**3,231,410**	2,735,408	3,068,909
Total capital attributable to shareholders in the company	**4,815,266**	4,300,130	4,674,188
Non-controlling interests	**39,921**	36,978	39,017
Total capital	**4,855,187**	4,337,108	4,713,205
Liabilities			
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	**29,931,853**	29,923,298	29,768,979
Liabilities with respect to investment-linked insurance contracts and investment contracts	**58,418,976**	54,251,896	57,275,793
Deferred tax liabilities	**429,760**	387,048	423,293
Liabilities with respect to employee benefits, net	**73,900**	80,937	74,577
Deferred liability notes	**3,299,404**	3,194,020	3,315,333
Other accounts payable	**2,356,345**	2,269,165	2,398,660
Current tax liabilities	**671**	1,102	1,354
Liabilities to banking corporations and others	**163,685**	341,849	319,662
Total liabilities	**94,674,594**	90,449,315	93,577,651
Total capital and liabilities	**99,529,781**	94,786,423	98,290,856

The notes attached to the interim consolidated financial statements constitute an integral part thereof.

May 28, 2017				
Approval date of the financial statements	Danny Naveh Chairman of the Board	Izzy Cohen Chief Executive Officer	Anath Levin Finance, Investment and Credit Division Manager	Tal Cohen Chief Accountant

Interim Consolidated Statements of Income

NIS in thousands	For the period of three months ended March 31 2017	2016	For the year ended December 31 2016
	Unaudited		Audited
Gross premiums earned	**2,444,144**	2,228,114	9,110,003
Premiums earned by reinsurers	**262,242**	262,441	1,042,247
Premiums earned on retention	**2,181,902**	1,965,673	8,067,756
Investment income (loss), net, and financing income	**1,169,733**	(505,417)	2,616,374
Income from management fees	**291,053**	212,769	956,457
Income from commissions	**55,727**	56,277	226,418
Other income	**25**	40	1,419
Total income	**3,698,440**	1,729,342	11,868,424
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	**3,042,221**	1,609,867	9,684,807
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	**(288,883)**	(174,709)	(657,026)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	**2,753,338**	1,435,158	9,027,781
Commissions, marketing expenses and other acquisition costs	**464,713**	458,153	1,814,199
General and administrative expenses	**204,893**	188,046	773,352
Impairment of intangible assets	**-**	-	34,246
Other expenses	**3,164**	4,194	14,762
Financing expenses	**26,742**	17,006	159,695
Total expenses	**3,452,850**	2,102,557	11,824,035
Share in the results of investee companies accounted by the equity method, net	**3,559**	605	41,479
Income (loss) before taxes on income	**249,149**	(372,610)	85,868
Taxes (tax benefit) on income	**84,983**	(140,313)	(13,713)
Income (loss) for the period	**164,166**	(232,297)	99,581
Attributable to:			
Shareholders in the company	**163,346**	(233,190)	96,401
Non-controlling interests	**820**	893	3,180
Income (loss) for the period	**164,166**	(232,297)	99,581
Earnings (loss) per share attributable to shareholders in the company:			
Basic earnings (loss) per share (in NIS)	**2.95**	(4.21)	1.74
Diluted earnings (loss) per share (in NIS)	**2.95**	(4.21)	1.74
Number of shares used to calculate earnings per share:			
Basic	**55,413**	55,412	55,412
Diluted	**55,431**	55,412	55,412

The notes attached to the interim consolidated financial statements constitute an integral part thereof.

Interim Consolidated Statements of Comprehensive income

NIS in thousands	For the period of three months ended March 31 2017 Unaudited	2016 Unaudited	For the year ended December 31 2016 Audited
Income (loss) for the period	**164,166**	(232,297)	99,581
Other comprehensive income (loss):			
Components of other comprehensive income (loss) which, following initial recognition in comprehensive income, have been or will be transferred to profit and loss:			
Foreign currency translation differences for foreign operations applied to capital reserves	**(21,291)**	(17,702)	(22,006)
Foreign currency translation differences for foreign operations applied to the statement of income	**-**	-	(553)
Change, net, in the fair value of available for sale financial assets applied to capital reserves	**27,295**	26,141	196,885
Change, net, in the fair value of available for sale financial assets transferred to profit and loss	**(44,888)**	(44,347)	(234,497)
Impairment loss with respect to available for sale financial assets transferred to profit and loss	**6,288**	14,699	73,761
Other comprehensive income (loss) for the period which has been or will be transferred to profit and loss, before tax	**(32,596)**	(21,209)	13,590
Tax benefit with respect to available-for-sale financial assets	**(3,841)**	(1,442)	(3,271)
Tax benefit with respect to other components	**(4,786)**	(4,603)	(6,710)
Tax benefit with respect to components of other comprehensive income for the period which have been or will be transferred to profit and loss	**(8,627)**	(6,045)	(9,981)
Other comprehensive income (loss) which, following initial recognition under comprehensive income, have been or will be transferred to profit and loss, net of tax	**(23,969)**	(15,164)	23,571
Components of other comprehensive income which will not be transferred to profit and loss:			
Actuarial income (loss) from defined benefit plan	**1,328**	(1,664)	3,166
Other comprehensive income (loss) for the period, before tax	**1,328**	(1,664)	3,166
Tax (tax benefit) with respect to components of other comprehensive income which will not be transferred to profit and loss	**419**	(459)	938
Other comprehensive income (loss) which will not be transferred to profit and loss, net of tax	**909**	(1,205)	2,228
Other comprehensive income (loss) for the period	**(23,060)**	(16,369)	25,799
Total comprehensive income (loss) for the period	**141,106**	(248,666)	125,380
Attributable to:			
Shareholders in the company	**140,202**	(249,767)	122,240
Non-controlling interests	**904**	1,101	3,140
Total comprehensive income (loss) for the period	**141,106**	(248,666)	125,380

The notes attached to the interim consolidated financial statements constitute an integral part thereof.

Interim Consolidated Statements of Changes in Equity

NIS in thousands	Attributable to shareholders in the company								Non-controlling interests	Total capital
	Share capital	Premium on shares	Translation reserve	Capital reserve with respect to available for sale assets	Other capital reserves	Capital reserve from transactions with non-controlling interests	Retained earnings	Total		
For the period of three months ended March 31, 2017 (unaudited)										
Balance as of January 1, 2017 (Audited)	143,216	977,898	384	342,761	180,329	(39,309)	3,068,909	4,674,188	39,017	4,713,205
Income for the period	-	-	-	-	-	-	163,346	163,346	820	164,166
Components of other comprehensive income (loss):										
Foreign currency translation differences for foreign operations applied to capital reserves	-	-	(21,291)	-	-	-	-	(21,291)	-	(21,291)
Change, net, in the fair value of available for sale financial assets applied to capital reserves	-	-	-	27,141	-	-	-	27,141	154	27,295
Change, net, in the fair value of available for sale financial assets transferred to profit and loss	-	-	-	(44,844)	-	-	-	(44,844)	(44)	(44,888)
Impairment loss with respect to available for sale financial assets transferred to profit and loss	-	-	-	6,259	-	-	-	6,259	29	6,288
Actuarial income (loss) from defined benefit plan	-	-	-	-	-	-	1,338	1,338	(10)	1,328
Tax benefit (tax) with respect to components of comprehensive income (loss)	-	-	4,786	3,883	-	-	(416)	8,253	(45)	8,208
Other comprehensive income (loss) for the period, net of tax	-	-	(16,505)	(7,561)	-	-	922	(23,144)	84	(23,060)
Total comprehensive income (loss) for the period	-	-	(16,505)	(7,561)	-	-	164,268	140,202	904	141,106
Transactions with shareholders which were applied directly to equity:										
Exercise and expiration of warrants for senior employees	14	2,629	-	-	-	-	(2,643)	-	-	-
Share-based payments	-	-	-	-	-	-	876	876	-	876
Balance as of March 31, 2017	143,230	980,527	(16,121)	335,200	180,329	(39,309)	3,231,410	4,815,266	39,921	4,855,187

The notes attached to the interim consolidated financial statements constitute an integral part thereof.

Interim Consolidated Statements of Changes in Equity (Cont.)

	Attributable to shareholders in the company								Non-controlling interests	Total capital
NIS in thousands	Share capital	Premium on shares	Translation reserve	Capital reserve with respect to available for sale assets	Other capital reserves	Capital reserve from transactions with non-controlling interests	Retained earnings	Total		
For the period of three months ended March 31, 2016 (unaudited)										
Balance as of January 1, 2016 (Audited)	143,216	976,329	16,233	303,301	180,329	(39,309)	2,967,929	4,548,028	35,877	4,583,905
Income for the period	-	-	-	-	-	-	(233,190)	(233,190)	893	(232,297)
Components of other comprehensive income (loss):										
Foreign currency translation differences for foreign operations applied to capital reserves	-	-	(17,702)	-	-	-	-	(17,702)	-	(17,702)
Change, net, in the fair value of available for sale financial assets applied to capital reserves	-	-	-	25,869	-	-	-	25,869	272	26,141
Change, net, in the fair value of available for sale financial assets transferred to profit and loss	-	-	-	(44,310)	-	-	-	(44,310)	(37)	(44,347)
Impairment loss with respect to available for sale financial assets transferred to profit and loss	-	-	-	14,613	-	-	-	14,613	86	14,699
Actuarial losses from defined benefit program	-	-	-	-	-	-	(1,656)	(1,656)	(8)	(1,664)
Tax with respect to components of comprehensive income (loss)	-	-	4,603	1,550	-	-	456	6,609	(105)	6,504
Other comprehensive income (loss) for the period, net of tax	-	-	(13,099)	(2,278)	-	-	(1,200)	(16,577)	208	(16,369)
Total comprehensive income for the period	-	-	(13,099)	(2,278)	-	-	(234,390)	(249,767)	1,101	(248,666)
Transactions with shareholders which were applied directly to equity:										
Share-based payments	-	-	-	-	-	-	1,869	1,869	-	1,869
Balance as of March 31, 2016	143,216	976,329	3,134	301,023	180,329	(39,309)	2,735,408	4,300,130	36,978	4,337,108

The notes attached to the interim consolidated financial statements constitute an integral part thereof.

Interim Consolidated Statements of Changes in Equity (Cont.)

	Attributable to shareholders in the company								Non-controlling interests	Total capital
NIS in thousands	Share capital	Premium on shares	Translation reserve	Capital reserve with respect to available for sale assets	Other capital reserves	Capital reserve from transactions with non-controlling interests	Retained earnings	Total		
For the year ended December 31, 2016 (Audited)										
Balance as of January 1, 2016	143,216	976,329	16,233	303,301	180,329	(39,309)	2,967,929	4,548,028	35,877	4,583,905
Income for the period	-	-	-	-	-	-	96,401	96,401	3,180	99,581
Components of other comprehensive income (loss):										
Foreign currency translation differences for foreign operations applied to capital reserves	-	-	(22,006)	-	-	-	-	(22,006)	-	(22,006)
Foreign currency translation differences for foreign operations applied to the statement of income	-	-	(553)	-	-	-	-	(553)	-	(553)
Change, net, in the fair value of available for sale financial assets applied to capital reserves	-	-	-	196,836	-	-	-	196,836	49	196,885
Change, net, in the fair value of available for sale financial assets transferred to profit and loss	-	-	-	(234,302)	-	-	-	(234,302)	(195)	(234,497)
Impairment loss with respect to available for sale financial assets transferred to profit and loss	-	-	-	73,694	-	-	-	73,694	67	73,761
Actuarial gains from defined benefit plan	-	-	-	-	-	-	3,167	3,167	(1)	3,166
Tax with respect to components of comprehensive income (loss)	-	-	6,710	3,232	-	-	(939)	9,003	40	9,043
Other comprehensive income (loss) for the period, net of tax	-	-	(15,849)	39,460	-	-	2,228	25,839	(40)	25,799
Total comprehensive income for the period	-	-	(15,849)	39,460	-	-	98,629	122,240	3,140	125,380
Transactions with shareholders which were applied directly to equity:										
Exercise and expiration of warrants for senior employees	-	1,569	-	-	-	-	(1,569)	-	-	-
Share-based payments	-	-	-	-	-	-	3,920	3,920	-	3,920
Balance as of December 31, 2016	143,216	977,898	384	342,761	180,329	(39,309)	3,068,909	4,674,188	39,017	4,713,205

The notes attached to the interim consolidated financial statements constitute an integral part thereof.

Interim Consolidated Statements of Cash Flows

NIS in thousands		For the period of three months ended March 31 2017	For the period of three months ended March 31 2016	For the year ended December 31 2016
		Unaudited		Audited
Cash flows from operating activities				
before taxes on income	(A)	**(353,074)**	192,689	(542,825)
Income tax received (paid)		**(19,857)**	(58,307)	41,963
Net cash from (used in) operating activities		**(372,931)**	134,382	(500,862)
Cash flows from investing activities				
Consideration from disposal of property, plant and equipment		**12**	240	462
Consideration from disposal of investments in other investee companies		**20,740**	1,699	5,902
Consideration from disposal of investment in available for sale financial assets by companies which are not insurance and finance companies		**47,058**	10,058	47,058
Investment in available for sale financial assets by companies that are not insurance and finance companies		**(36,998)**	(36,998)	(36,998)
Repayment of investment (investment) in shares and loans in investee companies		**1,132**	711	(31,102)
Investment in property, plant and equipment		**(1,366)**	(2,895)	(25,032)
Investment in intangible assets		**(41,948)**	(45,526)	(238,349)
Net cash used in investing activities		**(11,370)**	(72,711)	(278,059)
Cash flows from financing activities				
Repayment of liabilities to banks and others		**(2,738)**	(7,387)	(22,858)
Costs of issue and exchange of deferred liability notes		**-**	-	(4,733)
Consideration from issue of deferred liability notes		**-**	-	541,207
Repayment of deferred liability notes		**(14,947)**	(14,977)	(444,196)
Interest paid on bonds and deferred liability notes		**(43,767)**	(51,447)	(132,213)
Net cash used in financing activities		**(61,452)**	(73,811)	(62,793)
Impact of exchange rate fluctuations on cash and cash equivalent balances		**(46,967)**	(14,052)	(21,444)
Net decrease in cash and cash equivalents		**(492,720)**	(26,192)	(863,158)
Cash and cash equivalents at beginning of period	(B)	**4,344,010**	5,207,168	5,207,168
Cash and cash equivalents at end of period	(C)	**3,851,290**	5,180,976	4,344,010

The notes attached to the interim consolidated financial statements constitute an integral part thereof.

Interim Consolidated Statements of Cash Flows (Cont.)

		For the period of three months ended March 31		For the year ended December 31
		2017	2016	2016
	NIS in thousands	Unaudited		Audited
(A)	**Cash flows from operating activities before taxes on income [1) 2)]**			
	Income (loss) for the period	**164,166**	(232,297)	99,581
	Adjustments:			
	The company's share in the income of investee companies accounted by the equity method	**(3,559)**	(605)	(41,479)
	Dividends received from investee companies accounted by the equity method	**-**	125	277
	Changes in liabilities with respect to non-investment-linked insurance contracts and investment contracts	**162,874**	129,065	(25,254)
	Change in liabilities with respect to investment-linked insurance contracts and investment contracts	**1,143,183**	(94,653)	2,929,244
	Change in deferred acquisition costs	**(31,806)**	(22,600)	(73,146)
	Change in reinsurance assets	**(159,251)**	57,896	90,436
	Depreciation of property, plant and equipment	**10,023**	10,458	42,228
	Amortization of intangible assets	**54,901**	47,930	202,330
	Impairment of assets	**-**	-	34,246
	Loss from disposal of property, plant and equipment	**6**	42	62
	Interest and linkage differences accrued with respect to deferred liability notes	**28,844**	23,323	121,396
	Interest accrued and revaluation of liabilities to banking corporations and others	**(106,272)**	20,080	22,008
	Change in fair value of investment property for investment-linked contracts	**34,965**	35,234	53,133
	Change in fair value of other investment property	**4,586**	11,242	22,253
	Share-based payment transactions	**876**	1,869	3,920
	Net loss (profit) from financial investments for insurance contracts and investment contracts, from and investment-linked contracts	**(400,550)**	1,041,274	(65,251)
	Taxes on income (tax benefit)	**84,983**	(140,313)	(13,713)
	Net income (loss) from other financial investments:			
	Marketable debt assets	**50,372**	30,989	(17,700)
	Non-marketable debt assets	**(85,988)**	(37,853)	6,061
	Stocks	**(9,475)**	(5,995)	1,792
	Others	**(140,235)**	(29,583)	(63,015)
	Financial investments and investment property for investment-linked contracts:			
	Acquisition of investment property	**(66,249)**	(9,366)	(45,237)
	Acquisitions, net, of financial investments	**(657,713)**	(585,394)	(4,284,523)
	Receipts (investments) from the sale of (investment in) available for sale financial assets and investment property in insurance business operations:			
	Marketable debt assets	**(25,580)**	442,480	838,699
	Non-marketable debt assets	**(48,928)**	(284,481)	(331,946)
	Stocks	**38,266**	(100,073)	(135,094)
	Others	**43,759**	(24,283)	(109,675)
	Acquisition of other investment property	**(16,434)**	(3,693)	(16,094)

1) Cash flows from operating activities include cash flows with respect to acquisitions and net sales of financial investments and investment property derived from activities with respect to insurance contracts and investment contracts.
2) Cash flows from operating activities include cash flows with respect to received dividends and interest, as specified in Annex E.

The notes attached to the interim consolidated financial statements constitute an integral part thereof.

Interim Consolidated Statements of Cash Flows (Cont.)

		For the period of three months ended March 31		For the year ended December 31
		2017	2016	2016
	NIS in thousands	Unaudited		Audited
(A)	**Cash flows from operating activities before taxes on income (Cont.)**			
	Changes in other items in the statement of financial position, net			
	Securities held for trading by consolidated companies which are not insurance companies	**2,860**	9,513	25,925
	Other accounts receivable	**(204,114)**	(19,447)	56,910
	Outstanding premiums	**(193,869)**	(50,583)	31,713
	Other accounts payable	**(28,366)**	(25,855)	100,375
	Liabilities with respect to employee benefits, net	**651**	(1,757)	(3,287)
	Total cash flows from operating activities before taxes on income	**(353,074)**	192,689	(542,825)
(B)	**Cash and cash equivalents at beginning of period:**			
	Cash and cash equivalents for investment-linked contracts	**2,953,235**	3,767,810	3,767,810
	Other cash and cash equivalents	**1,390,775**	1,439,358	1,439,358
	Cash and cash equivalents in the statement of financial position	**4,344,010**	5,207,168	5,207,168
(C)	**Cash and cash equivalents at end of period:**			
	Cash and cash equivalents for investment-linked contracts	**2,431,671**	4,124,720	2,953,235
	Other cash and cash equivalents	**1,419,619**	1,056,256	1,390,775
	Balance of cash and cash equivalents at end of period	**3,851,290**	5,180,976	4,344,010
(D)	**Cash flows with respect to interest and dividends received, included under operating activities:**			
	Interest received	**541,128**	485,403	2,060,541
	Dividend received	**85,360**	12,875	306,418

The notes attached to the interim consolidated financial statements constitute an integral part thereof.

Note 1: General

A. Reporting entity

Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Company**") is a company registered in Israel, and incorporated in Israel, whose official address is 36 Raul Wallenberg Rd., Tel Aviv. The company's securities are listed for trading on the Tel Aviv Stock Exchange.

The condensed consolidated financial statements as of March 31, 2017 (hereinafter: the "**Financial Statements**") include the statements of the company and its subsidiaries (hereinafter, jointly: the "**Group**"), as well as the group's interests in joint ventures and associates.

As the company was informed by IDB Development Corporation Ltd. ("**IDB Development**"), and according to its public reports, approximately 45% of the company's issued share capital and voting rights are held through the trustee, Mr. Moshe Terry, who was appointed as the trustee for the aforementioned shares and voting rights (see section 1(b)(2) below). In addition to the holding through the trustee, IDB Development directly holds approximately 5% of the company's issued capital, and a total of 49.90% of issued capital[1] (approximately 48.70% at full dilution).

To the best of the company's knowledge, as of the publication date of the report, and in accordance with the amendment to the debt settlement in IDB Holding Corporation Ltd. (which held, in the past, the entire issued capital of IDB Development) (hereinafter: "**IDB Holding**"), which was approved by the Court in March 2016, upon the completion of the implementation of the amendment, IDB Development became, at the end of March 2016, a private company wholly owned by corporations under the control of Mr. Eduardo Elsztain (Dolphin Fund Limited, an investment fund incorporated in Bermuda; Dolphin Netherlands B.V., a private company incorporated in the Netherlands; and Inversiones Financieras Del Sur S.A. (hereinafter: "IFISA"), a private company registered in Uruguay (hereinafter, jointly and/or severally: the "Dolphin Group")). IDB Development constitutes a reporting corporation, due to the fact that its bonds are listed for trading on the Tel Aviv Stock Exchange.

B. Developments during the reporting period with respect to the controlling shareholders in the company

1. Removal of going concern remark regarding IDB Development

   The financial statements and the auditors' report of IDB Development as of December 31, 2016, differently from previous reporting periods, were prepared based on the assumption that IDB Development will continue operating as a going concern.

   The financial statements of IDB Development as of December 31, 2016 include a note and reference by the auditors of IDB Development, with respect to the description of IDB Development's financial position, and with respect to the plans of the management of IDB Development, with reference to material liabilities of IDB Development towards the holders of its bonds, which are expected to be repaid at the end of 2019. In accordance with the above, the materialization of the plans of IDB Development's management will be affected by factors which are not entirely under the control of IDB Development, inter alia, with reference to the ability of IDB Development to execute its plans to realize holdings in the company, in consideration of, inter alia, the outline which was determined by the Commissioner for the sale of the control of the company, the requirements of the Law to Promote Competition and Reduce Concentration, 5774-2013, and the ability of IDB Development to deal with the implications of the Concentration Law. However, the management of IDB Development estimates that IDB Development will be able to service its liabilities on time, and to continue its activities.

[1] On March 22, 2016, IDB Development reported that it had pledged approximately 4.99% (4.87% at full dilution) of the company's shares which are held by IDB Development in favor of the trustee for the bondholders (Series K) of IDB Development. For details regarding the issuance of bonds (Series K) of IDB Development, see section 4(B) below.

Note 1 - General (Cont.)

B. Developments during the reporting period with respect to the controlling shareholders in the company (Cont.)

2. Appointment of a trustee for the controlling shareholder's holdings in the company's shares, and the director appointment process in the group

On August 21, 2013, in accordance with the Commissioner's demand, IDB Development submitted an irrevocable power of attorney to Mr. Moshe Terry (hereinafter: "**Mr. Terry**" or the "**Trustee**"), who was appointed by the Commissioner as the trustee for approximately 51% of the issued share capital and voting rights in the company, which are held by IDB Development (hereinafter: the "**Means of Control**"), and transferred the shares to the trust account, under the name of the trustee, for the purpose of exercising the authorities conferred by virtue of the means of control, in accordance with the provisions of the deed of trust, and with the aim of disconnecting the company and the institutional entities in the group from any possible influence due to the struggle for control of the IDB Group.

On February 20, 2017, the trustee transferred to IDB Development 556,482 shares of the company, which constitute approximately 1% of its issued share capital and voting rights, which were pledged by it as specified in footnote 1 above, and on May 3, 2017, 2,771,309 shares of the company were sold, which constitute approximately 5% of company shares, as specified in section 3 below, such that, as of the publication of the report, it holds only 45% of the means of control.

The deed of trust which was signed by IDB Development formalizes the trustee's authorities. In accordance with the deed of trust, the trustee will exercise all of the authorities which are conferred upon him by virtue of the means of control in favor of IDB Development, and in accordance with the Commissioner's directives, insofar as any will be issued to him, from time to time, in order to ensure the proper management of Clal Insurance Company Ltd. (hereinafter: "Clal Insurance"), Clal Credit Insurance Ltd. and Clal Pension and Provident Funds Ltd. (hereinafter, jointly: the "**Clal Entities**"), including with respect to raising capital in favor of the Clal entities, in any manner considered appropriate in his judgment. The transfer of the means of control to the trustee will not prejudice the right of IDB Development to receive dividends from the company, insofar as any dividend distribution will be decided upon. Additionally, in case of a sale, transfer or pledge of the means of control, the trustee will act in accordance with the instructions of IDB Development, provided that advance written approval has been received for this purpose from the Commissioner. The trusteeship will end on the date of the actual transfer by the trustee of all of the means of control, or upon the issuance of approval by the Commissioner. The Commissioner formalized the trustee's activities in various letters.

During the period since the appointment of a trustee, clarifications from the Commissioner were received by the company regarding the relationship between IDB Development and its controlling shareholders, and the company and entities under its control, pertaining to a prohibition on IDB Development and its controlling shareholders from directing the company's activities, in which the Commissioner's position was clarified, and rules were established, regarding meetings and the transfer of information between the company, the institutional entities and agents of the corporation which is under its control, and IDB Development and its controlling shareholders, in a manner which will prevent IDB Development and its controlling shareholders from taking any action which constitutes, directly or indirectly, direction of the company's business operations or representatives of the institutional entities or agents of the corporation which is owned by the company.

Within the framework of the Commissioner's letter dated December 30, 2014 regarding the outline for the sale of IDB's control and holding of the company (see section 1(b)(3) below) (hereinafter: the "**Outline**"), it was clarified, inter alia, that during the trustee's period of tenure, the appointment of directors in the company and in Clal Insurance will be performed by the committee for the appointment of directors in an insurer with no controlling shareholder, as defined in the Control of Financial Services (Insurance) Law, 1981. Insofar as it will not be possible to appoint directors by the aforementioned committee, the appointment of directors in these companies will be performed by another committee, which will be appointed by the Minister of Finance or by the Commissioner, or by any other means, as instructed by the Commissioner.

Note 1 - General (Cont.)

B. Developments during the reporting period with respect to the controlling shareholders in the company (Cont.)

2. Appointment of a trustee for the controlling shareholder’s holdings in the company’s shares, and the director appointment process in the group (Cont.)

In June 2015, the Commissioner announced that in May 2015, she had appointed a committee for the appointment of directors in Clal Group, as stated above (hereinafter: the “**Committee**”), and that she intends to order the appointment of directors (who are not outside directors) in the company, in accordance with the committee’s recommendations. However, in light of the advancement of the process involving the sale of Clal Group, the appointment for the position of company chairman, for the time being, will not be performed using the mechanism described above, but rather will be performed in the manner by which the company’s Chairman of the Board has been appointed until now. Additionally, the appointment of directors (who are not outside directors) in Clal Insurance, in the annual general meetings for 2015 and 2016, was done according to the mechanisms which were used to appoint directors in Clal Insurance until now, and not according to the aforementioned mechanisms.

Following the appointment of the committee and the issuance of its recommendations, directors and outside directors in the company were appointed, as specified below:

- In the general meeting which was held in December 2015, 3 new directors were appointed, instead of two serving directors, and the Chairman of the Board was re-appointed. The tenure of the aforementioned directors was renewed in the company’s annual general meeting for 2016, in December 2016.
- Accordingly, in August 2016, the trustee informed the company that he requests to convene a general meeting whose agenda will include the appointment of an outside director instead of an outside director whose term is concluding, in accordance with the committee’s recommendation. A list of 2 recommended candidates was submitted to the company in order for it to act accordingly. In the general meeting which was held in October 2016, an outside director was appointed in place of an outside director whose tenure had concluded.
- Additionally, in January 2016, the company received a list of 3 recommended candidates, in order to work towards the appointment of an outside director, instead of an outside director who is concluding his tenure on the board of directors of Clal Insurance, and in order to work towards the appointment of an additional outside director for the board of directors of Clal Insurance. In February 2017, the general meeting of Clal Insurance which was held in February 2017 appointed two outside directors, in place of one outside director who concluded his tenure, in light of the committee’s recommendation to appoint two directors.
- In the general meeting of Clal Insurance which was held on May 28, 2017, an outside director was appointed in place of an outside director whose tenure had concluded.

Note 1 - General (Cont.)

B. Developments during the reporting period with respect to the controlling shareholders in the company (Cont.)

3. Establishment of an outline over time for the sale of IDB Development's control and holdings in the company, and regulation of the relationship between IDB Development and its controlling shareholders, and the company

Further to the request of the controlling shareholders in IDB Development from June 2014, to receive a permit for the control of the company and of institutional entities under its control, on December 30, 2014, a letter was received from the Commissioner, addressed to Mr. Elsztain, Mr. Ben-Moshe and IDB Development, which includes, inter alia, an outline over time for the sale of IDB Development's control and holdings in the company, as specified below, as well as provisions regarding the continued tenure of the trustee.

The Commissioner's letter specifies the sale outline, and includes the involvement of IDB Development and the trustee in the sale process, and its primary provisions are as follows:

A. IDB Development will work to sell the control of the company, in a manner whereby it will no longer be part of the chain of control in the company. It was specified in the control policy document that the minimum holding rate required to hold control of the company, as of the date of the aforementioned letter, amounts to 30% of the total means of control. The sale of control, as stated above, will be performed in accordance with the following conditions and dates:

   1. IDB Development will engage with a well known investment bank (Israeli or foreign) whose identity will be approved by the trustee, for the purpose of formulating an action outline for the sale of control. The board of directors of IDB Development and the trustee will approve the outline, by and no later than June 30, 2015.

   2. IDB Development will sign an agreement for the sale of control vis-à-vis a potential buyer, according to a price and commercial terms which it considers appropriate, by and no later than December 31, 2015.

   3. In the event that an agreement has been signed as specified in subsection 2 above, on time, the potential buyer will be given the opportunity to complete the process of obtaining a control permit from the Commissioner, by and no later than June 30, 2016.

B. During the period until December 31, 2015, IDB Development will be entitled to sell some of the means of control in the company, provided that the above will not adversely affect the undertaking by IDB Development to act to implement the sale of control, as specified in section (a) above.

C. In the event that any of the conditions specified in section (a) above have not been fulfilled, by the dates specified alongside them, or if the control has been sold to a potential buyer, and IDB Development keeps the means of control (hereinafter: "**Terminating Event**"), then in any of the foregoing cases, IDB Development will act to sell all of the means of control in the company which are held by it, excluding a rate which is permitted by law for the holding of an insurer without a permit from the Commissioner, including by way of the sale of the means of control on the stock exchange or through over the counter transactions, in accordance with the outline specified below, and no later than the following dates:

   1. During the period of four months beginning from the occurrence of the terminating event, IDB Development sells at least 5% of the means of control in the company.

   2. During any of the additional subsequent periods, of four months each, IDB Development sells, in each period, at least an additional 5% of the means of control in the company.

   3. During a certain four month period, more than 5% of the means of control in the company have been sold, in which case, the rate of the means of control which were sold beyond the aforementioned limit will be offset from the rate required in the subsequent period.

Note 1 - General (Cont.)

B. Developments during the reporting period with respect to the controlling shareholders in the company (Cont.)

3. (Cont.)

D. If IDB Development does not fulfill all of its undertakings as specified in section (c) above, the trustee will be entitled to act according to the aforementioned outline in its place, in accordance with all of the authorities which have been conferred upon him by virtue of the provisions of the deed of trust that will be entrusted to him. The consideration with respect to the aforementioned sale will be transferred to IDB Development. The expenses involved in the execution of the sale of the means of control will apply exclusively to IDB Development.

E. Notwithstanding the provisions of sections (a) to (c) above, insofar as the control has been sold to a potential buyer, who has received a control permit from the Commissioner, and IDB Development remains in possession of the means of control in the company, at a rate which by law requires a holding permit, IDB Development will be able to file an application for the receipt of a permit for the holding of the means of control which are in its possession; however, the provisions of this section will not constitute advance approval for the receipt of the aforementioned permit. If IDB Development has not received a holding permit, as stated above, by six months after the date of issuance of the control permit to the potential buyer, this date will be considered a terminating event, and the provisions of sections (c) and (d) above will apply, mutatis mutandis.

F. At the end of each quarter, or upon demand from the Commissioner, or from the trustee, IDB Development will submit to the Commissioner or to the trustee, as applicable, a status report regarding the progress on the sale outline.

G. It was further noted in the letter that, in theory, the Commissioner does not consider it necessary to restrict IDB Development from selling the control also to any or all of its controlling shareholders at the time (independently or together with another third party); however, in the letter it was emphasized that any application for the receipt of a control permit, including an application by any of the controlling shareholders in IDB Development at the time, will be evaluated, inter alia, also in light of the provisions of the Law to Promote Competition and Reduce Concentration, 2013 (the "**Concentration Law**"), and that the provisions of the Commissioner's letter do not constitute approval for the performance of the sale, as stated above, in accordance with the provisions of the Concentration Law.

H. The Commissioner's letter clarifies that there is no practical possibility, from the Commissioner's perspective, of concurrently evaluating several applications for control permits in the Clal Group, and insofar as applications will be filed in the future which require such evaluation, an evaluation of such applications will not be performed concurrently.

I. As required according to the Commissioner's letter, IDB Development signed an amended deed of trust (in the version which was attached to the Commissioner's letter). Additionally, it was clarified in the letter that so long as the Commissioner has not issued another directive, the following provisions will continue to irrevocably apply:

1. The trustee will continue serving in his position, so long as IDB Development holds, without a permit, the means of control of the company, according to the rate which by law requires a permit, or alternatively, until the Commissioner orders, in writing, the discontinuation of the trustee's service.

2. During the period of the trustee's service, IDB Development and its controlling shareholders will not exercise the voting rights which are attached to the means of control in the company and in member companies in Clal Group, as specified in the Commissioner's letter, including Clal Insurance ("Member Companies in Clal Group"), and will refrain from taking any action which constitutes, either directly or indirectly, the direction of the business operations of the company or of member companies in Clal Group, including by way of tenure as a corporate officer in the company or in member companies of Clal Group.

3. It was further clarified that during the period of the trustee's service, the appointment of directors in the company and in member companies of Clal Group will be performed in accordance with the mechanisms specified in Note 1(b)(2) above.

Note 1 - General (Cont.)

B. Developments during the reporting period with respect to the controlling shareholders in the company (Cont.)

3. (Cont.)

J. Subject to the fulfillment of the conditions and restrictions specified in sections (a) to (f) above, and in section (i) above, and subject to the receipt of the written consent of IDB Development for all of the terms which are specified in the aforementioned letter, the Commissioner will not consider the continued holding of the means of control in IDB Development and in member companies of Clal Group, as a holding which is in breach of the provisions of the law.

In accordance with the above, on December 31, 2014, the board of directors of IDB Development approved the provision of IDB Development's consent to all of the conditions which are included in the Commissioner's letter, and the signing by IDB Development on an amended deed of trust, which sets forth the terms of the aforementioned letter. An amended deed of trust was signed by IDB Development and by the trustee on January 6, 2015.

A sale process which was managed by IDB Development in 2015, in connection with a possible transaction for the sale of the control of the company, was unsuccessful, and due to the fact that IDB Development did not meet the aforementioned conditions, on January 7, 2016, IDB Development and Mr. Eduardo Elsztain received a letter from the Commissioner, in which the Commissioner clarified, inter alia, that in light of IDB Development's announcement regarding the third group's departure from the sale process, as stated above, in accordance with the Commissioner's outline of December 30, 2014, on January 7, 2016, a "terminating event", as defined in the aforementioned outline, had effectively occurred, and as a result, from that date onwards, IDB Development is required to act in accordance with the provisions of the outline (see section 3.c. above, which requires, in general, the sale of the means of control on the stock exchange, or in over the counter transactions, at a rate of at least 5% in each four month period), and subject to the timetables specified therein.

As the company was informed, IDB Development believes that, in the current market conditions, it would not be appropriate to work to sell its holdings in the company in accordance with the outline ordered by the Commissioner, and that it would be appropriate to formulate an alternative outline which will allow IDB Development to sell its shares in the company within the framework of a transaction for the sale of the control core, or any other outline which would prevent the harm which may be caused to IDB Development if the Commissioner's outline is implemented. In parallel, IDB Development is continuing to evaluate the possibility of selling the company's control core, as specified below.

On February 10, 2016, a claim and a motion to approve the claim as a class action (hereinafter: the "**Claim**") were filed with the District Court of Tel Aviv against the company and against members of the company's Board (hereinafter: "**Defendants**"), by a shareholder in the company, who also holds bonds of IDB Development. The main assertion in the claim is that in light of the fact that the company's enterprise value is not reflected in its market value, which is even significantly higher than the company's equity, and in light of the obligation of the company and its board members to act to generate value for the company's shareholders, the company and its board members should have attempted to sell the company's assets (which primarily include the holding of Clal Insurance), to other insurance companies in Israel, by way of a tender, with each asset of the company being offered for sale separately. For additional details, see the company's immediate report dated February 11, 2016, reference number 2016-01-027247.

In parallel with the filing of the claim, the plaintiff also filed with the District Court of Tel Aviv-Yafo, against the defendants and against additional defendants, including IDB Development, its board members, the trustee and the Commissioner, a motion for an injunction and an urgent motion for a temporary injunction, in which the plaintiff requested to order a stay of the process involving the sale of the company's shares which are held by IDB Development through the trustee, in accordance with the outline which was determined by the Commissioner (as stated in her letter dated January 7, 2016), until a final and non-appealable determination has been given regarding the claim.

On June 19, 2016, the District Court of Tel Aviv-Yafo ordered the striking of the motion for an injunction. The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.

Note 1 - General (Cont.)

B. Developments during the reporting period with respect to the controlling shareholders in the company (Cont.)

3. (Cont.)

J. (Cont.)

On July 13, 2016, following correspondence between IDB Development, the Commissioner and the trustee, in connection with the outline, the trustee filed with the District Court of Tel Aviv-Yafo an urgent motion to issue orders (the “Motion”). In the motion, the Court was requested: (1) to order the trustee to sell 5% of the company’s shares by September 7, 2016, in accordance with the outline; and (2) to appoint a broker (who is experienced in the capital market) to implement the sale by way of an over the counter tender, in a manner whereby the broker will notify institutional investors that the aforementioned shares are up for sale, at a minimum price, by way of a tender, to the highest bidder; or alternatively, to take any action which is required, in the Court’s opinion, for the purpose of implementing the sale of the shares, as stated above, including but not limited to the sale of the shares in a sale through trading on the stock exchange.

On April 5, 2017, the Court issued its ruling (the “Ruling”), in which the Court ordered the trustee to sell 5% of the company’s shares which were in his possession (the “Sold Shares”), within 30 days.

In the ruling, it was determined that the trustee is subject, in his actions, to the instructions of the Commissioner with respect to the sale of the company’s shares, and that the judgment which was exercised by the Commissioner, by ordering the trustee to work towards selling 5% of the company’s shares in accordance with the outline, constituted reasonable and proportional judgment. It was further determined that the sale of the shares, as stated above, must be done by the trustee at the best price which can be obtained for them on the sale date (and on this matter, the Court accepted the position of the trustee, according to which the best way is to sell the shares by way of a tender). Additionally, in the ruling, it was clarified that it applies to the instruction to sell 5% of the aforementioned shares only, where after such sale, the Commissioner will be required to exercise judgment again, 4 months later (and at that time as well, the Commissioner will be required to take into account all of the relevant considerations, as listed by the Court, as well as the changes in circumstances, if any).

On May 1, 2017, IDB Development filed a motion with the Court, with the consent of the trustee (in connection with the method for sale of the shares, as specified below), regarding the method for sale of the sold shares (the “Motion”). In the motion, the Court was requested to approve that the sale of the sold shares will be done by way of a “swap transaction” (instead of sale through a tender, as ordered by the Court in the ruling), in which the sold shares will be sold in a full sale (without reservations, without conditions, and without right of recourse), by IDB Development to a third party in a transaction which will be performed through a banking institution, in accordance with the price which was determined by agreement between IDB Development and the third party, by May 4, 2017.

It is noted that the position of the Director of the Authority of Capital Markets, Insurance and Savings was attached to the motion, according to which she does not object to the motion for the implementation of the aforementioned swap transaction.

On May 3, 2017, after the Court’s approval was received for the aforementioned motion, IDB sold the sold shares (2,771,309 company shares), which were held by the trustee, in an over the counter transaction, at a price of NIS 59.86 per share. The total consideration in the aforementioned transaction amounts to approximately NIS 166 million. The consideration will be used to implement a partial early redemption, as specified in section 4(b)(2) below.

Concurrently and in parallel with the filing of the motion, as stated above, IDB Development engaged with a banking institution in a swap transaction, according to which, at the end of a period of up to 24 months after the date of the sale transaction, a settling of accounts will be performed between IDB Development and the banking institution, with respect to the difference between the selling price of the sold shares to the aforementioned third party, and the value of the sold shares, as of the date of settling of accounts (which will be determined according to the price at which the sold shares will be sold on that date by the third party), where IDB Development and a related party thereof will be estopped from acquiring the sold shares.

Note 1 - General (Cont.)

B. Developments during the reporting period with respect to the controlling shareholders in the company (Cont.)

3. (Cont.)

J. (Cont.)

On May 18, 2017, IDB Development filed with the Supreme Court an appeal against the ruling (the “Appeal”). In the appeal, inter alia, IDB Development requested a determination that the trustee has the discretion (which he must exercise, while taking into account various considerations, including the benefit of IDB Development), if and when to sell company shares which are held by him in batches of 5%, and that he must refrain from selling the company’s shares which are held by him if the damage caused to IDB Development due to their sale exceeds the benefit and the purpose of the trusteeship (including so long as there is a material difference between the value of the shares as reflected and derived from the company’s equity, and their price on the stock exchange). Additionally, IDB Development requested a determination according to which, in any case, it was not possible to provide an exemption from legal liability to the trustee in advance, if he mistakenly sold the company’s shares, so long as there was a significant difference between the value of the shares as reflected in and derived from the company’s equity, and their price on the stock exchange, thereby imposing significant damages on IDB Development, and that, à fortiori, it was not possible to grant an exemption of this kind to the trustee, when it is not even necessary, in accordance with the ruling, to exercise judgment before conducting the sale, as stated above.

4. Proceedings involving the sale of control of the company

A. Further to and in accordance with the resolution which was passed by the Board of Directors of IDB Development on July 3, 2016, IDB Development reported that it had engaged with an international investment bank which will accompany it through the aforementioned sale process. As part of the sale process, the investment bank will evaluate potential transactions for the aforementioned sale, whether within the framework of offers from potential buyers which were given in the past, or within the framework of offers which will be received in the future, according to the terms of the engagement.

IDB Development stated in its reports that, as part of the above, it had received inquiries from potential buyers, with whom IDB Development is in contact.

It is noted that there is no certainty regarding the progress of the sale process, and accordingly, there is no certainty that IDB Development will engage in a transaction for the sale of the control of the company, or that the aforementioned transaction will be completed.

B. Proceedings towards the pledging of company shares

On August 1, 2016, IDB Development published a shelf offering report according to which its bonds which are secured by a charge on some of its holdings in shares of the company were offered to the public (the “Bonds (Series K))”. The Commissioner responded to IDB Development that she does not consider it appropriate to allow it to pledge the company’s shares in favor of a third party.

Following a petition which was filed by IDB Development with the Supreme Court, in its function as the High Court of Justice, in which the Supreme Court was requested, inter alia, to order the Commissioner to immediately approve the pledge of approximately 19% of the company’s shares in favor of the bondholders (Series K), on January 25, 2017, the Supreme Court gave a supplementary judgment in which it determined that in addition to the 3.92% of the company’s shares which are not subject to the provisions of the outline, and which, as of the date of the Supreme Court’s decision, were pledged in favor of a secured creditor of IDB Development (the “Shares Which Were Pledged To The Lender”), IDB Development is also entitled to pledge an approximately 1.08% of the company’s shares which are held by the trustee, subject to the provisions of the outline.

Note 1 - General (Cont.)

B. Developments during the reporting period with respect to the controlling shareholders in the company (Cont.)

4. Proceedings involving the sale of control of the company (Cont.)

   B. Proceedings towards the pledging of company shares (Cont.)

   Further to the above:

   (1) The trustee transferred to IDB Development company shares which constitute approximately 1% of its issued share capital and voting rights, and IDB Development recorded a lien on company shares which constitute approximately 4.99% (approximately 4.87% at full dilution) of the company's shares.

   (2) On February 16, 2017, IDB Development issued bonds (Series M), and pledged in favor of the holders of the aforementioned bonds the consideration in cash which will result from approximately 50% of the company's shares which are held by the trustee for the control shares ("Base Shares"), including but not limited to the consideration from the sale of those shares, consideration in cash from dividends with respect to those shares, and consideration from the sale of any other asset / right which will be allocated with respect to those shares, and consideration in kind which will be received with respect to the company's shares, if and insofar as any will be received, provided that the consideration does not constitute shares of the company, nor any other right associated therewith, and subject to the provisions of the outline, and provided that no other legal restriction exists which would prevent a pledge thereof, as stated above.

   As specified above, further to the sale of 2,771,309 company shares, of which 2,689,196 are base shares (as defined in the deed of trust), the Board of Directors of IDB Development resolved to instruct the partial early redemption of the bonds (Series M) on May 28, 2017, at a scope of approximately 12.82841% of the unpaid balance of the principal of the bonds (Series M), which is also the original balance of the bond series. After the performance of the partial early redemption, as stated above, IDB Development contacted the trustee for the bondholders (Series M), for the purpose of reducing the number of base shares whose consideration is pledged in favor of the bondholders (Series M), insofar as the matter becomes possible in accordance with the provisions of the deed of trust for the bonds (Series M).

5. The Concentration Law

   As the company was informed by IDB Development, in August 2014, the board of directors of IDB Development resolved to appoint an advisory committee, to evaluate the various alternatives for IDB Development's dealing with implications of the Concentration Law, and the compliance with the restrictions specified therein, regarding the control of companies through a pyramid structure, with the intention of allowing the continued control by IDB Development and/or Discount Investment Corporation Ltd. (hereinafter: "**DIC**") of "other tier companies" (which are currently directly held by DIC), also after December 2019.

   In its financial statements for 2016, IDB Development reported that the evaluated alternatives included, inter alia, possible structural changes on all tiers, including a preliminary evaluation of several alternatives with respect to the 2017 requirement (the transitional provision which applies to a third tier or greater tier company which controls reporting corporations on the publication date of the Concentration Law in the Official Gazette, according to which it must discontinue holding control of such reporting corporations by December 2017 at the latest). IDB Development also announced that, in March 2017, the Board of Directors of IDB Development had appointed an independent committee to evaluate various alternatives for IDB Development's dealing with the Concentration Law with respect to the 2017 requirement (hereinafter: the "**Independent Committee**"), as stated above, which may include possible structural change scenarios. IDB Development further stated that, with respect to the aforementioned structural changes to which IDB Development is not directly part, the independent committee will evaluate, subject to the restrictions of the law, also the preparations of the other member companies in the group towards dealing with the requirements of the Concentration Law, and will maintain contact, as required, vis-à-vis the relevant entities in those companies. IDB Development further stated that the evaluation of the various alternatives, as stated above, will be done also in consideration of the 2019 requirement (the transitional provision which applies to a second tier company which controls reporting corporations on the publication date of the Concentration Law in the Official Gazette, according to which it must discontinue its control of such reporting corporations no later than December 2019).

Note 1 - General (Cont.)

B. Developments during the reporting period with respect to the controlling shareholders in the company (Cont.)

5. (Cont.)

IDB Development stated, following a series of discussions which were held by the independent committee, in which it evaluated several alternatives for the dealing of the company and of all tiers of the IDB Group with the 2017 requirement, including an evaluation of the feasibility of alternatives in which IDB Development is not directly involved, and an evaluation of the feasibility of alternatives which require a significant monetary investment on the part of IDB Development and/or another tier in the IDB Group, that the independent committee had decided that the preferred alternative, from the perspective of IDB Development, with respect to IDB Development's dealing with the 2017 requirement, is the alternative in which IDB Development will sell all of its shares in Discount Investment Corporation Ltd., a subsidiary of IDB Development (hereinafter: "**DIC**") (according to their situation as of the implementation date of the alternative) (hereinafter: the "**Sold Shares**"), to a special purpose entity (which will be a private company incorporated in Israel, and which is a "non-reporting corporation", as this term is defined in the Securities Law, 1968) wholly owned by corporations under the control of the controlling shareholder of IDB Development, Mr. Eduardo Elsztain (hereinafter: the "**Buying Corporation**"). According to the aforementioned alternative, and subject to the completion and the terms thereof, IDB Development will discontinue holding DIC and companies under its control, such that the holding structure of IDB Development will meet the requirements o the Concentration Law with respect to pyramid holding structures. Subject to the continued evaluation the alternative, and the formulation of all of its terms by the independent committee, and to the approval of the competent organs in IDB Development, and to the negotiations which will be conducted between IDB Development and the buying corporation regarding the terms of the transaction, the independent committee formulated the general principles of the aforementioned alternative.

It is hereby clarified that the selection of the aforementioned alternative is subject to additional approvals, including the receipt of required approvals from organs, and reaching understandings vis-à-vis the buying corporation, which are not certain to be reached.

IDB Development further reported, in its financial statements for 2016, that based on an analysis which was conducted by it, and based on its estimates and the estimates of DIC, as reported to it, IDB Development estimates that it is more likely than not that the completion of the possible actions on its part will be successful, and will allow IDB Development and DIC to continue holding control of Cellcom Israel Ltd., also after December 2019.

In accordance with the transitional provisions which were prescribed in the Concentration Law, after the aforementioned date, a significant real corporation, or the controller of such a corporation, may not hold control of a significant financial entity, and may not hold over 10% of a certain type of means of control in the aforementioned entity, and may not hold over 5% of a significant financial entity which has no controlling shareholder. Therefore, the continued control by IDB Development of real corporations may affect the ability of IDB Development to hold control of the company after December 2019 (without derogating from the restrictions applicable to IDB's continued control of the company, in accordance with the Commissioner's instructions, as stated above). Additionally, insofar as Clalbit Finance Ltd. will remain an other tier company, Clal Insurance will be obligated to transfer its shares in Clalbit Finance Ltd. to a third party, or to merge Clal Insurance into the company and Clalbit Finance into Clal Insurance, by the dates specified in the Concentration Law.

In May 2015, a list of the concentration entities was published in the Official Gazette, as well as list of the significant real corporations and a list of the significant financial entities. In accordance with the provisions of the Concentration Law, the following will be considered as a concentration entity, inter alia: a significant financial entity, a significant real corporation, and any entity which belongs to a business group (a corporation, an entity holding control of a corporation, and a corporation under the control of any of the above), which includes a significant financial entity or a significant real corporation. Inter alia, the company, Clal Insurance, and additional institutional entities in the group were included in the list of concentration entities, and excluding the company, were also included in the list of significant financial entities. The company was included in the list of significant real corporations.

Insofar as the company will continue being considering a significant real corporation, this may affect its ability to hold the control of Clal Insurance or to hold the means of control therein, as stated above, beginning in December 2019, and may also affect the ability to appoint joint directors in the two companies.

Note 1 - General (Cont.)

B. Developments during the reporting period with respect to the controlling shareholders in the company (Cont.)

6. Agreement between IDB Development and Bank Hapoalim Ltd. -
For details regarding an agreement between IDB Development and Bank Hapoalim Ltd. (hereinafter: "**Bank Hapoalim**") from March 1999, with respect to the company, see the notes to holder no. 1 in the report regarding interested parties and corporate officers with respect to the corporation's securities, which was published by the company on April 6, 2017 (reference number 2017-01-038079).

7. Implications

As of the reporting date, the company and Clal Insurance are unable to estimate the entire impact of the results of the aforementioned events on them. For details regarding the implications of the foregoing, see Note 1(b)(6) to the annual statements.

For details regarding the implications of the Concentration Law, see subsection 5 above.

Note 2- Basis for Preparation of the Interim Reports

A. Statement of compliance with international financial reporting standards

The interim reports were prepared in accordance with IAS 34, "Interim Financial Reporting", and in accordance with the disclosure requirements established by the Insurance Commissioner, pursuant to the Control of Financial Services (Insurance) Law, 1981, and do not include all of the information which is required in complete annual financial statements. These should be read in conjunction with the consolidated financial statements as of and for the year ended December 31, 2016 (hereinafter: the "**Annual Financial Statements**"). Furthermore, these financial statements were compiled in accordance with the provisions of Chapter IV of the Securities Regulations (Periodic and Immediate Reports), 1970, to the extent to which these regulations apply to a corporation that consolidates insurance companies.

B. Use of estimates and judgment

In preparing the interim reports in accordance with IFRS and in accordance with the Control Law and regulations enacted by virtue thereof, the directives of the Commissioner and the provisions of Chapter IV of the Securities Regulations (Periodic and Immediate Reports), 1970, insofar as they are relevant, company management is required to exercise judgment in making estimates, approximations and assumptions which affect the implementation of the accounting policy and the amounts of assets and liabilities, revenues and expenses. It is hereby clarified that actual results may differ from these estimates.

The discretion exercised by management in applying the group's accounting policy and the main assumptions used for estimates involving uncertainty, are consistent with those used in the annual financial statements.

In this context, see Note 8(a) below for details regarding the updates to actuarial estimates, inter alia, due to the low interest environment and its impact on the discount rate used in the calculation of reserves in life and long term care life insurance.

C. Details of changes in the Consumer Price Index and in the representative EUR, USD and GBP exchange rates:

	Index in lieu	Known index	Representative EUR exchange rate	Representative USD exchange rate	Representative GBP exchange rate
	%		%	%	%
For the period of three months ended					
March 31, 2017	**0.1**	**(0.2)**	**(4.0)**	**(5.5)**	**(4.2)**
March 31, 2016	(1.0)	(0.9)	0.9	(3.5)	(6.2)
For the year ended December 31, 2016	(0.2)	(0.3)	(4.8)	(1.5)	(18.3)

	Representative EUR exchange rate	Representative USD exchange rate	Representative GBP exchange rate
As of March 31, 2017	**3.882**	**3.632**	**4.525**
As of March 31, 2016	4.286	3.766	5.427
As of December 31, 2016	4.044	3.845	4.725

Note 3 - Significant Accounting Policies

A. The group's accounting policy, as applied in the interim reports, was unchanged relative to the accounting policy which was implemented in the annual reports.

B. For details regarding the update to the corporate tax rate during the reporting period, see Note 8(e) below.

C. **Impact of new standards before their implementation:**

International Financial Reporting Standard (IFRS) 17, Insurance Contracts

The standard establishes principles regarding recognition, measurement, presentation and disclosure in connection with insurance contracts (including reinsurance contracts), and replaces the current provisions on the matter. The new standard may lead to significant changes in the financial reporting of insurance companies.

According to the new standard, the entity will recognize and measure a liability for future coverage with respect to groups of insurance contracts, in accordance with the risk adjusted present value of the future cash flows from the contracts, which takes into account the available information regarding cash flows consistently with observable market inputs; plus (in case of a liability) or less (in case of an asset) the representative amount of unrealized profit from the group of contracts (contractual service margin). Income with respect to insurance contracts, for each reporting period, is derived from changes in liabilities with respect to future coverage, which are attributed to the various components of the consideration which is required by the insurance company with respect to the contract (such as insurance contracts purchasing costs, risk adjustment, attribution of the contractual service margin for the period, expected claims, and expenses for the period).

However, an entity may implement a simpler measurement model with respect to certain contracts (for example: contracts with insurance coverage of up to one year), according to which the amount attributed to services which have not yet been provided will be measured by the allocation of the premium over the coverage period (the premium allocation approach).

The standard will be applied with respect to annual period beginning on January 1, 2021. Early adoption is possible. The standard will be applied retrospectively, with certain easements, in the event that full retrospective adoption is impractical.

The company has not yet begun evaluating the implications of the adoption of the standard on the financial statements.

Note 4 - Segmental Reporting

A. General

The group is engaged in the following operating segments:

1. Long term savings

The long term savings segment includes life insurance, accompanying coverages (riders) and management of pension funds and provident funds. The segment includes long term savings (within the framework of the various types of insurance policies, pension funds and provident funds, including study funds), as well as insurance coverage for various risks, including death, disability, loss of working capacity, health insurance policies sold as riders to life insurance policies, and others. According to the Commissioner's directives, the long term savings segment includes the following branches: provident funds, pension funds, and life insurance.

2. Health insurance

The health insurance segment includes the group's operations in the health insurance branches. The segment includes long term care insurance, medical expenses insurance, surgeries, transplants, personal accidents (long term health branch), international travel, dental insurance, foreign workers, and more.

3. Non-life insurance

The non-life insurance segment in Israel includes the liability and property insurance, credit insurance, personal accidents and other insurance branches.

According to the Commissioner's directives, the non-life insurance segment in Israel is divided into the following branches: compulsory motor, motor property, property and others branches, and other liability branches, as specified below:

- **Compulsory motor branch**
  The compulsory motor insurance branch focuses on coverage whose acquisition by the vehicle owner or driver is compulsory by law, and provides coverage for bodily injuries (to the driver of the vehicle, to the passengers in the vehicle or to pedestrians), as a result of the use of the motor vehicle.

- **Motor property branch**
  The motor property insurance branch focuses on coverage for damages caused to the policyholder's vehicle, and on property damages caused to a third party by the policyholder's vehicle.

- **Property and others branches**
  The remaining property branches other than motor, liability and other insurance branches, such as guarantees and personal accident insurance (short-term health branch).

- **Credit insurance through a consolidated company**
  Credit insurance branches and foreign trade risks.

- **Other liability branches**
  The liability branches cover the liabilities of policyholders with respect to damages caused to third parties. These branches include third party liability, employers' liability, professional liability, and product liability.

4. Other

Including operating segments which do not meet the quantitative thresholds for reporting, credit and financing operations, and insurance agencies.

5. Operations which were not allocated to segments

This operation includes the group's headquarters, which primarily includes capital, liabilities that are not a part of insurance operations, and assets held against them in Clal Insurance, as well as the company's separate balances and results.

Note 4- Segmental Reporting (Cont.)

B. Additional information regarding the segmental reporting basis

For details regarding an update to the cost allocation model, beginning in January 2017, see Note 8(g) below, and Note 44(g) to the annual financial statements.

C. Seasonality

1. Long-term savings segment

In general, income from premiums in life insurance, and income from management fees in pension funds and provident funds, are not characterized by seasonality, and therefore, seasonality is not a factor with respect to claims.

However, due to the timing of the end of the tax year, a certain degree of seasonality exists with respect to deposits from premiums/benefits contributions to pension savings products in December, since substantial amounts are deposited during that month by employees and self-employed persons who initiate deposits that are not in the framework of their wages, with the intention of making full use of the tax benefits, as well as by employers completing obligations with respect to the tax year or making one-time deposits, usually with respect to a severance pay tenure debt. There are also certain months, which vary from year to year, in which the scope of premiums/contributions could be higher, this being mainly due to one-time payments made by employers to workers, in respect of which contributions are provided.

2. Non-life insurance segment

In general, income from premiums in non-life insurance in Israel is not characterized by clear seasonality. However, premiums in the first quarter of the year are higher than premiums in other quarters, mainly due to renewals of insurance contracts by business policyholders, and to renewals of large vehicle fleets at the start of the calendar year, which have a certain degree of seasonality. The effect of this seasonality on reported income is neutralized by the unearned premium reserve.

There is no clear seasonality in the other expense components, such as claims, and in other income components, such as income from investments. However, it should be noted that in the winter seasons an increase in claims is sometimes seen in the first or fourth quarters of the year, or in both of them, mainly in the property branches, and as a result reported income for the period decreases.

Note 4- Segmental Reporting (Cont.)

D. Report on operating segments

	Long term savings											
	Provident			Pension			Life insurance [1]			Total		
	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31
	2017	2016	2016	2017	2016	2016	2017	2016	2016	2017	2016	2016
NIS in thousands	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited
Gross premiums earned	-	-	-	-	-	-	**1,442,885**	1,216,848	4,998,993	**1,442,885**	1,216,848	4,998,993
Premiums earned by reinsurers	-	-	-	-	-	-	**41,506**	43,518	168,386	**41,506**	43,518	168,386
Premiums earned on retention	-	-	-	-	-	-	**1,401,379**	1,173,330	4,830,607	**1,401,379**	1,173,330	4,830,607
Income (loss) from investments, net, and financing income	**28,297**	11,917	125,670	**(343)**	178	10	**1,010,497**	(482,789)	2,134,693	**1,038,451**	(470,694)	2,260,373
Income from management fees	**47,080**	53,055	194,052	**69,190**	66,527	276,851	**174,549**	93,030	484,697	**290,819**	212,612	955,600
Income from commissions	-	-	-	-	-	-	**15,496**	9,860	38,029	**15,496**	9,860	38,029
Total income	**75,377**	64,972	319,722	**68,847**	66,705	276,861	**2,601,921**	793,431	7,488,026	**2,746,145**	925,108	8,084,609
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	**26,411**	10,015	118,063	-	-	-	**2,145,295**	782,089	6,729,656	**2,171,706**	792,104	6,847,719
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	-	-	-	-	-	-	**(20,525)**	(24,216)	(109,637)	**(20,525)**	(24,216)	(109,637)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	**26,411**	10,015	118,063	-	-	-	**2,124,770**	757,873	6,620,019	**2,151,181**	767,888	6,738,082
Commissions, marketing expenses and other acquisition costs	**14,321**	15,262	61,539	**26,167**	28,950	104,854	**181,856**	170,273	642,916	**222,344**	214,485	809,309
General and administrative expenses	**24,082**	24,584	98,314	**38,429**	30,387	127,061	**91,697**	87,161	361,014	**154,208**	142,132	586,389
Impairment of intangible assets	-	-	28,877	-	-	535	-	-	2,585	-	-	31,997
Other expenses	**1,057**	1,364	4,865	-	-	-	**119**	143	519	**1,176**	1,507	5,384
Financing expenses (income)	**(1)**	3	1	**(8)**	(15)	(25)	**1,763**	(3,381)	3,818	**1,754**	(3,393)	3,794
Total expenses	**65,870**	51,228	311,659	**64,588**	59,322	232,425	**2,400,205**	1,012,069	7,630,871	**2,530,663**	1,122,619	8,174,955
Share in the results of investee companies accounted by the equity method, net	-	-	-	**(246)**	(193)	(986)	**391**	(356)	11,099	**145**	(549)	10,113
Income (loss) before taxes on income	**9,507**	13,744	8,063	**4,013**	7,190	43,450	**202,107**	(218,994)	(131,746)	**215,627**	(198,060)	(80,233)
Other comprehensive income (loss) before taxes on income	-	-	-	**488**	273	37	**(32,295)**	(18,164)	19,069	**(31,807)**	(17,891)	19,106
Total comprehensive income (loss) before taxes on income	**9,507**	13,744	8,063	**4,501**	7,463	43,487	**169,812**	(237,158)	(112,677)	**183,820**	(215,951)	(61,127)
	As of March 31		As of December 31	As of March 31		As of December 31	As of March 31		As of December 31	As of March 31		As of December 31
	2017	2016	2016	2017	2016	2016	2017	2016	2016	2017	2016	2016
	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	**2,320,775**	2,338,540	2,325,325	-	-	-	**18,977,444**	18,932,443	19,060,360	**21,298,219**	21,270,983	21,385,685
Liabilities with respect to investment-linked insurance contracts and investment contracts	-	-	-	-	-	-	**54,806,836**	50,906,280	53,759,791	**54,806,836**	50,906,280	53,759,791
1) Total premiums (including pure savings premiums (investment contracts) which were applied directly to reserve).							**1,543,323**	1,356,071	5,468,697	**1,543,323**	1,356,071	5,468,697

Note 4- Segmental Reporting (Cont.)

D. Report on operating segments (Cont.)

NIS in thousands	Health			Non-life			Other		
	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31
	2017	2016	2016	2017	2016	2016	2017	2016	2016
	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited
Gross premiums earned	**446,788**	419,148	1,798,776	**555,001**	592,780	2,314,579	**-**	-	-
Premiums earned by reinsurers	**58,280**	47,656	212,416	**162,456**	171,267	661,445	**-**	-	-
Premiums earned on retention	**388,508**	371,492	1,586,360	**392,545**	421,513	1,653,134	**-**	-	-
Income (loss) from investments, net, and financing income	**61,298**	(55,295)	101,165	**12,436**	2,925	138,421	**1,394**	1,903	6,162
Income from management fees	**-**	-	-	**-**	-	-	**1,493**	1,494	5,974
Income (expenses) from commissions	**(6,067)**	2,619	4,461	**33,862**	31,015	133,647	**28,935**	27,669	120,524
Other income	**-**	-	-	**9**	22	72	**16**	18	1,347
Total income	**443,739**	318,816	1,691,986	**438,852**	455,475	1,925,274	**31,838**	31,084	134,007
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	**382,295**	313,142	1,227,856	**489,008**	505,227	1,611,703	**-**	-	-
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	**(68,309)**	(37,562)	(189,484)	**(200,049)**	(112,931)	(357,905)	**-**	-	-
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	**313,986**	275,580	1,038,372	**288,959**	392,296	1,253,798	**-**	-	-
Commissions, marketing expenses and other acquisition costs	**106,208**	92,836	395,825	**129,350**	142,737	587,893	**22,968**	22,557	89,803
General and administrative expenses	**15,132**	13,536	56,071	**14,848**	15,681	66,581	**4,020**	3,610	16,727
Impairment of intangible assets	**-**	-	-	**-**	-	1,249	**-**	-	-
Other expenses (income)	**-**	-	-	**-**	-	-	**1,007**	1,418	3,183
Financing expenses (income)	**915**	(785)	5,263	**(5,400)**	(2,910)	(600)	**411**	522	780
Total expenses	**436,241**	381,167	1,495,531	**427,757**	547,804	1,908,921	**28,406**	28,107	110,493
Share in the results of investee companies accounted by the equity method, net	**720**	(386)	6,163	**-**	-	-	**50**	84	207
Income (loss) before taxes on income	**8,218**	(62,737)	202,618	**11,095**	(92,329)	16,353	**3,482**	3,061	23,721
Other comprehensive income (loss) before taxes on income	**255**	365	13,473	**2,069**	9,096	(29,486)	**340**	(631)	617
Total comprehensive income (loss) before taxes on income	**8,473**	(62,372)	216,091	**13,164**	(83,233)	(13,133)	**3,822**	2,430	24,338

	As of March 31		As of December 31	As of March 31		As of December 31	As of March 31		As of December 31
	2017	2016	2016	2017	2016	2016	2017	2016	2016
	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	**1,954,073**	1,770,418	1,895,640	**6,680,213**	6,884,310	6,489,344	**-**	-	-
Liabilities with respect to investment-linked insurance contracts and investment contracts	**3,631,338**	3,364,135	3,534,683	**-**	-	-	**-**	-	-

Note 4- Segmental Reporting (Cont.)

D. Report on operating segments (Cont.)

NIS in thousands	Not allocated to segments			Adjustments and offsets			Total		
	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31
	2017	2016	2016	2017	2016	2016	2017	2016	2016
	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited
Gross premiums earned	-	-	-	**(530)**	(662)	(2,345)	**2,444,144**	2,228,114	9,110,003
Premiums earned by reinsurers	-	-	-	-	-	-	**262,242**	262,441	1,042,247
Premiums earned on retention	-	-	-	**(530)**	(662)	(2,345)	**2,181,902**	1,965,673	8,067,756
Income from investments, net, and financing income	**56,235**	15,649	110,824	**(81)**	95	(571)	**1,169,733**	(505,417)	2,616,374
Income from management fees	-	-	-	**(1,259)**	(1,337)	(5,117)	**291,053**	212,769	956,457
Income from commissions	-	-	-	**(16,499)**	(14,886)	(70,243)	**55,727**	56,277	226,418
Other income	-	-	-	-	-	-	**25**	40	1,419
Total income	**56,235**	15,649	110,824	**(18,369)**	(16,790)	(78,276)	**3,698,440**	1,729,342	11,868,424
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	-	-	-	**(788)**	(606)	(2,471)	**3,042,221**	1,609,867	9,684,807
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	-	-	-	-	-	-	**(288,883)**	(174,709)	(657,026)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	-	-	-	**(788)**	(606)	(2,471)	**2,753,338**	1,435,158	9,027,781
Commissions, marketing expenses and other acquisition costs	-	-	-	**(16,157)**	(14,462)	(68,631)	**464,713**	458,153	1,814,199
General and administrative expenses	**17,367**	14,787	57,066	**(682)**	(1,700)	(9,482)	**204,893**	188,046	773,352
Impairment of intangible assets	-	-	1,000	-	-	-	-	-	34,246
Other expenses	**778**	1,133	5,272	**203**	136	923	**3,164**	4,194	14,762
Financing expenses (income)	**29,091**	23,549	150,919	**(29)**	23	(461)	**26,742**	17,006	159,695
Total expenses	**47,236**	39,469	214,257	**(17,453)**	(16,609)	(80,122)	**3,452,850**	2,102,557	11,824,035
Share in the results of investee companies accounted by the equity method, net	**2,644**	1,456	24,996	-	-	-	**3,559**	605	41,479
Income (loss) before taxes on income	**11,643**	(22,364)	(78,437)	**(916)**	(181)	1,846	**249,149**	(372,610)	85,868
Other comprehensive income before taxes on income	**(1,973)**	(13,206)	12,614	**(152)**	(606)	432	**(31,268)**	(22,873)	16,756
Total comprehensive income (loss) before taxes on income	**9,670**	(35,570)	(65,823)	**(1,068)**	(787)	2,278	**217,881**	(395,483)	102,624

	As of March 31		As of December 31	As of March 31		As of December 31	As of March 31		As of December 31
	2017	2016	2016	2017	2016	2016	2017	2016	2016
	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	-	-	-	**(652)**	(2,413)	(1,690)	**29,931,853**	29,923,298	29,768,979
Liabilities with respect to investment-linked insurance contracts and investment contracts	-	-	-	**(19,198)**	(18,519)	(18,681)	**58,418,976**	54,251,896	57,275,793

Note 4- Segmental Reporting (Cont.)

E. Additional information concerning the main insurance branches included in the non-life insurance segment

	Liability branches					
	Compulsory motor			Liabilities and others branches [1]		
	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31
	2017	2016	2016	2017	2016	2016
NIS in thousands	Unaudited		Audited	Unaudited		Audited
Gross premiums	**147,354**	129,742	438,306	**98,635**	92,405	310,259
Reinsurance premiums	**4,277**	4,085	15,572	**29,315**	26,939	97,292
Premiums on retention	**143,077**	125,657	422,734	**69,320**	65,466	212,967
Change in unearned premium balance, on retention	**(37,553)**	(22,540)	27	**(17,631)**	(10,584)	4,299
Premiums earned on retention	**105,524**	103,117	422,761	**51,689**	54,882	217,266
Income from investments, net, and financing income	**6,948**	2,217	69,798	**4,570**	1,369	42,827
Income from commissions	**-**	-	-	**2,944**	3,283	13,254
Total income	**112,472**	105,334	492,559	**59,203**	59,534	273,347
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	**104,018**	147,130	352,883	**125,204**	156,785	426,299
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	**(9,067)**	(15,211)	(33,614)	**(82,699)**	(75,673)	(191,478)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	**94,951**	131,919	319,269	**42,505**	81,112	234,821
Commissions, marketing expenses and other acquisition costs	**15,715**	16,714	75,411	**22,347**	24,043	98,896
General and administrative expenses	**2,166**	2,319	9,813	**1,420**	1,588	6,946
Impairment of intangible assets	**-**	-	-	**-**	-	143
Financing expenses (income)	**-**	-	-	**(128)**	(138)	174
Total expenses	**112,832**	150,952	404,493	**66,144**	106,605	340,980
Income (loss) before taxes on income	**(360)**	(45,618)	88,066	**(6,941)**	(47,071)	(67,633)
Other comprehensive income (loss) before taxes on income	**564**	3,773	(14,730)	**356**	2,336	(9,031)
Total comprehensive income (loss) before taxes on income	**204**	(41,845)	73,336	**(6,585)**	(44,735)	(76,664)

	As of March 31, 2017		As of December 31	As of March 31, 2017		As of December 31
	2017	2016	2016	2017	2016	2016
	Unaudited		Audited	Unaudited		Audited
Liabilities with respect to insurance contracts						
Gross	**2,399,226**	2,579,076	2,380,386	**2,558,733**	2,481,278	2,490,718
Reinsurance	**125,699**	108,114	119,659	**1,042,616**	911,997	974,912
Retention	**2,273,527**	2,470,962	2,260,727	**1,516,117**	1,569,281	1,515,806

1) Other liability branches primarily include the results of the third party liability and employers' liability insurance branches, the activity in which, in the reporting period, in the corresponding period last year and in the year ended December 31, 2016, constitutes approximately 72%, approximately 70% and approximately 68%, respectively, of total premiums in those branches.

Note 4- Segmental Reporting (Cont.)

E. Additional information concerning the main insurance branches included in the non-life insurance segment (Cont.)

	Property branches											
	Motor property			Credit insurance			Property and others branches [1]			Total		
	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31
	2017	2016	2016	2017	2016	2016	2017	2016	2016	2017	2016	2016
NIS in thousands	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited
Gross premiums	**226,628**	194,499	634,508	**27,637**	26,513	107,027	**197,943**	225,944	742,580	**698,197**	669,103	2,232,680
Reinsurance premiums	**689**	757	2,756	**13,674**	13,664	52,722	**133,317**	135,438	477,295	**181,272**	180,883	645,637
Premiums on retention	**225,939**	193,742	631,752	**13,963**	12,849	54,305	**64,626**	90,506	265,285	**516,925**	488,220	1,587,043
Change in unearned premium balance, on retention	**(64,965)**	(37,929)	(7,631)	**(55)**	(30)	(81)	**(4,176)**	4,376	69,477	**(124,380)**	(66,707)	66,091
Premiums earned on retention	**160,974**	155,813	624,121	**13,908**	12,819	54,224	**60,450**	94,882	334,762	**392,545**	421,513	1,653,134
Income from investments, net, and financing income	**1,291**	726	10,901	**(1,886)**	(2,051)	691	**1,513**	664	14,204	**12,436**	2,925	138,421
Income from commissions	**6**	1	26	**3,804**	4,040	16,611	**27,108**	23,691	103,756	**33,862**	31,015	133,647
Other income	**-**	-	-	**9**	22	72	**-**	-	-	**9**	22	72
Total income	**162,271**	156,540	635,048	**15,835**	14,830	71,598	**89,071**	119,237	452,722	**438,852**	455,475	1,925,274
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	**121,075**	123,936	437,796	**8,290**	11,577	47,891	**130,421**	65,799	346,834	**489,008**	505,227	1,611,703
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	**8**	(52)	582	**(3,276)**	(7,840)	(23,028)	**(105,015)**	(14,155)	(110,367)	**(200,049)**	(112,931)	(357,905)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	**121,083**	123,884	438,378	**5,014**	3,737	24,863	**25,406**	51,644	236,467	**288,959**	392,296	1,253,798
Commissions, marketing expenses and other acquisition costs	**37,959**	38,922	163,595	**2,574**	1,957	8,743	**50,755**	61,101	241,248	**129,350**	142,737	587,893
General and administrative expenses	**3,262**	3,346	14,207	**3,937**	3,493	14,797	**4,063**	4,935	20,818	**14,848**	15,681	66,581
Other expenses	**-**	-	642	**-**	-	-	**-**	-	464	**-**	-	1,249
Financing expenses (income)	**(226)**	(308)	(249)	**(2,026)**	(1,055)	(1,253)	**(3,020)**	(1,409)	728	**(5,400)**	(2,910)	(600)
Total expenses	**162,078**	165,844	616,573	**9,499**	8,132	47,150	**77,204**	116,271	499,725	**427,757**	547,804	1,908,921
Income (loss) before taxes on income	**193**	(9,304)	18,475	**6,336**	6,698	24,448	**11,867**	2,966	(47,003)	**11,095**	(92,329)	16,353
Other comprehensive income (loss) before taxes on income	**181**	622	(2,350)	**765**	1,562	(449)	**203**	803	(2,926)	**2,069**	9,096	(29,486)
Total comprehensive income (loss) before taxes on income	**374**	(8,682)	16,125	**7,101**	8,260	23,999	**12,070**	3,769	(49,929)	**13,164**	(83,233)	(13,133)
	As of March 31		As of December 31	As of March 31		As of December 31	As of March 31		As of December 31	As of March 31		As of December 31
	2017	2016	2016	2017	2016	2016	2017	2016	2016	2017	2016	2016
	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited
Liabilities with respect to insurance contracts												
Gross	**543,404**	532,375	483,164	**91,090**	76,795	97,897	**1,087,760**	1,214,786	1,037,179	**6,680,213**	6,884,310	6,489,344
Reinsurance	**874**	7,046	894	**49,127**	39,511	53,462	**565,767**	630,189	489,129	**1,784,083**	1,696,857	1,638,056
Retention	**542,530**	525,329	482,270	**41,963**	37,284	44,435	**521,993**	584,597	548,050	**4,896,130**	5,187,453	4,851,288

1) Property and other branches primarily include the results of the business property insurance and apartment insurance branches, the activity in which during the reporting period, in the corresponding period last year and in the year ended December 31, 2016, constitutes approximately 68%, approximately 72% and approximately 73%, respectively, of the total premiums in these branches.

Note 4- Segmental Reporting (Cont.)

F. Additional information regarding the life insurance and long-term savings segment

Data for the period of three months ended March 31, 2017 (unaudited)

NIS in thousands	Life insurance policies which include a savings component (including appendices) by policy issue date				Life insurance policies with no savings component Risk sold as a single policy		
			From 2004				
	Until 1990 [1]	Until 2003	Non-investment-linked	Investment-linked	Individual	Collective	Total
Gross premiums:	60,699	416,038	2,817	792,494	149,057	21,512	1,442,617
Receipts with respect to investment contracts charged directly to insurance reserves	-	-	-	100,375	-	-	100,375
Financial margin including management fees [2]	62,055	126,486	((1,448	46,970	-	-	234,063
Payments and changes in liabilities with respect to insurance contracts, gross	153,724	978,856	933	915,379	64,341	17,440	2,130,672
Payments and changes in liabilities with respect to investment contracts	-	-	(5)	14,628	-	-	14,623

Data for the period of three months ended March 31, 2016 (unaudited)

NIS in thousands	Life insurance policies which include a savings component (including appendices) by policy issue date				Life insurance policies with no savings component Risk sold as a single policy		
			From 2004				
	Until 1990 [1]	Until 2003	Non-investment-linked	Investment-linked	Individual	Collective	Total
Gross premiums:	65,256	409,468	3,230	566,877	143,596	27,773	1,216,200
Receipts with respect to investment contracts charged directly to insurance reserves	-	-	-	139,223	-	-	139,223
Financial margin including management fees [2]	87,926	48,853	(549)	43,727	-	-	179,957
Payments and changes in liabilities with respect to insurance contracts, gross	345,637	(96,291)	4,800	472,101	49,747	21,615	797,610
Payments and changes in liabilities with respect to investment contracts	-	-	(24)	(15,496)	-	-	(15,521)

Note 4- Segmental Reporting (Cont.)

G. Additional details regarding the health insurance segments **)

Data for the year ended December 31, 2016

NIS in thousands	Life insurance policies with a savings component (including annexes) by policy issue date				Life insurance policies with no savings component Risk sold as a single policy		
			From 2004				
	Until 1990 [1]	Until 2003	Non-investment-linked	Investment-linked	Individual	Collective	Total
Gross premiums:	260,663	1,654,678	12,845	2,414,607	552,660	103,160	4,998,612
Receipts with respect to investment contracts charged directly to insurance reserves	-	-	-	469,704	-	-	469,704
Financial margin including management fees [2]	202,321	302,883	1,281	179,196	-	-	685,681
Payments and changes in liabilities with respect to insurance contracts, gross	1,128,755	2,584,299	11,006	2,645,161	276,988	77,708	6,723,919
Payments and changes in liabilities with respect to investment contracts	-	-	3	5,738	-	-	5,741

Notes:

(1) Products which were issued until 1990 (including enlargements in respect thereof) were primarily guaranteed-return, and are primarily/partially backed by designated bonds.

(2) The financial margin includes profit (loss) 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.
The financial margin in investment-linked contracts is the total of fixed and variable management fees, calculated based on a reduction in the credit to savings in the company's systems.

Data for the period of three months ended March 31, 2017 (unaudited)

NIS in thousands	Long term care		Health other *)		Total
	Individual	Collective	Long term	Short term	
Gross premiums	60,083	184,262	182,365	21,001	447,711
Payments and changes in liabilities with respect to insurance contracts, gross	1,218	29,821	0,453	0,803	82,295

*) Of which, individual premiums in the amount of NIS 156,730 thousand and collective premiums in the amount of NIS 46,636 thousand.

Note 4- Segmental Reporting (Cont.)

G. Additional details regarding the health insurance segments **)

Data for the period of three months ended March 31, 2016 (unaudited)

	Long term care		Health other *)		
NIS in thousands	**Individual**	**Collective**	**Long term**	**Short term**	**Total**
Gross premiums	58,068	175,609	161,178	25,135	419,990
Payments and changes in liabilities with respect to insurance contracts, gross	28,407	1,292	8,353	5,090	13,142

*) Of which, individual premiums in the amount of NIS 133,435 thousand and collective premiums in the amount of NIS 52,878 thousand.

Data for the year ended December 31, 2016 (Audited)

	Long term care		Health other *)		
NIS in thousands	**Individual**	**Collective**	**Long term**	**Short term**	**Total**
Gross premiums	235,789	752,455	668,887	141,749	1,798,880
Payments and changes in liabilities with respect to insurance contracts, gross	89,005	44,457	22,569	1,825	,227,856

*) Of which, individual premiums in the amount of NIS 569,306 thousand and collective premiums in the amount of NIS 241,330 thousand.

**) The most material coverage included in other long term health insurance is medical expenses; with respect to short term, it is international travel.

Note 5 - Financial Instruments

A. Assets for investment-linked contracts

1. Composition:

NIS in thousands	As of March 31 2017	As of March 31 2016	As of December 31 2016
	Unaudited	Unaudited	Audited
Investment property *)	**2,773,464**	2,724,208	2,742,180
Financial investments			
Marketable debt assets	**22,135,498**	21,064,244	21,106,921
Non-marketable debt assets	**5,988,402**	6,709,517	6,243,667
Stocks	**7,943,190**	8,401,258	8,053,144
Other financial investments	**17,185,667**	11,213,821	16,790,762
Total financial investments *)	**53,252,757**	47,388,840	52,194,494
Cash and cash equivalents	**2,431,671**	4,124,720	2,953,235
Other	**658,857**	551,174	505,711
Total assets for investment-linked contracts	**59,116,749**	54,788,942	58,395,620

*) Measured at fair value through profit and loss.

2. Additional information regarding fair value

A. Fair value of financial assets, classified by levels

The table below presents an analysis of assets measured at fair value on a periodic basis, using an assessment method based on the various levels of the hierarchy. For details regarding the levels of the hierarchy, see Note 2(e)(3) to the annual financial statements.

NIS in thousands	As of March 31, 2017 Level 1	Level 2	Level 3	Total
	Unaudited			
Financial investments:				
Marketable debt assets	**19,992,688**	**2,142,810**	**-**	**22,135,498**
Non-marketable debt assets	**-**	**5,840,277**	**148,125**	**5,988,402**
Stocks	**7,847,232**	**-**	**95,958**	**7,943,190**
Other financial investments *)	**11,728,829**	**3,027,948**	**2,428,890**	**17,185,667**
Total financial investments	**39,568,749**	**11,011,035**	**2,672,973**	**53,252,757**
*) Of which, with respect to derivatives	**146,391**	**397,368**	**-**	**543,759**

Note 5- Financial Instruments (Cont.)

A. Assets for investment-linked contracts (Cont.)

2. Additional information regarding fair value (Cont.)

A. Fair value of financial assets, classified by levels (Cont.)

	As of March 31, 2016			
	Level 1	Level 2	Level 3	Total
NIS in thousands	Unaudited			
Financial investments:				
Marketable debt assets	19,787,301	1,276,943	-	21,064,244
Non-marketable debt assets	-	6,550,018	159,499	6,709,517
Stocks	8,239,335	-	161,923	8,401,258
Other financial investments *)	8,200,869	735,601	2,277,351	11,213,821
Total financial investments	36,227,505	8,562,562	2,598,773	47,388,840
*) Of which, with respect to derivatives	116,030	384,036	896	500,962

	As of December 31, 2016			
	Level 1	Level 2	Level 3	Total
NIS in thousands	Audited			
Financial investments:				
Marketable debt assets	19,389,166	1,717,755	-	21,106,921
Non-marketable debt assets	-	6,061,999	181,668	6,243,667
Stocks	7,932,601	-	120,543	8,053,144
Other financial investments *)	11,899,523	2,476,918	2,414,321	16,790,762
Total financial investments	39,221,290	10,256,672	2,716,532	52,194,494
*) Of which, with respect to derivatives	139,843	312,304	-	452,147

B. Assets measured at fair value level 3

	Non-marketable debt assets	Stocks	Other financial investments	Total
NIS in thousands	Unaudited			
As of January 1, 2017	**181,668**	**120,543**	**2,414,321**	**2,716,532**
Total income (loss) recognized in the statement of income	**(2,052)**	**9,492**	**20,828**	**28,268**
Acquisitions	**-**	**-**	**112,344**	**112,344**
Sales	**-**	**(31,754)**	**(116,811)**	**(148,565)**
Redemptions	**(30,846)**	**-**	**-**	**(30,846)**
Interest and dividend receipts	**(645)**	**(2,323)**	**(1,792)**	**(4,760)**
As of March 31, 2017	**148,125**	**95,958**	**2,428,890**	**2,672,973**
Total income (loss) for the period included under the income statement with respect to held financial assets as of March 31, 2017	**(1,816)**	**(260)**	**22,289**	**20,213**

Note 5- Financial Instruments (Cont.)

A. Assets for investment-linked contracts (Cont.)

2. Additional information regarding fair value (Cont.)

B. Assets measured at fair value level 3 (Cont.)

NIS in thousands	Non-marketable debt assets	Stocks	Other financial investments	Total
	Unaudited			
Balance as of January 1, 2016	220,562	162,726	2,332,173	2,715,461
Total income (loss) recognized in the statement of income	(12,121)	(803)	418	(12,506)
Acquisitions	-	-	146,010	146,010
Sales	-	-	(199,100)	(199,100)
Redemptions	(47,486)	-	-	(47,486)
Interest and dividend receipts	(1,456)	-	(2,150)	(3,606)
As of March 31, 2016	159,499	161,923	2,277,351	2,598,773
Total loss for the period included under the income statement with respect to held financial assets as of March 31, 2016	(692)	(803)	(448)	(1,943)

NIS in thousands	Non-marketable debt assets	Stocks	Other financial investments	Total
	Audited			
Balance as of January 1, 2016	220,562	162,726	2,332,173	2,715,461
Total income (loss) recognized in the statement of income	931	(9,627)	166,407	157,711
Acquisitions	922	-	421,773	422,695
Sales	-	(30,251)	(496,387)	(526,638)
Redemptions	(57,963)	-	-	(57,963)
Interest and dividend receipts	(3,895)	(2,305)	(9,645)	(15,845)
Transfers to level 3 *)	21,111	-	-	21,111
As of December 31, 2016	181,668	120,543	2,414,321	2,716,532
Total income (loss) for the period included under profit and loss with respect to held financial assets as of December 31, 2016	3,672	(3,941)	166,571	166,302

*) With respect to debt assets for which the use of quotes was discontinued, and which were transferred to level 3.

Note 5- Financial Instruments (Cont.)

B. Other financial investments

1. Non-marketable debt assets - composition and fair value

	As of March 31, 2017	
	Book value	Fair value
NIS in thousands	Unaudited	
Government bonds		
HETZ bonds and deposits with the Ministry of Finance	**15,542,266**	**22,717,205**
Other non-convertible debt assets	**4,985,717**	**5,436,434**
Deposits in banks	**885,022**	**994,384**
Total non-marketable debt assets	**21,413,005**	**29,148,023**
Impairment applied to income statement (cumulative)	**110,533**	

	As of March 31, 2016	
	Book value	Fair value
NIS in thousands	Unaudited	
Government bonds		
HETZ bonds and deposits with the Ministry of Finance	15,440,330	23,630,011
Other non-convertible debt assets	4,895,206	5,440,603
Deposits in banks	958,330	1,122,298
Total non-marketable debt assets	21,293,866	30,192,912
Impairment applied to income statement (cumulative)	84,519	

	As of December 31, 2016	
	Book value	Fair value
NIS in thousands	Audited	
Government bonds		
HETZ bonds and deposits with the Ministry of Finance	15,329,115	22,491,386
Other non-convertible debt assets	5,054,648	5,481,160
Deposits in banks	897,950	1,011,406
Total non-marketable debt assets	21,281,713	28,983,952
Impairment applied to income statement (cumulative)	122,021	

Note 5- Financial Instruments (Cont.)

B. Other financial investments (Cont.)

2. Additional information regarding fair value

A. Fair value of financial assets, classified by levels

The table below presents an analysis of assets measured at fair value on a periodic basis, using an assessment method based on the various levels of the hierarchy. For details regarding the levels of the hierarchy, see Note 2(e)(3) to the annual financial statements.

	As of March 31, 2017			
	Level 1	Level 2	Level 3	Total
NIS in thousands	Unaudited			
Financial investments:				
Marketable debt assets	**5,237,535**	**320,522**	**-**	**5,558,057**
Non-marketable debt assets	**-**	**7,908**	**-**	**7,908**
Stocks	**1,046,864**	**-**	**76,446**	**1,123,310**
Other financial investments *)	**1,000,143**	**133,699**	**1,265,138**	**2,398,980**
Total financial investments	**7,284,542**	**462,129**	**1,341,584**	**9,088,255**
*) Of which, with respect to derivatives	**1,385**	**70,004**	**249**	**71,638**

	As of March 31, 2016			
	Level 1	Level 2	Level 3	Total
NIS in thousands	Unaudited			
Financial investments:				
Marketable debt assets	5,917,410	189,670	-	6,107,080
Non-marketable debt assets	-	10,624	-	10,624
Stocks	963,577	-	80,708	1,044,285
Other financial investments *)	806,608	147,631	1,151,973	2,106,212
Total financial investments	7,687,595	347,925	1,232,681	9,268,201
*) Of which, with respect to derivatives	2,270	111,320	716	114,306

	As of December 31, 2016			
	Level 1	Level 2	Level 3	Total
NIS in thousands	Audited			
Financial investments:				
Marketable debt assets	5,290,675	284,384	-	5,575,059
Non-marketable debt assets	-	8,290	-	8,290
Stocks	1,062,558	-	77,002	1,139,560
Other financial investments *)	969,735	103,806	1,269,940	2,343,481
Total financial investments	7,322,968	396,480	1,346,942	9,066,390
*) Of which, with respect to derivatives	1,673	37,471	-	39,144

Note 5- Financial Instruments (Cont.)

B. Other financial investments (Cont.)

2. Additional information regarding fair value (Cont.)

B. Assets measured at fair value level 3

NIS in thousands	Stocks	Other financial investments	Total
		Unaudited	
Balance as of January 1, 2017	**77,002**	**1,269,940**	**1,346,942**
Total income (loss) which was recognized:			
Under profit and loss	**444**	**26,555**	**26,999**
Under other comprehensive income	**(500)**	**(47,908)**	**(48,408)**
Acquisitions	**-**	**97,599**	**97,599**
Sales	**-**	**(80,706)**	**(80,706)**
Interest and dividend receipts	**(500)**	**(342)**	**(842)**
Balance as of March 31, 2017	**76,446**	**1,265,138**	**1,341,584**
Total income for the period included under the income statement with respect to held financial assets as of March 31, 2017	**444**	**26,711**	**27,155**

NIS in thousands	Stocks	Other financial investments	Total
		Unaudited	
Balance as of January 1, 2016	80,883	1,013,408	1,094,291
Total income (loss) which was recognized:			
Under profit and loss	-	15,175	15,175
Under other comprehensive income	(175)	(25,098)	(25,273)
Acquisitions	-	222,317	222,317
Sales	-	(72,751)	(72,751)
Interest and dividend receipts	-	(1,078)	(1,078)
Balance as of March 31, 2016	80,708	1,151,973	1,232,681
Total income for the period included under the income statement with respect to held financial assets as of March 31, 2016	-	14,779	14,779

NIS in thousands	Stocks	Other financial investments	Total
		Audited	
Balance as of January 1, 2016	80,883	1,013,408	1,094,291
Total income (loss) which was recognized:			
Under profit and loss	40	21,856	21,896
Under other comprehensive income	(1,905)	72,142	70,237
Acquisitions	-	340,934	340,934
Sales	-	(174,179)	(174,179)
Interest and dividend receipts	(2,016)	(4,221)	(6,237)
Balance as of December 31, 2016	77,002	1,269,940	1,346,942
Total income for the period included under profit and loss with respect to held financial assets as of December 31, 2016	40	21,149	21,189

Note 5- Financial Instruments (Cont.)

C. Financial liabilities

1. Composition and fair value:

	As of March 31 2017		As of March 31 2016		As of December 31 2016	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
NIS in thousands	Unaudited				Audited	
Liabilities to banking corporations and others:						
Total financial liabilities presented at amortized cost:						
Loans from banking corporations:						
The company **)	**70,000**	**72,153**	70,000	71,800	70,000	72,153
Clal Credit and Finance	**351**	**352**	18,309	18,342	3,089	3,095
Total liabilities presented at amortized cost	**70,351**	**72,505**	88,309	90,142	73,089	75,248
Financial liabilities resented at fair value through profit and loss:						
Liabilities with respect to derivative financial instruments and short sales *)	**93,334**	**93,334**	253,541	253,541	246,573	246,573
Total liabilities to banking corporations and others	**163,685**	**165,839**	341,850	343,683	319,662	321,821
Deferred liability notes	**3,299,404**	**3,568,632**	3,194,020	3,494,831	3,315,333	3,547,259
*) Of which, with respect to investment-linked liabilities	**70,191**	**70,191**	214,408	214,408	214,853	214,853

**) In accordance with the policy which was determined to reduce debt which it not recognized as capital in Clal Insurance, and the Company's financing costs, the Company's Board of Directors resolved, on May 28, 2017, the Company's Board of Directors resolved to perform an initiated early repayment of the balance of the loan from an interested party bank, which was expected to be repaid in installments by the end of 2019. The repayment of the loan, insofar as it will be performed, is not expected to have a significant impact on the company's financial statements, and the company is expected to subsequently remain without any debt to banking corporations.

2. Fair value of financial liabilities, classified by levels

The table below presents an analysis of assets measured at fair value on a periodic basis, using an assessment method based on the various levels of the hierarchy. For details regarding the levels of the hierarchy, see Note 2(e)(3) to the annual financial statements.

	As of March 31, 2017			
	Level 1	Level 2	Level 3	Total
NIS in thousands	Unaudited			
Derivatives	**646**	**92,689**	**-**	**93,335**
Total financial liabilities	**646**	**92,689**	**-**	**93,335**

	As of March 31, 2016			
	Level 1	Level 2	Level 3	Total
NIS in thousands	Unaudited			
Derivatives	2,501	251,040	-	253,541
Total financial liabilities	2,501	251,040	-	253,541

	As of December 31, 2016			
	Level 1	Level 2	Level 3	Total
NIS in thousands	Audited			
Derivatives	768	245,805	-	246,573
Total financial liabilities	768	245,805	-	246,573

D. Valuation techniques and valuation processes implemented in the company

Non-marketable debt assets *)

Fair value is calculated according to a model which is based on the present value obtained by discounting the cash flows, according to the discount interest rate. The fair value of HETZ bonds is calculated according to the actuarial average lifetime, and according to the forecasted discounted cash flow, based on the risk-free interest curve.

*) The discount rates used to calculate the fair value of non-marketable debt assets, which is determined by discounting the estimated expected cash flows with respect to them, are based principally on the yields of government bonds and the margins of corporate bonds, as measured on the Tel Aviv Stock Exchange. The price quotes and interest rates which were used for discounting are determined by the Mirvach Hogen group, a company which provides price quotes and interest rates to institutional entities for the revaluation of non-marketable debt assets. The model of Mirvach Hogen is based on the distribution of the trading market into deciles, according to the yield to maturity of the debt assets, and the determination of the location of the non-marketable asset in those deciles, according to the risk premium which is derived from prices of transactions / issuances on the non-trading market.

For additional details, see Notes 3(f)(2) and 14(f)(3) and (4) to the annual financial statements.

Note 6 - Capital Management and Requirements

A. Capital management and requirements in the group

For details regarding the management of capital requirements in the company, see section B below. As of the end of the reporting period, Clal Insurance achieved its target capital, as determined by the Board of Directors of Clal Insurance. Additionally, as of the end of the reporting period, managing companies under the control of Clal Insurance have a capital surplus relative to the minimum equity required pursuant to the Equity Regulations. For additional information, see Note 16(d) to the annual financial statements.

B. Capital requirements for insurance companies in the group

1. For additional details regarding the capital requirements for insurance companies in the group, see Note 16(e) to the annual financial statements.

2. Details regarding capital requirements

Presented below are details pertaining to capital requirements in accordance with the Control of Insurance Business Regulations (Minimum Capital Required of Insurer), 1998, including the amendments thereto (hereinafter: the "**Capital Regulations**"), and directives issued by the Commissioner which are applicable to consolidated companies that are insurance companies:

	As of March 31, 2017		As of December 31, 2016	
	Clal Insurance	Clal Credit Insurance	Clal Insurance	Clal Credit Insurance
NIS in thousands	Unaudited		Audited	
Minimum capital:				
Amount required pursuant to the amended Capital Regulations 1)	**4,664,199**	**34,103**	**4,665,703**	**34,113**
Current amount as calculated pursuant to the Capital Regulations:				
Basic Tier 1 capital	**4,651,746**	**196,218**	**4,513,460**	**191,614**
Tier 2 subordinated capital 2)	**65,229**	**-**	**65,355**	**-**
Tier 2 hybrid capital	**2,923,997**	**-**	**2,831,680**	**-**
Tier 3 capital	**111,938**	**-**	**111,938**	**-**
Total Tier 2 and Tier 3 capital	**3,101,164**	**-**	**3,008,973**	**-**
Total current capital, calculated according to the Capital Regulations 3)	**7,752,910**	**196,218**	**7,522,433**	**191,614**
Surplus *)	**3,088,711**	**162,115**	**2,856,730**	**157,501**
Capital operations subsequent to the reporting date:				
Surplus in consideration of operations which were performed subsequent to the reporting date	**3,088,711**	**162,115**	**2,856,730**	**157,501**
The investment amount which is mandatory for provision against retained earnings, in accordance with the Commissioner's directives, or which is actually held against retained income, and therefore constitutes non-distributable retained earnings	**126,089**	**-**	**127,298**	**-**
Capital reduction required with respect to original difference	**193,824**	**-**	**194,568**	**-**
Tax reserve with respect to the acquisition of provident funds	**89,955**	**-**	**88,581**	**-**
Surplus in consideration of operations which were performed subsequent to the reporting date and after deducting tied-up surplus	**2,858,753**	**162,115**	**2,623,445**	**157,501**
1) Total required amount, including capital requirements with respect to:				
Non-life insurance operations / required Tier 1 capital	**539,692**	**29,642**	**549,068**	**29,702**
Long term care insurance operations	**111,308**	**-**	**110,751**	**-**
Extraordinary risks in life insurance	**420,610**	**-**	**420,185**	**-**
Deferred acquisition costs in life insurance and illness and hospitalization insurance	**1,377,661**	**-**	**1,376,282**	**-**
Requirements with respect to guaranteed return plans	**2,504**	**-**	**2,745**	**-**
Non-recognized assets, as defined in the Capital Regulations	**65,937**	**128**	**66,125**	**174**
Investment in consolidated insurance and managing companies (including acquired management operations)	**728,313**	**-**	**730,446**	**-**
Capital reduction required with respect to original difference	**(193,824)**	**-**	**(194,568)**	**-**
Capital required with respect to investments	**1,102,541**	**2,172**	**1,092,117**	**2,097**
Catastrophe risks in non-life insurance	**115,133**	**-**	**120,345**	**-**
Operational risks	**285,471**	**2,161**	**280,997**	**2,140**
Guarantees	**108,853**	**-**	**111,210**	**-**
Total required capital	**4,664,199**	**34,103**	**4,665,703**	**34,113**

*) See section B(3) below for details regarding the Commissioner's letter in connection with a dividend distribution.
2) Issued until December 31, 2009.
3) See section B(3) below.

Note 6 - Capital Management and Requirements (Cont.)

B. Capital requirements for insurance companies in the group (Cont.)

3. Clal Insurance -

Implementation of a Solvency II-based solvency regime

Further to that stated in Note 16(e)(3) to the annual financial statements, as of the publication date of the report, the provisions regarding the implementation of the new Solvency II-based economic solvency regime for insurance companies entered into effect after the Knesset Finance Committee decided, on May 22, 2017, not to express reservations regarding them. It is noted that, in the aforementioned discussion of the Finance Committee it was stated that the Authority intends to extend the distribution period, in a manner whereby it will be postponed until 2024. The details of the distribution outline have not yet been published. Clal Insurance began its preparations to perform an assessment of the solvency ratio as of December 31, 2016.

Dividends

Except for the general requirements and the Companies Law, a dividend distribution from a capital surplus in an insurance company is also subject to liquidity requirements, compliance with provisions of the Investment Regulations, and additional directives which are published by the Commissioner from time to time. As specified in Note 16(e)(3)(d) to the annual financial statements, in accordance with the Commissioner's letter from August 2016, an insurance company is not entitled to distribute dividends unless, after the performance of the distribution, the insurer has a ratio of recognized capital to required capital (hereinafter: "**Solvency Ratio**") of at least 115%, in accordance with the current Capital Regulations, and additionally, a solvency ratio in accordance with the updated quantitative impact study regarding the implementation of a new solvency regime (IQIS5), or in accordance with the guidelines regarding the implementation of Pillar 1 of the new solvency regime, as applicable, calculated without the transitional provisions, at a rate which will reach 130%, beginning with the financial statements as of March 31, 2019.

In light of the capital status of Clal Insurance as of December 31, 2015, as reflected in the results of IQIS5, and also in consideration of the indications regarding the implications of the provisions of the updated document, as specified in Note 16(e)(3) to the annual financial statements, Clal Insurance is prevented from distributing dividends until its solvency ratio under this regime exceeds the required rate. The scope of the distribution which Clal Insurance will be entitled to implement after its solvency ratio has exceeded the aforementioned threshold will also be affected by the requirement to maintain the aforementioned threshold immediately after the distribution.

The foregoing may have a significant impact on the company's ability to distribute dividends, which primarily depends on dividend distributions from Clal Insurance to the company.

It is noted that the discussions which the insurance companies held with the Authority also addressed the issue of the regulatory restriction on dividend distributions by insurers. In these discussions, it was noted that the Authority is considering an easement with respect to these restrictions, in a manner whereby the dividend distribution will be made conditional on the fulfillment of a solvency ratio of 100%, according to the new economic solvency regime, according to a full calculation, without implementing the transitional provisions for the capital requirements with respect to shares, and without distribution, instead of 130%, as determined in the letter which was published on the matter, upon the fulfillment of a solvency ratio of 115%, with reference to the current capital regime, so long as it remains in effect, and upon the fulfillment of the capital surplus which will be determined by the board of directors of the insurance company. The Authority has not yet published a revised letter on this subject, and at this stage, it is not yet possible to estimate if and when it will do so.

The board of directors of Clal Insurance has not yet discussed the new solvency regime within the framework of the capital management policy, and has not yet determined the required capital surplus in the aforementioned regime.

The company -

The balance of distributable earnings as of the reporting date, in accordance with the "profit test" set forth in the Companies Law, and in accordance with the capital requirements arising from the permit for control of institutional entities which is held by the company (which was canceled on May 8, 2014, as specified in section 4 below), amounted to a total of approximately NIS 2 billion. A dividend distribution in the company is affected by the ability of investee companies to distribute dividends, in light of their capital requirements and liquidity requirements, as stated above, and will require taking into account the impacts which will result on the level of the institutional entities from the application of a new Solvency II-based solvency regime, as described above.

Note 6 - Capital Management and Requirements (Cont.)

B. Capital requirements for insurance companies in the group (Cont.)

4. Permit granted by the Commissioner to the previous controlling shareholders in IDB Holdings for the holding of control in the company and in consolidated institutional entities

   As the company was informed, on May 8, 2014, the representatives of the previous controlling shareholders in IDB Development (the Ganden, Manor and Livnat Groups, until January 2014) received notice from the Commissioner stating that, further to the creditors' settlement in IDB Holdings, and due to the fact that they no longer hold control of institutional entities in the group, the permits for control of the aforementioned institutional entities, which had previously been given to them by the Commissioner, were canceled, including, inter alia, with respect to Clal Insurance, Clal Credit Insurance and Clal Pension and Provident Funds (hereinafter: the "**Institutional Entities**"), (hereinafter: the "**Permit**"), in which IDB Holdings undertook to supplement (or to act in order to cause the companies under its direct or indirect control to supplement) the capital required of the insurers according to the Capital Regulations or any other regulation or law which may replace them, provided that the maximum undertaking limit does not exceed 50% of the capital required of an insurer, and that the undertaking will be realized only when the insurer's capital is negative, and in the amount of the negative capital, and provided that the supplementary amount does not exceed the aforementioned undertaking ceiling. In addition, IDB Holdings has undertaken, in accordance with the permit, to supplement (or to cause the companies under its direct or indirect control to supplement) the equity of Clal Pension and Provident Funds, up to the amount stipulated in the Provident Fund Regulations as these will be in force from time to time, or any other regulation or law which may come in their place. The aforementioned undertaking (with respect to institutional entities) will remain in force so long as IDB Holdings is the controlling shareholder in the institutional entities.

   It was also reported that the permit stipulates conditions and restrictions concerning holdings and pledges in the control chain of institutional entities in the group, and the previous controlling shareholders were required to maintain the capital requirements of the company, so long as pledges exist on their holdings in the means of control of IDB Holdings, such that the equity of the company will be no less, at any time, than the multiple of the company's holding in Clal Insurance by 140% of the minimum capital required of Clal Insurance, pursuant to the Capital Regulations, on September 30, 2005, as these existed at the time, and linked to the CPI for September 2005. As of the end of the reporting period, the minimum capital required of the company, as specified above, amounted to approximately NIS 3.4 billion. As of the end of the reporting period, the company's capital exceeds this requirement. The capital requirements are tested in practice against the reviewed or audited financial statements of the company. With regard to capital management, the need to maintain an additional absorption buffer is also evaluated with attention given to negative developments that may impact capital and the capital requirements.

   In light of the revocation of the control permit for the previous controlling shareholders, there is uncertainty with respect to the validity of the capital requirements which apply to the company by virtue thereof.

   For details regarding the holding and control of the company, and for details regarding the cancellation of the control permit, see Note 1 to the company's annual financial statements for 2016.

   For details regarding the appointment of Mr. Moshe Terry as the trustee for the majority of IDB Development's holdings in the company, regarding the Commissioner's letters dated November 27, 2013 and May 8, 2014 with respect to the control of the company, and regarding undertakings which were given to the Commissioner by the Elsztain-Extra Group with respect to the control of the company, in connection with the debt settlement in IDB Holdings, see Note 1(b)(2) to the company's annual financial statements for 2016.

5. Clalbit Finance has a shelf prospectus for the offering of securities of Clal Insurance until May 29, 2017.

Note 7 - Contingent Liabilities and Claims [2]

Presented below are details regarding claims which are not in the ordinary course of business, as follows: material claims[3] whose filing as class actions was approved; Pending motions to approve class action status for material claims; material and immaterial class actions which concluded during the reporting period, until its signing date, other material claim and derivative claims against the group's member companies.

The following claims are presented at amounts that are correct as of the date of their filing, and as specified by the plaintiffs, unless noted otherwise.

A. Class action claims

In recent years, as part of a general trend in the markets in which the group operates, a significant increase has occurred in the number of motions filed for the approval of class action status for claims against the group's member companies, and also in the number of claims filed against the group's member companies which have been recognized by the Court as class actions. The trend described above, which is due, inter alia, to the enactment of the Class Action Law, 2006 (hereinafter: the "**Law**"), the multiplicity of lawsuits, and the approach of the Courts, significantly increases the company's potential exposure to losses with respect to rulings issued against the group's member companies in class actions which are filed against them.

A class action lawsuit, as defined in the Law, is a lawsuit which is managed on behalf of an anonymous class of people who did not grant power of attorney in advance to the class action plaintiff, and which raises material questions regarding facts or law that apply to all class members.

The procedure begins with a written motion submitted by the single plaintiff to the Court with which the plaintiff's personal claim has been filed, in which he requests approval of class action status for his claim. Only in the event that the motion to approve the claim as a class action is accepted does the claim's definition change to a "class action", with the plaintiff becoming a "class action plaintiff".

A class action can only be filed for claims which meet the conditions set forth in law, or on a matter regarding which a legal provision specifically states that a class action may be filed. It should be noted that, from 2006 onwards, the definition of a claim with respect to which a motion may be filed for approval as a class action against the group's member companies is broad, and includes any matter arising between a company and a customer, whether or not they have entered into a contractual agreement.

In order for a claim to be approved as a class action, the plaintiff must prove the following, inter alia: (1) the existence of a "personal cause of action" for the specific plaintiff; (2) That the cause of action is sufficiently well-established as to constitute a "prima facie cause of action". At this point, the Court evaluates whether the plaintiff has a prima facie chance of eventually wining the claim in court; (3) That the cause of action gives rise to significant questions of fact or law which are shared by a certain group; (4) That there is a reasonable possibility that the common questions in the claim will be determined in favor of the group; (5) That the class action is the most efficient and fair method of resolving the dispute which is the subject of the claim, in light of the circumstances; (6) The suitability of the plaintiff to serve as the class action plaintiff, and of his attorney to representative him in the claim.

In general, the process of evaluating a claim as a class action may include 4 stages: Stage A - Filing of the motion to recognize the claim as a class action in the first instance; Stage B - Appeal in the Authority to a higher instance regarding the decision reached by the first instance; Stage C - Hearing the claim on the merits before the first instance (generally before the same judge who heard the motion in the first instance); Stage D - Appeal to a higher instance regarding the decision on the merits.

It should be noted that the scope and content of the hearing of a class action on its own merits is affected by the ruling regarding the approval of the claim as a class action. A decision approving class action status for a claim generally refers to the causes of action which were approved, and those which were not approved; The remedies which were approved and which were not approved; etc.

The law provides a set procedure and restrictions for all matters relating to settlement arrangements in class actions, which causes difficulty in instating settlement arrangements regarding class actions. The law also provides a requirement involving due disclosure to the Court with regard to all material details involved in the settlement arrangement, as well as a right available to the Attorney General and to additional entities listed in the Law to file an objection to the proposed settlement arrangement, and a requirement that an examiner be nominated with respect to the settlement arrangement.

The motions to approve class action status for the claims specified below are in various stages of the procedural hearing; some have been approved, while others are in appeal proceedings.

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2 On March 19, 2013, Clal Health was merged into Clal Insurance, in a manner whereby Clal Insurance entered into the position of Clal Health for all intents and purposes. Thus, claims that were filed against Clal Health will be considered as claims filed against Clal Insurance.

3 It is noted that, in this note, a claim is considered material if the actual exposure amount, net of tax, assuming that the claim is found to be justified, and without addressing the claim's chances, may exceed approximately NIS 35 million, or where it is not estimable.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
1.	4/2008 Regional Labour Court of Jerusalem	Clal Insurance and additional insurance companies	The plaintiff contends that Clal Insurance determined, in a managers insurance policy, that the annuity factor which will be used for the payment of insurance benefits to female policyholders upon reaching retirement age, will be lower than that used for male policyholders, due to the longer life expectancy of women. However, on the other hand, Clal Insurance collected and continues to collect from female policyholders a risk premium which is identical to male policyholders, in spite of the fact that the mortality rates of women are lower than those of men. According to the plaintiffs, in 2001, or proximate thereto, Clal Insurance amended the policies; however, this amendment applied to new policies only.	To order that: A. The discrimination practiced by the defendant is in contravention of the law, and any provision in the policy and/or any action taken by virtue of such discrimination is hereby null and void. B. Allowing the class members to choose between: (1) Comparing the annuity factors for a female policyholder to a male policyholder, and, in case of a one-time payment instead of a pension, increasing it. (2) Reducing, retrospectively and prospectively, the risk premium amounts which were charged, where the amounts which will be reduced will be added to the accrual and savings amounts.	All women who acquired managers insurance policies from the defendant, in which a distinction was made between men and women regarding the pension payment, although a distinction was not made between the genders regarding the risk premium.	In August 2014, the Regional Labor Court of Jerusalem accepted the motion to approve class action status, while determining that the elements required to accept the motion at this preliminary stage of the hearing had been fulfilled.. The Court emphasized that, at this stage, it is not hearing the claim on its own merits, and that from its perspective, it was not an “unfounded claim” for the purpose of approving the motion. In April 2015, the National Labor Court granted leave to appeal the decision to approve the claim as a class action, and a hearing on the case before a board was scheduled. In February 2016, a hearing was held in the National Labour Court, in which the Court stated that, in light of the circumstances of the matter, questions arise which have not been evaluated in depth by the Court, and which may have an impact regarding the cause of action and the approval thereof, regarding the reasonable chances of winning the claim, and regarding the most efficient and fair method of conducting the class action. In December 2016, the position of the Attorney General of Israel was submitted which, in general, supported the position of the defendants, and determined, inter alia, that a class action is not the most efficient and fair way of resolving the dispute, in light of the circumstances, and that the chances of the process are such that there is no reasonable possibility that the relevant question will be determined in favor of the class, since no unlawful discrimination was involved. The parties are awaiting the ruling.	The plaintiff did not specify the damage amount which was caused to her, and in the absence of the data required to estimate the exact scope of damages, she estimated the total amount of damages caused to the class members as hundreds of millions of NIS.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
2.	3/2010 District - Center	Clal Insurance	The plaintiff contends that Clal Insurance unlawfully and wrongfully took advantage of the Control of Financial Services (Provident Funds) Law, 2008 ("Amendment No. 3"), which determined that funds which are deposited in provident funds beginning from 2008, will be withdrawable as an annuity only, and not as a capital withdrawal (withdrawal in a one-time amount). The plaintiff contends that at the time of conversion of the capital policies which were owned by a policyholder, prior to Amendment No. 3, for non-annuity paying policies, Clal Insurance was required to attach to the policy the annuity factor which was guaranteed to the policyholder under the fixed-payment policy owned by him, while in practice, Clal Insurance chose to attach to the converted capital policy a new annuity factor, in accordance with the life expectancy as of 2009.	To order Clal Insurance to attach to the capital policies of its policyholders the same annuity factor which they had in the fixed-payment policy prior to Amendment No. 3. Alternatively, to order Clal Insurance and the other class members to provide the entire amount of the pension savings funds, retroactively beginning after the date of the entry into effect of Amendment No. 3 (January 2008), and from now on, to the fixed-payment policy with the preferential annuity factor. Alternatively, to order Clal Insurance to compensate the plaintiff and the other class members in the amount of damage which was incurred.	Any person who owned, prior to the entry into effect of Amendment No. 3, both a capital policy and a fixed-payment policy of Clal Insurance (whether of Clal Insurance or of another insurance company), and to whom, following the aforementioned amendment to the law, a annuity factor[4] was not guaranteed in the capital policy, or to whom a annuity factor was guaranteed in the capital policy which was worse than the annuity factor specified in his fixed-payment policy.	In June 2011, the Commissioner's position was submitted, through the Attorney General of Israel, according to which an insurance company is not required to provide annuity factors which were determined in the past, or to transfer policyholders' funds to the fixed-payment policy which they had in the past. It was further noted, with respect to the question of whether it is possible to change the amount used to calculate deposits up to the amount of the salary, it was determined that the matter depends on the particular terms of each policy, and that the plaintiff's policy does not include any provision which requires Clal Insurance to change the deposit amounts or the deposit rates. In September 2015, the District Court decided to accept the motion to approve against Clal Insurance, in which it was determined that the entitled class members include any policyholder who owned, prior to Amendment No. 3, both a capital policy and a fixed-payment policy (whether of Clal Insurance or of another insurance company), and who, following the aforementioned amendment, did not receive an annuity factor in the capital policy, or who received an annuity factor which was worse than the factor in his fixed-payment policy, provided that the capital policy was managed by Clal Insurance. The parties filed pleadings regarding the claim, and an examiner was appointed regarding the case.	The plaintiff estimates the number of the class members as 37,752 members, and accordingly, the monetary compensation to all of the class members is estimated as NIS 107 million, in each year.

4 The annuity factor is the factor representing life expectancy which is used by the insurer, at retirement age, to convert the savings amount accrued by the policyholder into a monthly annuity.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
3.	4/2010 District - Center	Clal Insurance and additional insurance companies	The plaintiffs contend that in case of discontinuation of insurance during a certain month, after the insurance premium with respect to that month was collected by Clal Insurance in advance, Clal Insurance does not reimburse to policyholders the surplus relative share of the insurance premium with respect to that month, or alternatively, reimburses the insurance premium at nominal values only.	The reimbursement of the surplus premium amounts which were unlawfully collected from the class members and/or the reimbursement of unlawful revaluation differences, with the addition of duly calculated linkage differentials, as well as a mandamus order instructing the defendants to change their conduct.	Anyone who is and/or was a policyholder of one or more of the defendants, under any insurance policy, excluding a property insurance policy, or the inheritor of such a policyholder, where the insurance policy was discontinued for any reason, whether due to its cancellation by the policyholder, or due to the occurrence of the insurance event.	In June 2015, the Court issued a decision to dismiss the motion to approve against all of the defendants with respect to the primary claims, including: (A) proportional reimbursement of premiums should be performed in case of the occurrence of the insurance event; (B) proportional reimbursement of premiums should be performed in case of cancellation of the policy, where the wording of the policy does not stipulate section 10 of the Insurance Contract Law, 1981, as phrased, during the period relevant to the claim; (C) the reimbursed premiums should be linked only to a positive index, and not to a negative index; (D) the premiums should be reimbursed with the addition of special interest. Additionally, a dismissal was issued with respect to the motion to approve against Clal Insurance only, regarding a claim of non-payment of relative premiums in insurance policies which include a stipulation of section 10 of the Insurance Contract Law, in which it was determined that the cancellation of the policy will enter into effect immediately, in the absence of an evidential infrastructure (hereinafter: the "Proportional Reimbursement Claim"). The motion to approve the claim as a class action was accepted against all of the defendants, with respect to anyone who is or who was the holder of an insurance policy, except for a property insurance policy, who canceled an insurance contract, or whose insurance policy was canceled due to the occurrence of the insurance event, from April 2003 until March 14, 2012, and from whom premiums were collected with respect to the months following the cancellation month, which were reimbursed to him according to their nominal value, without linkage differentials and interest in accordance with the Insurance Contract Law (hereinafter: the "**Nominal Return Claim**"). In September 2016, a settlement arrangement was filed with the District Court (the "Settlement Arrangement"), according to which the defendants undertook to donate to public causes amounts which were overcollected, by virtue of the proportional reimbursement claim, and additional amounts by virtue of the nominal reimbursement claim, according to partial rates which were determined in the settlement agreement, and according to the determination of an examiner who will be appointed by the Court within the framework of the settlement agreement. In February 2017 and March 2017, the positions of the Israel Consumer Council and the Attorney General of Israel, respectively, were received, who did not object to the settlement arrangement in its entirety, but rather proposed amendments to the settlement arrangement, inter alia, with respect to the method used to reimburse funds to the class, and with respect to the types of policies to which the settlement will apply. The settlement agreement is subject to the approval of the Court, the provision of which is uncertain.	The amount claimed by all of the plaintiffs against all of the defendants in the claim is NIS 225 million, with respect to a period of ten years. The plaintiffs have not specified the amount claimed from Clal Insurance only, if the claim is approved as a class action.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
4.	6/2011 District - Center	Clal Insurance, against a consolidated company of Clal Insurance - Clal Health, and against 8 additional insurance companies	According to the plaintiffs, in cases of expiration of a lien which is imposed at the request of a third party, on insurance benefits or compensation which is owed to a policyholder or injured party, he defendants' practice is to pay the policyholders the insurance benefits at their nominal values, and without conducting any revaluation whatsoever, or, in certain cases, with the addition of linkage differentials only. The plaintiffs further claim that the defendants allegedly withhold, in some cases, payment due to an incorrect belief that a restriction applies to their payment.	To order the defendants to repay to the class members all of the interest which they earned by virtue of their holding of the withheld insurance benefits (or other funds) or the interest and linkage differences with respect to the holding of such funds throughout the entire withholding period of the funds, according to the higher rate of the two, with the addition of linkage differentials and interest; To order the defendants to pay other special compensation, in the Court's discretion; To declare that the defendants are required to pay insurance benefits or damages to the injured parties, duly revaluated as of the date of actual payment, where such compensation was paid after the required date, regardless of whether or not the delay was implemented lawfully or unlawfully; To order the defendants to establish internal policies on all matters associated with liens or approval of "notices to holders", in order to ensure that funds of policyholders or other payables are not unlawfully withheld by insurers.	The policyholders of the defendants and injured parties who sued them by virtue of section 68 of the Insurance Contract Law, 1981, who were entitled to receive insurance benefits or other sums from the defendants, and where those amounts were paid at their nominal value only or with the addition of linkage differentials only without interest, after being withheld due to foreclosures or receivership orders or other third party rights, or due to an incorrect belief on part of the defendants that such restrictions on the execution of the payment had existed.	In December 2012, the Court approved the handling of the claim as a class action. In May 2013, the parties filed an agreed-upon application according to which all motions for leave to appeal, insofar as any have been filed, will be filed regarding the ruling on the claim. The Supreme Court accepted the motion. In June 2013, the Court approved, within the framework of a preliminary hearing, the amendment to the statement of claim, in a manner whereby the claim may also refer to the allegation that, in profit sharing policies, all of the benefit generated from the delay of funds are not transferred in their entirety to the class members. In October 2016, the parties filed with the Court a motion to approve a settlement arrangement which specified a total compensation amount for each defendant, reflecting full reimbursement on an estimated basis, which will be paid with the addition of linkage differentials and interest, to plaintiffs who make contact and to whom the payment of insurance benefits was delayed, due to a legal restriction preventing such payment. Any amounts which remain unclaimed will be transferred for donation. The settlement arrangement included the definition of future mechanisms for the revaluation of insurance benefits the transfer of which was delayed due to liens. In April 2017, the Attorney General of Israel filed an objection to the settlement arrangement. The settlement arrangement's entry into effect is conditional upon the receipt of court approval, the provision of which is uncertain.	The total amount of damage claimed against Clal Insurance was estimated by an expert representing the plaintiffs at approximately NIS 69 million, while the amount claimed against Clal Health was estimated at approximately NIS 7 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
5.	5/2013 District - Tel Aviv	Clal Insurance and additional insurance companies	The plaintiff contends that Clal Insurance breaches its obligation to attach linked interest and duly calculated linkage differentials, with respect to the insurance benefits which it pays. According to the claim, the date from which the interest and linkage differentials should be calculated is beginning on the date of the occurrence of the insurance event, until the actual payment date. Alternatively, linkage differentials should be paid from the date of the occurrence of the insurance event until the actual payment date, as well as interest starting 30 days after the filing date of the claim, until the actual payment date of the insurance benefits.	To order Clal Insurance to pay to the class members linkage differentials and interest with respect to the underpayment which was performed. Additionally, and/or alternatively, the Court is requested to order the provision of compensation in favor of the public, in its discretion.	Any person who received, during the 7 years prior to the filing of the claim and/or who will receive, until a ruling has been given on the claim, insurance benefits from Clal Insurance, to which duly calculated interest (the "**First Class**") and duly calculated linkage differentials (the "**Second Class**") were not added.	In August 2015, the District Court decided to dismiss the motion to approve against the defendants, regarding the claim of non-payment of linkage differentials, and to accept the motion to approve against the defendants with respect to the claim regarding the underpayment of interest on insurance benefits, and it was determined that the entitled class members include any policyholder, beneficiary or third party who, during the period from three years prior to the filing of the claim, until the date of the claim's approval as a class action, received from the defendants, and not through any ruling which was given between them, insurance benefits to which duly calculated interest was not added, within 30 days after the date of submission of the claim to the insurer (and not from the date of submission of the last document required by the insurer to evaluate the liability), until the actual payment date. In October 2016, the defendants withdrew, with the approval of the Supreme Court, a motion for leave to appeal which was filed by them in October 2015, which primarily involved an objection to the determination of the District Court, according to which a previous settlement arrangement into which the company entered regarding a similar question does not constitute final judgment which blocks the filing of the motion to approve, and does not afford protection to the defendants, and the parties reserved all of their claims with respect to the main proceedings.	The plaintiff estimates the cumulative amount for the first class in the amount of NIS 518 million (if it is ruled that the interest should be calculated beginning from the date of the occurrence of the insurance event), and in the amount of NIS 210 million (if it is ruled that the interest should be calculated beginning from 30 days after the date of the claim's submission to the insurance company). The plaintiff estimates the cumulative amount for the second class, with respect to linkage differentials, in an additional amount of NIS 490 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
6.	1/2008 District - Tel Aviv	Clal Insurance and additional insurance companies	According to the plaintiff, Clal Insurance charges sub-annual installments, a payment which is collected in life insurance policies wherein the insurance tariff is determined as an annual amount, though the payment is executed in several installments (hereinafter: "**Sub-Annual Installments**"), in excess of the permitted amount, with such charges being implemented, allegedly, in a number of ways: collection of sub-annual installments with regard to the "policy factor", collection of Sub-Annual Installments at a rate higher than that permitted according to the Control of Insurance circulars, collection of sub-annual installments with respect to the savings component in life insurance policies, and collection of sub-annual installments with regard to non-life insurance policies.	Repayment of all amounts unlawfully collected by the defendants, and a mandamus order requiring the defendants to change their ways of action with regard to the matters listed in the claim.	Any person who engaged in an insurance contract with any of the respondents, and from whom payment was collected with respect to the sub-annual installments component, in circumstances or in an amount which deviated from what is permitted.	The Commissioner filed his position on the case, in which he accepted the position of the insurance companies. In February 2014, the Court ordered the petitioners to announce, within thirty days, whether they intend to withdraw the motion. In April 2014, the petitioners announced that they were not withdrawing the motion to approve. In July 2016, the Court approved the claim as a class action. The group which was approved includes anyone who engaged with the defendants, or with any one of them, in an insurance contract, and from whom sub-annual installments were collected with respect to the following components: with respect to the savings component in life insurance of the "hybrid" type, which were sold by Clal Insurance in the past, with respect to the "policy factor", which is a fixed monthly amount that is added to the premium, and which is intended to cover expenses, and with respect to health, disability, critical illness, loss of working capacity and long-term care policies (the "Collection Components"). The Court's decision was given despite the position of the Commissioner of Insurance which was submitted at the request of the Court, as stated above. The cause of action for which the claim was approved as a class action is unlawful collection of sub-annual installments with respect to the collection components. The requested remedy is the reimbursement of the amounts which were unlawfully collected during the seven years preceding the filing of the claim and thereafter, i.e., from January 2001, and a mandamus order ordering the defendants to rectify their conduct. In December 2016, Clal Insurance filed a motion for leave to appeal with respect to the decision to approve the claim as a class action (the "**Motion for Leave to Appeal**"). In the months January and April 2017, the Supreme Court determined that the Motion for Leave to Appeal will be heard by the composition which heard the appeal, and that the hearing of the claim will be postponed until a determination has been reached regarding the proceeding.	In February 2010, the parties reached a procedural arrangement according to which the following would be erased from the Motion and the claim: the plaintiff's claims stating that Clal Insurance had collected a rate of sub-annual installments higher than that permitted for policies issued before 1992, and the claim that Clal Insurance had collected the maximum rate of sub-annual installments, even when the number of installments was lower than twelve. Accordingly, the amount claimed from Clal Insurance was changed and set at approximately NIS 398.2 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
7.	5/2011 District - Center	Clal Insurance and additional insurance companies	According to the plaintiff, in life insurance, Clal Insurance collects from policyholders, without any basis in the policies and without consent, amounts which at times reach a significant part of the premiums paid by the policyholders, and which are known as the "policy factor" and/or "other management fees") (hereinafter: the "**Policy Factor**"), unlawfully and without any appropriate contractual provision, despite the fact that, in principle, the defendants were allowed, in accordance with the Commissioner's circulars, to collect a policy factor in life insurance policies. The plaintiffs contend that in April 2011, the Court with which the current claim was filed, approved class action status for a motion to recognize a claim against another insurance company (hereinafter: the "**Other Motion**"), which is identical to this claim. It is noted that following the motion for leave to appeal, which was filed by the other insurance company with the Supreme Court, the hearing regarding the other motion to approve was returned to the District Court to be heard again.	Payment of the compensation / reimbursement amount equal to the policy factor amount which was actually collected from the class members, with the addition of the returns which were withheld from them with respect to this amount due to the fact that the amount which was deducted from the premium for the policy factor was not invested for them, and changing the method of action with respect to the collection of the policy factor.	Anyone who was and/or is a policyholder of any or all of the defendants, and from whom any amount was collected as the policy factor.	In June 2015, a settlement arrangement and a motion to approve it were filed with the Court, in which it was requested to order the defendants to pay a total of NIS 100 million with respect to the past (of which, the share of Clal Insurance is approximately NIS 26.5 million), and to provide a discount of 25% of the actual future collection of the policy factor. In November 2016, the Court decided to dismiss the motion to approve the settlement arrangement, since it believed that the foregoing does not constitute an adequate, reasonable and fair arrangement for the affairs of the class members. Additionally, the Court decided to partially approve the conducting of the claim as a class action, only with respect to life insurance policies combined with savings which were prepared between the years 1982 and 2003 (with respect to Clal Insurance, in policies of the "Adif", "Meitav" and "Profile" types), where the savings which accrued in favor of the policyholders in those policies were affected due to the collection of the policy factor, on the grounds of breach of the insurance policy, due to the collection of the policy factor, in a manner which harmed the savings which accrued in favor of the policyholders, with respect to the period beginning seven years before the filing date of the claim, in April 2011. The claim was not approved with respect to other types of policies (hereinafter, jointly: the "**Decision**"). The claimed remedies, as defined in the Court's decision, include curing the breach by implementing an update to the savings which accrued in favor of the policyholders, in the amount of the additional savings which would have accrued for them had a policy factor not been collected, or compensation of the policyholders in the aforementioned amount, and discontinuation of the collection of the policy factor from that point forward. Additionally, payment of professional fees was ruled for the plaintiff's representative, and for the objectors to the settlement arrangement and their representatives, in immaterial amounts. Insofar as the claim will be approved on the merits, the total potential of the claim, with respect to the savings component in the relevant policies is estimated in the amount of approximately NIS 700 million, for four of the defendants who engaged in the settlement arrangement (including Clal Insurance), with respect to the period from 2004 to 2012 (inclusive), based on an estimate which is based on the assessment of the Court which was given based on the opinion of the examiner who was appointed on its behalf. This amount does not include the period until the date of the decision, and the collection amounts with respect to the policy factor, which were supposed to be received in the future. In May 2017, the defendants filed a motion for leave to appeal the Court's decision, both with respect to the non-approval of the settlement arrangement, and with respect to the partial approval of the claim as a class action.	The plaintiffs' claim pertains to the policy factor which was collected from them from 2004. According to various estimates and assumptions which were performed by the plaintiffs with respect to the collection of the policy factor, during the seven years preceding the filing date of the claim, by the defendants, and the relevant annual returns, the amount claimed for the class members, against all of the defendants, was estimated by the plaintiffs as a nominal total of approximately NIS 2,325 million. Out of this amount, a total of approximately NIS 661.9 million is attributed to Clal Insurance, according to its alleged market share.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
8.	7/2014 District - Center	Clal Insurance	According to the plaintiff, Clal Insurance overcollects premiums in compulsory and/or third party and/or policies of the "Specified Driver" type (hereinafter: the "**Policy**"), in cases where the youngest driver who is expected to use the vehicle on a routine basis (hereinafter: the "**Driver**") is expected to reach, during the insurance period, an age and/or driving experience level at which Clal Insurance begins collecting reduced premiums (hereinafter, respectively: "**Eligible Age**" and "**Eligible Experience Level**"). The plaintiff contends that Clal Insurance should be required to calculate the premiums by other means, also in case of renewal of the policy after a previous insurance period, and that Clal Insurance should be required to initiate disclosure to the policyholder regarding various items of information.	To declare and determine that Clal Insurance is required to calculate the premiums with respect to the policies in the manner specified in the motion; To order Clal Insurance to initiate disclosure of various items of information, as specified in motion; To prohibit Clal Insurance from collecting administrative expenses or any other payment from the policyholder with respect to the issuance of new compulsory certificates of insurance, in cases where the new issuance is required for reasons not originating from the policyholder; To order Clal Insurance to compensate the class members with respect to the damages which they incurred, with the addition of duly calculated linkage differentials and interest from the date of overcollection until the date of compensation and/or actual reimbursement; To order Clal Insurance to reimburse to the class members the entire amount by which Clal Insurance was enriched at the expense of the class members. To order the provision of any other remedy in favor of the classes, or compensation to the public, as considered appropriate by the Court, in light of the circumstances.	Anyone who purchased and/or renewed and/or who will purchase and/or renew the policy from the defendant during the seven years which preceded the filing of the claim, until the date of issuance of a final ruling, and where, during the insurance period, the youngest driver who is expected to use the vehicle reached and/or will reach the age and/or driving experience level at which he is entitled to a reduction of the premiums, and who in practice did not receive the entire reduction to which he was entitled, as well as anyone who is included in the aforementioned class, and whose comprehensive and/or third party insurance is of the "all drivers" type.	In January 2017, a decision was given by the Court in which the plaintiff's claims were dismissed, except with respect to the claim regarding the existence of a conventional practice regarding the update to the policies and the reimbursement of excess premiums, regarding which the motion to conduct the claim as a class action was approved. The class members, as determined in the decision, include "the holders of the respondent's compulsory, comprehensive and third party motor insurance policies during the last seven years, who reached, during the insurance period, the age bracket and/or driving experience bracket which confers an entitlement to a reduction of insurance premiums, and regarding whom the respondent refrained from acting in accordance with the conventional practice, as a result of which, they did not receive the reduction." The parties filed pleadings regarding the claim.	The total claim amount was estimated by the plaintiff in the amount of approximately NIS 26 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
9.	11/2014 District - Economic Department of Tel Aviv	Bank of Jerusalem ltd. (hereinafter: "**Bank of Jerusalem**") and several additional defendants who served as directors in Clal Finance Batucha Investment Management Ltd. ("**Clal Batucha**") from 2007 until the sale of Clal Batucha to Bank of Jerusalem in December 2013[5].	The plaintiff contends that Clal Batucha, which merged with and into Bank of Jerusalem, in its function as portfolio manager, performed, on behalf of its customers, transactions with securities of member companies in the IDB Group, in a manner which gave preference to its interests and to the interests of various member companies of the IDB Group over the interests of its customers, in violation of the law. The plaintiff contends that Clal Batucha breached its obligation to inform its customers regarding any conflict of interests which it has in the performance of the aforementioned actions, and to receive their consent. The plaintiff further contends that the directors of the defendants breached their duty of care towards the class members.	To issue an order against Clal Batucha and against the other defendants to provide details and information regarding the damages which were (allegedly) incurred by each of the class members, and to order the defendants to compensate the class members for the entire damages which they incurred, or alternatively, to determine another remedy in favor of all or some of the class members.	Any person who received from Clal Batucha investment management services, in which they acquired securities which were issued by member companies of the "IDB conglomerate", without giving their advance approval with respect to each transaction, and who incurred damages as a result of the said acquisition. On this matter, the plaintiff includes under the "IDB conglomerate" all corporations which were held (directly or indirectly) by IDB Holdings and IDB Development.	In January 2017, the Court approved the handling of the claim as a class action against Clal Batucha, and dismissed the motion with respect to the directors. The class members, as determined in the decision, include "anyone who received investment management services from Clal Finance Batucha Investment Management Ltd. (liquidated due to merger) ("**Batucha**"), on whose behalf, within the framework of the portfolio management activity, Batucha (or any other party on its behalf) acquired securities, as defined in the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law, 1995, (hereinafter: the "**Advice Law**"), which were issued by any of the corporations which were included, at the time of the acquisition, in the IDB Conglomerate (as defined below), from whom advance approval was not received regarding each aforementioned transaction, and who incurred damages due to the aforementioned acquisition." In this regard, the IDB Conglomerate was defined as including "all corporations which were held or controlled, directly or indirectly (including through concatenation) by the companies or IDB Holding Corporation Ltd. (hereinafter: "**IDB Holding**") and IDB Development Corporation Ltd. (hereinafter: "**IDB Development**"), including IDB Holding and IDB Development. For the avoidance of doubt, this definition includes all of the subsidiaries, second tier subsidiaries, and third tier subsidiaries (and so on) of IDB Holding, as well as any other corporation held by them, directly or indirectly." It was further determined in the decision that the class will include anyone in whose account acquisitions of securities were performed, during a period of up to 7 years before the filing of the motion to approve, until the date of completion of the merger transaction of Clal Batucha into Bank of Jerusalem. The cause of action which was approved in the decision is breach of statutory duty by virtue of section 63 of the Civil Wrongs Ordinance, together with section 15(a) of the Advice Law. The Court also ordered the payment of professional fees to the plaintiff's representative, in a negligible amount. The company is not party to the claim; however it received notice regarding the filing of the claim, and the demand for indemnification by Bank of Jerusalem, in accordance with the agreement for the sale of Clal Batucha to Bank of Jerusalem, according to which the company has an undertaking to indemnify[5]. The aforementioned undertaking to indemnify may be activated if and insofar as Bank of Jerusalem will be obligated, by law, in connection with the aforementioned claim, and subject to the terms of the agreement between the parties.[6][7]	The plaintiff's personal claim amount amounts to a total of approximately NIS 18,624. According to the statement of claim, the damage claimed for all class members cannot be estimated at this stage.

[5] For additional details, see Note 27(c)(1)(b) to the annual financial statements.
[6] The company reported the claim to the insurers of the professional liability insurance policies under which it is covered. The company is unable, at this stage, to estimate the amount of damages and the scope of

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	
10.	6/2013 District - Tel Aviv	Clal Insurance	The plaintiff, who is a holder of collective long term care insurance through a comprehensive pension fund, and who was recognized as requiring long term care, contends that Clal Insurance pays to its policyholders reduced and insufficient insurance benefits, in a manner which does not include the addition of linkage differentials and interest.	Motion to issue a declaratory ruling and a reimbursement order, for the payment of duly calculated linkage differentials and interest, from the date of the occurrence of the insurance event until the date of actual payment, in accordance with section 28 of the Insurance Contract Law, 1981; and the prospective correction of the omission.	Anyone who received, during the 7 years prior to the filing of this claim and/or who will receive, until a ruling has been given on the claim, insurance benefits from Clal Insurance, where duly calculated interest and linkage differentials were not added to the insurance benefits.	In October 2015, the State Attorney filed its position with the Court, according to which it supports the position of Clal Insurance on the aforementioned matter. In February 2017, the Court approved the claim as a class action. The group which was approved includes all beneficiaries in the original and renewed collective insurance policy of Makefet policyholders, who received from the respondent, during the 7 years prior to the filing of the motion to approve, insurance benefits with no additional linkage differentials. The requested remedy is payment of the entire linkage differentials to which the class members are entitled. The Court's decision was given despite the position of the Commissioner of Insurance which was submitted regarding the case, at the request of the Court, which supports the position of Clal Insurance on the aforementioned subject. The plaintiff filed the statement of claim as part of the management of the claim.	The total damage claimed for all of the class members against Clal Insurance amounts, in the plaintiff's estimate, to a total of approximately NIS 473.8 million.

insurance coverage.

[7] The company reported the claim to the insurers of the professional liability insurance policies under which it is covered. The company is unable, at this stage, to estimate the amount of damages and the scope of insurance coverage.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
1.	11/2012 District - Tel Aviv	Clal Insurance	The plaintiff contends that Clal Insurance modifies the terms of the life insurance policy when transferring an employee policyholder from one employer to another, by way of changing the component known as "sub-annual installments", which the plaintiff contends were collected with respect to the interest to which the insurance company was allegedly entitled in circumstances wherein the premium is paid in installments throughout the year, and not as a lump sum at the start of the year (hereinafter: "**Sub-Annual Installments**"). The plaintiffs contend that this change was made by Clal Insurance unilaterally and with no contractual foundation, and therefore constitutes a breach of the policy terms.	The reimbursement of overcollected amounts with respect to the sub-annual installments component which was performed until the date of approval of the claim as a class action, and discontinuation of the overcollection of this component in the future.	All customers of Clal Insurance, employers and/or employees, from whom sub-annual installments were collected in life insurance policies, which were higher than the rates that had been agreed upon in the policy, following a change of ownership of the policy. In the petitioners' estimation, this involves 10,000 policyholders in the last 30 years.	In May 2015, a motion to approve a settlement agreement regarding the claim (hereinafter: the "**Settlement Agreement**") was filed with the Court. As part of the settlement agreement, the Court was requested to order the amendment of the motion to approve regarding the definition of the group and the expansion thereof to include all policyholders where the rate of sub-annual installments charged from them was increased without their consent. In accordance with the settlement agreement, Clal Insurance will repay, to the class members who will be included in the settlement agreement, various rates out of the amount of the addition that was charged from them with respect to the increase of sub-annual installments, in accordance with the circumstances in which the rate of paid sub-annual installments was increased, and with reference to various periods which were defined in the settlement agreement; Additionally, Clal Insurance will send notice to the paying entity, in which Clal Insurance will allow the paying entity to choose regarding the future premium payment terms, and the associated cost from this point onwards. In May 2015, the Court issued a decision in which it ordered the amendment of the motion to approve in accordance with the settlement agreement regarding the definition of the class. In November 2015, the position of the Attorney General of Israel regarding the settlement agreement was filed, according to which he does not object to the settlement agreement, subject to certain remarks. In September 2016, the parties filed a joint motion for an addendum to the settlement agreement, and the addition of a third group, including all policyholders of the respondent in life insurance policies which include a sub-annual installments component, and which are of the "individual insurance" and "pure risk" types, including "compensation for the self-employed", as well as all policyholders of the respondent who are covered under health and long-term care insurance policies which include a sub-annual installments component, for whom, until the effective date, the respondent raised the rate of sub-annual installments in their policy. In December 2015, the Court appointed an examiner for the settlement agreement, who submitted his opinion, both regarding the settlement agreement and regarding the aforementioned addendum to the settlement agreement. The settlement agreement and the aforementioned additions are subject to the approval of the Court, and there is no certainty that such approvals will be received, nor that the suspensory conditions will be fulfilled.	The total damage claimed for all of the class members against Clal Insurance amounts, in the plaintiff's estimate, to a total of NIS 120 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
2.	4/2013 District - Tel Aviv	Clal Insurance	According to the plaintiff, whose deceased wife (the "**Policyholder**") was insured under a long term care policy for members of Maccabi Health Services, despite the fact that those insured under long term care insurance policies are entitled to receive compensation beginning from the date when they began requiring long term care, according to the position of Clal Insurance, the eligibility for compensation began on the date when a nurse visited the policyholder's home, examined him, and determined that he is indeed a patient requiring long term care. Additionally, according to the plaintiff, there is eligibility to receive long term care benefits during the waiting period as well.	To order Clal Insurance to ask the policyholder for the date on which he began requiring long term care; To pay to the class members insurance benefits with respect to the entire period when they required long term care, and did not receive compensation; To repay to the class members any monthly premiums which were paid by them, beginning on the date when they began requiring long term care, until the date when they began receiving compensation, including (but not limited to) any premiums which were paid during the waiting period; To provide any additional and/or other remedy considered appropriate and worthy by the Court, in light of the circumstances.	Holders of Clal Insurance long term care insurance policies in the last 7 years to whom the insurance event occurred, and who began receiving compensation on a date later than the date when they began requiring long term care and/or when they became policyholders of Clal Insurance, but who paid monthly premiums after the insurance event occurred, including but not limited to during the waiting period.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The amount of the class action claimed by the plaintiff, is NIS 215.3 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
3.	2/2014 District - Tel Aviv	Clal Insurance	The plaintiff contends that Clal Insurance abuses the fact that the policyholder does not pay, for a certain period, the savings component in a life insurance policy which includes a savings component and a risk component, and fundamentally and grossly violates the policy terms by implementing unilateral changes to the policy (shortening the policy period, changing the insurance commencement date and increasing the policyholder's age at the start of insurance coverage), which leads to an unlawful increase in the real premium cost, although the premium for the risk component in the policy has been paid in full. According to the plaintiff, Clal Insurance thereby causes policyholders to incur damages in significant amounts.	To order Clal Insurance to pay the excess premium amounts which it collected by first moving the insurance commencement date until the date when the claim was approved as a class action, with the addition of the maximum linkage differentials and interest permitted by law. To receive an order prohibiting Clal Insurance from continuing its collection of premiums at rates higher than the rate specified in the policy. Alternatively, to order Clal Insurance to pay an appropriate and adequate amount in favor of the entire public, in an amount equal to the collection fees which were collected and not reimbursed to the payer, with the addition of duly calculated linkage differentials and interest.	Any person who obtained and/or who was insured by a life insurance policy, and who did not pay the savings component in this policy in its entirety, from the policy preparation date until the date of entitlement for a monthly annuity according to the policy, and from whom premiums were unlawfully overcollected, due to the change in the insurance commencement date.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The total damage claimed for all of the class members from Clal Insurance amounts, in the plaintiff's estimate, to a total of approximately NIS 20 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
4.	6/2014 District - Jerusalem	Clal Insurance and additional insurance companies[8]	The plaintiff, who holds a life insurance policy issued for mortgage insurance purposes (the "**Policy**"), contends that the insurance amounts covered under the policies are higher than the balances of the loan in the lending bank, and as a result, policyholders are required to pay higher monthly premiums than those which they would have paid, had the insurance amount been adjusted to the balance of the loan, as recorded at that time in the bank's books.	(A) To reimburse to the class members the premium differentials between the premiums which they were supposed to pay, in accordance with the correct loan balances at the lending banks, and the premiums which they actually paid, with the addition of compensation for emotional distress; (B) To change their manner of conduct, in a manner whereby the defendants will calculate, at their own initiative, the insurance amount, and as a derivative thereof, the premium amount, based on the precise data regarding the mortgage loan in each month, and at a minimum, every half year, in accordance with the terms of the loans. (C) To submit to policyholders detailed information regarding the method used to calculate the insurance amount and the premium.	All customers of the defendants who held policies of one or more of the defendants during the last 7 years (all or some) before the filing of the motion, who acquired from it a life insurance policy for the purpose of insuring a mortgage loan which they took out at one of the mortgage banks in Israel, and where the insurance amount which was used to calculate the insurance premiums which they were required to pay, in the last 7 years, exceeds the balance of the loan in the bank.	In March 2016, the position of the Attorney General of Israel was filed, which, in general, supported the position of the defendants, and determined that there is no regulatory arrangement which establishes an obligation for the insurance companies to inform, at their own initiative, from time to time, the amount insured in the policy, and that the insurance company is not entitled to introduce changes to the policy terms, including to the insurance amount, without receiving explicit instructions to do so by the policyholder. The parties agreed to conduct mediation proceedings between them.	The total damage claimed for all of the class members against Clal Insurance amounts, in the plaintiff's estimate, to a total of NIS 97 million.

8 In November 2014, a motion to approve an additional class action was filed against Clal Insurance, on the same matter, in an immaterial sum. The claim was filed against Clal Finance Mortgages Ltd., a company which no longer exists, with respect to life insurance for mortgage takers, which was given by Clal Insurance. In June 2016, the additional claim was transferred to the Court which is hearing the claim described in Note 7(a)(a2)(4) to the financial statements.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
5.	7/2014	Clal Pension and Provident Funds Ltd. and against four additional managing companies of pension funds	According to the plaintiffs, two associations which claim that their purpose is to assist the senior population, the defendants increased the management fees which are charged from retirees of the pension funds which are managed by them, during the annuity receipt stage, to the maximum management fees permitted for collection by law (0.5% of the accrued balance), while abusing the fact that the retirees are a "hostage population", although active members pay, on average, significantly lower management fees. It was further claimed that the defendants do not disclose to their members that immediately when they become pensioners, the management fees which they pay to the defendants will be increased to the maximum management fees.	Reimbursement of the excess management fees which were unlawfully collected from the class members, with the addition of interest and linkage; To order the defendants to reduce the management fees which are charged from the pensioners, in a manner whereby the management fees which were collected prior to the commencement of the retirement of each one of them, will not increase; To prohibit the defendants from increasing the management fees for members proximate to their retirement.	Any person who is a member of a new comprehensive pension fund which is managed by one of the defendants, and who is entitled to receive an old age pension and/or who will be entitled to receive an old age pension in the future.	In September 2015, the plaintiffs filed a reply to the defendants' response to the motion to approve (the "Plaintiffs' Reply"), in which, inter alia, a new claim was raised, according to which the defendants did not send to their members advance notice regarding the increased management fees, as required in accordance with the provisions of the law. In January 2017, a decision was given by the Court, according to which the Commissioner is required to give responses to the questions which were formulated by the Court.	The plaintiffs estimate that the management fees which were unlawfully collected by the defendants from current pensioners amount to NIS 48 million, that the management fees which will be unlawfully collected in the future from current pensioners amount to NIS 152 million, and that the management fees which will be unlawfully collected in the future by the defendants from future pensioners, with respect to accrual which was performed until now, amount to NIS 2,800 million. The aforementioned amounts are claimed with respect to all of the defendants.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
6.	11/2014 District - Center	Clal Insurance, Tmura Insurance Agency (1987) Ltd. (hereinafter: "**Tmura**"), an additional insurance company and an additional insurance agency.	According to the plaintiffs, the holders of credit cards from Isracard and Israel Credit Cards Ltd. ("CAL"), who called in order to activate the basic policy of the credit cards, which is provided free of charge, they were sold, during the call, a product which is not an extension, addition or increase of the basic policy, but rather an ordinary policy, sold at full price, in a manner whereby that person was insured twice, from the first Shekel, on all matters pertaining to the overlapping coverages in the two policies.	To order the defendants to repay to the class members the excess premiums which were paid by the class members during the seven years which preceded the filing of the claim; To order the defendants to take into account, as part of the sale of the policies, the economic value of the basic policies, and to collect premiums which will take into account that value; To provide full and adequate disclosure to those calling the call center; To allow the holders of Isracard and CAL credit cards to activate the basic policy by means other than the call center; Alternatively, to order any other remedy in favor of the class, including the issuance of instructions regarding supervision, and execution of the ruling.	The holders of Isracard and CAL credit cards who were entitled to receive international travel insurance, at no extra charge, and who purchased, in the last seven years, international travel insurance from the defendants through the call centers operated by the defendants.	The parties are conducting mediation proceedings between them.	The total damage claimed for all of the class members from Clal Insurance amounts, in the plaintiff's estimate, to a total of approximately NIS 70 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
7.	1/2015 District - Economic Department in Tel Aviv	Harel Pia Mutual Funds Ltd. (hereinafter: "**Harel Pia**") and against additional defendants which are managing companies of mutual funds (hereinafter: the "**Fund Management Companies**") and a trust company which served as trustees for the mutual funds (hereinafter: the "**Trust Companies**")[9]	The claim pertains to the plaintiff's allegation that the fund management companies performed transactions for mutual funds managed by them, without taking measures to reduce the brokerage fee (including purchase and sale fees with respect to securities and financial instruments, as well as foreign currency differences between the bid price and the ask price of currencies), which were paid by the holders of the participation units of those funds. The plaintiffs contend that some of the fund management companies performed the aforementioned actions through stock exchange member companies which are associated with them, while loading high and unjustified costs onto the holders of participation units in the mutual funds. With respect to the trust companies, the plaintiffs contend that they breached their duty to act in favor of the investors in the mutual funds, and to supervise the actions performed therein. The claim refers to the period before the entry into effect of amendment 14 to the Joint Investment Trust Law, 1994 (hereinafter: the "**Joint Investment Law**"), at the end of December 2011.	To order Harel Pia and the other fund management companies to submit material data and information which they have for the purpose of hearing the claim, determining the class size, calculating the compensation amount, or any other details or information, and also to order the defendants to compensate the class members for the damage which they incurred, or alternatively, to determine another remedy in favor of all or some of the class members.	Any person who held participation units of any mutual fund which was under the management of one or more of the fund management companies, during the period ended December 27, 2011, or during any part thereof, from whom a brokerage fee was directly or indirectly charged with respect to operating services.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The damage claimed for all of the class members amounts to approximately NIS 220 million, while the part attributed to Harel Pia amounts to approximately NIS 45 million. It is noted that the claim against Harel Pia refers both to assets which were managed by Clal Mutual Funds and to assets which were managed by Clal Harel Pia, and that the claim includes no amount attributed to Harel Pia in connection with funds which were managed separately by Clal Mutual Funds.

9 The company is not a party to the claim, however, it received notice regarding the filing of the claim from Harel Finance Holdings Ltd., in accordance with an agreement which was signed between Clal Finance Ltd. (a wholly owned subsidiary of the company (hereinafter: "**Clal Finance**") and Harel Finance Investment Management Ltd. and Harel Finance Holdings Ltd. (which hold, directly and indirectly, the entire capital of Harel Pia, hereinafter, jointly: "**Harel**") for the sale of Clal Mutual Funds Management Ltd. (hereinafter: "**Clal Mutual Funds**") to Harel, according to which Clal Finance has an undertaking to indemnify, and as specified in Note 27(c)(1)(a) to the financial statements, the company accepted upon itself an undertaking to indemnify Harel within the framework of a capital reduction in Clal Finance, see Note 27(c)(1)(c). The aforementioned undertaking to indemnify may be activated if and insofar as Harel Pia is required, by law, in connection with the aforementioned claim, and subject to the terms of the agreement between the parties.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
8.	3/2015 District - Jerusalem	Clal Pension and Provident Funds	According to the plaintiff, a member of the "Clal Tamar" provident fund (hereinafter: the "**Provident Fund**") which is managed by Clal Pension and Provident Funds, Clal Pension and Provident Funds increased the management fees collected in its accounts in the provident fund, without sending to him advance notice, as required. The plaintiff also contends that the increase of management fees was performed before the passage of two months after the date when the notice was sent, as required.	To declare that the management fees which were overcollected are part of the member's assets, to order the defendant to pay compensation equal to the amounts which were overcollected by it, within the framework of duly calculated interest and linkage; to order the defendant to pay, to each member of the classes, compensation in the amount of NIS 100 per member, with respect to injury to the autonomy of will;	Any person in whose account the defendant raised the management fees: (1) without sending advance notice to them, as required by law and/or (2) without sending notice to the correct address or updated address, as recorded in the population register and/or (3) before the passage of two months after the date of sending the advance notice.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiff estimates the number of members in all of the classes in the tens of thousands, and therefore, the aggregate value of the damage caused to all members of the class amounts to millions of NIS. The value of the remedy requested in the statement of claim was stated, on an estimation basis, at NIS 50 million.
9.	5/2015 District - Jerusalem	Clal Insurance and an additional insurance company	According to the plaintiff, after years during which his deceased mother was insured under a collective life insurance policy, which Clal Insurance sold to the "Netiv - Southern and Central Region" pension fund (hereinafter: the "**Association**" and the "**Policy**", respectively), and who paid premiums as required, Clal Insurance unilaterally and unlawfully canceled the policy, because the policy was a losing policy, and did not reimburse the premiums which it had charged. The plaintiff also contends that Clal Insurance illegally collected premiums from policyholders with respect to June 2014, after the date when the policy was canceled.	To order Clal Insurance to pay to each of the class members who did not receive the benefits of the policy, the entire premiums which were collected from them with respect to the policy over the years when they were insured, with the addition of duly calculated interest and linkage.	Anyone who was insured by Clal Insurance in a policy which was canceled on March 2, 2014, as well as all policyholders under the policy from whom Clal Insurance collected premiums in June 2014.	In October 2016, an amended claim and an amended motion to approve the claim (the "Amended Motion") were filed, in which Harel Insurance Company Ltd. was added to the claim as an additional defendant. The amended motion includes allegations against Harel in connection with its obligation to collect the premiums for the policy. The plaintiff's claims regarding the collection of premiums with respect to dates after the cancellation of the policy, which were included in the original motion to approve the claim as a class action, are not included in the amended motion. The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The total damage claimed for all of the class members from Clal Insurance amounts, in the plaintiff's estimate, to a total of NIS 90 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
10.	5/2015 District - Center	Clal Insurance and additional insurance companies	The plaintiff contends that Clal Insurance unlawfully avoids paying to its policyholders and/or to third parties the VAT component which applies to the cost of the damage, when the damage was not actually repaired.	To order the defendant to pay the VAT component, according to the rate which applies to the amount of damage incurred by the class members, where insurance claims with respect to them were filed in the seven years before the filing date of the claim, and until the date of issuance of a final ruling on the claim, with the addition of duly calculated linkage and interest; to issue a mandamus order requiring the defendant, from this point forward, to include in the insurance benefits which are paid by it also the VAT component which applies to the cost of the repair, including if the damage has not been actually repaired.	Any policyholder and/or beneficiary and/or third party, in any insurance type whatsoever, who, as of the filing date of the insurance claim, has not repaired the damage which he claimed, and who received from the insurance company insurance benefits and/or reimbursement with respect to the damage, and where the insurance benefits did not include the VAT component which applies to the repair.	In February 2017, a ruling was given by the Court, in which the Court ordered the striking of the claim against Clal Insurance and against four additional insurance companies, and in March 2017, an appeal was filed against the Court's decision to strike the claim.	According to the plaintiffs, the damage caused to the class members, due to the alleged actions of Clal Insurance, is estimated as a total of NIS 124 million.
11.	6/2015 District - Center	Clal Insurance and an additional company	The plaintiff contends that Clal Insurance collects insurance premiums which include a "risk addition" or "professional addition" or another addition pertaining to the risk which is due to the nature of the policyholders' work (hereinafter: the "**Risk Addition**"), also during periods when the policyholders are not employed.	To order Clal Insurance to reimburse to the class members the premium differentials which were overcollected, with the addition of linkage differentials and interest, and to order it to refrain from collecting the risk addition in the future.	Anyone who paid to the defendants, during the seven years which preceded the date of filing of the motion to approve, until the date of its approval as a class action, premiums with respect to insurance coverage (including but not limited to loss of working capacity and life and/or risk insurance), with respect to the period during which the policyholder did not actually work, and from whom Clal Insurance collected a premium which included a risk addition.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiff's personal claim against Clal Insurance amounts to NIS 1,067. the plaintiff estimates the damage incurred by all class members as many millions of NIS.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
12.	7/2015 District - Tel Aviv	Clal Insurance	The plaintiff contends that Clal Insurance calculates the rights for payment of stipends and/or for the discounting of stipends which are owed to policyholders who freeze the payment of premiums (in full or in part) temporarily for a certain period and/or who do not pay the premiums for a number of months, in breach of the provisions of the law, in breach of the provisions of the policy and the required formula for the calculation of the stipend, as included in the policy (hereinafter: the "**Required Formula**"), and also asserted that Clal Insurance refuses to deliver information to its policyholders.	To order Clal Insurance to reimburse the monthly stipend and/or the discounting of the stipend, in accordance with the provisions of the required formula, and to order Clal Insurance to pay to the class members who already incurred damages, the stipend differences or the stipend discounting differences which are owed to them, with the addition of duly calculated linkage differentials and interest. Alternatively, the plaintiff is petitioning for the issuance of a declaratory order stating that Clal Insurance is in breach of the policy provisions.	Regarding the non-monetary remedies - all policyholders of Clal Insurance who hold policies which are similar to the plaintiff's policies (the "**Policyholders**"), who, during a certain period or periods, did not pay, temporarily, the premiums under the policy. Regarding the monetary remedies: all of the policyholders who began receiving from Clal Insurance a monthly stipend which is lower than the monthly stipend which would have been paid in accordance with the required formula, as well as policyholders who chose discounting of the stipend, and where the calculation used to discount their stipend was lower than the discounting of their stipend which would have been paid in accordance with the required formula.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action. In June 2016, the motion of the parties to transfer the hearing to a board which is hearing an additional claim by the plaintiff, on the subject of the calculation of the rights in life insurance policies, where the policyholder does not pay the full premiums, as specified in section 3 above, was approved.	The total damage claimed for all of the class members, in the plaintiff's estimate, to a total of no less than NIS 25 million.
13.	8/2015 District - Tel Aviv	Clal Insurance	According to the plaintiff, for the purpose of determining the existence of a long term care insurance event, Clal Insurance applies a method of evaluation which separates the daily activities, which are also known by the acronym ADL, which are included under the definition of the insurance event in long term care insurance under the policy, and where the quality of their performance is used to evaluate a person's functional situation, into sub-actions, in a manner which almost entirely voids the content of the instructions issued by the Commissioner on this matter, and in contravention of the Commissioner's position on the subject of the definition of the insurance event in long term care insurance, which was published in January 2015.	To order Clal Insurance to cease separating the evaluation of ADL actions, to order Clal Insurance to pay financial compensation and remedies, at a rate which will be determined, to each one of the class members whose entitlement to the aforementioned compensation or remedy was proven, and to order the provision of any other remedy in favor of the class (in whole or in part), or in favor of the public, in its discretion, in light of the applicable circumstances.	The group of holders of Clal Insurance long term care insurance policies.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The damage caused, according to the plaintiff, to the class members, is estimated in the amount of NIS 75.6 million, half of which includes insurance benefit damages over 3 years, and half due to emotional distress damages over 7 years.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
14.	9/2015 Regional Labour Court of Tel Aviv	Clal Insurance	The plaintiff contends, in the motion to approve the claim as a class action and in the response to the defendants reply, that Clal Insurance performed an incorrect, faulty and deficient calculation of the interest and linkage applicable to amounts available to him and to the class members in guaranteed-return life insurance policies, in a manner which is in breach of the policy terms, while breaching the duties of disclosure, and non-specification of the specific interest which applies to the amounts in the policy.	To order Clal Insurance to recalculate the interest and linkage with respect to the amounts in the policies, in accordance with the interest rate which were determined in the policies, and to credit to the class members, including any person who withdrew amounts from the policies in the past, the aforementioned differences, with the addition of linkage differentials and interest, including special interest, and to act in this manner also with respect to future payments.	All current or past holders of Clal Insurance guaranteed-return insurance policies regarding which Clal Insurance performed incorrect and deficient cancellation of the interest and linkage which apply to such policies.	In April 2017, the parties filed with the court a settlement arrangement and a motion to approve it (hereinafter: the "**Settlement Arrangement**"), in which Clal Insurance undertook to reimburse, to policyholders who are members of the group which was defined in the settlement arrangement, amounts according to the rates which were determined in the settlement arrangement. The aforementioned reimbursement will be performed under the supervision of an examiner, who will be appointed by a court within the framework of the settlement arrangement. The settlement arrangement may also include provisions regarding the group members whose insurance policies are still being conducted in Clal Insurance. The settlement arrangement's entry into effect is conditional upon the receipt of court approval, the provision of which is uncertain.	The plaintiff contends that the damage cannot be estimated at this stage. The amount of the plaintiff's personal claim, with respect to two policies, amounts to NIS 93,586.
15.	9/2015 District - Center	Clal Insurance and four other insurance companies	The plaintiffs contend that Clal Insurance, when giving points for the "continence" action, as part of the evaluation of insurance benefits in long term care policies, adopted an interpretation according to which, in order to recognize a policyholder's claim with respect to "incontinence", the condition must result from a urological or gastroenterological illness or impairment only, instead of giving points also when the policyholder's medical condition and impaired functioning which have caused his "incontinence", may be due to an illness, accident or health impairment which are not urological or gastroenterological in nature.	To order the defendants to compensate the class members for all damages which they incurred due to their alleged beaches of the agreement, and to fulfill the agreement from this point forward, or alternatively, to order the provision of any other remedy considered appropriate by the Court, in light of the applicable circumstances.	Any person who held a long term care insurance policy which was sold by the defendants (or his inheritors, as applicable), and who suffered from a health condition and impaired functioning as a result of an illness or accident or health condition, which caused them to be incontinent and/or to require the permanent use of a stoma or catheter in the bladder, or diapers or absorbent pads of various kinds, and notwithstanding the foregoing, who did not receive from the defendants (as applicable) points with respect to the "continence" component, in a manner which injured his rights.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiffs contend that the damage cannot be estimated at this stage, but estimate it at tens or even hundreds of millions of NIS. The personal damage claimed by the plaintiff from Clal Insurance, as alleged, amounts to a total of approximately NIS 32,500 (without linkage differentials and interest).

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
16.	9/2015 District - Tel Aviv	Clal Pension and Provident Funds Ltd. and four additional managing companies of pension funds	The plaintiffs, members of pension funds managed by the defendants, contend that the mechanism for the compensation, by commission, of agents and brokers, as a percentage of the management fees which are charged from members, as practiced by the defendants, constitutes a breach of fiduciary duty towards the members of provident funds managed by the defendants, and results in the defendants' collection of management fees in amounts which are higher than appropriate.	To order the defendants to change the mechanism for compensation of agents, and to repay to the members the management fees which were overcollected from them.	Members of provident funds managed by the defendants, from whom management fees were collected while providing a commission to agents which was derived from the amount of management fees.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiffs estimate the total damage incurred by all of the class members as approximately NIS 2 billion, reflecting damage at a rate of approximately NIS 300 million per year since 2008.
17.	10/2015 District - Center	Clal Insurance	The plaintiff brings claims against the definition of "disability" in accidental disability policies, which allegedly create uncertainty, and against the policy terms, which require the receipt of reasonable proof within one year after the date of the accident. In this regard, it was claimed that despite the fact that the company received "reasonable proof" regarding the permanent disability of policyholders as a result accidents which occurred since June 2009, it paid to them reduced insurance benefits, or rejected their claims for insurance benefits due to disability. The claim also includes assertions regarding the calculation of disability rates in the payment of insurance benefits in the event that the policyholder has more than one disability, as well as assertions regarding the revaluation of insurance benefits with respect to linkage differentials and interest.	To order Clal Insurance to pay to the class members insurance benefits with respect to permanent disability as a result of an accident, in accordance with the terms of the policy, and to order it to cease its unlawful conduct.	Any person who was insured by Clal Insurance in accidental disability policies, where, despite the fact that Clal Insurance received "reasonable proof" of the permanent disability due to an accident which occurred beginning in June 2009, paid reduced insurance benefits with respect to his disability, or rejected his claim for insurance benefits due to his disability, for the reasons specified in the claim (in whole or in part).	In July 2016, following the announcement of the class action plaintiff, who agreed to the summary dismissal of the claim, and withdrew his claim, the Court summarily dismissed the claim. In September 2016, an appeal was filed with the Supreme Court on behalf of the class action plaintiff against the ruling, in which the claim was summarily dismissed.	The petitioner estimates the damage incurred by the class at a total of NIS 90 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
18.	12/2015 District - Tel Aviv	Clal Insurance	According to the claim, Clal Insurance allegedly reduces various amounts from the damage amounts which are claimed by third parties due to negligence of a policyholder, in an arbitrary fashion, based on the general justification of "contributory negligence" of the third party, without providing details as required by law.	The main remedies which the plaintiff is petitioning for include: issuance of a declarative order stating that Clal Insurance breached the provisions of the law, and issuance of a mandamus order requiring Clal Insurance to refrain, in the future, from continuing said breach, and ruling monetary compensation in favor of the class.	The class which the plaintiff wishes to represent, as specified in the motion, includes any third party which contacted Clal Insurance for the receipt of compensation with respect to an insurance event (due to the policyholder's negligence), in cases where any amounts were reduced from the demand for payment, due to contributory negligence, without providing a satisfactory reason for its reduction of the amounts.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiff estimates that the amount of damages ruled for the members of the class which he seeks to represents exceeds NIS 3 million.
19.	12/2015 District - Tel Aviv	Clal Insurance and an additional insurance company	The plaintiffs contend that the defendants charged, from holders of life insurance policies which were issued beginning on August 1, 1982, in which the sub-annual installments component was reduced, where the premium is paid in installments during the year (hereinafter: "**Sub-Annual Installments**"), an effective interest rate which is higher than the maximum interest rate which the Insurance Commissioner allowed insurance companies to charge with respect to the sub-annual installments component. According to the plaintiffs, this collection is in breach of the law, policy and common practice in the finance segment, and ignores the monthly premium payment date, and the fact that the annual premiums gradually decrease during the year.	To order the defendants to change the method used to calculate the sub-annual installments component, in a manner whereby it will be calculated in consideration of the actual premium payment dates, and in consideration of the reduction of the annual premiums for each payment. To reimburse to the class members the amounts of the sub-annual installments component which were overcollected from them, beginning on the date when the sub-annual installments component was charged to the policyholders, until a ruling has been given on the claim, or alternatively, in the seven years prior to the plaintiff's claim, until a ruling has been given on the claim. Alternatively, the plaintiff is petitioning for the issuance of a declaratory ruling, according to which the method used by Clal Insurance to calculate the sub-annual installments component is illegal, or for the issuance of another declaratory ruling considered appropriate by the Court, in light of the circumstances.	Holders of life insurance policies which were issued beginning on August 1, 1982, and in which a sub-annual installments component was collected, where the premium is paid in installments throughout the year.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The total damage claimed for all of the class members, in the plaintiffs' estimate, amounts to a total of no less than NIS 50 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
20.	1/2016 District - Center Lod	Clal Pension and Provident Funds, and three additional managing companies of pension and provident funds	According to the plaintiffs, the defendants invested in low rated bonds, in a manner which deviated from the investment rate which was permitted, at the time, in accordance with Regulation 41(D)(2) of the Income Tax Regulations (Rules for Approval and Management of Provident Funds), 1964, and that despite these deviations, the defendants collected management fees from the plaintiffs, in breach of the provisions of the law.	The remedies requested by the plaintiffs include, inter alia, reimbursement of the management fees which were collected by the defendants in case of deviation from the investment restrictions, compensation of the class members with respect to the deviation from the investment restrictions, as well as any other remedy in favor of the class, in whole or in part, or in favor of the public, as considered appropriate and just in the Court's discretion, in light of the circumstances.	All members of the pension funds and provident funds which were managed by the defendants in the period from January 1, 2009 to July 4, 2012.	In November 2016, a decision was given by the Court, according to which the hearing regarding the motion to approve will be transferred to the Regional Labor Court of Tel Aviv. The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	According to the plaintiff, the direct damages which it incurred amounts to NIS 76 (and the damage incurred by all plaintiffs with respect to the collection of management fees allegedly amounts to NIS 563), with the addition of linkage differentials and interest. In the claim, it was stated that the claim amount for all of the class members cannot be estimated[10].
21.	2/2016 District - Center Lod	Clal Pension and Provident Funds Ltd. and four additional managing companies of pension funds	According to the plaintiff, an association which alleges that its purpose it to act on behalf of weak population groups and persons with special needs, the defendants charge, from recipients of disability and survivor annuities, management fees at the maximum rate permitted by law, while exploiting the fact that they are not permitted to transfer their monies to another fund.	To order the defendants to reimburse, to all recipients of disability and/or survivor annuities, all of the management fees which were unlawfully collected from them, with the addition of interest, or alternatively, to reimburse to the pension fund the management fees which were and/or which will be unlawfully collected from recipients of disability and/or survivor annuities, and to implement a just and fair distribution of the funds.	Any person who receives and/or who has the right to receive a disability annuity, as well as any person who receives and/or who has the right to receive a survivor annuity, and any person who is a member of a pension fund managed by the defendants, and who incurred damage as a result of the collection of management fees in connection with the disability and survivor annuities.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The amount of the class action claim was not quantified in the statement of claim; however, in accordance with an actuarial opinion which was attached to the motion, the damages caused to the class members was estimated, according to an initial estimate, as a total of approximately NIS 1 billion, against all of the defendants.

[10] The claim also alleges that the plaintiff incurred additional damage, in an unspecified amount, due to the exception from the investment, with reference to bonds of companies which faced insolvency situations.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
22.	2/2016 District - Tel Aviv	The company and the company's directors[11].	According to the plaintiff, a shareholder in the company, who also holds bonds of IDB Development, in light of the fact that the company's enterprise value is not reflected in its market value, and is actually significantly higher than the company's equity, and in light of the obligation of the company and of its board members to work to generate value for the company's shareholders, the company and its board members should have tried to sell the company's assets, which primarily include the holding of Clal Insurance, to other insurance companies in Israel, by way of a tender, with each asset of the company being offered for sale separately. The plaintiff claims absence of action by the company and its board members, with the aim of realizing return for the company's shareholders, and negligence on their part in working towards reducing the damage caused to the plaintiff and to the class members. The plaintiff further stated that he had also contacted IDB Development with a demand to join the aforementioned proceedings, and that insofar as his demand will not be accepted, he intends to file, on its behalf a derivative claim on the matter. In parallel to the filing of the claim and the motion to approve the claim as a class action, the plaintiff filed with the District Court of Tel Aviv-Yafo, against the company and its board of directors, and against additional defendants, including IDB Development, its board members, the trustee for the shares of IDB Development in the company, and the Insurance Commissioner, a motion for issuance of an injunction and an urgent motion for a temporary injunction (hereinafter: the "Injunction"), in which the plaintiff requests to order a stay of the proceedings involving the sale of the company's shares which are held by IDB Development through the trustee, as specified in Note 1(b)(3) above.	To order the defendants to compensate the class members for the damages which they incurred due to the omissions of the defendants to work towards realizing value for the company's shareholders by way of the sale of its operations, or alternatively, to order the company to work to sell the aforementioned assets, with the aim of reducing, at the present, the damage caused to the class members.	All shareholders who hold the company's shares which are listed for trading on the Tel Aviv Stock Exchange.	In June 2016, the District Court ordered the striking of the motion for an injunction. The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The amount of the class action claimed by the defendant in the statement of claim with respect to the damage which was incurred by the class members amounts to a total of approximately NIS 2,125 million.

11 It is noted that directors in the company have letters of indemnity from the company.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
23.	2/2016 District - Tel Aviv	Clal Insurance	The claim involves the manner by which Clal Insurance gives points with respect to the ADL activity "continence" and the ADL activity "mobility", in claim settlement in long term care insurance. According to the plaintiff,. for the purpose of determining the eligibility to long term care benefits, Clal Insurance unilaterally determined, without approval from the Insurance Commissioner, with respect to the "continence" activity, that a policyholder who is incontinent at a frequency of once every two days or less, is considered independently continent, and that only a policyholder who suffers from leakage of urine or feces on a daily basis, and who requires full assistance regarding the handling of waste, will be entitled to receive long term care assistance. Additionally, with respect to the "mobility" activity, the plaintiff contends that Clal Insurance unilaterally determined, for the purpose of determining the eligibility for long term care insurance benefits, that a policyholder who is capable of moving from one room to another in his house is allegedly considered as a person with the independent ability to move from place to place, despite the fact that, according to the plaintiff, he is unable to perform the activity of independently leaving his house.	To order Clal Insurance to pay the entire insurance benefits, plus duly calculated interest and linkage.	All policyholders of Clal Insurance who, during the 7 years before the filing date of the motion, submitted a request for entitlement to long term care insurance benefits, based on the claim of inability to perform at least 3 ADL activities according to the insurance policy, and who were rejected by Clal Insurance due to the erroneous phrasing in the definition of any of the aforementioned activities, where had not it not been for those definitions, they would have been entitled to receive insurance benefits.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The damage claimed for all of the class members was estimated by the plaintiff in the amount of approximately NIS 36 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
24.	6/2016	Clal Insurance, the Ministry of Finance - Division of Capital Markets, and three other insurance companies	The claim pertains to the sale of collective long-term care insurance policies by the defendant insurance companies, in a manner which, according to the plaintiffs, caused the policyholders to believe that this insurance would remain available to them also in old age. The plaintiffs contend that the fact that the defendant insurance companies determined, in the aforementioned policies, a condition which allows them to unilaterally terminate the policy without renewing it, after a limited period, without expressly and appropriately giving advance warning to the policyholder, indicates a significant deviation from the basic consumer standard, and should be viewed as deception of consumers. The plaintiffs contend that if the former policyholders had all of the relevant information available to them, they would not have chosen to engage in the policies which are the subject of the claim.	To order the defendant insurance companies to reimburse the funds which were unlawfully collected through deception of consumers, to reimburse funds which the class members were forced to spend with respect to alternative insurance policies, to identity an insurance-based and/or financial emergency solution for former policyholders who began to require long-term care after their insurance policy was discontinued, to order that the former policyholders are permitted to acquire insurance through the health funds, in accordance with the conditions to which they would have been entitled had they joined on the date when the joined the insurance policies, including the amounts of the monthly premiums and the insurance coverage, to issue an order to the State Treasury regarding the issuance of appropriate compensation and protecting the rights of the former policyholders, to order the defendants to finance the difference between the premium amounts which the plaintiffs paid upon the fulfillment of the insurance arrangement and the premium amounts which they are required to pay today for the same insurance product.	Any customer of the defendants who held a collective long-term care insurance policy which was canceled and/or whose terms were changed in an extreme manner, and who was deceived and/or was not warned and/or was not informed that this policy does not accrue any amount in his favor, and that it will not be available to him in old age, for the period of 7 years prior to the filing of the claim, as a minimum, and/or from the date of the customer's first deposit.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiffs estimate the total damage claimed for all class members, through a gross estimate, as a total of NIS 7,000 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
25.	8/2016 District - Center Lod (1) 10/2016 Regional Labor Court of Jerusalem (2) 11/2016 Regional Court of Jerusalem (3) 12/2016 District - Center (4)	Clal Pension and Provident Funds Clal Insurance	The four claims involve the assertion that the defendants collect from members in the pension funds, in the Tamar provident funds, and in the study funds which are managed by it, and in managers' insurance policies, in addition to the management fees, also "investment management expenses" (hereinafter: "Direct Expenses"), although there is no contractual provision which allows them to collect those expenses, and in breach of the fund regulations.	The plaintiffs in the four claims request to order the defendants to reimburse the investment management amounts which were overcollected from them. Additionally, some of the plaintiffs request to order the defendants to pay the additional difference of returns which would have been generated by the amounts which were overcollected had they been invested in the pension fund, while some request to order the defendant to pay the duly calculated NIS interest difference, from the date of overcollection until the date of actual payment.	Members of the pension funds, the study fund, and the provident fund "Clal Tamar" which are managed by the defendant, and holders of managers' insurance policies, from whom investment management expenses were collected during the seven years preceding the filing of the relevant claim.	The proceedings are currently in the stage of hearing the motions to approve the claims as class actions.	In claim 1, which refers to the pension funds, the amount of the class action was set as NIS 341 million, with respect to the years 2009-2015, plus the investment management expenses which were collected by the defendant from the group members in 2016, and plus the returns which would have been earned by the funds which were deducted as investment management expenses. In claim 2, which refers to the study fund, the amount of the class action was set, on an estimation basis, as a total of approximately NIS 53 million. In claim 3, which refers to the Tamar provident fund, the amount of the class action was set, on an estimation basis, as a total of approximately NIS 181 million. In claim 4, which refers to managers' insurance policies, the amount of the class action was set, on an estimation basis, as a total of approximately NIS 404 million, plus the investment management expenses which the defendant charged to the class members in 2016, as well as interest and linkage.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
26.	9/2016 District - Tel Aviv	Clal Insurance and three other insurance companies	The claim involves the assertion that the respondents allegedly collected from the holders of health insurance policies premiums with respect to unnecessary coverages which the policyholders do not need, and that the respondents sold to the policyholders, knowingly and deliberately, health insurance policies which include coverages for which the policyholders had no need, since they have supplementary health insurance from the health fund to which they belong, and that they also made one service conditional upon another, with no possibility to acquire a limited policy, which includes only coverages which are not included in the supplementary health insurance policies of the health funds, thereby creating “double insurance”.	Repayment of the excess premium amounts which were allegedly collected unlawfully, a mandamus order ordering the respondents to change their method of action as described in the claim, as well as any additional remedy considered appropriate by the Court, in light of the circumstances.	Anyone who is insured, or was insured, by any or all of the respondents in any of the health insurance policies which include coverages which overlap, either fully or partially, with the coverages which are included in the supplementary health insurance policies of the health funds.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The amount of the class action against the defendants was set as a total nominal amount of NIS 4.45 billion, where the share of Clal Insurance out of that total, as calculated by the plaintiffs, was set as NIS 995 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
27.	9/2016 Regional Labor Court of Tel Aviv	Clal Insurance and the Commissioner of Capital Markets, Insurance and Savings at the Ministry of Finance	The claim involves the assertion that Clal Insurance makes the release of the severance pay component which has accrued in managers insurance policies (hereinafter: the "**Policies**"), by virtue of the Extension to Compulsory Pension Ordinance (hereinafter: the "**Extension Order**") conditional upon the employer's consent. Clal Insurance thereby collaborates with the employer, allows the employer, over years, to argue against the transfer to the accrued severance pay to the employees, and during that time, continues collecting management fees out of the funds which remain accrued in the policies.	Declaratory relief, primarily determining that the class members are entitled to receive the accrued severance pay for which the employer made deposits in their name to the pension arrangement by virtue of the extension order, without any condition or restriction whatsoever. The plaintiff is also petitioning to order Clal Insurance to notify the class members regarding their right to withdraw the severance pay component unconditionally, and to determine the manner by which the notice will be given to the group members.	All those covered by pension insurance in Clal Insurance, in whose favor severance pay accumulated in the pension arrangement beginning on January 1, 2008, the application date of the extension order, who concluded their employment, and to whom the employer's approval was not given to release the accrued severance pay funds which are recorded under their names. The plaintiff estimates the number of class members as 70,500 policyholders.	In February 2017, the Commissioner was removed as a respondent from the class action, following a joint motion of the petitioner and the Commissioner on this matter. In February 2017, a decision was given by the Court, according to which the Commissioner will file her position on the matter.	The amount of the class action against the defendant amounts to a total of approximately NIS 479 million.
28.	9/2016 District - Center Lod	Clal Insurance	The claim involves the assertion that Clal Insurance allegedly has an unlawful commercial practice with respect to the collection of premiums for insurance policies which were created without the customers' knowledge, express or implied, by creating an offer form for engagement in an insurance policy which allows, on the one hand, conducting the sale call via telephone, while on the other hand, does not require, allegedly and as defined therein, recording and/or saving the recording of the call.	To order Clal Insurance to compensate the class members and to issue any other or additional order, in the Court's discretion.	Anyone in whose name an insurance policy was registered, either directly from Clal Insurance and/or through others authorized on its behalf, including through insurance agents, during the seven years preceding the filing date of the claim, without the plaintiff's express consent - either written or through a duly recorded telephone call - and in any case, without their knowledge and/or from whom premiums were collected with respect to such policies, during the aforementioned period.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The personal monetary damages claimed by the plaintiff amount to NIS 2,192.53. The scope of monetary damages for all class members is estimated, at this stage, by the plaintiff, as a total of several million NIS to tens of millions of NIS. The plaintiff also claims non-monetary damages, to her and to the class members, for prejudice against the right of autonomy of will, and for emotional distress.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
29.	11/2016 District - Center Lod (1) 09/2016 District Tel Aviv (2)	Clal Insurance and an additional insurance company	The claims involve the assertion that due to "lack of knowledge" because of the non-provision and publication of a students personal accidents insurance policy (the "Policy") for the policyholders and their families, the policyholder avoid exercising their right to compensation by virtue of the policy.	The plaintiffs in claim (1) request the issuance of orders against the defendants and the Commissioner of Insurance, and request, inter alia, the appointment of a committee, with the participation of external representatives, which will be authorized to discuss and determine all of the claims, and the transfer of the burden of proof to the insurer. The plaintiffs in claim (2) request, inter alia, the issuance of mandamus orders for compensation with respect to the hassle and cost of printing, in a total amount of NIS 1.5 for each class member, and an extension of the prescription period, including a determination stating that the prescription period was suspended in September 2006.	The plaintiff in claim (1) classified the plaintiffs into several groups, with respect to students who were born after October 25, 1995, and who, from ages 3 to 19 (the period of their studies in Israel, from kindergarten until the end of high school in 12th or 13th grade), went through an accident, due to which they suffered a physical injury, and who did not receive insurance benefits under the policy, as follows: (1) the "tooth fracture" group, (2) the "medical expenses" group, (3) the "disability" group, (4) and the "cases of death" group. The plaintiff further requests the establishment of an additional sub-group for each of the groups of plaintiffs mentioned above, whose members are people and/or their parents and/or their heirs who were born and/or who studies in Israel between the years 1974 and 1995, and who were injured after 1992, and who claimed that they were not aware of the scope of the policy, and on behalf of all policyholders - all students and their parents from September 1992 until now - who were injured. The plaintiff in claim (2) requests to represent all students, at school or at home or at kindergarten, in the State of Israel, who were covered under a policy and who did not receive it at their house, beginning with the school year beginning in September 2006 and/or any student whose cause of action against the insurance company prescribed, beginning in September 2006.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	According to the plaintiffs in claim (1), their alleged personal damages are in the range from NIS 150 to NIS 6,260. The plaintiffs estimate the alleged damage for the members of the "tooth fracture", "medical expenses" and "all defendants" groups together, as a total of approximately NIS 1.439 billion. The plaintiffs have not specified an estimate regarding the damage caused to the other groups. According to the plaintiffs in claim (2), the damage claimed for all class members amounts to a total of approximately NIS 23 million, plus interest and linkage, beginning with the school year of September 2006.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
30.	4/2017 District - Center	Clal Insurance	The claim involves an allegation according to which Clal Insurance conducts an allegedly incorrect calculation of premiums on all matters associated with the charging / crediting of the policyholder of insurance premiums when exchanging a vehicle during the policy period. According to the plaintiff, when performing the replacement, the premiums should be calculated with respect to the substitute vehicle, including subtracting therefrom the premiums as proportional to the remainder of the insurance period of the replaced vehicle, in accordance with the tariffs which apply as of the date of the replacement.	To order Clal Insurance to correctly calculate the premiums and to pay the difference between the premiums which were credited with respect to the vehicle and the premiums which should have been credited when replacing the vehicle in the policy, and to determine that the prescription period is from the publication date of the Standard Policy on September 21, 1986.	All policyholders and/or insurants who were covered by Clal Insurance in motor property insurance policies, who replaced the vehicle in the policy during the insurance period, and were credited with lesser premiums than those which should have been credited to them with respect to the replaced vehicle, such that, effectively, with respect to the replacement of the vehicle, they overpaid, or received insufficient monetary reimbursement.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The personal claim amount of the class action plaintiff is NIS 178.67. The class action plaintiff did not specify, in the statement of claim, the estimated amount of the class action.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
31.	4/2017 District - Tel Aviv-Yafo	Tmura Insurance Agency (1987) Ltd. (hereinafter: "**Tmura**"), a second-tier subsidiary of the company, which is an insurance agency which manages pension arrangements, and against three additional insurance agencies.	According to the plaintiffs, the defendants provided services with respect to the regulation of social / pension provisions, for both employers and employees; however, they charged the consideration from the employees only, without their knowledge or consent, and in breach of the duties which apply to them by law.	To order the defendants to compensate the class members for the damages which they incurred (each defendant with respect to its relevant class members), or alternatively, to order any other remedy in favor of the group.	Any person who is included among the group of customers of the defendants while the defendants provided, to their employers, pension arrangement management services, during a period beginning defendants before the filing date of the new motion, until the date when the employer began bearing, out of its own resources, the costs of operating the employee's pension arrangement.	In November 2016, the Court approved the motion to withdraw of the plaintiff, a financial justice non-profit, in a similar claim which was filed by it in February 2016. The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The amount claimed with respect to the damages incurred by all of the class members amounts to a total of approximately NIS 357 million against all of the defendants, of which, approximately NIS 88 million was attributed to Tmura.

A3. Material class actions and motions to approve class action status for material claims which concluded during the reporting period, until its signing - no update

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A4. Presented below are additional details regarding exposure to immaterial class actions which have not yet been filed and to additional expenses

1. In addition to the material class actions which are described in Note 7(a)(a1), the pending motions for the approval of class action status for material claims, as described in Note 7(a)(a2), and the motions to approve class action status for material claims which were withdrawn during the reporting period, as described in Note 7(a)(a3), there are pending against the company and/or its subsidiaries motions to approve class actions which are immaterial, and regarding which a detailed description was therefore not included in the financial statements. As of the reporting date, 11 claims of this kind are being conducted against the company and/or its subsidiaries, where the total amount specified by the plaintiffs in the aforementioned claims amounts to approximately NIS 180 million[12].

2. In addition to the aforementioned legal proceedings, from time to time, potential exposures exist which, at this stage, cannot be estimated or quantified, with respect to alerts regarding the intention to file class actions on certain matters, or legal proceedings and specific petitions which may in the future develop into class actions, and potential exposure also exists, which at this stage cannot be estimated or quantified, to the possibility that additional class actions will be filed against the group's member companies due to the complexity of the companies' insurance products, along with the complexity of the regulations that apply to the member companies' activities, which may result in disputes regarding the interpretation of the provisions of the law or of an agreement, or regarding the manner of implementation of the provisions of the law or an agreement, or the method by which claims are settled in accordance with an agreement, as these apply to the relationship between the group's member companies and the customer.

   This exposure is particularly increased in the long term savings and long term health insurance branches, in which Clal Insurance is engaged, inter alia, due to the fact that, in those areas, some of the policies were issued decades ago, whereas today, due to significant regulatory changes, and due to the development in case law and in the Commissioner's position, the aforementioned policies may retroactively be interpreted differently, and may be subject to different interpretations than those which were in practice at the time when they were written. Moreover, the policies in the aforementioned segments have been in effect for decades, meaning that exposure exists to the possibility that in cases where the customer's claim is accepted and a new interpretation is provided for the terms of the policy, the future profitability of the company in question will be affected by the existing policy portfolio. This is in addition to compensation that may be provided to customers with respect to past activity.

[12] Including one claim in which the plaintiffs did not specify the claim amount, and one claim in which the amount is not attributed to the company only. For additional information regarding all class actions, see Note 7(c) below.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A4. Presented below are additional details regarding exposure to immaterial class actions which have not yet been filed and to additional expenses (Cont.)

2. (Cont.)

In January 2015, the Control of Financial Services (Insurance) Law, 1981 entered into effect, which signifies a major reform in the field of approval of supplementary insurance plans. Supplementary arrangements were published within the framework of a circular specifying the Commissioner's position regarding the principles for phrasing of insurance plans, which was replaced in April 2015 with an insurance circular regarding "instructions for the phrasing of insurance plans", and the Commissioner's position regarding "principles for the phrasing of insurance plans". In March 2017, an amendment was published to the circular. These circulars included various provisions and restrictions with respect to provisions which should or should not be included in insurance plans, and additionally, the exceptions which may be included in the policies were restricted (hereinafter, jointly: "**Insurance Plan Reform**"). The insurance plan reform allows the sale of insurance products after they have been submitted in advance to the Commissioner, with no need for explicit approval, and also allows the Commissioner, under certain conditions, to order an insurer to discontinue its provision of insurance plans or to order an insurer to implement a change in an insurance plan, also with respect to policies which have already been marketed by the insurer. It is not possible to predict in advance and to what degree the insurers are exposed to claims with respect to the policy's provisions, to the manner of application of the Commissioner's authorities in accordance with the insurance plan reform, nor its implications, which may be raised, inter alia, through the procedural mechanism set forth in the Class Action Law.

There is also exposure, which at this stage cannot be estimated or quantified, to errors in the methods used to operate products in the long term savings and health segments. It is not possible to predict in advance all types of claims which may be brought in this context and/or the possible exposure due to them which may be brought up, inter alia, by means of the procedural mechanism for class actions and/or industry-wide decisions of the Commissioner.

Such exposure is due to the complexity of the aforementioned products, which are characterized by a very lengthy lifetime, and are subject to frequent, complex and material changes, including changes in regulatory and taxation directives. The complexity of the changes, and the application thereof over a large number of years, creates increased operational exposure, also due to the multiplicity and limitations of the automation systems used in the group's institutional entities, due to additions / changes to the basic product structure, and due to multiple, frequent changes implemented over the product's lifetime, including by customers (employees) and/or by employers and/or by other parties acting on their behalf, with respect to insurance coverages and/or with respect to savings deposits.

The above complexity and changes affect, inter alia, the volume and amounts of deposits, the various components of the product, the manner in which funds are associated with employees, products and components, their charging dates, the identification of arrears in deposits and the handling of such cases, and the employment, personal and underwriting status of customers. The aforementioned complexity is increased in light of the large number of parties acting vis-a-vis the companies in the group regarding the management and operation of the products, including regarding conflicting instructions issued by them or by their representatives. The member institutional entities in the group routinely investigate, identify and handle issues which may arise due to the aforementioned complexities, both with respect to individual cases, and with respect to customer types and/or product types.

The entry into effect of the Control of Financial Services Regulations (Provident Funds) (Payments to Provident Funds), 2014 (the "Payment Regulations"), in general, and the update to the fund collection and intake interface in particular, intensify and increase, in the short term, the aforementioned complexity, although in the long term, they are expected to reduce it.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A4. Presented below are additional details regarding exposure to immaterial class actions which have not yet been filed and to additional expenses (Cont.)

2. (Cont.)

Additionally, further to the provisions of the Commissioner's circular from November 2012, regarding data with respect to members' rights (institutional entities circular 2014-9-13) (the "Circular"), which obligated the institutional entity to cleanse the data which confer rights upon members, in order to ensure that the recording of members' rights in the information systems is as reliable, complete, accessible and retrievable as possible, until the middle of 2016. The group's institutional entities implemented, after the publication of the circular, in 2013, a gap survey with respect to the members and policyholders who manage policies and/or accounts in the group's institutional entities, and also worked during the reporting year on the implementation of a comprehensive process of data cleansing with respect to the systems in the long-term savings segment. In general, as of the publication date of the report, tasks involving the cleansing of data regarding accrued balances of policyholders have been completed. The institutional entities in the group are continuing to perform data cleansing tasks with respect to members and policyholders, including with respect to additional gaps which are discovered from time to time, and at this stage, they are unable to estimate the full scope, cost and implications of the aforementioned activities.

The exposure to unfiled claims of member companies in the group is brought to the company's attention in several ways. This is performed, inter alia, through requests from customers, employees, providers or other parties on their behalf to entities in the companies, and particularly to the ombudsman in member companies in the group, through customer complaints to the public appeals unit in the Office of the Commissioner, through (non-class action) claims which are filed with the Court, and through position papers issued by the Commissioner.

It is noted that insofar as the customer's complaint is submitted to the public appeals unit in the Office of the Commissioner, in addition to the risk that the customer will choose to bring its claims also within the framework of a class action, the member companies in the group are also exposed to the risk than the Commissioner will reach a determination regarding the complaint by way of sector-wide determinations, which will apply to a broad group of customers. In recent years, an increase has occurred in the exposure to the aforementioned risk, due to the increasing involvement by the Commissioner in customer complaints referred to her, and in the Commissioner's tendency to determine a position in principle by way of industry-wide determinations, and due to position papers and draft position papers which are published by the Commissioner. For additional details regarding industry-wide determinations and position papers, see section D below.

On this matter, it is noted that in November 2016, an amendment was published to the circular regarding the investigation and settlement of claims and the handling of public appeals, according to which, in cases where the public inquiry indicates a systemic and significant deficiency, which may be repeated, in the conduct of an institutional entity, the institutional entity must work to identify similar cases in which a similar deficiency took place, and insofar as similar cases are identified - it must conduct a lesson learning process, and rectify the defects within a reasonable period of time, and submit a report on the matter to the Commissioner once per year. This amendment may expand the group's exposure to the broad implications with respect to such deficiencies, and may have a significant effect, which at this stage cannot be estimated.

The member companies in the group are unable to predict in advance whether a customer claim which has been brought to the companies' attention will eventually lead to the filing of a class action, or will lead to an industry-wide determination, or will have industry-wide implications, even in cases where the customer threatens to do so, and additionally, the member companies in the group are unable to estimate the potential exposure that may be created due to the aforementioned claims.

Note 7 - Contingent Liabilities and Claims (Cont.)

B. Material claims and derivative claims

B1. Current or concluded material claims which are not in the ordinary course of business or exposure to such claims

1. Clal Insurance engaged, from January 2004 to June 2013, with Hadassah Medical Organization (hereinafter: "Hadassah"), in a renewing annual agreement with respect to second layer professional liability insurance, providing insurance coverage for claims in an amount exceeding the self insurance amount, which was given by Hadassah (hereinafter: the "**First Layer**"). The liability limit which was given by Clal Insurance in the second layer was changed over the insurance years, where the insurance liability in the last insurance period, which began in January 2012 and concluded in June 2013, was with respect to a claim whose amount was over approximately NIS 8.8 million, and up to a total of approximately NIS 18 million per event and approximately NIS 36 million for all policyholders with respect to that insurance period (the aforementioned amounts are linked to the consumer price index from January 1, 2012). In February 2014, Hadassah filed with the District Court of Jerusalem a motion to issue a stay of proceedings and for the appointment of a trustee for the purpose of formulating a recovery plan and creditors' settlement in accordance with sections 350b(d)(1) and 350(d) of the Companies Law (hereinafter: the "**Motion**"). As part of the proceedings which were conducted within the framework of the motion, claims were heard alleging that the insurance companies which provided professional liability insurance to Hadassah, including Clal Insurance, should bear the monetary costs which may be imposed in the first layer, beyond the amount of the designated deposit which Hadassah deposited for this purpose, in case Hadassah does not pay the claims itself. Clal Insurance clarified to the trustee that its position is different, and that it is responsible for the second layer only. In May 2014, a motion to approve the recovery plan was filed with the Court, which includes one-time assistance by the State to Hadassah in the amount of NIS 140 million, as well as routine support, which are together intended to supplement the accrued reserve in Hadassah up to the amount of Hadassah's actuarial liabilities with respect to outstanding claims on the first layer, for the period until December 31, 2013. To the best of the company's knowledge, on May 22, 2014, the recovery plan was approved by the Court, and the stay of proceedings was lifted.

2. In May 2016, a claim was filed with the District Court of Tel Aviv for the cancellation of a ruling against Clal Finance Batucha Investment Management Ltd. and Clal Finance Management Ltd. (companies which were previously under the control of Clal Insurance Enterprises Holdings Ltd., hereinafter, jointly: the "**Clal Finance Companies**"). The claim pertains to the cancellation of a ruling which was given in February 2009 (the "**Cancellation Ruling**"), in which an arbitration award was canceled, which was given with respect to a dispute between the plaintiff and his mother, and the Clal Finance companies, in which the Clal Finance companies were ordered to pay to the plaintiffs, through arbitration, a total amount of approximately NIS 95 million, plus linkage differentials and interest, from the date of the arbitrator's decision until the date of actual payment (the "**Arbitration Award**"). The arbitration which is the subject of the arbitration award involved actions which were performed by the Clal Finance companies during the period in which the plaintiff and is mother managed their investment portfolios through Clal Finance companies. A ruling which gave force of ruling to the settlement agreement in which the parties to the arbitration engaged, which primarily includes the cancellation of the arbitration award, the dismissal of the motion to approve the arbitration award, and payment in the total amount of NIS 9.2 million to the plaintiff and his attorneys, in consideration of a final and absolute waiver and dismissal of all of the plaintiffs' claims, demands and lawsuits in the arbitration vis-à-vis the Clal Finance companies. According to the plaintiff, the Court is requested to order the cancellation of the cancellation ruling, due to extreme injustice, since it was given based on the plaintiff's consent during a time when he was suffering from a severe emotional state, lack of judgment and inability to agree to the settlement agreement. The plaintiff further demands the cancellation of the ruling due to error, extortion and obstruction. The plaintiff is petitioning the Court to order the cancellation of the canceling judgment, and to require the Clal Finance companies to pay the arbitration award to him, less the amounts which were paid to him, and with the addition of linkage differentials and interest from the date of provision of the arbitration award until the actual payment date. In November 2016, the plaintiff's mother joined the claim as a plaintiff. In November 2016, the Clal Finance companies filed a motion to order the plaintiffs to deposit the settlement amount in the Court fund, as a condition for the continued investigation of the claim, as well as a motion to order the plaintiffs to provide a guarantee for the payment of expenses. The plaintiffs responded to the aforementioned motions, and as of the present date, a decision has not yet been reached regarding the aforementioned motions.

   The company is not party to the claim; however, it received notice regarding the filing of the claim from Bank of Jerusalem Ltd., in accordance with the agreement for the sale of Clal Finance Batucha Investment Management Ltd. to Bank of Jerusalem, according to which the company has an undertaking to indemnify, as specified in Note 27(c)(1)(b) to the company's consolidated financial statements as of December 31, 2016. The aforementioned undertaking to indemnify may be exercised insofar as Bank of Jerusalem is obligated by law in connection with the aforementioned claim, and subject to the terms of the agreement between the parties. It is noted, in this regard, that in accordance with the provisions of the agreement dated October 2002, according to which Clal Finance Batucha Investment Management Ltd. was acquired, IDB Development Corporation Ltd. and Discount Investment Corporation Ltd. are required to indemnify Clal Finance for any direct damage, expense or loss which may be incurred by Clal Finance (or by any of its subsidiaries), including due to claims or demands whose cause of action arose before the date set forth in the aforementioned agreement.

Note 7 - Contingent Liabilities and Claims (Cont.)

B. Material claims and derivative claims (Cont.)

B2. Material derivative claims

A derivative claim is a claim which is filed in accordance with the provisions of the Companies Law, 1999 (hereinafter: the "**Companies Law**"), on behalf of a shareholder or a director in a company, and in certain circumstances, on behalf of a creditor of the company. The claim was filed on behalf of the company, due to a cause of action of the company, after the plaintiff's request towards the company to exhaust its rights was rejected, or was not accepted, in a manner which entitles him to file a derivative claim in accordance with the provisions of the Companies Law; A derivative claim requires approval from the Court, which will approve it if it is convinced that the claim and the management thereof are, prima facie, in the company's best interest, and that the plaintiff is not acting in bad faith. In accordance with the provisions of the Companies Law, the plaintiff will not withdraw a derivative claim, and will not implement an arrangement or settlement with the defendant without the approval of the Court; A motion to approve an arrangement or settlement will include specification of all details thereof, including any consideration offered to the plaintiff.

Note 7 - Contingent Liabilities and Claims (Cont.)

B. Material claims and derivative claims (Cont.)

B2. Material derivative claims (Cont.)

<table>
<tr><th>Serial number</th><th>Date and instance</th><th>Defendants</th><th>Main claims and causes of action</th><th>Main remedies</th><th>Status / additional details</th><th>Claim amount</th></tr>
<tr><td>1.</td><td>2/2014
District - Economic Department, Tel Aviv</td><td>Clal Insurance, four additional insurance companies, and Clalit Health Services (hereinafter: "Clalit")[13]</td><td rowspan="2">According to the plaintiffs, health funds which do not exhaust and exercise the participation right which is available to them, in principle, by virtue of the law, towards the insurance companies, with respect to expenses which they spent within the framework of additional health services programs (hereinafter: "Additional Health Services"), with respect to those cases in which there is, in principle, an overlap between the additional health services and the commercial health insurance policies which are sold by the insurance companies. It was further claimed that the insurance companies allegedly encourage their policyholders to activate the Additional Health Services Plans in the health funds, and to refrain from activating the commercial insurance policy, by providing monetary compensation to policyholders, with the aim of avoiding the need to themselves absorb the materialization of the risk with respect to the insurance event, while passing on the risk to the health funds, and thereby allegedly performing unjust enrichment.</td><td rowspan="2">Exercise of the health funds' participation right towards the insurance companies, while requiring each of the insurance companies to pay to the health funds at least half of the payments which the health funds paid for the purpose of covering the expenses which were paid by them in the additional health services plans, both with respect to the component involving surgery and choice of surgeon in Israel, and with respect to the component involving medical advice, during the seven years preceding the filing date of the motion, and in cases where, the policyholders of the health funds have commercial health insurance, which provides them insurance coverage with respect to those components.</td><td rowspan="2">In July 2015, following the Court's decision that a member of an Ottoman association may file a motion to approve a derivative claim on behalf of the association, Maccabi and Clalit health funds filed a motion for leave to appeal the decision to the Supreme Court, and in October 2015, the company and the insurance companies joined the motion for leave to appeal. In accordance with the Court's decision, the Attorney General of Israel filed, in March 2016, a position regarding the main issues raised in the claim, which supported the position of the defendants. Inter alia, it was determined that the plaintiffs are not entitled to file a derivative claim on behalf of the health funds, and therefore, there is no reason to hear the motion on the merits.</td><td rowspan="2">With respect to the general claim, the plaintiffs estimate the claim amount against all of the insurance companies at a total of approximately NIS 3.5 billion, plus interest and linkage. The petitioner has not specified a part of his claim amount with respect to Clal Insurance, however, he has stated that according to the data of the Division of Capital Markets, Insurance and Savings in the Ministry of Finance, as of the end of 2011, the market share of Clal Insurance is 14% of the total market share of the insurance companies in the branch, where the total market share of the defendant insurance companies is 98%.</td></tr>
<tr><td>2.</td><td>3/2014
District - Economic Department, Tel Aviv</td><td>Clal Insurance, four additional insurance companies, and Maccabi Health Services (hereinafter: "Maccabi")[14]</td></tr>
</table>

[13] In April and October 2014, decisions were given by the Court ordering the consolidation of the Clalit and Maccabi cases, and the filing of a consolidation letter of claim regarding the motions and the claims.

[14] See note 12 above.

Note 7 - Contingent Liabilities and Claims (Cont.)

B. Material claims and derivative claims (Cont.)

B2. Material derivative claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Status / additional details	Claim amount
1. (Cont.)	2/2014 District - Economic Department, Tel Aviv	Clal Insurance, four additional insurance companies, and Clalit Health Services (hereinafter: “**Clalit**”)	The motion was filed after the health funds had rejected the petitioner’s demand to exhaust the aforementioned participation right towards the insurance companies, on the grounds that, from the perspective of the provisions of the law, and for additional reasons, there is no basis for the aforementioned demand, so long as the current provisions of the law have not been changed, including the initiation of administrative measures.		Beyond what is necessary, and as to the case in question, the Attorney General of Israel believes that it would not be appropriate, in light of the circumstances, to approve a motion to file a derivative claim of this kind, and stated that this issue is currently in the process of regulation by government ministries, and that the various ministries intend to address the issue soon, meaning that it is possible that the eventual conclusion will be that there is no justification for establishing a “subrogation” mechanism, for all its complexity and costs, and with respect to the public basket, which is included the National Health Insurance Law, in the opinion of the State, it would be inappropriate to consider creating a subrogation mechanism vis-à-vis the commercial insurance, or between it and the field of additional health services.	With respect to the Maccabi claim, the plaintiffs estimate the claim amount against all of the insurance companies in the amount of approximately NIS 1.7 billion, plus interest and linkage. The plaintiffs have not designated a certain part of their claim amount to Clal Insurance; however, they noted that according to the information of the Division of Capital Markets, Insurance and Savings at the Ministry of Finance, as of the years 2011 and 2012, the market share of Clal Insurance is 14% of the total market share of insurance companies in the segment, where the defendants’ total market share is 98%.
2. (Cont.)	3/2014 District - Economic Department, Tel Aviv	Clal Insurance, four additional insurance companies, and Maccabi Health Services (hereinafter: “**Maccabi**”)				

Note 7 - Contingent Liabilities and Claims (Cont.)

B. Material claims and derivative claims (Cont.)

B3. Immaterial derivative claims

Serial number	Date and instance	Defendants	Main claims and causes of action	Status / additional details	Claim amount
1.	2/2017 District - Tel Aviv	DIC, directors and corporate officers of DIC, and certain other shareholders of DIC who are associated with IDB Development or with the controlling shareholders in DIC at that time. including Clal Holdings and Clal Finance (all, jointly: the "**Respondents**") [15]	Claim regarding an unlawful dividend distribution by DIC. It is noted that the amounts attributed to the company and to Clal Finance, who held DIC shares, and who therefore received dividends, are primarily amounts which were received for customers of the group's member companies.	This derivative claim was filed further to the decision of the Court from September 2016, according to which a previous motion to approve a derivative claim was struck out, which had been filed by the plaintiffs, after it was determined that it would be appropriate to file a new derivative claim on the matter, while removing IDB Development Corporation Ltd. as a respondent from the proceeding, in light of the anti-suit injunction which was given regarding it. In the claim, assertions were raised which were similar to those raised in the previous motion to approve, which was struck out, as stated above, which pertained to assertions against dividend distributions which were announced by DIC, during the period from May 2010 up to and including March 2011. The proceedings are currently in the stage of hearing the motion to approve the claim as a derivative claim.	The claim amount attributed to the company, to Clal Finance and to two additional shareholders who are associated with IDB Development or with the controlling shareholders of DIC, amounts to approximately NIS 44 million, including the amounts which were distributed as dividends, as stated above, and interest on the aforementioned amounts until the filing date of the motion (the aforementioned amount was not divided among the shareholders of the defendants).

[15] The company and Clal Finance are defendants, due to their status as shareholders of DIC during the relevant period.

Note 7 - Contingent Liabilities and Claims (Cont.)

C. Summary details regarding exposure to claims

Presented below are details concerning the total amount claimed in class action suits, both material and immaterial, which were approved for filing as class actions, in pending motions to approve claims as class actions, in pending motions to approve derivative claims and other materials claims, as specified by the plaintiffs in their claims (nominally) within the framework of the statements of claim which were filed against companies in the group. It is noted that in most of the cases the amount claimed by the plaintiffs is an estimated amount only, and that the exact amount will be decided within the framework of the legal proceedings. It is noted that the above amount does not include claims for which the representative plaintiff has not stated an amount. Furthermore, it is hereby clarified that the claimed amount does not necessarily constitute quantification of the company's actual exposure amount, which may eventually turn out to be lower or higher[16].

Type of claim	Number of claims	Amount claimed, NIS in millions
A. Claims approved as class actions		
1. An amount referring to the company was presented	6	2,644
2. The claim was filed against a number of entities, with no specific amount attributed to the company	1	225
3. Claim amount not presented [17]	2	-
4. An annual amount has been specified (and accordingly, the total amount is period-dependent)	1	107 [18]
B. Pending motions to approve claims as class actions		
1. An amount referring to the company was presented	31	5,898
2. The claim was filed against a number of entities, with no specific amount attributed to the company	8	11,568
3. Claim amount not presented [19]	7	-
C. Other material claims		
1. An amount referring to the company was presented	1	86 *
2. The claim was filed against a number of entities, with no specific amount attributed to the company	-	-
3. Claim amount not presented	-	-
D. Derivative claims		
1. An amount referring to the company was presented	-	-
2. The claim was filed against a number of entities, with no specific amount attributed to the company	3	5,276
3. Claim amount not presented	-	-

In addition to the details provided in Notes 7(a) and 7(b) above, the company and/or the consolidated companies are party to additional legal proceedings, which are not in the ordinary course of business and which are not material claims, which were initiated by customers, former customers and various third parties for a total sum of approximately NIS 78 million. The causes of action against the company and/or the consolidated companies within the framework of the aforementioned proceedings are varied and multiple.

*) For details regarding an undertaking to indemnify towards Clal Finance, see section 7(b)(b1)(2) above.

[16] It should further be noted that the specified amounts do not include amounts demanded by the plaintiffs with respect to compensation to the class action plaintiff, and legal fees for his representative.
[17] In one of the motions, the plaintiff did not specify a claim amount, although an estimate was given of hundreds of millions of NIS.
[18] The specified amount refers to one year only. The claim was filed in March 2010, with respect to a legislative amendment from 2008.
[19] These motions include three motions: one motion in which the plaintiff did not specify the claim amount, but estimated it as many millions of NIS, a second motion which was estimated at hundreds of millions of NIS, and a third motion which was estimated as tens of millions of NIS.

Note 7 - Contingent Liabilities and Claims (Cont.)

D. Exposure due to regulatory provisions and position papers

Additionally, and in general, in addition to the overall exposure to which the institutional entities in the company's group are exposed, with respect to future claims, as set forth in Note 7(a)(a4)(2) above, from time to time, including due to complaints by policyholders, audits and requests for information, there is also exposure to alerts concerning the Insurance Commissioner's intention to impose on the above entities financial sanctions and/or directives issued by the Commissioner regarding correction and/or repayment and/or performance of certain actions with respect to a policyholder or a group of policyholders, and/or exposure with respect to industry-wide decisions, through which the Commissioner is also authorized to order the performance of a repayment to customers with respect to the deficiencies which are referenced in the alerts or determinations and/or position papers published by supervisory entities, and whose status and degree of impact are uncertain. Additionally, from time to time, the institutional entities are involved in the hearing and/or discussion stages vis-à-vis the Control of Insurance Office concerning notices and/or determinations, and at times, enforcement authorities are implemented against them, including the imposition of financial sanctions.

The institutional entities in the group evaluate the need to perform provisions in the financial statements, in connection with the aforementioned proceedings, based on the opinion of their legal counsel and/or are currently evaluating the significance of the aforementioned proceedings, as required and as appropriate. Presented below are details regarding the Commissioner's positions or draft positions, or determinations in principle which have or may have an impact on the class, as follows:

1. In April 2016, a determination in principle was published regarding the method for marketing of personal accidents policies (hereinafter: "**Determination**"). The determination refers to the holders of individual personal accident policies for periods exceeding one year, who acquired personal accident insurance from the insurers, after they had a previous health insurance policy at that insurer, beginning in January 2014, and in accordance with the terms which were determined in the determination (hereinafter, respectively: the "**Insurance**" and the "**Policyholders**" or the "**Policyholder**"). According to the determination, the insurance company is required to conduct, an evaluation which will include evaluating the method by which the insurance is marketed, and according to its results, to contact policyholders and to receive their express consent for the continuation of their coverage under the aforementioned insurance, and to cancel the insurance coverage and to reimburse the premiums which were paid, with the addition of duly calculated linkage differentials and interest, if the policyholder has not approved. The company is currently in the stages of implementing the determination and is holding discussions with the Commissioner regarding the outline for implementation.

2. The company held discussions with the Commissioner, in connection with the draft determination regarding it, with respect to one-time deposits of policyholders in guaranteed return policies (hereinafter: the "**Policies**"). In accordance with the draft, the company is obligated to take certain actions with respect to policyholders whose actual rate of deposits, which bore the returns of the profit sharing portfolio, was equal to or greater than the returns guaranteed in the policies, and certain actions with respect to policyholders whose actual one-time deposit returns were lower than the guaranteed returns. Therefore, at this stage, in light of the fact that the final wording of the draft is not known, if and insofar as it will be received, the company is unable to assess its implications and the degree of its impact on the company, if and insofar as it will be published.

3. In February 2017, a position of the Commissioner was published regarding certain provisions with respect to the re-evaluation of eligibility, which were determined in the claim settlement circular (the "**Position Paper**"). In the position paper it was determined, inter alia, that in case an insurance company has approved a claim for periodic insurance benefits for a period which is shorter than the maximum entitlement period, subject to the provisions of the policy (the "**Approved Payment Period**"), it must initiate, before the end of the approved payment period, a re-evaluation of entitlement, in which it will determine whether the claimant is still entitled to insurance benefits. It was further clarified in the position paper that, that in its notice to the claimant, the insurance company must clarify that the continued payment of insurance benefits after the conclusion of the approved payment period is conditional upon the re-evaluation of their entitlement.

Note 7 - Contingent Liabilities and Claims (Cont.)

E. With respect to the costs that may arise due to the claims and exposures described in Note 7(a), (b), (c) and (d) above, provisions are made in the financial statements of the relevant consolidated companies, only if it is more likely than not (i.e., probability of over 50%) that a payment liability due to past events will materialize, and that the liability amount will be quantifiable or estimable within a reasonable range. The executed provision amounts are based on an estimate of the risk level in each of the claims as of a date proximate to the publication date of this report (excluding the claims which were filed during the last two quarters, regarding which, due to their preliminary stages, it is not possible to estimate their chances of success). On this matter, it is noted that events which take place during the litigation process may require a re-evaluation of this risk. Insofar as the company has a right of indemnification from a third party, the company recognizes such right if it is virtually certain that the indemnification will be received in the event that the company settles the obligation.

The assessments of the company and of the consolidated companies concerning the estimated risk in the claims which are being conducted are based on the opinions of their legal counsel and/or on the estimates of the relevant companies, including concerning the amounts of the settlement arrangements, which the managements of the company and of the consolidated companies expect are more likely than not to be paid by them.
It is hereby emphasized that, in the attorneys' opinion, concerning the majority of motions to approve class action status with respect to which no provision was made, the attorney's evaluation refers to the chances of the motion to approve class action status, and does not refer to the chances of the claim on the merits, in the event that it is approved as a class action. This is due, inter alia, to the fact that the scope and content of hearing of the actual claim, once granted class action status, would be affected by the Court's decision with respect to the granting of class action status, which usually refers to the causes of action that were approved or not approved, to reliefs that were approved or not approved, etc.

It is hereby clarified that if the hearing of a legal claim (it is hereby clarified, for the avoidance of doubt, that the hearing of a claim does not include a determination regarding motions to recognize class actions and other interim motions) in a certain instance is decided against the group's member companies, a provision will be recognized or updated in the financial statements which are published for the first time after the date of the determination, even if, in the opinion of group management, based on the opinion of its legal counsel, the result in an appeal to a higher instance will be different, and that at the end of the proceedings, no orders will be imposed on the group.

At this preliminary stage, it is not possible to estimate the chances of the motions to approve claims as class actions with respect to the claims specified in Notes 7(a)(a2)(25 - one claim), 7(a)(a2)(30) and 7(a)(a2)(31) above, and therefore, a provision with respect to these motions was not included in the financial statements.

The provision which is included in the financial statements as of March 31, 2017, with respect to all of the legal claims specified in Note 7(a), 7(b) and 7(c) above, amounted to a total of approximately NIS 102 million.

Note 8 - Additional Events During and After the Reporting Period

A. Actuarial estimates

1. Changes to insurance reserves in light of changes in the interest rate environment and their impact on the discount rates in life insurance, non-life insurance and long-term care insurance

Further to that stated in Note 40(e)(e1)(d)(1) to the annual financial statements, regarding the strengthening of insurance reserves in light of the low interest rate environment, and its impact on the discount rates in life and long-term care insurance, and the Commissioner's directives regarding the liability adequacy test (LAT), during the reporting period, an increase occurred in the risk-free interest rate curve, and in the estimated rate of return in the portfolio of assets held against insurance liabilities. In light of the foregoing, the actuary of Clal Insurance updated the interest rates on the free assets which are used to discount the liabilities to supplement annuity reserves and paid pension reserves (2.6%-3.28%, as compared with 2.4%-3.28% as of December 31, 2016), and the results of the liability adequacy test (LAT) were updated.

The impact on the financial results is specified below:

	For the period of three months ended March 31		For the year ended December 31
	2017	2016	2016
NIS in millions	Unaudited		Audited
Life insurance			
Change in the discount interest rate used in the calculation of the liability to supplement the annuity and paid pension reserves	**14**	(23)	(32)
Change in pension reserves following the decreased forecast of future income (K factor)	-	-	(1)
Liability adequacy test (LAT)	**58**	(228)	(162)
Life insurance - total impact of the low interest rate environment before tax	**72**	(251)	(194)
Non-life insurance	-	(2)	-
Long term care insurance in the health segment	-	(97)	-
Total income (loss) before tax	**72**	(350)	(194)
Total comprehensive income (loss) after tax	**47**	(224)	(124)

2. Changes in estimates with respect to the calculation of outstanding claims in non-life insurance

Discount rate for National Insurance annuities

Further to that stated in Note 40(e)(e2)(4)(g) to the financial statements for 2016, the company estimated the total possible effect of the foregoing, including amounts which the insurance companies 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 in the three month period ended on the reporting date, in the compulsory motor and liabilities branches, by approximately NIS 6 million, on retention and before tax (approximately NIS 4 million after tax), further to the increase of insurance liabilities in the amount of approximately NIS 118 million on retention before tax (approximately NIS 76 million after tax) in the corresponding period last year, and a total of approximately NIS 141 million on retention (approximately NIS 90 million after tax) in all of 2016.

Note 8 - Additional Events During and After the Reporting Period (Cont.)

B. Update to the corporate tax rate

Further to that stated in Note 23 regarding the reduction of the corporate tax rate, the corporate tax rate was reduced, beginning on January 1, 2017, to a rate of 24% (instead of 25%), and beginning on January 1, 2018, it will be reduced to a rate of 23%.

The effect of the reduction in the corporate tax rate resulted, in 2016, in a reduction of the balance of deferred tax liabilities in the amount of approximately NIS 37 million, against a reduction of tax expenses in the amount of approximately NIS 21 million, and a total of approximately NIS 16 million against the increase in other comprehensive income, with no significant impact during the reporting period.

Presented below are the statutory tax rates which apply to financial institutions, in accordance with the foregoing:

In percent	Corporate tax rate	Capital gains tax rate	Overall tax rate in financial institutions
Year:			
2016	25.00	17.00	35.90
2017	24.00	17.00	35.04
2018 and thereafter	23.00	17.00	34.18

C. Operation of provident funds

Further to that stated in Note 44(b) to the annual financial statements, in January 2017, the provident funds and study funds which were operated by Bank Hapoalim and Dov Sinai were transferred to the operation of Bank Leumi le-Israel and Leumi Capital Market Services Ltd. (hereinafter, jointly: the "**Bank**") (excluding the provident fund "Bar", which is expected to be transferred to the operation of the bank in January 2018).

D. The company's shelf prospectus

In April 2017, the company received notice from the Israel Securities Authority stating that, by virtue of its authority in accordance with section 23a(b) of the Securities Law, 1968, and in light of the company's request, it had decided to extend the period for offering securities of the company in accordance with the company's shelf prospectus dated April 21, 2015, until April 22, 2018.

E. Structural change

As specified in Note 44(f) to the annual financial statements, the company split the long-term savings division, beginning on January 1, 2017, into two separate divisions: the life insurance division, led by Mr. Yaron Shamay, and the pension, provident and financial products division, led by Mr. Avi Rosenbaum, for the purpose of providing a separate business focus for each of the segments, in light of the significant regulatory changes which have taken place in recent years.

Note 8 - Additional Events During and After the Reporting Period (Cont.)

F. Interim agreement between the subsidiaries and the employees committee

Further to that stated in Note 24(d) to the company’s annual financial statements, regarding the announcement of the Histadrut New General Federation of Labor (the “**Histadrut**”), to companies which are party to the collective agreement, regarding a labor dispute in accordance with sections 5(a) and 5(b) of the Resolution of Labor Disputes Law, 1957 (the “**Law**”), and regarding organizational measures which were implemented by the employees of Clal Group who are party to the collective agreement, on March 26, 2017, an interim agreement was signed between the subsidiaries and the employees’ committee and the Maof Histadrut (the “**Interim Agreement**”). The interim agreement includes, inter alia, understandings regarding a raise in the minimum wage for monthly employees in the company and for veteran employees, and a raise in the salary of employees working in the support centers, understandings regarding the period for the receipt of tenure for new employees of the company, and changes to performance improvement processes prior to dismissal. Most of the understandings in the interim agreement constitute full exhaustion of the demands of the parties regarding these issues, for the entire period of the collective agreement which will be signed. Within the framework of the interim agreement, the workers’ committee undertook to keep full industrial peace, and not to adopt any organizational measures whatsoever until June 15, 2017, and the parties undertook to continue conducting relevant and intensive negotiations towards signing a collective agreement as soon as possible. According to the company’s estimate, the impact of the interim agreement on the company’s financial statements is immaterial. It is noted that the interim agreement will constitute a part of the entire set of understandings which will be reached under the comprehensive collective agreement.

G. General and administrative expenses

Further to that stated in Note 44(g) to the annual financial statements, beginning in January 2017, the company implements updates to the allocation model for general and administrative expenses. The impact of the implementation of the aforementioned updates on the reports is immaterial.

H. Developments subsequent to the reporting date

Subsequent to the reporting date, the risk-free interest rate curve decreased. Further to that stated in Note 40(e)(e1) and (e2) to the annual financial statements, a decrease in interest rates may lead to 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 the second quarter of 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 the second quarter of 2017, and the above does not constitute any estimate regarding the company’s expected financial results for the second quarter of 2017.

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

Annex - Details of Assets for Investment-Linked Contracts and Other Financial Investments of Consolidated Insurance Companies Registered in Israel

1. Assets for investment-linked contracts

Below are details of assets held against investment-linked insurance contracts and investment contracts:

	As of March 31		As of December 31
	2017	2016	2016
NIS in thousands	Unaudited		Audited
Investment property *)	**2,773,464**	2,724,208	2,742,180
Financial investments			
Marketable debt assets	**22,135,498**	21,064,244	21,106,921
Non-marketable debt assets	**5,988,402**	6,709,517	6,243,667
Stocks	**7,943,190**	8,401,258	8,053,144
Other financial investments	**17,185,667**	11,213,821	16,790,762
Total financial investments *)	**53,252,757**	47,388,840	52,194,494
Cash and cash equivalents	**2,431,671**	4,124,720	2,953,235
Other	**658,857**	551,174	505,711
Total assets for investment-linked contracts	**59,116,749**	54,788,942	58,395,620

*) Presented at fair value through profit and loss.

2. Details of other financial investments

	As of March 31, 2017			
	Fair value through profit and loss	Available for sale	Loans and receivables	Total
NIS in thousands	Unaudited			
Marketable debt assets (a)	**55,708**	**5,465,277**	**-**	**5,520,985**
Non-marketable debt assets (b)	**7,908**	**-**	**21,402,314**	**21,410,222**
Stocks (c)	**-**	**1,123,209**	**-**	**1,123,209**
Others (d)	**181,270**	**2,217,710**	**-**	**2,398,980**
Total other financial investments	**244,886**	**8,806,196**	**21,402,314**	**30,453,396**

	As of March 31, 2016			
	Fair value through profit and loss	Available for sale	Loans and receivables	Total
NIS in thousands	Unaudited			
Marketable debt assets (a)	224,417	5,798,683	-	6,023,100
Non-marketable debt assets (b)	10,624	-	21,263,952	21,274,576
Stocks (c)	-	1,043,543	-	1,043,543
Others (d)	286,346	1,819,866	-	2,106,212
Total other financial investments	521,387	8,662,092	21,263,952	30,447,431

	As of December 31, 2016			
	Fair value through profit and loss	Available for sale	Loans and receivables	Total
NIS in thousands	Audited			
Marketable debt assets (a)	49,640	5,479,395	-	5,529,035
Non-marketable debt assets (b)	8,290	-	21,266,950	21,275,240
Stocks (c)	-	1,139,029	-	1,139,029
Others (d)	204,423	2,139,058	-	2,343,481
Total other financial investments	262,353	8,757,482	21,266,950	30,286,785

Annex - Details of Assets for Investment-Linked Contracts and Other Financial Investments of Consolidated Insurance Companies Registered in Israel (Cont.)

2. Details of other financial investments (Cont.)

A. Marketable debt assets - composition

	As of March 31, 2017	
	Book value	Amortized cost [1]
NIS in thousands	Unaudited	
Government bonds	**3,354,255**	**3,354,057**
Other debt assets		
Other non-convertible debt assets	**2,166,730**	**2,139,880**
Other convertible debt assets	**-**	**139**
	2,166,730	**2,140,019**
Total marketable debt assets	**5,520,985**	**5,494,076**
Impairment applied to income statement (cumulative)	**57**	

	As of March 31, 2016	
	Book value	Amortized cost [1]
NIS in thousands	Unaudited	
Government bonds	3,629,825	3,502,926
Other debt assets		
Other non-convertible debt assets	2,391,248	2,359,240
Other convertible debt assets	2,027	2,411
	2,393,275	2,361,651
Total marketable debt assets	6,023,100	5,864,577
Impairment applied to income statement (cumulative)	57,855	

	As of December 31, 2016	
	Book value	Amortized cost [1]
NIS in thousands	Audited	
Government bonds	3,374,599	3,373,925
Other debt assets		
Other non-convertible debt assets	2,154,299	2,146,600
Other convertible debt assets	137	564
	2,154,436	2,147,164
Total marketable debt assets	5,529,035	5,521,089
Impairment applied to income statement (cumulative)	2,916	

1) Amortized cost - Cost less principal payments plus (less) cumulative amortization using the effective interest method of any difference between the cost and the repayment amount, and less any amortization with respect to impairment applied to profit and loss.

Annex - Details of Assets for Investment-Linked Contracts and Other Financial Investments of Consolidated Insurance Companies Registered in Israel (Cont.)

2. Details of other financial investments (Cont.)

B. Non-marketable debt assets - composition

	As of March 31, 2017	
	Book value	Fair value
NIS in thousands	Unaudited	
Government bonds		
HETZ bonds and deposits with the Ministry of Finance	**15,542,266**	**22,717,205**
Other non-convertible debt assets, excluding deposits in banks	**4,982,934**	**5,433,651**
Deposits in banks	**885,022**	**994,384**
Total non-marketable debt assets	**21,410,222**	**29,145,240**
Impairment applied to income statement (cumulative)	**92,006**	

	As of March 31, 2016	
	Book value	Fair value
NIS in thousands	Unaudited	
Government bonds		
HETZ bonds and deposits with the Ministry of Finance	15,440,330	23,630,011
Other non-convertible debt assets, excluding deposits in banks	4,875,916	5,421,313
Deposits in banks	958,330	1,122,298
Total non-marketable debt assets	21,274,576	30,173,622
Impairment applied to income statement (cumulative)	63,947	

	As of December 31, 2016	
	Book value	Fair value
NIS in thousands	Audited	
Government bonds		
HETZ bonds and deposits with the Ministry of Finance	15,329,115	22,491,386
Other non-convertible debt assets, excluding deposits in banks	5,048,175	5,474,687
Deposits in banks	897,950	1,011,406
Total non-marketable debt assets	21,275,240	28,977,479
Impairment applied to income statement (cumulative)	103,167	

Annex - Details of Assets for Investment-Linked Contracts and Other Financial Investments of Consolidated Insurance Companies Registered in Israel (Cont.)

2. Details of other financial investments (Cont.)

C. Stocks

	As of March 31, 2017	
	Book value	Cost
NIS in thousands	Unaudited	
Marketable stocks	**1,046,764**	**1,022,043**
Non-marketable stocks	**76,445**	**107,493**
Total stocks	**1,123,209**	**1,129,536**
Impairment applied to income statement (cumulative)	**163,281**	

	As of March 31, 2016	
	Book value	Cost
NIS in thousands	Unaudited	
Marketable stocks	962,835	1,002,418
Non-marketable stocks	80,708	107,489
Total stocks	1,043,543	1,109,907
Impairment applied to income statement (cumulative)	141,895	

	As of December 31, 2016	
	Book value	Cost
NIS in thousands	Audited	
Marketable stocks	1,062,027	1,058,551
Non-marketable stocks	77,002	107,493
Total stocks	1,139,029	1,166,044
Impairment applied to income statement (cumulative)	171,000	

Annex - Details of Assets for Investment-Linked Contracts and Other Financial Investments of Consolidated Insurance Companies Registered in Israel (Cont.)

2. Details of other financial investments (Cont.)

D. Other financial investments [1)]

	As of March 31, 2017	
	Book value	Cost
NIS in thousands	Unaudited	
Marketable financial investments	**1,061,733**	**1,039,052**
Non-marketable financial investments	**1,337,247**	**1,060,327**
Total other financial investments	**2,398,980**	**2,099,379**
Impairment applied to income statement (cumulative)	**62,103**	

	As of March 31, 2016	
	Book value	Cost
NIS in thousands	Unaudited	
Marketable financial investments	838,303	843,316
Non-marketable financial investments	1,267,909	1,026,430
Total other financial investments	2,106,212	1,869,746
Impairment applied to income statement (cumulative)	93,575	

	As of December 31, 2016	
	Book value	Cost
NIS in thousands	Audited	
Marketable financial investments	1,033,985	1,012,734
Non-marketable financial investments	1,309,496	1,030,234
Total other financial investments	2,343,481	2,042,968
Impairment applied to income statement (cumulative)	69,699	

1. Other financial investments primarily include investments in basket certificates, participation certificates in mutual funds, investment funds, financial derivatives, futures contracts, options and structured products.

Clal Insurance Enterprises Holdings Ltd.

Financial Data from the Consolidated Interim Financial Statements Attributed to the Company Itself

As of March 31, 2017
(Regulation 38D)

Unaudited

Clal Insurance Enterprises Holdings Ltd.

Financial Data from the Consolidated Interim Financial Statements
Attributed to the Company Itself as of March 31, 2017
(Regulation 38D)

Unaudited

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Somekh Chaikin
KPMG Millennium Tower
17 Ha'Arbaa St., P.O. Box 609
Tel Aviv 6100601
03 684 8000

Kost Forer Gabbay and Kasierer
3 Aminadav St., Tel Aviv, 6706703
Tel: +972 3 623 2525
Fax: +972 3 562 2555
ey.com

Attn.:

Shareholders of Clal Insurance Enterprise Holdings Ltd.

Re: Auditors' Special Report Regarding the Separate Interim Financial Information in Accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970

Introduction

We have reviewed the separate interim financial information presented pursuant to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 for Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Company**") as of March 31, 2017, and for the three month period then ended. The company's board of directors and management are responsible for the separate interim?! financial information. Our responsibility is to express a conclusion with regards to the separate interim financial information, based on our review.

Scope of the Review

We have conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Financial Information for Interim Periods Prepared by the Entity's Auditor." A review of separate interim financial information consists of inquiries, mainly with the people responsible for financial and accounting matters, and of the application of analytical and other review procedures. This review is significantly limited in scope compared to an audit prepared according to generally accepted auditing standards in Israel, and therefore does not allow us to achieve certainty that we have become aware of all material issues that may have be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, we have not become aware of any matter which would have caused us to believe that the above separate interim financial information has not been presented, in all material respects, in accordance with the provisions of Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Tel Aviv, May 28, 2017	Somekh Chaikin Certified Public Accountants	Kost Forer Gabbay and Kasierer Certified Public Accountants

Joint Auditors

Financial Data from the Consolidated Interim Financial Statements Attributed to the Company Itself as of March 31, 2017

Interim Data Regarding the Financial Position

	As of March 31		As of December 31, 2016
	2017	**2016**	
NIS in thousands	**Unaudited**		**Audited**
Assets			
Investments in investee companies	**4,789,090**	4,278,842	4,651,374
Loans and balances of investee companies	**23**	1,967	27
Other accounts receivable	**102**	92	81
Other financial investments:			
Marketable debt assets	**37,072**	83,979	46,024
Stocks	**101**	742	531
Total other financial investments	**37,173**	84,721	46,555
Cash and cash equivalents	**66,319**	8,529	54,528
Total assets	**4,892,707**	4,374,151	4,752,565
Capital			
Share capital	**143,230**	143,216	143,216
Premium on shares	**980,527**	976,329	977,898
Capital reserves	**460,099**	445,177	484,165
Retained earnings	**3,231,410**	2,735,408	3,068,909
Total capital	**4,815,266**	4,300,130	4,674,188
Liabilities			
Other accounts payable	**7,441**	2,006	7,504
Balances of investee companies	**-**	193	873
Deferred tax liabilities	**-**	1,822	-
Liabilities to banking corporations and others	**70,000**	70,000	70,000
Total liabilities	**77,441**	74,021	78,377
Total capital and liabilities	**4,892,707**	4,374,151	4,752,565

The attached supplementary information constitutes an inseparable part of the company's separate interim financial data.

May 28, 2017				
Approval date of the financial statements	Danny Naveh Chairman of the Board	Izzy Cohen Chief Executive Officer	Anath Levin Finance, Investment and Credit Division Manager	Tal Cohen Chief Accountant

Financial Data from the Consolidated Interim Financial Statements Attributed to the Company Itself as of March 31, 2017

Interim Data Regarding Income

	For the period of three months ended March 31		For the year ended December 31
	2017	**2016**	**2016**
NIS in thousands	**Unaudited**		**Audited**
Company's share in the income (loss) of investee companies, net of tax	**164,774**	(232,093)	104,864
Income from investments, net, and financing income from investee companies	**-**	14	29
Others	**(341)**	(10)	218
Total income	**164,433**	(232,089)	105,111
General and administrative expenses	**651**	661	3,278
Financing expenses	**428**	426	1,715
Other expenses	**8**	14	5,539
Total expenses	**1,087**	1,101	10,532
Income (loss) before taxes on income	**163,346**	(233,190)	94,579
Taxes on income (tax benefit)	-	-	(1,822)
Income (loss) for the period	**163,346**	(233,190)	96,401

The attached supplementary information constitutes an inseparable part of the company's separate interim financial data.

Financial Data from the Consolidated Interim Financial Statements Attributed to the Company Itself as of March 31, 2017

Interim Data Regarding Comprehensive Income

	For the period of three months ended March 31		For the year ended December 31
	2017	**2016**	**2016**
NIS in thousands	**Unaudited**		**Audited**
Income (loss) for the period	**163,346**	(233,190)	96,401
Other comprehensive income:			
Components of other comprehensive income which, following initial recognition in comprehensive income, have been or will be transferred to profit and loss:			
Change, net, in the fair value of available for sale financial assets applied to capital reserves	**(76)**	171	(288)
Change, net, in the fair value of available for sale financial assets transferred to profit and loss	**(10)**	(2)	(2)
Other comprehensive income (loss) with respect to investee companies which has been or will be transferred to profit and loss, net of tax	**(23,980)**	(15,546)	23,901
Other comprehensive income (loss) for the period which has been or will be transferred to profit and loss, before tax	**(24,066)**	(15,377)	23,611
Taxes with respect to other components of comprehensive income which have been or will be transferred to profit and loss	**-**	-	-
Other comprehensive income (loss) for the period which following initial recognition in comprehensive income has been or will be transferred to profit and loss, net of tax	**(24,066)**	(15,377)	23,611
Components of other comprehensive income which will not be transferred to profit and loss:			
Other comprehensive income with respect to investee companies which will not be transferred to profit and loss, net of tax	**922**	(1,200)	2,228
Other comprehensive income for the period which will not be transferred to profit and loss, net of tax	**922**	(1,200)	2,228
Other comprehensive income (loss) for the period	**(23,144)**	(16,577)	25,839
Total comprehensive income for the period	**140,202**	(249,767)	122,240

The attached supplementary information constitutes an inseparable part of the company’s separate interim financial data.

Financial Data from the Consolidated Interim Financial Statements Attributed to the Company Itself as of March 31, 2017

Interim Data Regarding Cash Flows

	For the period of three months ended March 31		For the year ended December 31
	2017	**2016**	**2016**
NIS in thousands	**Unaudited**		**Audited**
Cash flows from operating activities			
Income (loss) for the period	**163,346**	(233,190)	96,401
Adjustments:			
Company's share in the income (loss) of investee companies	**(164,774)**	232,093	(104,864)
Dividends from investee companies	**4,000**	10,000	17,300
Interest accrued with respect to liabilities to banking corporations	**428**	424	1,686
Income from other financial investments	**781**	467	1,174
Taxes on income (tax benefit)	**-**	-	(1,822)
	(159,565)	242,984	(86,526)
Changes to other items in the data regarding financial position, net:			
Change in other accounts receivable	**(21)**	57	68
Change in other accounts payable	**(68)**	265	5,763
	(89)	322	5,831
Cash which was received during the period for:			
Net cash from operating activities with respect to transactions with investee companies	**7**	146	4,817
Interest received	**-**	2	29
Net cash from operating activities	**3,699**	10,264	20,552
Cash flows from investing activities			
Investment in available for sale financial assets	**(9,916)**	(36,998)	(36,998)
Consideration from sale of available for sale financial assets	**18,431**	10,058	47,058
Net cash from (used in) investing activities	**8,515**	(26,940)	10,060
Cash flows from financing activities			
Interest paid with respect to liabilities to banking corporations	**(423)**	(426)	(1,715)
Net cash used in financing activities	**(423)**	(426)	(1,715)
Increase (decrease) in cash and cash equivalents	**11,791**	(17,102)	28,897
Cash and cash equivalents at beginning of period	**54,528**	25,631	25,631
Cash and cash equivalents at end of period	**66,319**	8,529	54,528

Additional information

1. General

The separate interim financial information is presented pursuant to Regulation 38D to the Securities Regulations (Periodic and Immediate Reports), 5730-1970, and does not contain all of the information which is required according to Regulation 9C and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 5730-1970, regarding a corporation's separate financial information. The separate interim financial information should be read in conjunction with the separate financial information as of and for the year ended December 31, 2016, and with the condensed consolidated interim financial statements as of March 31, 2017 (hereinafter: the "**Consolidated Interim Statements**").

2. Additional material information required to understand the separate interim financial information

For details regarding the update to the corporate tax rate in January 2017, see Note 8(b) to the consolidated interim reports.

3. Dividends

The company's ability to distribute dividends primarily depends on dividend distributions from Clal Insurance. for details regarding the capital requirements and liquidity needs of subsidiaries , and the effects which will result on the level of the insurance companies due to the implementation of the new Solvency II-based solvency regime, see Note 6(b)(3) to the financial statements.

4. Early repayment of loan from interested party bank

On May 28, 2017, the Company's Board of Directors resolved to perfrom an initiated early repayment of the balance of the loan from an interested party bank , which was expected to be repaid in installments by the end of 2019. The repayment of the loan , insofar as it will be performed, is not expected to have a significant impact on the Company's financial statements, and the Company is expected to subseuqently remain without any debt to banking corporations.

Main Office: Clal Insurance House
48 Menachem Begin Rd., Tel Aviv 66180
Tel: 03-6387777, Fax: 03-6396996
Internet:www.clal-ins.co.il

Embedded Value Report of Clal Insurance Company Ltd. Consolidated Report

(Also includes pension operations managed by Clal Pension and Provident Funds Ltd. and the relative share of pension operations managed by Atudot Pension Fund for Salaried and Self-Employed Workers Ltd.)

As of December 31, 2016

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1 General

1.1 *Background and scope of disclosure*

In accordance with the circular of the Insurance Commissioner dated August 12, 2007 (Insurance Circular 2007-1-11) (the "**Circular**"), insurance companies are required to publish, once per year, no later than the publication date of the financial statements for the first quarter of the year, information regarding the embedded value ("**Embedded Value**" or "**EV**") of long term insurance policies (life insurance and health insurance) as of the end of the preceding year. In accordance with the circular, Clal Insurance Company Ltd. (the "**Company**") hereby publishes the embedded value of the Company's insurance business operations as of December 31, 2016, including the movement in embedded value in 2016.

In this report, the Company reports the aforementioned embedded value, and also reports, beyond the requirements specified in the circular, the embedded value in the pension fund management business operations performed by subsidiaries of the Company. It is hereby clarified, with respect to the embedded value of Atudot Pension Fund for Salaried and Self-Employed Workers Ltd. ("**Atudot Havatika**"), that only 50% of the embedded value was taken into account, in light of the fact that the Company holds only half of the shares of Atudot Havatika.

This report was prepared in accordance with the rules and principles set forth by the Insurance Commissioner, who adopted the rules and principles set forth in the report by the joint committee of insurance companies and the Insurance Commissioner, which worked with the accompaniment of consultants from Israel and abroad (hereinafter: the "**Committee**" and the "**Committee Report**"), except as regards the treatment of certain risks specified in section 1.5.3 below, as specified in the foregoing section.

The disclosure method implemented in this report is in accordance with the general disclosure rules in the Committee Report, and with the provisions specified in the disclosure format which was prepared by the Committee in coordination with the Capital Markets, Insurance and Savings Authority (hereinafter: the "Authority"). The draft "disclosure format" has not yet been published by the Authority as an addendum to the circular.

The rules and principles specified in the Committee Report are available on the website of the Ministry of Finance - Capital Markets, Insurance and Savings Division (www.mof.gov.il).

This report includes a review report prepared by an external reviewer regarding the embedded value as of December 31, 2016 and regarding the value of new business, which refer to the long-term life and health insurance policies and pension fund management business operations for the year then ended, as well as sensitivity tests with respect to them and an analysis of the movement in embedded value in 2016.

1.2 Clarification regarding forward looking information

The determination of embedded value and the value of new business (as this term is defined below) was prepared on the basis of forecasts, estimates and approximations regarding future events, the realization of which is uncertain, and which are not under the Company's control, and should be regarded as "forward looking information", as defined in section 32A of the Securities Law, 1968. No restriction exists which would prevent these forecasts, estimates and approximations, in whole or in part, from being realized, or from being realized in a manner which is different than that presented in the embedded value report, and therefore, actual results may differ from the forecast.

1.3 Main chapters in the document

General background and explanation of the calculation method.
Reference to assumptions used to prepare the calculation.
Results in terms of embedded value and value of new business.
Results of sensitivity analyses performed with respect to embedded value.
Analysis of movement in embedded value.

1.4 Definitions

The definitions provided below constitute a summary explanation of primary terms which are necessary in order to understand the following report. Full descriptions and explanations are presented in the rules and principles of the Committee Report.

Term	Definition
"Present value of future profits" ("PVFP")	The discounting of future projected profits generated by the existing portfolio of included business operations (see section 2.5.2. below).
"Adjusted net worth" ("ANW")	The Company's net worth, after performing several adjustments in order to ensure consistency with the value in force (see section 2.5.1 below).
"Required cost of capital"	The effect, from the perspective of shareholders, on embedded value, due to the requirement that the Company maintain minimum equity (see section 2.5.3 below).
"Value in force" ("VIF")	The present value of future profits, less the required cost of capital.
"Embedded value" ("EV")	Embedded value is comprised of a combination of the following two components: "Value in force" ("VIF") and "Adjusted net worth" ("ANW") It is clarified that adjusted net worth is net worth which applies to all operations in the entire Company, and not in respect of the business operations included under VIF only. It is further clarified that value in force does not include: Non-life (elementary) insurance business operations. Other operating segments of companies under the Company's control, such as provident fund management. The ability to create additional business in the future (goodwill).

Term	Definition
"Value of new business" ("VNB")	The present value, from the date of sale until the end of the policy period, of projected profits with respect to the new policies in included business operations which were sold during the reporting year.
"Included business operations"	Business operations included in the calculation of value in force: Long term individual policies in the life and health insurance portfolio which are in effect as of December 31, 2016, including assumptions regarding future increases in premiums and one-time deposits due to the increase in wages for these policies. Collective policies in the life and health insurance portfolio which are in effect as of December 31, 2016. According to the rules and principles specified in the Committee Report, the profits of these policies were estimated only until the next renewal date of the policies. Pension fund management business operations managed by managing companies owned by the Company, and including only 50% of the business operations of Atudot Havatika.

1.5 *Remarks, clarifications and qualifications*

1.5.1 ***General***

As stated above, embedded value was calculated according to the methodology and rules and principles determined in the Committee Report. The assumptions in the model are according to the "best estimate assumptions", in other words, future assumptions which are the result of projections based on actual experience, in the companies' operating environment, without conservative factors. Due to the nature of circumstances, due to the fact that these are future long term estimates, actual results are expected to be different from those prepared at the time of calculating embedded value.

Deviation from the parameters and assumptions used in the embedded value forecast may have a material effect on the result. These parameters include, inter alia:

- Economic factors (including discount interest rate, returns).
- Demographic factors (such as changes in mortality and morbidity).
- Legislation and legislative arrangements on relevant subjects.
- Contingent liabilities (For additional details, see Note 40 to the Company's periodic report for 2016).
- Taxation.
- Changes in the business environment.

Future results which deviate from the estimates prepared based on "best estimated assumptions" are natural, and can be expected to occur even if no change occurred to the aforementioned parameters. Therefore, it is to be expected that actual results each year will be different from the projections in the embedded value model, if only due to ordinary random fluctuations.

1.5.2 *Reforms and legislation*

In recent years, many reforms have been implemented in the long-term savings and health insurance segment, which have affected, and continue to affect, the estimation and calculation of embedded value. There is uncertainty regarding the projected effect of the legislative reforms, due, inter alia, to the fact that some of the reforms have not yet been completed, or have not yet begun, and that the actual implementation of some of the reforms may differ from the projection, and is dependent on various uncertain factors, such as competitive conditions, preferences of policyholders and members and the conduct of competing entities and distributors, and therefore, **the calculation of embedded value does not take into account the possible future implications of these reforms, takes them into account partially, or takes them into account in a manner whereby there is no certainty that they are complete and exhaustive**. The following are the primary regulatory changes, regarding which there is uncertainty with respect to the future impact of the calculation of embedded value:

Long-term savings segment

- Future changes due to differences in the calculation of members' rights, and due to the data cleansing process (circular regarding data cleansing with respect to members' rights) - The institutional entities were required to perform a data cleansing process with respect to members' rights, in order to ensure that the recording of members' right in the information systems of the institutional entities is reliable, complete, accessible and retrievable, as much as possible, by mid 2016. Due to the fact that the calculation of embedded value refers to long term policies, some of which were sold many years ago, the implementation of the aforementioned data cleansing process has had an effect, and may have an additional effect, on the rights of individual members, groups of members, and institutional entities. Additionally, differences of the aforementioned kind, insofar as they are not fully corrected, or insofar as they have not been corrected, may have broad consequences, both in the past and in the future, and may result in potential exposure, inter alia, by way of the filing of claims, including class actions and/or by way of determinations (specific or industry-wide) of the Authority. The Company worked and prepared towards the implementation of the provisions of the circular regarding data cleansing and the reduction of gaps. In general, as of the publication date of the report, tasks involving the cleansing of data regarding accrued balances of policyholders have been completed. The Company performed, in its financial statements, provisions as required and in accordance with its estimates as of the present date; however, it is continuing actions towards the cleansing of customer data, including with reference to additional gaps which are discovered from time to time, and at this stage, it is unable to estimate the full scope, costs, and implications of the aforementioned actions.

- **Increased competition -** Further to the previous reforms, including the mobility reform, which expanded the possibility of transferring the savings funds between the various pension products reforms in pension products which resulted in the reduction of the management fees which are charged, and in the regulation of the discount provision method in recent years, many legislative arrangements were published (including legal provisions, regulations, circulars and position papers) with the aim of improving the market, and the competition and transparency therein, improving the quality and price of offered products, allowing pension savers to better tailor the products to their individual needs, and simplifying the process of reaching decisions. These arrangements include, inter alia, the provisions with respect to:
  - **Default pension fund -** In August 2016, the results of the process of choosing select default funds were published, in accordance with the circular from July 2016, in which provisions were determined regarding the selection of a provident fund for deposits of employees and employers on behalf of employees who have not chosen a provident fund for those deposits. The aforementioned employees' deposits will be made to one of the following: (a) the two default funds which were selected by the Authority, where the only

criterion for their selection was the management fees offered therein, and in which the management fees will not exceed 2% of deposits; or (b) a default provident fund for annuities or default study fund, which will be selected through a competitive process to be conducted by the employer, in which the main criterion for its selection will be the management fees offered therein. The management fees which will be collected by the selected 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 default fund circular was published which allows the continuity of default agreements which were in effect before the circular until the end of the period of the agreements, or until March 31, 2019, whichever is earlier, provided that the management fee rate therein does not meet the maximum rate according to the law. (hereinafter: the "Transitional Provisions"). Clal Pension and Provident Funds is holding discussions with the Authority in connection with its position, according to which default agreements regarding which Clal Pension and Provident Funds does not have a signed agreement or a written reference are not covered under the transitional provision. The creation of selected default funds, in which the management fees are very low, and the competition over the employers' selection of the default fund, which will also focus on management fees, is expected to result in an additional increase of competition over the amount of management fees, in changes to the business model of managing companies, in harm to their profitability, and accordingly, may result in changes in the market shares of the current competitors. The provisions may have a significant broad impact on the pension fund and study fund market, and possibly also with respect to additional products in the long-term savings segment. The establishment of select default funds 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 provisions of the draft amendment to the default fund circular, insofar as they will become binding, and the Authority's position in connection with 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 existing 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 engaged in default arrangements, and to affect the Company's business activities.

The calculation of embedded value refers to the increasing competition between the funds, including, inter alia, with respect to the entry of default funds by assuming a future decrease in management fees, in accordance with the forecast which was formulated by the Company; however, the full effect of the aforementioned provisions is not known at this stage, and was not taken into account in the calculation of embedded value.

- **Consolidation of inactive accounts in pension funds -** In November 2015, provisions were published according to which, when a member joins a new pension fund, and so long as the member has not requested otherwise, the savings funds available to him in inactive accounts in other new pension funds will be transferred to the new pension fund which he intends to join, while maintaining continuity of insurance. A mechanism was also established for the consolidation of such funds, including with respect to the existing inventory of funds currently managed in inactive accounts. Further to the above, supplementary arrangements were published regarding the consolidation of accounts with respect to members who will join a pension fund or provident fund in the future (within the framework of the circular from September 2016), and regarding the method for consolidation of pension savings funds which are currently managed in inactive accounts, and the transfer thereof to active accounts (within the framework of a circular from June 2016), in several batches which are expected to be implemented by the end of 2017. The consolidation of pension fund accounts is expected to result in a reduction of management fees in the pension funds, and as a result, also in their profitability. The provisions with respect to the consolidation of inactive accounts in pension funds, together with the provisions regarding the default fund, may 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, as a result, also the profitability of the managing company. The calculation of embedded value refers to the consolidation of inactive accounts in pension funds, based on the data regarding the batches which have already been performed in the Company as of early April 2017; however, the full effect of the provisions with respect to the consolidation of accounts for the long term is not known at this stage.

- **Transfer of funds between provident funds -** In July 2016, an amendment was published to the circular regarding "transfer of funds between provident funds", which simplified the method for the transfer of funds between provident funds, and shortened the timetable for its completion. Further to the above, in August 2016, a draft amendment was published to the Control of Finance Services Regulations (Provident Funds) (Transfer of Funds Between Provident Funds), which primarily involves the cancellation of the current restriction on the transfer of funds of those who have begun receiving old age annuities; cancellation of the currently existing restriction which prohibits the transfer of funds of members who have debit balances to the provident fund, due to a loan which was given to a member; and additional provisions involving the lifting of barriers on mobility between provident funds. The entry into effect of the aforementioned provisions is expected to result in the lifting of barriers to transfer which currently exist in the market with respect to the transfer of funds between provident funds, particularly in the stage after the receipt of the annuity, and accordingly, may result in a reduction of the management fees which are collected from old age annuities, an increase in routine handling expenses, and changes to the demographic composition of annuity recipients, and accordingly, may affect the reserves which are managed with respect to those members, and the returns which are obtained, and result in a significant decrease in profitability. However, the full effect of the provisions with respect to the transfer of funds between provident funds, and the effect of the draft provisions regarding mobility during the annuity receipt period, are unknown at this stage, and were not taken into account in the calculation of embedded value.
- **Restrictions on changes with respect to discounts on management fees -** In April 2017, a draft amendment was published to the circular regarding management fees in pension savings instruments, including, inter alia, provisions regarding the reduction of the institutional entity's ability to raise a member's management fees, inter alia, by extending the minimum period for the provision of a discount on management fees, from two years to seven years, and reducing the exceptions which allow an increase of management fees during the aforementioned period. It is further proposed that an institutional entity will be entitled to offer a discount on management fees

only if such discount will apply to all of the member's deposits to the provident fund, and to the member's entire accrued balance in the provident fund at the same institutional entity. The entry into effect of the draft circular, insofar as it will be approved in its current version, may affect the provision of discounts on management fees in the provident funds, and as a result, the rate of management fees which is collected, and the retention of customers. However, the effects of the provisions is unknown at this stage, and were not taken into account in the calculation of embedded value.

The various provisions which were determined with respect to increased competition and additional supplementary arrangements which were determined and which will be determined, may result in an additional increase of the competition between products, and as a result, may affect the scope of transfers between the various products, the scope of new sales, the preservation of existing products and the amount of management fees collected with respect to them, including on all matters related to the calculation of embedded value therein. Insofar as was possible, the Company included its estimate regarding the effects of the aforementioned provisions on embedded value. However, according to the Company's estimate, at this stage, the entire future impact of the various regulatory changes on embedded value cannot be estimated, due to, inter alia, the uncertainty regarding the conduct of policyholders on all matters associated with the mobility and replacement of policies which were purchased in the past, due to the reduction of the maximum management fees limit; With respect to the extent to which the Company's expense amount changes, with reference to, inter alia, the steps which will be taken by it, and to its relationships with the distributing entities; With respect to the conduct of the competing institutional entities; And in light of the difficulty in estimating the combined impact of the aforementioned provisions, together with several additional provisions in the pension savings segment, which entered into effect in recent years and/or which are currently in legislative process, including the annuity factor reform. Therefore, these future regulatory changes have not yet been reflected, or have not yet been reflected in full, in the calculation of embedded value.

Factors reform - In December 2015, provisions were established which allow the transfer and retention of life insurance policies with guaranteed annuity factors which were acquired since 1991, also for policyholder under age 60, where in general, the amounts of the deposits in the new policy will be identical to the amounts of the deposits in the current policy, and the guaranteed annuity factors in the new policy will be identical to the annuity factors in the current policy, subject to adjustments. These provisions are expected to impose difficulties on the retention of insurance policies with guaranteed factors, which were almost not transferred in previous years, to increase the competition over these products, and may affect the Company's profitability, inter alia, due to the possible erosion of the current management fees, as stated above, and a change in the scope of the life insurance portfolio managed by the Company. However, the effects of the provisions with respect to the mobility of policies with guaranteed annuity factors are unknown at this stage, due to the fact that, since the publication of the aforementioned provisions, they have had no effect on the Company's products, and due to the uncertainty regarding the number of insurance companies which will intend in the future to transfer to them policies of this kind, the management fees which will be determined in the competitive conditions which will arise, and the scope of transfers which will actually be implemented. In light of the circumstances, the Company did not give weight to the aforementioned provisions in the calculation of embedded value.

◦ **Crediting of returns in pension funds** - In March 2017, provisions were published which canceled the crediting of return in a uniform manner to members and retirees in a new comprehensive pension fund , and determined that the crediting of returns will be implemented in the following manner: (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. It was further determined that until the end of 2023, the separation between members aged 50 or higher and other members, and the crediting of the designated bonds for this group, will be performed after crediting the designated bonds to the group of annuity recipients. The Commissioner will be entitled to increase the rate of crediting designated bond returns, insofar as she has evaluated and 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. In April 2017 a draft was published of the instructions regarding the determination of rules for the performance of the aforementioned test. These changes may create variability in the method for allocation of designated bonds between members who belong to the same age group in the various pension funds, may create preference for the pension products over other pension products, and may also create preference for joining or transferring to certain pension funds, in accordance with the mix of ages of fund members, particularly among members who are close to retirement age. These changes are also expected to grant a competitive advantage to the pension funds over other products. This trend may increase, particularly as retirement age approaches, and in light of the combined impact of these provisions, along with the provisions regarding the assumed returns in conversion factors in new pension funds, as specified below. The Company is unable to estimate, at this stage, the implications of these provisions on the Company's embedded value, and they were not taken into account in the calculation of embedded value.

◦ **Mechanism for the calculation and update of annuities which are paid from pension 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. The aforementioned amendment may result in an increase in the acceptance of new members towards retirement, and therefore 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. The Company is unable to estimate, at this stage, the effect of these provisions on the Company's embedded value, and they were not taken into account in the calculation of embedded value.

- **Compulsory pension for the self-employed** - In December 2016, the Knesset approved provisions which impose an obligation on the self-employed to make payments to an annuity paying provident fund, according to the rates which were determined, in accordance with their total income. This arrangement is expected to result in an increase in the provisions of the self-employed for pension funds, and as a result, also in an increase in the management fees which are collected by the managing company, although the scope of salary with respect by which the self-employed are required to provide a social provision is relatively low, and the aforementioned deposits are accompanied by an increase in operating expenses. The Company is unable to estimate, at this stage, the implications of these provisions on the Company's embedded value, and they were not taken into account in the calculation of embedded value.
- **Payment by institutional entity to license holder** - In January 2017, an amendment to the Control of Financial Services (Provident Funds) Law was approved, in which it was determined that distribution commissions should not be calculated in connection with the rate of management fees which are collected from members. The prohibition against the payment of commissions

to agents in connection with management fees is expected to have implications on the pension savings segment in its entirety, on the amount of management fees collected from customers, on agreements with agents and marketers, and on the Company's possibility of linking income and expenses. Institutional entities in the Group began working vis-à-vis the agents using the new compensation model. The Company is unable to estimate, at this stage, the effects of this provision, in light of the fact that they are dependent on the conduct of agents and institutional entities in connection with the commissions model which will be formulated, the impact of the provision, and its effect on the conduct of both policyholders and members.

<u>Health segment</u>

- **Pricing of individual products** - Beginning in February 2016, an insurer may, once every two years, subject to the approval of the Authority, update the tariffs and rates in individual health insurance policies, and the update will also apply with respect to existing policyholders, until the date of the next update (until the present date, these policies were generally for an undefined period). In light of the uncertainty regarding the ability to receive approval to update the insurance tariffs once every two years, and in light of the operating costs which are associated with updating the policy terms, it is difficult to estimate the overall impact of this change in the long term, although in the short term, is resulted in a reduction of tariffs in the insurance policies which were sold beginning in January 2016. Additionally, periodically updating the policy terms may affect the ability to maintain policyholders and may increase the cancellation rates for policies which were sold in the past, particularly among healthy policyholders. The obligation to offer existing policyholders the option to transfer to policies according to the new framework may result in cancellations also in existing policies, and in the transition of healthy policyholders to policies according to the new framework, at reduced tariffs. The company is unable to estimate, at this stage, all of the implications of these provisions on the Company's embedded value.
- **Claim settlement in long-term care insurance -** In recent years, various issues have been raised with respect to the claim settlement method in long-term care insurance policies, including by way of directives issued by the Authority with respect to the interpretation of previously published directives, by way of the amendment of circulars, by way of expansion of insurance coverage, and by way of class actions. Inter alia, in May 2017, an amendment was published to the provisions of the consolidated circular regarding long-term care insurance, which

includes provisions regarding claim settlement in long-term care insurance, which are intended to ensure that the claim settlement process is as fast and fair as possible, while imposing the least possible hassle on the policyholder. The amendment includes provisions in connection with obligations which will apply to the insurer during the claim settlement process, including restrictions regarding cases in which investigations may be conducted, and the method used to conduct them. Additionally, cases were defined in which the insurer may refer the policyholder for the performance of a functional evaluation, including restrictions on such reference when the insurer is in possession of a functional evaluation which was conducted by another entity. The amendment includes provisions with respect to the creation of a database of functional evaluation providers, who will conduct the functional evaluations on behalf of the insurer, from whom a provider will be chosen at random, and the method for selection of such providers, and regarding appeals against the results of the functional evaluation. These changes may have an impact on the claim settlement process in the long-term care branch in general, and on claim settlement costs in the past and in the future, and as a result, may affect claim settlement costs. At this stage, the Company is unable to estimate the entire impact of the aforementioned changes.

General for all products

- **Uniform products** - In recent years, and in accordance with the regulatory directives, the trend involving the obligation to unify products has increased, according to which, based on the directives issued by the Commissioner of Insurance, uniform provisions are established with respect to certain products. As of the present date, uniform provisions have been established with respect to the regulations of provident funds, the regulations of pension funds, health policies which include uniform insurance coverage for surgeries, alternative treatments to surgery, and consultations with specialized physicians, as well as the collective long-term care insurance of health funds, as well as guidelines with respect to loss of working capacity policies. The aforementioned unification of products may increase the competition among the insurance companies, in a manner which will focus on price, service, and the claim settlement method, which may also have an impact on the possibility of maintaining policyholders in policies which were sold in the past. The company is unable to estimate, at this stage, all of the implications of these provisions on the Company's embedded value.

  The calculation of embedded value does not include the full or partial effect of the aforementioned events, as well as other developments which have not yet been practically reflected in actual data, and regarding which the Company is unable, at present, to estimate their effect on the business results and on embedded value, or any other scenario which is uncertain.

It is further noted that the calculation of embedded value does not take into account other developments which are currently unknown, or which have not yet been published as a binding document, and regarding which the Company is unable, at present, to estimate their effect on the business results and on embedded value, or any other scenario the occurrence of which is uncertain.

However, attached to this report, in sections 3.6 and 3.7 below, are sensitivity analyses which include an analysis of the sensitivity of the results of the calculation to certain changes in various parameters which may occur in the future.

The information presented on all matters associated with the aforementioned provisions of the law, including their impact on embedded value, constitutes forward looking information which is based on assessments and assumptions of the company, as of the publication date of this report and in view of the fact that not all the arrangements have been accepted and with some of the arrangement still in their initial stages, the actual application could differ materially from the forecast. The implications of the aforementioned provisions of the law are significantly dependent upon the following factors: the current uncertainty regarding the manner of implementation of some of the provisions of the law, and the steps which will be taken by the company, including as regards dealing with the various provisions aimed at increasing competition in the market, and which may result in changes in the market shares and income of the company; the conduct of competing institutional entities following the various reforms; the preferences of members and policyholders and their conduct 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 combined impact along with the aforementioned provisions.

It is hereby clarified that inferences should not be made from the sensitivity analysis regarding the Company's estimates as to the possible effects of these reforms and amendments to the provisions of the law, and the possible effect of other regulatory changes whose effect the Company is as yet unable to estimate, prior to their actual complete implementation. For details regarding additional regulatory changes and the possible implications thereof, see sections 6, 8 and 10 of the report regarding the Company's business affairs for 2016 (reference number 2016-01-012162), and section 4.3 of the Company's board of directors' report for the first quarter of 2017.

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1.5.3 Risk management

The following are qualifications with respect to the estimation of embedded value specified in this report, resulting from the method used by the Company to calculate embedded value:

Assumptions used in the calculation of embedded value - account was not taken in the calculation of extreme risks whose probability of occurrence is very lower, and regarding which the Company is unable to estimate their probability of occurrence and effect on the Company, such as extreme operating risks and catastrophe risks for which there is no reinsurance.

Additionally, the assumptions underlying the model were primarily formulated based on studies and analyses which are based on the experience of the Company and its subsidiaries over recent years, which did not include extreme events. Therefore, there is the possibility of extreme scenarios which the Company has not taken into account in determining the assumptions at the basis of the model.

Due to the absence of sufficient data, the model does not assume, and the Company has not evaluated, the correlation between the assumptions in the model with respect to non-market risks (such as demographic and operating risks), and the model's assumptions with respect to market risks, a correlation which could significantly affect embedded value.

The determination of embedded value for shareholders should be based on the evaluation of the distribution of embedded value. in the absence of clear statistical data which are appropriate for the evaluation of the distribution of embedded value to all demographic and operational factors, the Company used real assumptions for each individual parameter per se, according to the expected timeframe of each relevant factor.

Embedded value is based on the theory according to which investors do not require compensation for non-market risks, provided that they can be hedged or that investors can distribute the uncertainty by holding a diverse and varied investment portfolio. Effectively, it is possible that some of the demographic and operational risks cannot be distributed and hedged (hereinafter: "Unhedged Risks"). in the absence of a liquid and deep market, which could be used to estimate the risk price given by the market for these risks, and in the absence of an agreed-upon methodology to quantify the theoretical market price for such risks, the embedded value has not been reduced with respect to such risks.

It is noted that in 2011, the Committee consulted with foreign actuarial consultants in order to formulate an appropriate and practical methodology to be used to adjust embedded value in a manner which will reflect the cost of unhedged risks. This adjustment is expected to be reflected in a reduction of embedded value, both with respect to value in force, and with respect to the value of new business, such that these will be more adequately reflect their value in consideration of all risks, including the unhedged risks, in accordance with the customary practice for embedded value reports around the world. As of the publication date of this report, the committee has not yet formulated, and the Ministry of Finance has not yet published, an orderly methodology on the matter. In light of the foregoing, the adjustment was not implemented in this report.

In order to reflect the assessment of some of risks which were not taken into account, as stated above, the readers of the report can adjust the presented embedded value, in their discretion, using the sensitivity analyses which are presented in the section. It should be emphasized, as stated above, that the Company is unable to quantitatively estimate, in an objective and scientific manner, the effect of the aforementioned issues on embedded value, and therefore, the existing sensitivities do not constitute an estimate of this kind, but rather only provide an assistive tool for users of the report for the purpose of estimating the effect of the aforementioned issues, in their discretion.

1.5.4 Revaluation of assets according to fair value

In accordance with the rules and principles specified in the Committee Report, revaluation according to the fair value of the Company's assets which are presented in the financial statements according to a method other than fair value was performed only with respect to assets which overlap the businesses included in embedded value. It is noted that designated bonds, both in nostro life insurance and in the new pension funds, were estimated, for technical reasons, in accordance with their adjusted cost in the books, and the effect of their fair value was included in value in force in the calculation of embedded value.

1.5.5 Governmental subsidization arrangements for pension funds

In the calculation of the embedded value and the value of new business of pension fund management business operations, the Company has assumed that changes will not occur in the various governmental subsidization arrangements, which are reflected in guaranteed rates of returns on designated bonds which currently exist and which are expected to be issued in the future, in the new and old funds, and with the addition of the returns of other assets in the old pension fund.

1.5.6 ***Embedded value does not constitute the economic value or market value of the Company or its parent company.***

Embedded value is not intended to represent the economic value or market value of the Company or of its parent company:

It is emphasized that, as stated above, value in force does not include non-life insurance business operations, and also does not include the operations of subsidiaries under the Company's control in additional segments (save for subsidiaries which have been specifically referenced in this report), and also does not include the ability to create business in the future (goodwill). It is also emphasized that the embedded value refers to Clal Insurance Company Ltd. only, and does not refer to the parent company, Clal Insurance Enterprises Holdings Ltd., which has additional business operations and activities.

Additionally, embedded value does not take into account certain risks, as specified in section 1.5.3.

It is therefore clear that in light of the foregoing, the embedded value does not represent the Company's market value or the total economic value, and certainly not the market value or economic value of Clal Insurance Enterprises Holdings Ltd.

2 Methodology used to calculate embedded value

2.1 General

The principles used to calculate embedded value were implemented in accordance with the rules and principles specified in the Committee Report, save as regards the handling of certain risks described in section 1.5.3 above, as specified in the aforementioned section. The assumptions in the model constitute "Best Estimate Assumptions", in other words - without conservatism factors. The model does not include the value of future sales, although in terms of the level of expenses, etc., the calculation assumes continued business operations or "going concern".

Embedded value also does not take into account the effect of regulatory changes which occurred after the end of the reporting year, or regulatory changes whose full impact on the insurance and pension market and/or on the Company's business affairs is not yet been known.

2.2 Risk management

Financial risks (or market risks) - all flows are discounted according to a discount interest rate which corresponds to their inherent risk. In accordance with the committee's guidelines, the model includes the use of a financing technique known as the Certainty Equivalent Approach, in which the adjustment of cash flows to the market risks embodied in them is performed in a manner whereby the expected return on the investments is a risk-free interest rate (see section 2.3.1 for details regarding this definition of the interest rate, and regarding the change in this definition), and in parallel, cash flows are also discounted according to the risk-free interest rate. It is noted that projected cash flows from designated government bonds were calculated based on the yields of those bonds, and cash flows in respect thereof were also discounted according to the same interest rate.

As part of the committee's consultation with foreign consultants, as stated above, the committee, jointly with the consultants, began formulating a methodology which will reflect the fact that, effectively, surplus returns on the risk-free interest rate can be assumed, in light of the fact that investments can be made in non-marketable assets against non-liquid insurance liabilities, and therefore, an addition or premium can be assumed on the risk-free interest rate which is appropriate for marketable assets ("non-liquidity premium"), according to the conventional practice regarding EV reports around the world, and in additional areas in the global insurance industry. The adjustment of the risk-free interest rate to the "non-liquidity premium" would have resulted in an increase of embedded value. As of the publication date of the report, the Committee has not yet formulated detailed and final recommendations, and therefore, it is not possible to give expression to the “non-liquidity premium” in this report. However, in accordance with the instructions issued by the Authority, the interest rate which was used to calculate embedded value as of the end of 2016 includes an addition with respect to “volatility adjustment” (hereinafter: “VA”) (see section 2.3.1).

Non-market risks (such as mortality rates, morbidity rates, cancellations, expenses higher than expected) - the calculation of embedded value is based on the financial theory a total of which investors do not require additional compensation in the discount interest rate for non-market risks, provided that they are able to distribute the uncertainty by maintaining a distributed and varied investment portfolio. Given this assumption, embedded value was calculated based on demographic and operational assumptions which constitute best estimate assumptions, without taking consideration of the additional cost in respect of the unhedgeable risks, and the discounting of cash flows by the risk-free interest rate, without added margins to the working assumptions in the model or to the discount rate.

2.3 *Economic assumptions*

2.3.1 ***Returns, discount interest rate and inflation:***

The future returns and discount rate were determined according to a yield curve which is based on the CPI-linked risk-free yield curve. In previous years, this yield curve was based on the yield to maturity of government bonds in Israel, with extrapolation, without adjustment. In accordance with the Authority’s instructions (Letter SH. 2017-6306, dated March 23, 2017), for the purpose of calculating value in force as of the end of 2016, and VNB for 2016, the Company used the yield curve which was sent to the Company by the Authority for the calculation of insurance liabilities as part of the economic balance sheet within the framework of Solvency II. This yield curve is based on the yield to maturity of CPI-linked government bonds in Israel, including integration of an assumed ultimate forward rate (UFR) of 2.6% (real), plus (VA), in accordance with the methodology which was determined by the Authority.

See section 2.7 in chapter regarding “analysis of the change in EV” for details regarding the effect of the change from the yield curve which was determined according to the previous rules, and the yield curve which is determined according to the new rules.

The risk-free interest rates (spot) as of the end of 2016 are:

At year end	Interest rate	At year end	Interest rate	At year end	Interest rate
2017	0.65%	2027	0.95%	2037	1.47%
2018	0.20%	2028	1.02%	2038	1.51%
2019	0.10%	2029	1.09%	2039	1.54%
2020	0.18%	2030	1.14%	2040	1.57%
2021	0.34%	2031	1.20%	2041	1.60%
2022	0.49%	2032	1.25%	2042	1.63%
2023	0.61%	2033	1.30%	2043	1.66%
2024	0.71%	2034	1.35%	2044	1.69%
2025	0.80%	2035	1.39%	2045	1.71%
2026	0.88%	2036	1.43%	2046	1.74%

It is noted that there is no need for an explicit assumption of future inflation, due to the fact that the model is based on flows and on returns in real terms. When a certain parameter is expected to change in a manner other than according to future inflation, an explicit assumption is used regarding deviation from future inflation.

*2.3.2 **Taxation***

Tax rate applicable to financial institutions:

Year	2016	2017	2018	2019	2020	2021	2022 +
Tax rate	35.89%	35.04%	34.19%	34.19%	34.19%	34.19%	34.19%

Capital gains tax (included in the aforementioned tax rates)

The capital gains tax rate which was used in the preparation of these calculations is the following:

Year	2016	2017	2018	2019	2020	2021	2022 +
Capital gains tax rate	17.00%	17.00%	17.00%	17.00%	17.00%	17.00%	17.00%

The calculation of embedded value did not take into account the reduction of the corporate tax rate, due to the fact that this change was passed through legislation after the reporting date.

2.4 Demographic and operational assumptions

All assumptions that have a significant influence on embedded value were determined according to the Company's best estimates regarding each demographic and operational factor, and reflect the Company's forecasts for the future with respect to these factors (see also section 1.5).

2.4.1 Demographic assumptions

The demographic assumptions included in the calculation were taken from internal studies conducted by the Company, insofar as these are available, and from conclusions resulting from professional judgment, which is based both on relevant experience and on a combination of information from external sources, such as information received from reinsurers and mortality and morbidity tables which were published.

2.4.2 Operational assumptions (expenses)

general and administrative expenses were calculated according to the results of an internal pricing model prepared in the Company regarding expenses associated with the included business operations, including: the allocation of expenses to the various segments (life insurance, health insurance and pension funds) and loading of expenses onto the various activities (production, routine management, investments, etc.). the Company also assumed that all of the expenses would increase in the future according to the CPI's rate of the increase, according to the rate of increase in premiums / contributions or according to the rate of the increase in the assets portfolio, in accordance with the loading of expenses onto the various activities.

2.5 Calculation method

2.5.1 Adjusted net worth (ANW)

Adjusted net worth is based on the Company's equity, as published in the Company's financial statements as of December 31, 2016, after a number of adjustments which include its reduction in the amount of the deferred acquisition costs according to the balance on the balance sheet, less the reserve for deferred tax in respect of them, with the addition of the revaluation to fair value of assets which overlap the business operations that are included and presented in the financial statements at cost, net of tax. Additionally, the value of insurance portfolios which were acquired at value was deducted, net of tax in respect of them, as well as the balance of goodwill of the pension funds that were acquired at value in the Company's financial statements, without a tax deduction, in accordance with the tax laws regarding the amortization of this asset. For details regarding the above adjustments, see the tables presented below in section 3.3.

2.5.2 *Present value of future profits ("PVFP")*

The present value of future profits was calculated using an actuarial model which is based on the data for the policies, the management of pension rights of pension fund members, and other data held by the Company and its subsidiaries. This model allows the preparation and discounting of future cash flow forecasts.

2.5.3 *Required cost of capital ("CoC")*

A forecast of the required equity with respect to included business, according to the existing requirements and according to the projected future developments of included business operations. The cost of capital is the discounting of tax on investment gains on the required equity in respect of included business operations.

2.5.4 *Value of new business ("VNB")*

The value of new business is calculated as the present value of profits from the sale until the end of the policy period, or until the passing of the policyholder or pensioner. The present value of profits was calculated using an actuarial model which is based on the data regarding policies, fund members and other data, in order to reflect the contribution of the output in the passing year on embedded value.

The calculation of VNB was performed with respect to the following population groups:

All policies issued in 2016.

New coverages issued in 2016 as an addition to the policies that were issued before 2016.

Collective policies that were renewed in 2016.

One-time premiums on existing policies which are not due to an increase in salary.

New pension fund members who joined in 2016

It should be clarified that the present value of future profits includes the value of profits with respect to new business, as stated above.

2.6 *Handling of options and financial guarantees*

The included business operations do not include options or material financial guarantees regarding minimum returns for policyholders. It is noted that policies for which there is a defined guaranteed return are handled as part of the calculation.

2.7 Analysis of the change in EV and profit based on EV

2.7.1 The tables in section 3.4 below present the change in embedded value, divided by the adjusted net worth and value in force components (net of cost of capital), including transfers between these two components. All amounts are presented after tax. The change is presented according to its various influencing factors, as follows:

2.7.2 Adjustments to embedded value as of December 31, 2015 - this section includes corrections with respect to the opening data, including changes to methodology. during the reporting year, technical corrections were made to the model, with a total impact of approximately NIS 118 million to reduce the embedded value in insurance business operations. The adjustments which were implemented to the model, with respect to the opening data of pension business operations, had an impact of decreasing embedded value by approximately NIS 124 million.

2.7.3 Changes in operational and demographic assumptions - as is done each year, the Company updates the assumptions used to estimate embedded value, inter alia based on new data regarding actual experience and changes in the projections made by Company management. During the reporting year, these changes resulted in an increase of approximately NIS 41 million in embedded value. The increase was primarily due to an update to the assumption regarding morbidity in insurance business, an update to the assumption regarding redemptions in pension business, while offsetting an update to the assumption regarding expenses in pension business.

2.7.4 Projected profit on embedded value - the embedded value is expected to generate profits even if the Company had not sold new business and had not operated in additional segments which are not included in EV. These profits originate from 3 sources:

2.7.5 Expected returns on value in force at the end of the previous period - this expected income is based on the real rate of return (above the CPI) which was expected at the start of the year (2016), including margins above the risk-free interest rate which were expected to be received (in accordance with the rules for the determination of the risk-free interest rate which were in effect at the end of 2015).

2.7.6 Projected adjusted return on equity - income from projected investments from assets held against adjusted equity. This projected income is based on the rate of real returns (above the CPI) which was projected at the start of the year (in accordance with the rules for the determination of the risk-free interest rate which were in effect at the end of 2015), for the same year, according to the Company's estimate.

2.7.7 Profit expected to transition from value in force to adjusted net worth in 2016 - In 2016, the projected profit for 2016, which is based on updated operational and demographic assumptions, is expected to transition from the portfolio's value in force to net adjusted worth. Beyond that of projected profits from the value in force component to the adjusted equity component of EV, does not affect total embedded value. According to the method for determining adjusted net worth, this profit does not include the effect of the DAC amortization.

2.7.8 The effect of deviations from the operational and demographic assumptions in 2016 - Due to the nature of circumstances, actual experience regarding the claim rates, cancellation rates, expenses, etc., were different during the period than the *current assumptions used to calculate embedded value.* These deviations also affect profits expected to be received after the reporting year (and therefore, also value in force), and profits expected to be received during the reporting year itself (and therefore on adjusted net worth The effect of the deviations is presented in this section separately from value in force and separately from adjusted net worth, respectively. **In 2016,** the main deviations were in adjusted net worth in insurance business operations, and in value in force in pension business operations. In insurance business operations, claim payments and expenses were higher than expected, which resulted in a reduction of adjusted net worth. In pension business operations, the real increase in current deposits which were paid during the year was higher than the rate of increase in salary which was expected in light of the increase of the deposit rates due to regulatory directives, which resulted in an increase in value in force. This section also includes the effect due to the several factors, each of which in its own right is immaterial in the Company's estimate, and which includes, inter alia, changes to existing insurance policies, reinsurance terms or commission agreements with agents.

2.7.9 Profit from new business - embedded value does not include the value that is expected to be added from new business sold in the future. Therefore, this section presents the addition to embedded value at the end of the previous period, due to the sales of new insurance policies throughout the year, and the joining of new members to the pension funds. The addition is divided into the actual effect from new business on profits in the period itself (presented under adjusted net worth) and expected profits from new business in the future (and presented under value in force). It is noted that VBN for 2016 was calculated according to a yield curve which was obtained using the new rules for the determination of the yield curve (see section 2.3.1). The increase in profit from new business sold throughout the year was due to the increase in the scope of sales of insurance business.

2.7.10 Development expenses not included in EV - includes the presentation of the effect on actual profits during the year of exceptional expenses which were not included in embedded value, but rather were attributed to future sales. There were no expenses which were not included in EV during 2016.

2.7.11 The summary of changes in sections 2.7.2 to 2.7.6 are customarily called "operating profit based on embedded value ". This amount reflects the value that was added to embedded value, or profit in value terms resulting from the Company's operating activities, excluding the effect of business operations not included in EV (such as elementary insurance), and before the effect of unexpected economic factors, such as unexpected changes in interest rates on the capital market and in inflation.

2.7.12 Profit from special items - In 2016, there was no profit or loss from special items.

2.7.13 Effect of inflation in 2016 - this section includes the effect of inflation during the reporting year (decline of 0.3%) on the opening balance of embedded value, and is presented separately on the component of value in force and separately on the component of adjusted net worth.

2.7.14 The effect of the value in force component is primarily due to the policies' linkage to the CPI, and to the linkage of most flows in the model, a fact which affects the decrease in value in force, up to the entire CPI rate. The effect on the adjusted net worth components is due to the charging of returns in the amount of the CPI on assets backing adjusted net worth, net of tax. The effect on real returns above the CPI is presented in the other sections.

2.7.15 Profit or loss resulting from deviations from economic assumptions the 2016 and from changes in economic assumptions after the reporting year - this section include three components:

2.7.16 The effect on value in force, as a result of changes in economic assumptions which were based on market interest rates at the end of the previous year, and the economic assumptions based on the market interest rates at the end of 2016. These assumptions include the discount interest rate and the expected returns. In accordance with the Authority's guidelines, this section represents the impact of the change in the yield curve

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Tel: 972-3-6387777 | Fax: 972-3-6387676 | www.clal.co.il

according to the rules which were in effect at the end of 2015, without the impact of the change in the rules for the determination of the yield curve (see section 2.3.1).

2.7.17 The effect is due to the gap between actual returns during the year and the returns that were expected at the start of the year (in accordance with the rules for the determination of the risk-free interest rate which were in effect at the end of 2015), including margins above the risk-free interest rate which were expected to be received. The effect of the aforementioned deviations is reflected in both components of EV:

2.7.18 In adjusted net worth - primarily due to the effect on profit from the margin between actually achieved returns during the year and returns that were expected to be achieved on the Company's assets, which were provided against adjusted net worth and against insurance reserves with respect to the included business operations.

2.7.19 In value in force - primarily due to the increase in profits expected to be received in the future, due to the balance of accruals in savings managed by the Company as of the end of 2016, which is greater than the original projection, due to the positive returns achieved by the Company on its investment in the reporting year.

2.7.20 On January 4, 2016, the Law for Amendment of the Income Tax Ordinance (Reduction of Corporate Tax Rate), 2015, passed the second and third readings in the Knesset, which established, inter alia, a reduction of the corporate tax rate from 26.5% to 25%, effective beginning on January 1, 2016. In accordance with the aforementioned amendment, the overall tax rate which applied to financial institutions in 2016 was 35.9%.

2.7.21 In December 2016, the Knesset plenum passed the Economic Efficiency Law (Legislative Amendments to Achieve Budgetary Goals for Budget Years 2017 and 2018), 2016, which was published on December 29. Under the approved law, the corporate tax will be reduced beginning on January 1, 2017, to a rate of 24% instead of 25%), and beginning on January 1, 2018, to a rate of 23%.

2.7.22 The summary changes presented in sections 2.7.2 to 2.7.9 are customarily called "profit based on embedded value with respect to included business operations and capital". This amount reflects the value that was added to embedded value, or profit in value terms, which is due to the Company's operating activities, including effects from economic factors and including special items, but without the effect of businesses not included in EV (such as elementary insurance).

2.7.23 Profit from pension business operations - the profit received by the Company from the pension segment. These profits from pension business operations, according the report, amounted to approximately NIS 28 million, after tax.

2.7.24 Profit from non-included business operations - the total embedded value includes the Company's entire equity, and therefore, part of the increase /decrease in equity is explained by profits/losses of operating segments which are not included in value in force. In the reporting year, comprehensive loss due to non-included business operations amounted to approximately NIS 164 million, which includes financing expenses in the amount of NIS 96 million, after tax.

2.7.25 The summary changes presented in sections **2.7.2 to 2.7.10** constitute "profit on an embedded value basis, including profit from non-included business operations", whereby the profit from non-included business operations are measured based on "comprehensive income" in accounting terms.

2.7.26 Change of rules for the determination of the interest rate - as specified in section 2.3.1, the rules for determining the yield curve for the purpose of calculating embedded value were changed. This section represents the effect of the change in the aforementioned curve, as of the end of 2016, on value in force, excluding new business.

2.7.27 Equity movements - this section presents the change in embedded value due to the movement in equity, including the payment of dividends throughout the year. In 2016, no movements in capital were recorded.

2.8 Sensitivity tests

The sensitivity tests presented in sections 3.6 and 3.7 below were performed as follows:

2.8.1 The sensitivities refer to all included business operations, unless specified otherwise.

2.8.2 The sensitivity tests refer to each assumption separately, without the measurement of cumulative or offsetting effects or derivative changes on other factors, etc.

2.8.3 The sensitivity with respect to the value of new business refers to changes from the end of 2016 and thereafter, and to the period from the time of the sale until the end of 2016.

2.8.4 Mortality of policyholders - sensitivity tests of mortality rates (including accidental death) do not include the mortality of policyholders who receive old age annuities and who receive monthly compensation with respect to loss of working capacity of long-term care (only in insurance, and not in pension).

2.8.5 Mortality of old age annuity recipients - the sensitivity test of mortality rates for old age annuity recipients only does not include the mortality of other annuity recipients (only in insurance, and not in pension).

2.8.6 Morbidity - This sensitivity test includes all claims which are not cases of death that are included in section 2.8.4 above, including morbidity due to critical illness, loss of working capacity, long-term care, surgeries and hospitalization, disability due to accidents, etc. The test refers to the prevalence of claim events, and not the claim payment period with respect to loss of working capacity and long-term care (only in insurance business, and not in pension business operations).

2.8.7 Interest - the results of the sensitivity test include:

The effect of the change in interest rates used as the discount rate, and on the expected returns from investments of the Company's assets and pension funds (save for investments in designated bonds, in which the returns may change), on the present value of future profits (PVPF).

The effect of the change in the interest rate on the value of assets bearing interest in NIS or linked, which back the included business operations.

2.8.8 The sensitivity test regarding annuity realization - this sensitivity test evaluates the effect of the increase in the population segment which elects to realize the annuity option at retirement age. This test includes an evaluation of an increase of 10% in the annuity realization rate (multiplying the realization rates by 110%).

2.8.9 Sensitivity test regarding the provision of a discount on management fees to annuity recipients in pension funds. This sensitivity test reflects the possible impact of a decrease of 10% in management fees for future retirees.

2.8.10 Sensitivity test regarding a decrease of 10% in management fees to members before retirement age.

2.9 Review of the embedded value report

The embedded value report as of December 31, 2016, and the value of new business for the year then ended, as well as the sensitivity tests with respect thereto, and the analysis of the movement in embedded value, were reviewed by the accounting firm Kost, Forrer, Gabay and Kassierer (Ernst & Young).

The review report prepared by the reviewer, and its findings are attached as Annex A to this report.

3 Results

3.1 Embedded value as of December 31, 2016

NIS in millions	EV with respect to included business operations in life and health insurance	EV with respect to pension fund management business operations	Adjustment for consolidation in respect of pension fund management business operations in the Company's EV *	Total EV for life and health insurance and pension fund management business operations
Adjusted net worth (see table 3.3 below)	3,765.2	398.3	(763.3)	3,400.2
Present value of future profits, net of tax	6,283.6	4,029.7	-	10,313.3
Net of required cost of capital	(238.7)	(26.3)	-	(265.0)
Embedded value	9,810.1	4,401.7	(763.3)	13,448.5

* Comprised of the value of managing companies of pension funds and goodwill with respect thereto, as included in the equity of Clal Insurance Company, in the amount of NIS 170.4 million, plus the equity of managing companies, in the amount of NIS 592.9 million (see tables 3.3.b and 3.3.c).

3.2 Value of new business for with respect to sales in 2016

NIS in millions	VNB with respect to included life and health insurance business	VNB with respect to pension fund management business	Total VNB with respect to life and health insurance and pension fund management operations
Value of new business before required cost of capital	535.4	193.4	728.8
Required cost of capital in respect of new business	(10.3)	(2.5)	(12.8)
Total value of new business	525.1	190.9	716.0

For comparison purposes, presented below is the value of new business of sales in 2015, as published in the embedded value report as of December 31, 2015:

NIS in millions	**VNB with respect to included life and health insurance business**	**VNB with respect to pension fund management business**	**Total VNB with respect to life and health insurance and pension fund management operations**
Value of new business before required cost of capital (for 2015)	462.2	199.5	661.7
Required cost of capital in respect of new business	(8.8)	(2.4)	(11.2)
Total value of new business	453.4	197.1	650.5

3.3 Adjustment between adjusted net worth and equity in the reports

Table 3.3 A - Clal Insurance Company: Insurance Business Operations

	NIS in millions
Equity (Company balance sheet as of December 31, 2016)	4,513.5
Revaluation of assets overlapping included business operations and presented in the financial statements at cost, to fair value net of tax.	185.9
Net of deferred acquisition costs (DAC for the balance sheet)	(1,386.3)
With the addition of the deferred tax reserve, and tax benefits, with respect to DAC	452.0
Net of the value of the acquired insurance portfolios and goodwill in respect thereof, as included in equity, net of tax	0.1
Adjusted net worth with respect to included business operations	3,765.2

Table 3.3 B - Managing Companies of Pension Funds

	NIS in millions
Equity (Company balance sheet as of December 31, 2016)	592.9
Revaluation of assets overlapping included business operations and presented in the financial statements at cost, to fair value net of tax.	-
Net of deferred acquisition costs (DAC for the balance sheet)	(291.3)
With the addition of future tax benefit with respect to DAC	96.7
Adjusted net worth with respect to included business operations	398.3

Table 3.3 C - Inclusion of pension fund management business operations with insurance business operations

	NIS in millions
Adjusted net worth with respect to long-term insurance policies (life insurance and health insurance) from table 3.3 A above.	3,765.2
Less deferred acquisition costs (DAC for the balance sheet) with respect to pension operations recorded in the Company's balance sheet	(291.3)
With the addition of the deferred tax reserve, and tax benefits, with	96.7

	NIS in millions
respect to DAC	
Net of the goodwill of managing companies of pension funds included under equity	(170.4)
Adjusted net worth of Clal Insurance in consideration of pension management business operations	3,400.2

3.4 *Analysis of the change in EV and profit based on EV*

Table 3.4.1 - Insurance Business Operations (NIS in millions)

Change in EV of insurance business operations	**See section**	**Adjusted net worth**	**Value in force**	**Embedded value**
Embedded value as of December 31, 2015		3,774.5	5,133.4	8,907.9
Adjustments to embedded value as of December 31, 2015	2.7.1	-	(118.1)	(118.1)
Adjusted embedded value as of December 31, 2015		3,774.5	5,015.3	8,789.8
Operating profit from value in force as of December 31, 2015:				
Change in operational and demographic assumptions	2.7.2	(13.8)	131.5	117.7
Projected real returns	2.7.3	89.4	138.5	227.9
Comprehensive income expected to be transferred from value in force to equity in 2016	2.7.3	485.5	(485.5)	-
Effect of the deviations from operational and demographic assumptions during 2015 and other changes	2.7.4	(72.8)	8.4	(64.4)
Total operating profit from value in force as of December 31, 2015		488.3	(207.1)	281.2
Profit from new business	2.7.5	(278.1)	803.2	525.1
Development expenses not included in EV	2.7.6	-	-	-
Operating profit according to embedded value		210.2	596.1	806.3
Profit from special items	2.7.7	-	-	-
Effect of inflation during 2016	2.7.8	(7.3)	(15.2)	(22.5)
Profit from deviations from economic assumptions in 2016 and from changes in economic assumptions	2.7.9	(76.3)	168.4	92.1
Total profit based on embedded value - with respect to included business operations and capital		126.6	749.3	875.9
Profit from pension operations	2.7.10	27.9	-	27.9
Profit from non-included business operations	2.7.11	(163.8)	-	(163.8)

Change in EV of insurance business operations	See section	Adjusted net worth	Value in force	Embedded value
Change in interest rate in accordance with the principles of Solvency II	2.7.12	-	280.3	280.3
Total profit based on embedded value - including all of the Company's business operations		(9.3)	1,029.6	1,020.3
Movements in equity	2.7.13	-	-	-
Embedded value as of December 31, 2016		3,765.2	6,044.9	9,810.1

Table 3.4.2. - Pension Business Operations (NIS in millions)

Change in EV of pension business operations	See section	Adjusted net worth	Value in force	Embedded value
Embedded value as of December 31, 2015		386.9	3,946.4	4,333.3
Adjustments to embedded value as of December 31, 2015	2.7.1	-	(123.9)	(123.9)
Adjusted embedded value as of December 31, 2015		386.9	3,822.5	4,209.4
Operating profit from value in force as of December 31, 2015:				
Change in operational and demographic assumptions	2.7.2	-	(77.1)	(77.1)
Projected real returns	2.7.3	6.3	56.2	62.5
Comprehensive income expected to be transferred from value in force to equity in 2016	2.7.3	65.2	(65.2)	-
Effect of the deviations from operational and demographic assumptions during 2015 and other changes	2.7.4	(6.2)	(68.3)	(74.5)
Total operating profit from value in force as of December 31, 2015		65.3	(154.4)	(89.1)
Profit from new business	2.7.5	(51.5)	242.4	190.9
Development expenses not included in EV	2.7.6	-	-	-
Operating profit according to embedded value		13.8	88.0	101.8
Profit from special items	2.7.7	-	-	-
Effect of inflation during 2016	2.7.8	(0.7)	(11.6)	(12.3)
Profit from deviations from economic assumptions in 2016 and from changes in economic assumptions	2.7.9	(1.6)	223.1	221.5
Total profit based on embedded value - with respect to included business operations and capital		11.5	299.5	311.0
Profit from non-included business operations	2.7.11	(0.1)	-	(0.1)
Change in interest rate in accordance with	2.7.12	-	(118.6)	(118.6)

Change in EV of pension business operations	See section	Adjusted net worth	Value in force	Embedded value
the principles of Solvency II				
Total profit based on embedded value - including all of the Company's business operations		11.4	180.9	192.3
Movements in equity	2.7.13	-	-	-
Embedded value as of December 31, 2016		398.3	4,003.4	4,401.7

Table 3.4.3 - Total Pension and Insurance Business Operations (NIS in millions)

Change in EV of insurance and pension business operations	See section	Adjusted net worth	Value in force	Embedded value
Embedded value as of December 31, 2015		3,416.9	9,079.8	12,496.7
Adjustments to embedded value as of December 31, 2015	2.7.1	-	(242.0)	(242.0)
Adjusted embedded value as of December 31, 2015		3,416.9	8,837.8	12,254.7
Operating profit from value in force as of December 31, 2015:				
Change in operational and demographic assumptions	2.7.2	(13.8)	54.4	40.6
Projected real returns	2.7.3	78.0	194.7	272.7
Comprehensive income expected to be transferred from value in force to equity in 2016	2.7.3	550.7	(550.7)	-
Effect of the deviations from operational and demographic assumptions during 2015 and other changes	2.7.4	(66.4)	(59.9)	(126.3)
Total operating profit from value in force as of December 31, 2015		548.5	(361.5)	187.0
Profit from new business	2.7.5	(329.6)	1,045.6	716.0
Development expenses not included in EV	2.7.6	-	-	-
Operating profit according to embedded value		218.9	684.1	903.0
Profit from special items	2.7.7	-	-	-
Effect of inflation during 2016	2.7.8	(5.8)	(26.8)	(32.6)
Profit from deviations from economic assumptions in 2016 and from changes in economic assumptions	2.7.9	(66.0)	391.5	325.5
Total profit based on embedded value - with respect to included business operations and capital		147.1	1,048.8	1,195.9
Profit from non-included business operations	2.7.11	(163.8)	-	(163.8)

Change in interest rate in accordance with the principles of Solvency II	2.7.12	-	161.7	161.7
Total profit based on embedded value - including all of the Company's business operations		(16.7)	1,210.5	1,193.8
Movements in equity	2.7.13	-	-	-
Total change in EV		(16.7)	1,210.5	1,193.8
Embedded value as of December 31, 2016 *		3,400.2	10,048.3	13,448.5

* For details regarding adjustments to the consolidation of adjusted net worth with respect to pension business operations, see table 3.1 above.

3.5 Details regarding the difference between the change in adjusted net worth and net profit for the Company

As of December 31, 2016

Table 3.5.1 - insurance business operations (NIS in millions)

Presented below is an explanation regarding the difference between the change in adjusted net worth and net profit for the Company:

	NIS in millions
Net profit attributed to Company shareholders	86.2
Items transferred through capital reserve	25.4
Comprehensive income after tax	111.6
Change in DAC before tax	(77.0)
Tax with respect to the change in DAC which is not included in value in force	(16.1)
Revaluation of assets by fair value, net of tax	(28.2)
Net change in value in force and goodwill recorded in the balance sheet	0.4
Movements in equity	-
Total change in adjusted net worth	(9.3)

Table 3.5.2 - Pension Business Operations (NIS in millions)

Below is an explanation regarding the gap between the change in adjusted net worth and net profit for the managing companies:

	NIS in millions
Net profit attributed to Company shareholders	16.2
Items transferred through capital reserve	0.0
Comprehensive income after tax	16.2
Change in DAC before tax	(8.8)
Tax with respect to the change in DAC which is not included in value in force	4.0
Revaluation of assets by fair value, net of tax	-
Net change in value in force and goodwill recorded in the balance sheet	-
Movements in equity and adjustment with respect to the merger of managing companies of pension and provident funds	-
Total change in adjusted net worth	11.4

3.6 Sensitivity analysis with respect to life and health insurance business operations as of December 31, 2016

Below are the sensitivity analyses with respect to life and health business operations:

		Change in embedded value		Change in value of new business	
	See section	NIS in millions	In %	NIS in millions	In %
Basic result		9,810		525	
Decrease of 0.5% in risk-free interest rate	2.8.7	(406)	-4.1%	31	5.9%
Increase of 10% in general and administrative expenses		(315)	-3.2%	(30)	-5.7%
Relative increase of 10% in cancellation rates (including redemptions and settlements)		(466)	-4.8%	(94)	-17.9%
Increase of 10% in morbidity rates among policyholders	2.8.4	(81)	-0.8%	(23)	-4.4%
Increase of 10% in morbidity rates	2.8.6	(699)	-7.1%	(74)	-14.1%
Decrease of 10% in mortality rate of old age annuity recipients	2.8.5	(561)	-5.7%	(3)	-0.6%
Increase of 10% in annuity taking realization rates	2.8.8	(236)	-2.4%	2	0.4%

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Tel: 972-3-6387777 | Fax: 972-3-6387676 | www.clal.co.il

3.7 Sensitivity analyses with respect to pension fund management business operations as of December 31, 2016

Below are the sensitivity analyses with respect to pension fund management business operations:

	See section	Change in embedded value NIS in millions	Change in embedded value In %	Change in value of new business NIS in millions	Change in value of new business In %
Basic result		4,402		191	
Decrease of 0.5% in risk-free interest rate	2.8.7	262	5.9%	19	9.8%
Increase of 10% in general and administrative expenses		(212)	-4.8%	(18)	-9.5%
Decrease of 1% in the salary increase rate		(195)	-4.4%	(23)	-12.3%
Relative increase of 10% in cancellation rates (including redemptions and suspensions)		(274)	-6.2%	(37)	-19.6%
Decrease in management fees to retirees	2.8.9	(310)	-7.0%	(17)	-8.9%
10% decrease in management fees to members before retirement age	2.8.10	(224)	-5.1%	(19)	-10.1%

Izzy Cohen
CEO

Ofer Brandt
Executive VP and Chief Actuary

Kost Forer Gabbay and Kasierer
3 Aminadav St.
Tel Aviv 67067
Tel: 03-6232525
Fax: 03-5622555
www.ey.com/il

Annex A - External Reviewer's Report Regarding the Calculation of Embedded Value

May 29, 2017

Attn.: Board of Directors of Clal Insurance Company Ltd.

Dear Sir / Madam,

<u>Re: Review of the Embedded Value Report as of December 31, 2016</u>

A. At your request, we have reviewed the information which was prepared by Clal Insurance Company Ltd. (hereinafter: the "Company") regarding the embedded value as of December 31, 2016, the value of new business for the year then ended, as well as an analysis of the movement in embedded value and sensitivity tests with respect thereto, which refer to long term life and health insurance policies and pension fund management business operations (hereinafter: the "Embedded Value Report").

B. Our review included, inter alia:
   1. Discussions and inquiries with the relevant entities in the Company, and performance of analytical procedures with reference to the results presented in the embedded value report, with reference to financial and other statistical information.
   2. Comparison between the calculation results and the Company's financial information.
   3. Comparison of the demographic and operational assumptions used to prepare the embedded value report, with the past experience in the Company and, relevant external information.

4. Evaluation of the correspondence of the methodology, assumptions and method of presentation used to prepare the embedded value report, to circular no. 2007-1-11 issued by the Commissioner of Capital Markets, Insurance and Savings, including the annexes thereto, and the letter SH. 2017-6306, dated March 23, 2017 (hereinafter: the "Commissioner's Circular"). The Commissioner's circular adopted the rules and principles established in the report released by the joint committee of the insurance companies and the Commissioner (hereinafter: the "Committee"), which worked with the accompaniment of consultants from Israel and abroad.

C. Based on our review, and based on data and information provided by the Company, we hereby note the following:

1. The methodology and assumptions described in the embedded value report fulfill, in all material respects, the provisions of the Commissioner's circular, subject to that stated in section d(3) below.
2. The disclosure method employed in the embedded value report fulfills, in all material respects, the provisions of the Commissioner's circular and the provisions specified in the "disclosure format" prepared by the committee, in coordination with the Commissioner. This "disclosure format" has not yet been published by the Commissioner as an addendum to the Commissioner's Circular.
3. Our review has not identified anything which would indicate that the demographic and operational assumptions presented to us during the report are not reasonable, based on the Company's past and present experience and management's projections regarding the future, subject to that stated in section d(2) below.
4. Our review has not found any information indicating that the embedded value in the amount of NIS 13,449 million, the value of new business in the amount of NIS 716 million, the sensitivity tests with respect thereto and the analysis of the movement in embedded value, have not been prepared adequately in accordance with the methodology and assumptions described in the embedded value report, and which were presented to us during the review.

D. We hereby call the reader's attention to the following matters:

1. The embedded value report was prepared based on assumptions that are the result of the implications of past experience regarding the future, within the Company's operating environment. Due to the nature of circumstances, due to the fact that these are long term estimates regarding the future, actual results are expected to differ from those which were prepared at the time when embedded value was calculated.
2. There is uncertainty with respect to the implications of the reforms on the long-term savings and health insurance branches. The calculation of embedded value does not take into account the possible effects of these reforms, as specified in section 1.5.2 of the embedded value report.
3. Remarks, clarifications and qualifications with respect to the treatment of the risks described in section 1.5.3 of the embedded value report.
4. Embedded value also includes the embedded value of pension fund management business operations owned by the Company, the publication of which is not required in accordance with the directives issued by the Commissioner.

Sincerely,

Kost Forer Gabbay and Kasierer

Certified Public Accountants